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and Other Supplementary Information, Year Ended September 30, 2011

Full report available at
www.michbar.org/generalinfo/pdfs/annual_fin_report.pdf

December 12, 2011

Honorable Robert P. Young Jr., Chief Justice, Supreme Court of Michigan, Hall of Justice, 925 W. Ottawa Street, Lansing, MI 48915

RE: STATE BAR OF MICHIGAN ANNUAL FINANCIAL REPORT— FY 2011

With this letter, please accept the FY 2011 Annual Financial Report of the State Bar of Michigan. The Annual Financial Report covers the fiscal year ended September 30, 2011, 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 2011

FY 2011 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 Strategic Plan can be accessed on the State Bar's website at <http://www.michbar.org/generalinfo/pdfs/strategicplan.pdf>.

- Major accomplishments included:
- The State Bar of Michigan's special task force on adapting the judicial branch to changes in Michigan's economy and demographics (Judicial Crossroads Task Force) finalized and announced its recommendations in the areas of technology; structure and resources; access to justice; and business impact. A press conference was held in January 2011 and the recommendations were presented to the House Judiciary Committee in February 2011. Support for the objectives of the Task Force recommendations is ongoing.
 - The Board of Commissioners approved a set of Strategic Plan Priorities for FY 2011–13. The effort was supported by the results of a comprehensive member survey that was submitted to the full membership in March and April 2011 that identified member needs and satisfaction. The approved strategic priorities are guiding the State Bar in allocating resources and setting operational focus.
 - The State Bar of Michigan published the 2010 Economics of Law Practice Survey providing Michigan attorneys with a resource that allows access to the most current law practice economic information available. The survey results are provided free as a service to members of the State Bar of Michigan. The key findings report contains information pertaining to attorney income and billing rates.
 - The State Bar of Michigan launched a new online career center in February to connect employers in the legal profession to eligible and qualified candidates looking for job opportunities. The service is free to members and is a valuable benefit.
 - A total of 1,097 new member applications were processed and attorney membership of the State Bar of Michigan grew to 41,803 members in good standing, an increase of 1.6% over FY 2010.
 - The State Bar achieved a financial surplus of \$610,494 during FY 2011 primarily through continued cost control, deferral of expenses, lower depreciation, and lower retiree health care expense.
 - The Board of Commissioners approved recommendations of the "Public Statement Workgroup" commissioned by State Bar President Tony Jenkins to define the conditions for and the restrictions on public statements on behalf of the State Bar.
 - During the year ended September 30, 2011, the Board of Commissioners approved 68 Client Protection Fund claims totaling \$354,473 for payment to reimburse clients whose funds held in trust by their attorneys were misappropriated. A total of \$459,175 in claims was disbursed from the fund in FY 2011. There is a total of \$30,162 in authorized but unpaid claims as of September 30, 2011, pending receipt of signed subrogation agreements from the prospective payees. A total of \$15,707

was collected from 13 respondents on subrogation files. The Client Protection Fund ended the year with net assets of \$2,168,424, exclusive of the approved but unpaid claims awaiting subrogation agreements.

