

State Bar of Michigan

**Financial Report
with Supplemental Information
September 30, 2008**

State Bar of Michigan

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Introductory Section



December 8, 2008

p 517-346-6300

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www.michbar.org

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Honorable Clifford W. Taylor, Chief Justice
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Lansing, MI 48915

306 Townsend Street
Michael Franck Building

Lansing, MI
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RE: STATE BAR OF MICHIGAN ANNUAL REPORT - FY 2008

With this letter, please accept the FY 2008 Annual Report of the State Bar of Michigan. The Annual Report covers the fiscal year ended September 30, 2008, and contains the audited financial statements and other information required by accounting standards or useful to understanding the operations and effectiveness of the State Bar of Michigan.

MAJOR ACCOMPLISHMENTS IN FY 2008

Fiscal year 2008 witnessed continued successful implementation of the State Bar Strategic Plan and the provision of enhanced services to the members and the public in a cost-effective manner. The Plan can be accessed on the State Bar's website at www.michbar.org/generalinfo/StrategicPlan_AM_2005s.pdf.

Major accomplishments included:

- During FY 2008, a total of 1,069 new member applications were processed and attorney membership of the State Bar of Michigan grew to 39,996 members.
- The State Bar achieved a financial surplus of over \$430,000 during FY 2008 primarily through continued cost control and deferral of staff positions.
- During the 12 months ending September 30, 2008, the Board of Commissioners approved a total of 45 Client Protection Fund claims totaling \$601,276 for payment to reimburse clients whose funds held in trust by their attorneys were misappropriated. A total of \$441,565 in claims was disbursed from the Fund in FY 2008. There is a total of \$247,027 in authorized but unpaid claims as of September 30, 2008, pending receipt of signed subrogation agreements from the prospective payees. The Client Protection Fund ended the year with net assets of \$2,135,403, exclusive of the approved but unpaid claims awaiting subrogation agreements.

- The State Bar processed 1,288 character and fitness applications, and conducted 51 district committee interviews, 24 formal character and fitness standing committee hearings, and participated in two hearings before the Board of Law Examiners during the most recent reporting year. In addition, the applications for the Michigan bar examination and the character and fitness certification process are now online and interactive, allowing the applicants to enter information which is imported into the State Bar's database, eliminating the need for duplicative data entry.
- A total of 73 unauthorized practice of law (UPL) complaints were received by the State Bar of Michigan for investigation for the 12 months ending September 30, 2008. One UPL prosecution was initiated in FY 2008. Of the 73 complaints received in the 12 months ending September 30, 2008, 48 remain open and 25 have been closed. There are currently 100 open UPL investigations at the end of FY 2008. No prosecutions were initiated in FY 2008, two prosecutions were resolved, and none are currently pending. The State Bar of Michigan also pursues a UPL prevention strategy focused on public education and awareness of the danger to the public of relying on unlicensed persons for legal needs.
- The Ethics helpline responded to over 5,200 ethics inquiries, and the Ethics Committee issued three informal and one formal ethics opinions.
- The Lawyer Referral program handled over 120 telephone inquiries daily from the public seeking legal services.
- The Practice Management Resource Center (PMRC) received on average 21,278 page views per month on its website, answered more than 400 calls to its helpline, and held 17 seminars for 600 attendees at various locations in Michigan. The PMRC also provided tours and software test-drive opportunities to groups and individuals in the Lansing-based Education Center.
- The State Bar of Michigan held several large events during FY 2008. Fifty-year SBM members were honored at the "Golden celebration" in May 2008. In June, a Bar Leadership Forum and Upper Michigan Legal Institute were conducted at Mackinac Island. A well-attended Annual Meeting was held in Dearborn in September 2008 in conjunction with the ICLE Solo and Small Firm Institute.
- The State Bar of Michigan sponsored the Michigan Talk Network's Big Show on Law Day to help educate and inform listeners about important legal issues. The show featured SBM leaders and was broadcast live from the State Bar Michael Franck building in Lansing.
- The *Michigan Bar Journal* won the top award for large bars (more than 15,000 members) for "Excellence in Publications" from the National Association of Bar Executives Communications Section.

- The State Bar of Michigan conducted two events in conjunction with its Michigan Legal Milestones program, which honors important cases, events, and personalities in our state's history: (1) a rededication of the 8th Michigan Legal Milestone on Rose of Aberlone, a classic contract law case; and (2) the unveiling of a plaque in St. Ignace commemorating the role of attorney Prentiss M. Brown in the construction of the Mackinac Bridge.
- A newly redesigned e-Journal was launched in January. The new format allows members to customize the e-Journal by indicating which practice area summaries they would like to receive.
- The State Bar's public policy program developed and advocated for approximately 45 legislative and court rule positions, and coordinated the provision of technical assistance to the legislature.
- A waiver of dues for members serving in the military was proposed by the State Bar of Michigan and approved by the Supreme Court during FY 2008.
- Volunteer lawyers filled 598 positions on the 27 standing and special committees and on five initiatives formed to carry out the mission of the State Bar of Michigan. Twenty-four non-lawyers joined them in that work.
- Services to the State Bar's 39 sections, including the newly formed Insurance and Indemnity Law section, were enhanced.
- The State Bar president and staff made more than 165 visits to the 133 local and special-purpose voluntary bars in Michigan.
- A Senior Lawyers Section Planning Workgroup reviewed the needs of the rapidly growing number of senior lawyers and prepared recommendations aimed at assuring that relevant services are available to senior lawyers, that the public is protected as lawyers age in their practice, and that meaningful programs are available to help senior lawyers contribute their considerable skills to the community.
- The Access to Justice Campaign total for the fiscal year ended September 30, 2008 was almost \$1,665,000 in contributions and new pledges (unaudited). The Access to Justice Campaign is a partnership of the State Bar of Michigan, the Michigan State Bar Foundation, and Michigan's legal aid providers to increase resources for civil legal aid to the poor in Michigan. More than \$8.5 million has been received to date by the Access to Justice Fund in donations and pledges. The Access to Justice Fund is held by the Michigan State Bar Foundation, which receives, administers, and distributes donations according to the Access to Justice Fund Guidelines at www.msbf.org/atjfund.

FY 2008 FINANCIAL SUMMARY

The State Bar achieved a financial surplus of \$430,139 in the Administrative Fund during FY 2008 through continued cost control, deferral and reduction of staff positions, and other revenue increases. The State Bar's Net Assets in the Administrative Fund totaled \$10,334,655 as of September 30, 2008, and operates without any debt.

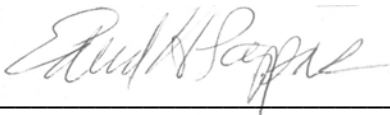
APPROVED FY 2009 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2009 of (\$200,633) that focuses on continued spending for strategic programs. A summary of the FY 2009 approved budget was published in the November 2008 *Michigan Bar Journal* and can also be found on the State Bar's website at www.michbar.org/generalinfo/.

MANAGEMENT'S RESPONSIBILITY

The State Bar of Michigan's management is responsible for the information provided in this FY 2008 Annual Report. The basic financial statements and related notes are audited by the independent accounting firm of Plante & Moran, PLLC, in accordance with auditing standards generally accepted in the United States of America, and their opinion is provided as a part of this report.

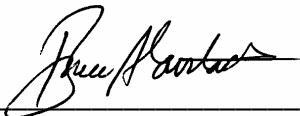
Questions or comments on this FY 2008 Annual Report should be directed to Janet K. Welch, Executive Director of the State Bar of Michigan.



Edward H. Pappas
President



Janet K. Welch
Executive Director



Bruce A. Courtade
Treasurer



James C. Horsch
Director of Finance and Administration

FY 2008 STATE BAR OF MICHIGAN BOARD OF COMMISSIONERS

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Edward H. Pappas, Bloomfield Hills, President-Elect
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Overview of the State Bar of Michigan

STATE BAR ORGANIZATION

The State Bar of Michigan was established in 1935 by the Michigan legislature. By law, members include all persons who are licensed to practice law in the State of Michigan. The State Bar is a public body corporate funded primarily by member dues and not by governmental appropriations. The State Bar is regulated by the Michigan Supreme Court through the Michigan Supreme Court Rules Concerning the State Bar of Michigan. The mission of the State Bar is to aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in Michigan.

The State Bar is governed by a Board of Commissioners. The minimum number of Commissioners on the Board is 31 and the maximum number is 33. For the year ended September 30, 2008, there were 32 Commissioners on the Board. The Board of Commissioners has six Commissioner Committees that provide oversight to the operations of the Bar: the Executive Committee, Finance Committee, Audit Committee, Programs and Services Committee, Professional Standards Committee, and the Public Policy, Image, and Identity Committee. The President, President-Elect, Vice President, Secretary, and Treasurer comprise the elected officers of the State Bar. A 10-member Executive Committee comprised of the Officers, the Representative Assembly Chair and Vice Chair, and three other Commissioners chosen by the President manage the affairs of the Bar between Board meetings.

A 142-member Representative Assembly of the Bar is the final policymaking body of the State Bar. Its elected officers are the Chair, Chair-Elect, and Clerk.

As of September 30, 2008, there were 24 standing committees and three special committees of the State Bar, whose members are appointed each year by the President, each with a specific jurisdictional statement governing their responsibilities. In addition, there are 39 sections of the State Bar, each with their own bylaws approved by the Board of Commissioners. A total of 37 sections are funded by dues from their membership.

The State Bar employs a paid staff to carry out its mission under the supervision of the Executive Director, appointed by the Board of Commissioners. The Bar employed 63.50 full-time equivalent employees (FTEs) at the end of fiscal year 2008, compared to 63.50 full-time equivalent employees at the end of fiscal year 2007. Salaries and benefits totaled approximately \$5.4 million, or about 57 percent of total Administrative Fund expenses.

STATE BAR PROGRAMS AND MEMBERSHIP SERVICES

The State Bar administers, operates, and provides for a wide variety of programs and member services that benefit both the public interest and the members of the Bar, including:

- Administering the character and fitness process by which bar applicants are admitted to the practice of law. This work includes bar application processing, character and fitness investigations, and interviews and hearings (primarily funded by investigation fees paid by prospective applicants).
- Investigating and seeking injunctive relief against parties engaged in the unauthorized practice of law (UPL), educating members about what constitutes UPL, and providing education to the public on lawyer selection and the hazards of obtaining legal services from nonlawyers.
- Providing informal ethics advice to lawyers about the propriety of their conduct based on the Michigan Rules of Professional Conduct and applicable ethics opinions.
- Rendering written ethics opinions by the Ethics Committee.
- Reviewing and evaluating new laws and court rules for their impact on the administration of justice and on the profession and advocating for policies consistent with the mission of the State Bar.
- Publishing the *Michigan Bar Journal* 11 times a year and an Annual Directory issue.
- Publishing an e-Journal that updates the legal profession daily on changes to laws and summarizes cases to help attorneys stay up-to-date with the law.
- Operating an online Public Policy Resource Center and publishing the weekly Public Policy update to increase awareness of public policy issues of particular interest to lawyers.
- Maintaining an Internet site that serves as both a research tool and a source of information about the State Bar.
- Operating a Lawyers and Judges Assistance Program that provides confidential referral, assessment, monitoring, and counseling services to lawyers, judges, and law students challenged by substance use and mental health issues.
- Providing member affinity programs that offer discounted services to members, including credit cards, insurance, rental cars, and other business and personal services.
- Providing annual Bar membership identification cards to members and, when requested, Certificates of Good Standing.

- Providing a member orientation for the newest members of the Bar.
- Providing members the opportunity to actively participate, network, and share information in Bar member interest groups (sections) and State Bar committees, including providing administrative support to these groups.
- Providing Bar organizations with a "print on demand" service for newsletter preparation (primarily offset with fees).
- Holding an annual meeting and conference, an annual leadership conference, and periodic seminars that provide for networking and educational updates (partially offset with fees).
- Conducting the Upper Michigan Legal Institute that provides educational opportunities for Northern Michigan lawyers (partially offset with fees).
- Providing Michigan Law Online, an online tool for attorneys to search for Michigan case law and related references.
- Providing members and Bar organizations with meeting rooms and related meeting services at the State Bar headquarters.
- Administering a Client Protection Fund that provides for reimbursements to members of the general public who have been victimized by the few lawyers who have misappropriated funds entrusted to them (primarily funded by member assessments).
- Operating a subscriber-based lawyer referral service that provides referrals to the general public and affords subscribing lawyers the opportunity for potential clients to be referred to them (partially funded by the subscribing lawyers).
- Administering the State Bar's justice initiatives programs, which include promoting the effective delivery of high-quality legal services to all Michigan residents, especially those with lower incomes; raising both public and professional awareness of the fair delivery of justice in our state and promoting equal application of law for all citizens; and administering the Bar's Access to Justice fundraising campaign in support of private giving to nonprofit civil legal aid programs in Michigan.
- Operating a Practice Management Resource Center (PMRC) to provide basic and up-to-date practice information by means of a frequently updated website containing articles, features, and forms; an onsite education center and lending library; telephone assistance; and seminars on topics designed to assist lawyers in managing the business aspects of practicing law (some for minimal fees).

MEMBERSHIP AND AFFILIATE STATISTICS

Below are the statistics for each class of member and affiliate group, for the year ended September 30, 2008:

Attorney Members

Active Members	37,743
Emeritus Members	978
Inactive Members	<u>1,275</u>
Total Attorney Members	<u><u>39,996</u></u>

Affiliates

Law Students	343
Legal Administrators	34
Legal Assistants	<u>491</u>
Total Affiliates	<u><u>868</u></u>

NOTE: These figures reflect members and affiliates in good standing and do not include those suspended for nonpayment of dues, suspended for discipline, disbarred, resigned, or deceased.

Financial Section

Independent Auditor's Report

To the Board of Commissioners
State Bar of Michigan
Lansing, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Michigan as of September 30, 2008 and for the year then ended, which collectively comprise the basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the State Bar of Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Michigan as of September 30, 2008 and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited), as identified in the table of contents, is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the State Bar of Michigan. The accompanying introductory section and other supplemental information, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

December 8, 2008

**Management's Discussion and Analysis
(Unaudited)**

State Bar of Michigan

Management's Discussion and Analysis (Unaudited)

Brief Description of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so that the reader can understand the State Bar of Michigan financially as a whole and understand the activity within each fund of the State Bar. The financial statements and related information are organized in this report as follows:

Independent Auditor's Report - Expresses the audit opinion of the independent accounting firm.

Management's Discussion and Analysis (MD&A) - Supplemental information, which discusses the operations of the Bar and provides expanded financial information and related analysis.

Basic Financial Statements:

- Statement of Net Assets (Balance Sheet) - Discloses the financial position of the State Bar and each fund.
- Statement of Revenue, Expenses, and Changes in Net Assets (Income Statement) - Discloses the sources of revenue, the various expenses, and impact on Net Assets for the State Bar and each fund.
- Statement of Cash Flows - Shows the sources and uses of cash for the State Bar and each fund.

Notes to the Financial Statements - Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements.

Supplementary Information - Provides additional information to better understand the financial position of the State Bar.

Summary of FY 2008 Financial Information

The audited Financial Statements, including the Statement of Net Assets, the Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, are shown on pages 17 through 21.