- The State Bar processed 1,270 character and fitness applications for the July 2010 and February 2011 exams, conducted 78 district committee interviews and 34 formal character and fitness standing committee hearings, and participated in one hearing before the Board of Law Examiners during the most recent reporting year (May 1, 2010–April 30, 2011). Staff continues to create reports that automatically generate request letters, many of which are sent electronically, reducing postage costs and utilizing information imported from the online application submitted by the applicants.
- Eighty-seven complaints alleging the unauthorized practice of law (UPL) were received by the State Bar during the year ended September 30, 2011. Thirty-four of these complaints were closed after investigation, 18 are being monitored after investigation, 31 remain open pending further investigation, 2 complaints recommended for litigation by the UPL Standing Committee are pending final review by the Board of Commissioners, and 2 matters were approved by the Board for litigation.
- The Special Committee on Defining the Practice of Law (Special Committee), appointed by State Bar President Tony Jenkins, examined a rule-based definition of the practice of law prepared by the Standing Committee on the Unauthorized Practice of Law (UPL Committee) as well as alternative approaches to addressing the unauthorized practice of law and to protecting persons needing legal assistance from unauthorized legal practices. In its report to the Board of Commissioners, the Special Committee endorsed a slightly modified version of the proposed definition, recommending its inclusion in the Rules Concerning the State Bar of Michigan as Rule 16.1, Definition of the Practice of Law, stating that the proposed definition codifies and clarifies Michigan common law, provides transparency into issues arising out of the "practice of law," furnishes necessary guidance to lawyers and others, and will enhance the enforcement efforts of the UPL Committee. The Board of Commissioners referred the report to the Representative Assembly for its consideration.
- State Bar staff counsel responded to approximately 10 to 20 inquiries daily from attorneys and judges seeking informal advice through the Ethics Helpline. The "Tips and Tools for a Successful Practice" seminar was presented twice during the bar year to help lawyers strengthen their law practices, and the new "Lawyer Trust Accounts" seminar, developed by State Bar staff counsel, was presented to assist lawyers in the ethical management of their trust accounts and provide resources for effective recordkeeping. Staff counsel also gave several ethics presentations to local bar associations and bar-related entities.
- The State Bar helped promote and guide the implementation of "Professionalism in Action" (law-school orientation) programs at Wayne State University Law School, University of Detroit Mercy School of Law, Michigan State University College of Law, and Thomas M. Cooley Law School campuses. The program is available to all Michigan law schools.
- The Lawyer Referral Service (LRS) responded to telephone calls and online referral requests, providing an average of 130 referrals to members of the public daily.
- The Practice Management Resource Center (PMRC) continued to provide a variety of practice management resources on its website, which received an average of 31,213 page views monthly. PMRC staff responded to telephone calls from lawyers seeking informal advice via the PMRC helpline, authored practice management articles for the *Michigan Bar Journal* and external publications, and participated in numerous seminars and programs sponsored by local bar associations, Institute of Continuing Legal Education (ICLE), law schools, and

- bar-related entities. Through its Customized Training & Consulting Program, PMRC staff continued to perform individualized practice management consultations and customized technology training sessions for lawyers and law firms, and conduct audits for members referred by the attorney discipline agencies.
- The Board of Commissioners approved appointing a standing Practice Management Resource Center Advisory Committee to provide guidance to the Center in the development, maintenance, and evaluation of resources, programs, and services designed to help members build and strengthen their law practices.
 - The Lawyers and Judges Assistance Program (LJAP) opened approximately 141 new cases and provided monitoring services to 103 clients during FY 2011. LJAP also participated in the third annual Richard Steinberg Memorial Treatment Fund dinner held in April 2011.
 - The Professional Ethics Committee provided comments to the Michigan Supreme Court on proposed revisions to the Michigan Rules of Professional Conduct (MRPC) and issued two new ethics opinions.
 - The State Bar's public policy program conducted a full review of 60 bills and court rules and led the advocacy on approximately 50 formal legislative and court rule positions. The State Bar continued its advocacy to reform the indigent criminal defense system. The State Bar also worked to support the goals of the recommendations of the Judicial Crossroads Task Force. At the federal level, the State Bar also advocated for several issues, including funding for civil legal aid, protecting attorney-client privilege in regulatory matters, and other legislative matters to assist in funding for state courts.
 - Volunteers filled 844 positions on the 30 standing and special committees and other initiatives to carry out the mission of the State Bar of Michigan. Thirty-two nonlawyers joined in that work. The continued implementation of the online committee appointment process resulted in a record number of applicants to serve on State Bar committees.
 - Services to the State Bar's 38 sections were enhanced and reviewed with section leaders at the fifth annual Section Chair Orientation.
 - The State Bar president and staff made more than 85 visits to the 126 local and special-purpose voluntary bars in Michigan.
 - The State Bar of Michigan supported diversity in the profession in FY 2011 with a series of meetings and events culminating in a "Celebrating Diversity Reception" event at the Henry Ford Museum in conjunction with the 2011 Annual Meeting. The reception served as a sequel to an event at last year's Annual Meeting which introduced the Michigan Pledge to Achieve Diversity and Inclusion in the Legal Profession. More than 700 groups, firms, and attorneys have signed on to the pledge. Additionally, the Board of Commissioners unanimously approved appointing a standing diversity and inclusion advisory committee to institutionalize the diversity work of the SBM.
 - The State Bar of Michigan hosted the third annual Pro Bono Coordinators Workshop on May 25, 2011. The workshop covered recruitment and recognition of pro bono attorneys, rural pro bono practice, engagement of law firms and the judiciary, and law school pro bono resources for the community.
 - The State Bar completed and published the *Persons with Disabilities and Access to the Michigan Legal System: A Status Report, 2010*.
 - An annual Justice Initiatives summit was held in April to gather opinion leaders, policy-makers, and others in the justice initiative community to discuss major issues of concern to the justice community. The working topic of "Engaging the Next Generation of Justice Initiatives Leaders" included the concepts of civil right to counsel, limited scope representation, and pro se representation.
 - The State Bar of Michigan held several large member events during FY 2011. 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 2011 in conjunction with the ICLE Solo and Small Firm Institute.
 - *Milliken v Bradley*, a historic 1974 United States Supreme Court case that addressed a plan for desegregation of schools and busing in Detroit and its suburbs, was the subject of the State Bar's 36th Michigan Legal Milestone. A panel of speakers with diverse viewpoints reflected on the significance of the case and its continuing impact on schools in southeastern Michigan and across the nation at a dedication ceremony and luncheon held in conjunction with the State Bar Annual Meeting in Dearborn.