Following is a financial analysis comparing FY 2008 with FY 2007 for the Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets. Also shown is a financial analysis comparing FY 2008 actual with the FY 2008 budget for the Statement of Revenue, Expenses, and Changes in Net Assets. The financial exhibits in the "Other Supplemental Information" section of this report shown on pages 33 through 42 are also helpful reference material for this analysis.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2008 Statement of Net Assets Compared to FY 2007

Administrative Fund	September 30		Increase (Decrease)	%
	2008	2007		
Assets	<u>\$ 12,020,516</u>	<u>\$ 11,666,113</u>	<u>\$ 354,403</u>	3.04%
Liabilities	\$ 1,685,861	\$ 1,761,597	\$ (75,736)	(4.30%)
Net Assets - Invested in Capital Assets	5,613,273	5,940,051	(326,778)	(5.50%)
Net Assets - Unrestricted	<u>4,721,382</u>	<u>3,964,465</u>	<u>756,917</u>	19.09%
Net Assets and Liabilities	<u>\$ 12,020,516</u>	<u>\$ 11,666,113</u>	<u>\$ 354,403</u>	3.04%

Assets increased by \$354,403, or 3.04 percent, primarily due to higher investments, partially offset by a decrease in capital assets. Liabilities decreased by \$75,736, or 4.30 percent, due to lower deferred revenues partially offset by higher accrued expenses and accounts payable. Net Assets increased as a result of the surplus of \$430,139, or 4.34 percent during FY 2008.

Client Protection Fund	September 30		Increase	%
	2008	2007		
Assets	<u>\$ 2,135,403</u>	<u>\$ 2,050,315</u>	<u>\$ 85,088</u>	4.15%
Liabilities	\$ 59,520	\$ 57,878	\$ 1,642	2.84%
Net Assets	<u>2,075,883</u>	<u>1,992,437</u>	<u>83,446</u>	4.19%
Net Assets and Liabilities	<u>\$ 2,135,403</u>	<u>\$ 2,050,315</u>	<u>\$ 85,088</u>	4.15%

Assets increased by \$85,088, or 4.15 percent, due to higher investments. Liabilities increased by \$1,642 or 2.84 percent, due to higher accounts payable partially offset by deferred revenues. Net Assets increased as a result of the surplus of \$83,446, or 4.19 percent during FY 2008.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2008 Statement of Net Assets Compared to FY 2007 (Continued)

Sections	September 30		Increase	%
	2008	2007		
Assets	<u>\$ 1,657,597</u>	<u>\$ 1,569,948</u>	<u>\$ 87,649</u>	5.58%
Net Assets	<u>\$ 1,657,597</u>	<u>\$ 1,569,948</u>	<u>\$ 87,649</u>	5.58%

All of the individual assets and liabilities of the Sections are held within the Administrative Fund, and are shown as assets in "Due from (to) other funds." Both Assets and Net Assets increased by \$87,649, or 5.58 percent, as a result of revenues being greater than Section expenses during the year.

Analysis of FY 2008 Statement of Revenue, Expenses, and Changes in Net Assets Compared to FY 2007

Administrative Fund	September 30		Increase (Decrease)	%
	2008	2007		
Operating Revenue	\$ 9,480,177	\$ 9,356,893	\$ 123,284	1.32%
Operating Expenses	<u>9,391,904</u>	<u>8,943,540</u>	<u>448,364</u>	5.01%
Operating Income	88,273	413,353	(325,080)	(78.64%)
Nonoperating Revenue	<u>341,866</u>	<u>639,806</u>	<u>(297,940)</u>	(46.57%)
Increase in Net Assets	<u>\$ 430,139</u>	<u>\$ 1,053,159</u>	<u>\$ (623,020)</u>	(59.16%)

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Administrative Fund

The Administrative Fund's Operating Income decreased by \$325,080 or 78.64 percent, during FY 2008 due to an increase in Operating Expenses of \$448,364, or 5.01 percent, partially offset by an increase in Operating Revenue of \$123,284 or 1.32 percent.

The Administrative Fund's Operating Revenue increased by \$123,284 or 1.32 percent during FY 2008, primarily due to increases in Membership Dues and Fees, and to a lesser extent, the net total of all non-dues revenues.

The Administrative Fund's Operating Expenses increased by \$448,364 or 5.01 percent during FY 2008, due to higher labor expenses (\$436,064, or 8.86%) in retiree health care, salaries and other benefits, and increases in non-labor expenses (\$12,300, or 0.31%).

The Administrative Fund's Nonoperating Revenue decreased by \$297,940 or 46.57 percent during FY 2008, due to lower investment income.

As a result, the Administrative Fund's Increase in Net Assets decreased by \$623,020 in FY 2008 as compared to FY 2007, due to a surplus of \$430,139 in FY 2008 compared to a surplus of \$1,053,159 in FY 2007. To recap, the primary reason for this decrease was due to a decrease in Operating Income of \$325,080, and a decrease in Nonoperating Revenue of \$297,940.

Client Protection Fund

The Client Protection Fund experienced an increase in Net Assets of \$83,446 in FY 2008 compared to an increase of \$469,341 in FY 2007, resulting in a year-over-year decrease of \$385,895 or 82.22 percent, due primarily to increased claims payments and lower investment income.

Sections

The Sections experienced an increase in Net Assets of \$87,649 in FY 2008 compared to an increase of \$149,384 in FY 2007, resulting in a year-over-year decrease of \$61,735 or 41.33 percent, due to lower revenues and higher expenses.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2008 Revenue, Expenses, and Changes in Net Assets as Compared to FY 2008 Approved Budget - Administrative Fund

	September 30		Favorable (Unfavorable)	%
	2008 Actual	2008 Budget	Variance	
Operating Revenue	\$ 9,480,177	\$ 9,323,406	\$ 156,771	1.68%
Operating Expenses	<u>9,391,904</u>	<u>9,720,327</u>	<u>328,423</u>	3.38%
Operating Income (Loss)	88,273	(396,921)	485,194	N/A
Nonoperating Revenue	<u>341,866</u>	<u>400,000</u>	<u>(58,134)</u>	(14.53%)
Increase in Net Assets	<u>\$ 430,139</u>	<u>\$ 3,079</u>	<u>\$ 427,060</u>	N/A

The Administrative Fund's Operating Income was better than budget by \$485,194 due primarily to a favorable variance in Operating Revenue of \$156,771 or 1.68 percent, and by a favorable variance in Operating Expenses of \$328,423 or 3.38 percent.

The Administrative Fund's Operating Revenue was favorable to budget by \$156,771 or 1.68%, primarily due to higher than budgeted revenues in membership dues, Lawyer Referral Service fees, and Character and Fitness fees, partially offset by lower than budgeted Bar Journal Directory revenue and Client Protection Fund administrative fees.

The Administrative Fund's Operating Expenses were favorable to budget by \$328,423 or 3.38 percent, due to lower than budgeted non-labor operating expenses in most departments (\$343,947 or 7.86%), partially offset by slightly higher than budgeted expenses in salaries and benefits (\$15,524 or 0.29%).

The Administrative Fund's Nonoperating Revenue was unfavorable to budget by \$58,134, or 14.53 percent, primarily due to lower investment returns than budgeted.

As a result, the Administrative Fund's Increase in Net Assets in FY 2008 was favorable to budget by \$427,060 due to a surplus of \$430,139 compared to a budgeted surplus of \$3,079. To recap, the primary reasons for this favorable variance were due to a favorable variance in Operating Income of \$485,194, partially offset by an unfavorable variance in Nonoperating Revenue of \$58,134.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of Capital Assets

Capital assets consisting of land, building, furniture and equipment, and computer equipment/software decreased by \$326,778. This decrease is due to current year depreciation expense of \$529,212 being greater than current year additions of \$202,434. More detailed information about the State Bar's capital assets is presented in Note 4 to the financial statements.

Basic Financial Statements

State Bar of Michigan

Statement of Net Assets September 30, 2008

	Administrative Fund	Client Protection Fund	Sections	Total
Assets				
Current Assets				
Cash (Note 2)	\$ 1,488,843	\$ 252,369	\$ -	\$ 1,741,212
Investments (Note 2)	5,909,420	1,859,592	-	7,769,012
Accounts receivable:				
Trade	354,724	-	-	354,724
Foundation	20,703	-	-	20,703
Due from (to) other funds	(1,681,039)	23,442	1,657,597	-
Inventory	20,986	-	-	20,986
Prepaid expenses	293,606	-	-	293,606
Total current assets	6,407,243	2,135,403	1,657,597	10,200,243
Capital Assets - Net (Note 4)	5,613,273	-	-	5,613,273
Total assets	\$ 12,020,516	\$ 2,135,403	\$ 1,657,597	\$ 15,813,516
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 661,689	\$ 10,830	\$ -	\$ 672,519
Accrued expenses	296,378	-	-	296,378
Deferred revenue	727,794	48,690	-	776,484
Total current liabilities	1,685,861	59,520	-	1,745,381
Net Assets				
Invested in capital assets	5,613,273	-	-	5,613,273
Unrestricted	4,721,382	2,075,883	1,657,597	8,454,862
Total net assets	10,334,655	2,075,883	1,657,597	14,068,135
Total liabilities and net assets	\$ 12,020,516	\$ 2,135,403	\$ 1,657,597	\$ 15,813,516

State Bar of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2008

	Administrative Fund	Client	Sections	Total
		Protection Fund		
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,003,700	\$ 577,151	\$ 1,346,137	\$ 8,926,988
Bar Journal	315,591	-	-	315,591
Bar Journal Directory	211,938	-	-	211,938
Bar Leadership Forum	10,819	-	-	10,819
Rent/Attorney Discipline System Fee	79,524	-	-	79,524
Justice Initiatives	5,000	-	-	5,000
Annual Meeting	149,553	-	-	149,553
Upper Michigan Legal Institute	9,212	-	-	9,212
Ethics	2,925	-	-	2,925
50-yr Golden Celebration	2,555	-	-	2,555
Print-on-Demand Services	160,689	-	-	160,689
e-Journal	88,265	-	-	88,265
Lawyer Referral Service	105,744	-	-	105,744
Lawyers and Judges Assistance	53,873	-	-	53,873
Member and Endorsed Services	796,851	-	-	796,851
Character and Fitness	282,339	-	-	282,339
Practice Management Resource Center	18,232	-	-	18,232
Internet	32,971	-	-	32,971
Other revenue	150,396	13,917	305,028	469,341
Total operating revenue	9,480,177	591,068	1,651,165	11,722,410

State Bar of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended September 30, 2008

	Administrative Fund	Client Protection Fund	Sections	Total
Expenses				
Labor expenses:				
Salaries	\$ 3,516,743	\$ -	\$ -	\$ 3,516,743
Employee benefits and payroll taxes	1,841,353	-	-	1,841,353
Total labor expenses	5,358,096	-	-	5,358,096
Non-labor expenses:				
Executive Offices	775,999	-	-	775,999
Finance and Administration	1,199,648	-	-	1,199,648
Information Services	195,672	-	-	195,672
Member Services and Communications	1,645,740	-	-	1,645,740
Professional Standards	165,372	-	-	165,372
Justice Initiatives	51,377	-	-	51,377
Claims payments	-	441,565	-	441,565
Client Protection Fund administrative expenses	-	148,640	-	148,640
Sections expenses	-	-	1,563,516	1,563,516
Total non-labor expenses	4,033,808	590,205	1,563,516	6,187,529
Total operating expenses	9,391,904	590,205	1,563,516	11,545,625
Operating Income	88,273	863	87,649	176,785
Nonoperating Revenue - Investment income	341,866	82,583	-	424,449
Increase in Net Assets	430,139	83,446	87,649	601,234
Net Assets - Beginning of year	9,904,516	1,992,437	1,569,948	13,466,901
Net Assets - End of year	<u>\$ 10,334,655</u>	<u>\$ 2,075,883</u>	<u>\$ 1,657,597</u>	<u>\$ 14,068,135</u>

State Bar of Michigan

Statement of Cash Flows Year Ended September 30, 2008

	Administrative Fund	Client		Total
		Protection Fund	Sections	
Cash Flows from Operating Activities				
Membership dues and fees	\$ 6,827,540	\$ 567,963	\$ 1,346,137	\$ 8,741,640
Other receipts	2,344,830	52,802	305,028	2,702,660
Payments to employees	(5,300,363)	-	-	(5,300,363)
Payments to suppliers	(3,321,091)	(137,810)	(1,651,165)	(5,110,066)
Payments for claims	-	(441,565)	-	(441,565)
Net cash provided by operating activities	550,916	41,390	-	592,306
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(202,434)	-	-	(202,434)
Cash Flows from Investing Activities				
Purchases of investments - Net	(1,110,005)	(556,018)	-	(1,666,023)
Investment income	329,664	78,948	-	408,612
Net cash used in investing activities	(780,341)	(477,070)	-	(1,257,411)
Net Decrease in Cash	(431,859)	(435,680)	-	(867,539)
Cash - Beginning of year	1,920,702	688,049	-	2,608,751
Cash - End of year	<u>\$ 1,488,843</u>	<u>\$ 252,369</u>	<u>\$ -</u>	<u>\$ 1,741,212</u>

State Bar of Michigan

Statement of Cash Flows (Continued) Year Ended September 30, 2008

Reconciliation of operating income to net cash from operating activities:

	Administrative Fund	Client Protection Fund	Sections	Total
Operating income	\$ 88,273	\$ 863	\$ 87,649	\$ 176,785
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	529,212	-	-	529,212
Changes in assets and liabilities:				
Accounts receivable	(180,411)	-	-	(180,411)
Prepaid expenses	85,995	-	-	85,995
Accounts payable	42,691	10,830	-	53,521
Accrued expenses	57,733	-	-	57,733
Due from (to) other funds	48,764	38,885	(87,649)	-
Deferred revenue	(176,160)	(9,188)	-	(185,348)
Inventory	54,819	-	-	54,819
Net cash provided by operating activities	<u>\$ 550,916</u>	<u>\$ 41,390</u>	<u>\$ -</u>	<u>\$ 592,306</u>

During 2008, there were no noncash investing, capital, and financing activities.

State Bar of Michigan

Fiduciary Funds Statement of Net Assets September 30, 2008

	Retiree Health Care Trust Fund
Assets - Investments (Note 2)	<u>\$ 225,000</u>
Net Assets - Held in trust for employee benefits	<u>\$ 225,000</u>

State Bar of Michigan

Fiduciary Funds Statement of Changes in Net Assets September 30, 2008

	Retiree Health Care Trust Fund
Additions - Contributions	<u>\$ 225,000</u>
Net Increase	225,000
Net Assets Held in Trust for Employee Benefits	
Beginning of year	<u>-</u>
End of year	<u><u>\$ 225,000</u></u>

Note I - Significant Accounting Policies

The accounting policies of the State Bar of Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The State Bar of Michigan is the association of the members of the Bar of this state, organized and existing as a public body corporate pursuant to powers of the Supreme Court over the Bar of the State. The State Bar of Michigan shall, under the rules of the Supreme Court, aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in this state.

No component units are required to be reported in the State Bar of Michigan's financial statements. The State Bar of Michigan's financial statements are included in the State of Michigan Comprehensive Annual Financial Report as a component unit. For accountability purposes, the accounts of the State Bar of Michigan are organized into three distinct funds, each of which is considered a separate accounting entity:

Administrative Fund - The Administrative Fund is the main operating fund for the State Bar of Michigan, and accounts for all of the activities that are not accounted for in another fund.