- Services to members were enhanced with the addition of two new partners offering service discounts to members. In June, SBM partnered with Clio, a web-based legal practice management program that has been optimized to meet the needs of solos and small firms. Clio is accessible from any device (Mac, PC, mobile) and is secure and easy to use. In addition, LookingForSpace.com is an online resource for lawyers seeking to rent extra offices to other attorneys and attorneys seeking to sublet office space from other law firms.
- A key State Bar benefit was enhanced in FY 2011. Casemaker launched its new upgraded version CasemakerELITE. A free benefit provided to members of the State Bar of Michigan, this service provides case law, constitution, and statutes for all 50 states, including the District of Columbia, Michigan primary law, administrative code, state court rules, federal court rules, attorney general opinions, and the model civil jury instructions. In addition to the free functionality, new advanced features are available via subscription. The Casemaker website averages 3,500 visits from our member area monthly.
- Technology improvements continued with the implementation of a state-of-the-art telephone system, expanded electronic voting for State Bar elections, and online member directory improvements.
- The State Bar's Audit Committee recommended new auditors (Andrews Hooper Pavlik PLC) for the period FY 2011-13.
- The Access to Justice Campaign revenue (including pledges) for the fiscal year ended September 30, 2011 was more than \$750,000 (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. Approximately \$10.6 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/atifund.

FY 2011 FINANCIAL SUMMARY

The State Bar achieved a financial surplus of \$610,494 in the Administrative Fund during FY 2011 primarily through continued cost control, deferral of expenses, lower depreciation, and lower retiree health care expense. The State Bar's net assets in the Administrative Fund totaled \$11,909,693 as of September 30, 2011. The Client Protection Fund has \$2,168,624 in net assets and the Retiree Health Care Trust has \$1,039,246 for future retiree health care premiums. The State Bar operates without any debt.

APPROVED FY 2012 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2012 of (\$204,956) that focuses on continued spending for accomplishing its strategic focus. A summary of the FY 2012 approved budget was published in the November 2011 *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 2011 Annual Financial Report. The basic financial statements and related notes are audited by the independent accounting firm of Andrews Hooper Pavlik PLC in accordance with auditing standards generally accepted in the United States of America, and their opinion is provided as a part of this report.

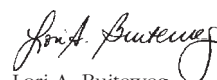
Questions or comments on this FY 2011 Annual Financial Report should be directed to Janet K. Welch, executive director of the State Bar of Michigan.



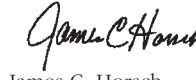
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President



Janet K. Welch
Executive Director



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