Client Protection Fund - The Client Protection fund is a voluntary program established for the purpose of reimbursing clients who have been victimized by the few lawyers who violate the profession's ethical standards and misappropriate funds entrusted to them. It is funded primarily by dues assessments and to a lesser extent, by interest income and unspent judicial election campaign funds. The Client Protection Fund concerns itself with investigation of claims, the distribution of authorized payments, and the institution and prosecution of all subrogation actions seeking to recoup monies paid from the fund.

In addition to claims paid shown in the Statement of Revenue, Expenses, and Changes in Net Assets, there is a total of \$247,027 in claims that have been authorized by the Board of Commissioners as of September 30, 2008, but are awaiting signed subrogation agreements for payment.

Note 1 - Significant Accounting Policies (Continued)

Sections - With the exception of the Young Lawyers Section and the Judicial Conference, the Sections are self-funded, voluntary memberships that promote the particular interests of attorneys practicing in their respective specialty areas of law. Each section operates within the definitions of its own set of by-laws, which must be approved by the Board of Commissioners of the State Bar of Michigan. Sections plan and carry out programs, publications, and activities of interest. Financial services, such as receipts and disbursements processing, financial reporting, dues processing, meeting rooms and arrangements, and related support services are provided to the Sections and charged against the Administrative Fund; further, the interest and investment income or loss on Section's Funds are retained within the Administrative Fund.

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The State Bar of Michigan follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Bar's financial activities.

Basis of Accounting

The State Bar of Michigan follows the accounting rules promulgated by the Governmental Accounting Standards Board. Additionally, the State Bar of Michigan follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB. The State Bar of Michigan has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the proprietary fund model is followed, and the full accrual basis of accounting is used.

Proprietary Fund Accounting - The Fiduciary Fund is used to account for assets held by the Bar in a trustee capacity. This fund includes the State Bar of Michigan Retiree Health Premium Trust (the "Plan"). The plan is reported within the basic financial statements even though its resources cannot be used to fund the Bar's operations because of the fiduciary responsibility that the Bar retains relative to the operations of the Plan.

Investments - Investments include all monies other than bank deposits (checking and savings accounts) and petty cash. Investments are recorded at fair market value.

Note 1 - Significant Accounting Policies (Continued)

Prepaid Expenses - Prepaid expenses reported in the Administrative Fund represent advance payment for future year expenses.

Capital Assets - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the proprietary funds on a straight-line basis, based on the appropriate depreciation schedule for each class of capital assets. It is the policy of the State Bar to capitalize all assets that have useful lives of greater than two years with an acquisition cost of \$500 or more per item or group of items.

Deferred Revenue - Income is recognized as revenue as it is earned. Prepayments of annual dues are recorded as deferred until the revenue is earned over the dues year.

Operating Revenue - All revenue from programmatic sources are considered to be operating revenue.

Non-labor Expenses - All operating expenses except salaries, employee benefits, and payroll taxes are considered to be non-labor expenses. These expenses include supplies, utilities, postage, printing, contractor expenses, and other items.

Reclassification - Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

Note 2 - Deposits and Investments

The State Bar of Michigan has designated four primary financial institutions for the deposit of its cash and investments. The State Bar of Michigan's cash and investments, except for the Client Protection Fund, are combined with the Sections. The cash and investments of the Client Protection Fund are maintained in separate accounts. The Finance Committee of the Board monitors the investments and target allocations. During FY 2008, the State Bar divested of all equity and bond mutual funds and approved a new investment policy focusing on safety. At year end, investments consisted solely of money markets and certificates of deposits held by the dealer bank's trust department in the name of the State Bar of Michigan. The State Bar of Michigan's investment in money market funds is guaranteed by the U.S. Treasury not to fall below \$1 a share as of September 30, 2008. In addition, all certificates of deposits are with banks in amounts not exceeding the FDIC limits and, therefore, are completely insured by the FDIC (principal and accrued interest).

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State Bar of Michigan's deposits may not be returned. The State Bar has a policy to limit the amount of short-term investments in any one financial institution to \$3 million to reduce potential custodial credit risk. Each bank account is insured by the FDIC up to \$100,000 as of September 30, 2008.

Credit Risk

The State Bar of Michigan invests in funds in accordance with its investment policy. As of year end, the credit quality ratings of debt and equity securities are as follows:

Investments	Fair Value	Rating	Rating Organization
Charles Schwab Money Market and CDs	\$ 7,769,012	Not Rated	Morning Star
Charles Schwab Retiree Health Care Trust	225,000	5 Star	Morning Star

At year end, the State Bar of Michigan (including deposits held on behalf of the Attorney Discipline System) had \$2,628,728 of bank deposits (checking and savings accounts) and of that balance \$2,333,105 was uninsured and uncollateralized. The State Bar believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to have FDIC coverage on all bank deposits. As a result, the State Bar of Michigan evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Related Party

The State Bar of Michigan provides employee and financial services to the Attorney Discipline System for a fee. The Attorney Discipline System is the adjudicative arm of the Supreme Court that is empowered to discipline and reinstate attorneys in accordance with the Court Rules. The State Bar of Michigan and the Attorney Discipline System have a common bank savings account and share the same employer tax ID number. The fee billed to the Attorney Discipline System for the year ended September 30, 2008 was \$40,960.

State Bar of Michigan

Notes to Financial Statements September 30, 2008

Note 4 - Capital Assets

A summary of capital assets at September 30, 2008 follows:

	Beginning Balance	Additions	Disposals	Ending Balance	Depreciable Life-Years
Capital assets not being depreciated:					
Land	\$ 380,545	\$ -	\$ -	\$ 380,545	-
Capital assets being depreciated:					
Building	7,552,686	8,847	-	7,561,533	10-50
Furniture and equipment	2,449,297	14,518	463,423	2,000,392	5-20
Computer equipment/software	1,564,784	179,069	379,377	1,364,476	3-5
Total capital assets	11,947,312	202,434	842,800	11,306,946	
Less accumulated depreciation:					
Building	3,179,969	222,146	-	3,402,115	
Furniture and equipment	1,496,399	156,821	463,423	1,189,797	
Computer equipment/software	1,330,893	150,245	379,377	1,101,761	
Total accumulated depreciation	6,007,261	529,212	842,800	5,693,673	
Total net capital assets	<u>\$ 5,940,051</u>	<u>\$ (326,778)</u>	<u>\$ -</u>	<u>\$ 5,613,273</u>	
Depreciation expense				<u>\$ 529,212</u>	

Note 5 - Line of Credit

The State Bar of Michigan has no long-term debt. To maximize flexibility, the State Bar of Michigan has an unsecured bank line of credit through March 31, 2009 for \$1,000,000 at a rate of prime minus .5 percent. As of September 30, 2008, no draws have been made on this line of credit.

Note 6 - Risk Management

The State Bar of Michigan is exposed to various risks of loss related to property loss, torts, errors and omissions, employee theft, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State Bar of Michigan has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Finance Committee reviews risks and insurance coverage on its directors and officers liability policy, property and general liability policy, and umbrella policy.

Note 7 - Legal Issues

The State Bar of Michigan is presently a party to four lawsuits.

First, the State Bar is defending a federal lawsuit brought by an unsuccessful State Bar applicant. The Bar prevailed at the lower court and before a panel at the 6th Circuit Court of Appeals. The applicant has sought a hearing *en banc*, which remains pending. Second, the State Bar is defending a lawsuit a member commenced arising from her Bar admission. The State Bar prevailed at the trial court and at the Michigan Court of Appeals and the member has filed an *Application For Leave To Appeal* that is currently pending at the Michigan Supreme Court. Third, this same member recently commenced a second action, to which the State Bar has filed responsive pleadings seeking dismissal. The matter is pending at the trial court. The Bar has incurred outside legal fees in defending the first claim and is defending the second and third claims internally. It is more likely than not that the Bar will prevail in all three claims.

Fourth, the State Bar has filed an action against its D&O insurance company to recover attorney fees expended in successfully defending two federal litigation matters involving State Bar applicants. The chances of succeeding are unknown, and the Bar is incurring outside legal fees in pursuing its claims.

Note 8 - Retirement Plans

Plan Description - The State Bar of Michigan participates in the State of Michigan's defined benefit plan, pursuant to the State Employees Retirement Plan Act (PA 240 of 1943) that covers most state employees, as well as eligible and former employees of related component units such as the State Bar of Michigan. The defined benefit plan is available to employees and former employees hired on or before March 31, 1997 and who have not elected the defined contribution plan (collectively known as Tier 1 employees). The plan provides defined benefits for retirement, disability, death benefits, and annual cost of living adjustment to plan members, whose eligibility is subject to age, retirement, years of service, and vesting requirements. The state legislature establishes the benefit provisions and employer payments to the State for the plan.

Employees not covered by the defined benefit plan (collectively known as Tier 2 employees) are covered by the State Bar of Michigan Retirement Plan (defined contribution plan) administered by the State Bar.

The State of Michigan Plans issues a publicly available financial report that includes financial statements and required supplementary information for the systems. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 8 - Retirement Plans (Continued)

Funding Policy - For the defined benefit plan, the State Bar of Michigan is required to pay the State at an actuarially determined rate, which was 18.72 percent of Tier I payroll for the fiscal year ended September 30, 2008.

For the defined contribution plan, the State Bar of Michigan contributes 4.0 percent of each employee's pay with a match of up to 3.0 percent of each employee's pay based on employee contributions, subject to plan limits. In addition to the contribution percentages above, for employees hired before January 1, 2004 and not eligible for retiree healthcare benefits, the State Bar also makes additional voluntary contributions.

The State Bar of Michigan's contributions to the plans, including postemployment benefits (see Note 9) and the "pay-as-you-go" basis cost (2007 and 2006) and the cost of administering the plans for the years ended September 30, 2008, 2007, and 2006 were \$368,486, \$389,828, and \$431,722 respectively.

Note 9 - Postemployment Benefits

Plan description: Employees, former employees, and retirees of the State Bar of Michigan who were hired on or before March 31, 1997 (or who had equivalent service with other agencies) and who participate in either the defined benefit retirement plan or the defined contribution retirement plan, and meet certain vesting and other requirements at retirement, will receive healthcare benefits from the State of Michigan. The cost of retiree healthcare benefits is determined by the State of Michigan based upon statute. Effective January 1, 2004, pursuant to a settlement agreement with the State of Michigan, the State Bar of Michigan assumed responsibility for paying the actual cost of the postemployment benefits to the State of Michigan for eligible retirees instead of being assessed a fee each year by the State of Michigan based on the State Bar of Michigan's active payroll. Currently, the plan has 31 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single employer defined benefit plan administered by the State Bar of Michigan. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the employer.

Funding policy: The State Bar of Michigan has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below the State Bar has made contributions to advance-fund these benefits.

Note 9 - Postemployment Benefits (Continued)

Funding progress: For the year ended September 30, 2008, the State Bar of Michigan has estimated the cost of providing retiree health care benefits through an actuarial valuation as of October 1, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 289,882
Interest on the prior year's net OPEB obligation	-
Less adjustment of the annual required contribution	<u>-</u>
Annual OPEB cost	289,882
Amounts contributed:	
Payments of current premiums	(64,882)
Advance funding	<u>(225,000)</u>
Decrease in net OPEB obligation	(289,882)
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u><u>\$ -</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current year were as follows:

	Fiscal Year Ended <u>September 30</u>
Annual OPEB Costs	\$ 289,882
Percentage contributed	100%

Note 9 - Postemployment Benefits (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of October 1, 2007:

Actuarial value of assets	\$	-
Actuarial accrued liability	\$	2,985,765
Unfunded AAL	\$	2,985,765
Funded ratio		- %

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2007 actuarial valuation, the unit credit actuarial cost method was used. The actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on investments of present and future assets of 7.0 percent, compounded annually, and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4 percent after eight years.

Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2008 was 29 years.

Other Supplemental Information

State Bar of Michigan

Schedule of Revenue and Expenses - Sections

	Balance October 1, 2007	Revenue	Expenses	Balance September 30, 2008
Administrative	\$ 33,327	\$ 9,584	\$ 9,074	\$ 33,837
Alternative Dispute Resolution	19,855	30,164	26,037	23,982
American Indian	12,326	3,788	1,665	14,449
Animal	10,165	5,885	4,707	11,343
Antitrust, Franchising, and Trade Regulation	42,392	7,555	5,546	44,401
Appellate Practice	28,540	16,715	16,665	28,590
Arts, Communication, Entertainment, and Sports	8,924	6,312	5,195	10,041
Aviation	15,422	4,000	4,172	15,250
Business	136,284	125,075	125,443	135,916
Children's Law	15,017	17,040	17,593	14,464
Consumer	28,725	11,418	22,374	17,769
Criminal	61,021	45,178	34,840	71,359
Elder Law and Disability Rights	57,731	79,836	61,772	75,795
Environmental	45,369	22,409	15,850	51,928
Family	109,437	181,197	166,864	123,770
General Practice	6,733	24,900	23,134	8,499
Health Care	83,781	33,939	50,083	67,637
Information Technology	23,152	10,870	5,528	28,494
Insurance and Indemnity Law	-	7,250	4,660	2,590
Intellectual Property	67,491	35,802	66,955	36,338
International	27,638	14,558	13,845	28,351
Judicial Conference	8,538	18,451	26,989	-
Labor and Employment	62,046	89,409	102,698	48,757
Latin American Bar Activities	8,015	970	1	8,984
Law Practice Management	35,342	20,435	17,828	37,949
Law Student	1,713	5,825	4,344	3,194
Legal Administrator	10,621	1,565	-	12,186
Legal Assistants	18,695	28,025	28,047	18,673
Litigation	91,201	53,398	42,890	101,709
Negligence	40,809	97,071	106,587	31,293
Prisons and Corrections	1,606	5,389	6,555	440
Probate and Estate Planning	17,775	142,620	98,094	62,301
Public Corporation	21,138	29,537	17,240	33,435
Real Property	207,868	271,860	256,036	223,692
Senior Lawyers	(3,281)	6,380	6,794	(3,695)
Social Security	14,309	11,355	12,454	13,210
Taxation	113,762	71,862	63,449	122,175
Workers' Compensation	70,195	30,640	30,502	70,333
Young Lawyers	16,266	72,898	61,006	28,158
Total	\$ 1,569,948	\$ 1,651,165	\$ 1,563,516	\$ 1,657,597

State Bar of Michigan

Comparative Statement of Net Assets Administrative Fund

	September 30		Variance	
	2008	2007	Increase (Decrease)	
			Amount	%
Assets				
Current Assets				
Cash	\$ 1,488,843	\$ 1,920,702	\$ (431,859)	(22.48%)
Investments	5,909,420	4,787,213	1,122,207	23.44%
Accounts receivable:				
Trade	354,724	179,916	174,808	97.16%
Foundation	20,703	15,100	5,603	37.11%
Due from (to) other funds	(1,681,039)	(1,632,275)	(48,764)	2.99%
Inventory	20,986	75,805	(54,819)	(72.32%)
Prepaid expenses	293,606	379,601	(85,995)	(22.65%)
Total current assets	6,407,243	5,726,062	681,181	11.90%
Capital Assets - Net	5,613,273	5,940,051	(326,778)	(5.50%)
Total assets	<u>\$ 12,020,516</u>	<u>\$ 11,666,113</u>	<u>\$ 354,403</u>	<u>3.04%</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 661,689	\$ 618,998	\$ 42,691	6.90%
Accrued expenses	296,378	238,645	57,733	24.19%
Deferred revenue	727,794	903,954	(176,160)	(19.49%)
Total liabilities	1,685,861	1,761,597	(75,736)	(4.30%)
Net Assets				
Invested in capital assets	5,613,273	5,940,051	(326,778)	(5.50%)
Unrestricted	4,721,382	3,964,465	756,917	19.09%
Total net assets	10,334,655	9,904,516	430,139	4.34%
Total liabilities and net assets	<u>\$ 12,020,516</u>	<u>\$ 11,666,113</u>	<u>\$ 354,403</u>	<u>3.04%</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year Administrative Fund

	Year Ended September 30		Variance	
	2008	2007	Increase (Decrease) Amount	%
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,003,700	\$ 6,893,351	\$ 110,349	1.60%
Bar Journal	315,591	338,316	(22,725)	(6.72%)
Bar Journal Directory	211,938	248,635	(36,697)	(14.76%)
Bar Leadership Forum	10,819	8,682	2,137	24.61%
Rent/Attorney Discipline System Fee	79,524	78,070	1,454	1.86%
Justice Initiatives	5,000	20	4,980	N/A
Annual Meeting	149,553	156,899	(7,346)	(4.68%)
Upper Michigan Legal Institute	9,212	9,215	(3)	(0.03%)
Ethics	2,925	4,310	(1,385)	(32.13%)
50-Yr Golden Celebration	2,555	1,750	805	46.00%
Print-on-Demand Services	160,689	132,906	27,783	20.90%
e-Journal	88,265	90,789	(2,524)	(2.78%)
Lawyer Referral Service	105,744	93,320	12,424	13.31%
Lawyers and Judges Assistance	53,873	39,939	13,934	34.89%
Member and Endorsed Services/Affinity Programs	796,851	811,204	(14,353)	(1.77%)
Character and Fitness	282,339	277,177	5,162	1.86%
Practice Management Resource Center	18,232	8,546	9,686	113.34%
Internet	32,971	17,357	15,614	89.96%
Client Protection Fund Fees/Other	150,396	146,407	3,989	2.72%
Total operating revenue	9,480,177	9,356,893	123,284	1.32%
Expenses				
Labor expenses:				
Salaries	3,516,743	3,467,319	49,424	1.43%
Employee benefits and payroll taxes	1,841,353	1,454,713	386,640	26.58%
Total labor expenses	5,358,096	4,922,032	436,064	8.86%
Non-labor expenses:				
Executive Offices:				
Executive Office	84,232	147,691	(63,459)	(42.97%)
Human Resources	155,726	106,383	49,343	46.38%
Representative Assembly	48,764	48,723	41	0.08%
Board of Commissioners	121,360	127,341	(5,981)	(4.70%)
Outreach, Committees, Section Support, Local and Affinity Bars	135,073	109,656	25,417	23.18%
General Counsel/Governmental Relations/Research and Development	230,844	97,267	133,577	137.33%
Total Executive Offices	775,999	637,061	138,938	21.81%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year (Continued) Administrative Fund

	Year Ended September 30		Variance	
	2008	2007	Increase (Decrease) Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Finance and Administration:				
Administration	\$ 46,980	\$ 56,795	\$ (9,815)	(17.28%)
Facilities Services	326,342	355,660	(29,318)	(8.24%)
Financial Services	297,114	271,407	25,707	9.47%
Depreciation	529,212	535,263	(6,051)	(1.13%)
Total Finance and Administration	1,199,648	1,219,125	(19,477)	(1.60%)
Information Technology Services	195,672	228,050	(32,378)	(14.20%)
Member Services and Communications:				
Member and Endorsed Services	337,525	390,816	(53,291)	(13.64%)
Annual Meeting	191,448	159,125	32,323	20.31%
50 Year Golden Celebration	17,849	17,230	619	3.59%
Great Rivers Conference	-	15,708	(15,708)	(100.00%)
Upper Michigan Legal Institute	12,468	17,881	(5,413)	(30.27%)
Bar Leadership Forum	15,638	24,375	(8,737)	(35.84%)
Bar Journal Directory	240,232	226,090	14,142	6.26%
Bar Journal	546,865	507,785	39,080	7.70%
Print-on-Demand	98,600	84,662	13,938	16.46%
Internet	79,364	85,987	(6,623)	(7.70%)
e-Journal	22,941	31,598	(8,657)	(27.40%)
Media Relations	82,810	77,803	5,007	6.44%
Total Member Services and Communications	1,645,740	1,639,060	6,680	0.41%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year (Continued) Administrative Fund

	Year Ended September 30		Variance Increase (Decrease)	
	2008	2007	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Justice Initiatives	\$ 51,377	\$ 131,532	\$ (80,155)	(60.94%)
Professional Standards:				
Ethics	13,553	17,543	(3,990)	(22.74%)
Character and Fitness	42,140	41,605	535	1.29%
Client Protection Fund Expense	5,660	8,687	(3,027)	(34.85%)
Lawyer Referral Service	7,078	6,033	1,045	17.32%
Lawyer and Judges Assistance	57,567	45,827	11,740	25.62%
Law Office Management	24,450	26,517	(2,067)	(7.79%)
Unauthorized Practice of Law	14,924	20,468	(5,544)	(27.09%)
Total Professional Standards	<u>165,372</u>	<u>166,680</u>	<u>(1,308)</u>	<u>(0.78%)</u>
Total non-labor expenses	<u>4,033,808</u>	<u>4,021,508</u>	<u>12,300</u>	<u>0.31%</u>
Total operating expenses	<u>9,391,904</u>	<u>8,943,540</u>	<u>448,364</u>	<u>5.01%</u>
Operating Income	88,273	413,353	(325,080)	(78.64%)
Nonoperating Revenue - Investment income	<u>341,866</u>	<u>639,806</u>	<u>(297,940)</u>	<u>(46.57%)</u>
Increase in Net Assets	430,139	1,053,159	(623,020)	(59.16%)
Net Assets - Beginning of year	<u>9,904,516</u>	<u>8,851,357</u>	<u>1,053,159</u>	<u>11.90%</u>
Net Assets - End of year	<u>\$10,334,655</u>	<u>\$ 9,904,516</u>	<u>\$ 430,139</u>	<u>4.34%</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget Administrative Fund

	Year Ended September 30		Budget Variance	
	2008	2008	Favorable (Unfavorable)	
	Actual	Budget	Amount	%
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,003,700	\$ 6,973,000	\$ 30,700	0.44%
Bar Journal	315,591	307,000	8,591	2.80%
Bar Journal Directory	211,938	245,000	(33,062)	(13.49%)
Bar Leadership Forum	10,819	8,500	2,319	27.28%
Rent/Attorney Discipline System Fee	79,524	80,000	(476)	(0.60%)
Justice Initiatives	5,000	10,100	(5,100)	(50.50%)
Annual Meeting	149,553	128,800	20,753	16.11%
Upper Michigan Legal Institute	9,212	9,000	212	2.36%
Ethics	2,925	3,000	(75)	(2.50%)
50-Yr Golden Celebration	2,555	2,800	(245)	(8.75%)
Print-on-Demand Services	160,689	142,000	18,689	13.16%
e-Journal	88,265	93,500	(5,235)	(5.60%)
Lawyer Referral Service	105,744	57,000	48,744	85.52%
Lawyers and Judges Assistance	53,873	28,000	25,873	92.40%
Member and Endorsed Services	796,851	799,006	(2,155)	(0.27%)
Character and Fitness	282,339	244,000	38,339	15.71%
Practice Management Resource Center	18,232	6,200	12,032	194.06%
Internet	32,971	15,000	17,971	119.81%
Client Protection Fund Fees/Other	150,396	171,500	(21,104)	(12.31%)
Total operating revenue	9,480,177	9,323,406	156,771	1.68%
Expenses				
Labor expenses:				
Salaries	3,516,743	3,428,453	(88,290)	(2.58%)
Employee benefits and payroll taxes	1,841,353	1,914,119	72,766	3.80%
Total labor expenses	5,358,096	5,342,572	(15,524)	(0.29%)
Non-labor expenses:				
Executive Offices:				
Executive Office	84,232	91,600	7,368	8.04%
Human Resources	155,726	109,625	(46,101)	(42.05%)
Representative Assembly	48,764	47,100	(1,664)	(3.53%)
Outreach, Committees, Section Support, and Local and Affinity Bars	135,073	142,600	7,527	5.28%
Board of Commissioners	121,360	128,850	7,490	5.81%
General Counsel/Governmental Relations/Research and Development	230,844	228,925	(1,919)	(0.84%)
Total Executive Offices	775,999	748,700	(27,299)	(3.65%)

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget (Continued) Administrative Fund

	Year Ended September 30		Budget Variance	
			Favorable (Unfavorable)	
	2008 Actual	2008 Budget	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Finance and Administration:				
Administration	\$ 46,980	\$ 60,600	\$ 13,620	22.48%
Facilities Services	326,342	335,200	8,858	2.64%
Financial Services	297,114	316,900	19,786	6.24%
Depreciation	529,212	550,000	20,788	3.78%
SBM non-labor float	-	(57,400)	(57,400)	100.00%
Total Finance and Administration	1,199,648	1,205,300	5,652	0.47%
Information Technology Services	195,672	243,340	47,668	19.59%
Member Services and Communications:				
Member and Endorsed Services	337,525	428,963	91,438	21.32%
Annual Meeting	191,448	180,500	(10,948)	(6.07%)
50 Year Golden Celebration	17,849	21,550	3,701	17.17%
Upper Michigan Legal Institute	12,468	16,050	3,582	22.32%
Bar Leadership Forum	15,638	34,200	18,562	54.27%
Bar Journal Directory	240,232	246,000	5,768	2.34%
Bar Journal	546,865	551,500	4,635	0.84%
Print-on-Demand Services	98,600	103,500	4,900	4.73%
Internet	79,364	87,100	7,736	8.88%
e-Journal	22,941	24,000	1,059	4.41%
Media Relations	82,810	100,700	17,890	17.77%
Total Member Services and Communications	1,645,740	1,794,063	148,323	8.27%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget (Continued) Administrative Fund

	Year Ended September 30		Budget Variance	
	2008	2008	Favorable (Unfavorable)	
	Actual	Budget	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Justice Initiatives	\$ 51,377	\$ 174,507	\$ 123,130	70.56%
Professional Standards:				
Ethics	13,553	26,000	12,447	47.87%
Character and Fitness	42,140	52,950	10,810	20.42%
Client Protection Fund Expense	5,660	15,125	9,465	62.58%
Lawyer Referral Service	7,078	9,100	2,022	22.22%
Lawyer and Judges Assistance	57,567	56,260	(1,307)	(2.32%)
Law Office Management	24,450	22,960	(1,490)	(6.49%)
Unauthorized Practice of Law	14,924	29,450	14,526	49.32%
Total Professional Standards	<u>165,372</u>	<u>211,845</u>	<u>46,473</u>	21.94%
Total non-labor expenses	<u>4,033,808</u>	<u>4,377,755</u>	<u>343,947</u>	7.86%
Total operating expenses	<u>9,391,904</u>	<u>9,720,327</u>	<u>328,423</u>	3.38%
Operating Income (Loss)	88,273	(396,921)	485,194	N/A
Nonoperating Revenue - Investment income	<u>341,866</u>	<u>400,000</u>	<u>(58,134)</u>	(14.53%)
Increase in Net Assets	430,139	3,079	427,060	N/A
Net Assets - Beginning of year	<u>9,904,516</u>	<u>9,904,516</u>	-	-
Net Assets - End of year	<u>\$ 10,334,655</u>	<u>\$ 9,907,595</u>	<u>\$ 427,060</u>	<u>4.31%</u>

State Bar of Michigan

Historical Financial Summaries Five-year Financial Summary Administrative Fund

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Operating Revenues:					
Membership Dues and Fees	\$ 6,625,536	\$ 6,705,235	\$ 6,762,604	\$ 6,893,351	\$ 7,003,700
Other Operating Revenues	<u>2,548,139</u>	<u>2,433,173</u>	<u>2,426,461</u>	<u>2,463,542</u>	<u>2,476,477</u>
Total Operating Revenues	9,173,675	9,138,408	9,189,065	9,356,893	9,480,177
Operating Expenses:					
Salaries	2,918,735	3,102,434	3,535,174	3,467,319	3,516,743
Employee Benefits and Payroll Taxes	1,624,130	1,224,073	1,385,756	1,454,713	1,841,353
Other Operating Expenses	<u>3,745,110</u>	<u>3,638,990</u>	<u>3,732,897</u>	<u>4,021,508</u>	<u>4,033,808</u>
Total Operating Expenses	<u>8,287,975</u>	<u>7,965,497</u>	<u>8,653,827</u>	<u>8,943,540</u>	<u>9,391,904</u>
Operating Income	885,700	1,172,911	535,238	413,353	88,273
Nonoperating Revenues (Expenses):					
Investment Income	223,407	465,508	312,360	639,806	341,866
Interest on Debt	<u>(230,341)</u>	<u>(165,092)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>(6,934)</u>	<u>300,416</u>	<u>312,360</u>	<u>639,806</u>	<u>341,866</u>
Increase in Net Assets	<u>\$ 878,766</u>	<u>\$ 1,473,327</u>	<u>\$ 847,598</u>	<u>\$ 1,053,159</u>	<u>\$ 430,139</u>
Net Assets at Beginning of Fiscal Year	\$ 5,651,666	\$ 6,530,432	\$ 8,003,759	\$ 8,851,357	\$ 9,904,516
Net Assets at End of Fiscal Year	\$ 6,530,432	\$ 8,003,759	\$ 8,851,357	\$ 9,904,516	\$ 10,334,655
Net Assets as a % of Total Expenses	76.66%	98.44%	102.28%	110.74%	110.04%

State Bar of Michigan

Historical Financial Summaries Five-year Financial Summary Client Protection Fund

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Operating Revenues:					
Membership Dues and Fees	\$ 542,707	\$ 547,851	\$ 556,882	\$ 567,848	\$ 577,151
Other Operating Revenues	<u>20,017</u>	<u>16,119</u>	<u>6,958</u>	<u>47,363</u>	<u>13,917</u>
Total Operating Revenues	562,724	563,970	563,840	615,211	591,068
Operating Expenses:					
Claims Payments	360,079	212,874	227,098	183,428	441,565
Other Operating Expenses	<u>99,029</u>	<u>151,576</u>	<u>148,750</u>	<u>143,907</u>	<u>148,640</u>
Total Operating Expenses	<u>459,108</u>	<u>364,450</u>	<u>375,848</u>	<u>327,335</u>	<u>590,205</u>
Operating Income	103,616	199,520	187,992	287,876	863
Nonoperating Revenues					
Investment Income	<u>55,399</u>	<u>102,890</u>	<u>89,022</u>	<u>181,465</u>	<u>82,583</u>
Increase in Net Assets	<u>\$ 159,015</u>	<u>\$ 302,410</u>	<u>\$ 277,014</u>	<u>\$ 469,341</u>	<u>\$ 83,446</u>
Net Assets at Beginning of Fiscal Year	\$ 784,657	\$ 943,672	\$ 1,246,082	\$ 1,523,096	\$ 1,992,437
Net Assets at End of Fiscal Year	\$ 943,672	\$ 1,246,082	\$ 1,523,096	\$ 1,992,437	\$ 2,075,883
Net Assets as a % of Total Expenses	205.54%	341.91%	405.24%	608.68%	351.72%