

## Independent Auditors' Report

Board of Trustees  
Michigan State Bar Foundation  
Lansing, Michigan

We have audited the accompanying statements of financial position of Michigan State Bar Foundation as of September 30, 2005 and 2004 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan State Bar Foundation as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Maner, Costerisan & Ellis, P.C.*  
*Certified Public Accountants*  
*Lansing, Michigan*  
*December 6, 2005*

# Michigan State Bar Foundation

## REPORT ON FINANCIAL STATEMENTS

### YEARS ENDED SEPTEMBER 30, 2005 AND 2004

#### MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2005 and 2004

<b>ASSETS</b>		
	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 735,255	\$ 702,931
Marketable equity securities .....	3,858,243	3,465,340
Accounts receivable—IOLTA .....	164,469	118,609
Accounts receivable .....	25,836	30,164
Unconditional promises to give .....	134,013	221,330
Accrued interest receivable .....	16,105	18,241
Prepaid expenses .....	4,488	3,847
<b>TOTAL CURRENT ASSETS</b> .....	<b>4,938,409</b>	<b>4,560,462</b>
<b>UNCONDITIONAL PROMISES TO GIVE,</b>		
less current portion .....	229,614	180,039
<b>EQUIPMENT, net</b> .....	<b>14,583</b>	<b>21,855</b>
<b>TOTAL ASSETS</b> .....	<b>\$5,182,606</b>	<b>\$4,762,356</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable—General .....	\$ 5,075	\$ 13,773
—State Bar .....	27,627	13,476
Grants payable .....	715,602	595,082
IOLTA payable .....	172,867	94,538
<b>TOTAL CURRENT LIABILITIES</b> .....	<b>921,171</b>	<b>716,869</b>
<b>NET ASSETS:</b>		
Unrestricted .....	1,302,728	963,822
Temporarily restricted .....	1,946,965	2,196,676
Permanently restricted .....	1,011,742	884,989
<b>TOTAL NET ASSETS</b> .....	<b>4,261,435</b>	<b>4,045,487</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b> .....	<b>\$5,182,606</b>	<b>\$4,762,356</b>

See notes to financial statements.

## Michigan State Bar Foundation

### Notes to Financial Statements

#### NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Michigan State Bar Foundation have been prepared on the accrual basis and the AICPA Industry Audit Guide of Not-for-Profit Organizations. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

*Financial Statement Presentation*—The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets and are explained as follows.

- Unrestricted net assets represent the portion of expendable funds available for support of Foundation operations and unrestricted contributions.
- Temporarily restricted net assets consist of contributions or earnings, which have been restricted by the donor. Unexpended amounts are included in temporarily restricted net assets. These resources originate from IOLTA activities, the Access to Justice Campaign, gifts, grants, bequests, contracts, emergency appeals and investment income

## MICHIGAN STATE BAR FOUNDATION STATEMENTS OF ACTIVITIES

Years Ended September 30, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions—IOLTA—net (See Note 7)	\$	\$1,304,903	\$	\$1,304,903	\$	\$ 962,723	\$	\$ 962,723
Fellows memberships		74,268		74,268		59,194		59,194
Access to Justice contributions		552,145	126,753	678,898		559,632	15,803	575,435
Filing fees reimbursement	72,986			72,986	74,483			74,483
Regular memberships	875			875	125			125
Interest	30,004	110,500		140,504	24,622	118,786		143,408
Contributions	1,000			1,000	15,140			15,140
Memorials	100			100	125			125
Realized gain (loss) on investments	41,653	2,271		43,924	20,442	(23,051)		(2,609)
Net assets released from restrictions	2,346,841	(2,346,841)			2,592,144	(2,592,144)		
Total revenue and other support	2,493,459	(302,754)	126,753	2,317,458	2,727,081	(914,860)	15,803	1,828,024
EXPENSES:								
Program services:								
IOLTA Grants	1,068,557			1,068,557	1,165,938			1,165,938
Fellows Program	23,230			23,230	20,477			20,477
Filing fees	95,270			95,270	104,252			104,252
IOLTA Program	383,444			383,444	332,626			332,626
Cohn Endowment and memorial programs					2,401			2,401
Access to Justice Program	659,435			659,435	811,544			811,544
Other programs					42,090			42,090
Total program services	2,229,936			2,229,936	2,479,328			2,479,328
Management and general	22,936			22,936	20,642			20,642
Total expenses	2,252,872			2,252,872	2,499,970			2,499,970
Change in net assets before unrealized gain (loss) on current marketable equity securities	240,587	(302,754)	126,753	64,586	227,111	(914,860)	15,803	(671,946)
UNREALIZED GAIN (LOSS) ON CURRENT MARKETABLE EQUITY SECURITIES	98,319	53,043		151,362	99,785	35,610		135,395
CHANGE IN NET ASSETS	338,906	(249,711)	126,753	215,948	326,896	(879,250)	15,803	(536,551)
NET ASSETS, beginning of year	963,822	2,196,676	884,989	4,045,487	636,926	3,075,926	869,186	4,582,038
NET ASSETS, end of year	\$1,302,728	\$1,946,965	\$1,011,742	\$4,261,435	\$ 963,822	\$2,196,676	\$884,989	\$4,045,487

See notes to financial statements.

earned on IOLTA investments. IOLTA revenue is directly affected by changes in interest rates.

- Permanently restricted net assets are gift instruments requiring the principal be maintained intact in perpetuity and only the income be used for purposes specified by the donor.

*Functional Expenses*—Expenses are classified on a functional basis as program services and management and general.

The following is a definition of the Foundation's significant program services:

- IOLTA Program—Grants and related expenses regarding improvements in the administration of justice and legal services to the poor.
- Fellows Program—A membership program that generates revenue for the Foundation's public service activities.
- Filing fees—Funds expended to provide grants for civil legal services to the poor.
- Access to Justice Program—Grants and related expenses regarding civil legal services to the poor.

Cash and cash equivalents consist of cash accounts and money market funds.

*Investments*—Investments in equity securities and debt securities with readily determinable fair values are reported at fair value with gains and losses included in the statement of activities. Amounts on deposit for investment purposes are not considered cash equivalents for cash flows purposes. Losses on investments that are donor restricted in excess of original principal reduce unrestricted net assets. Subsequent related gains are recorded as increases in unrestricted net assets until the gain offsets the amount of losses previously recorded as decreases in net assets.

*Accounts Receivable*—Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. See Note 4 for changes in the valuation allowance.

*Contributions*—Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

*Promises to Give*—Unconditional promises to give are recognized as revenue in the period the promise is received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Long-term unconditional promises to give are initially recorded as temporarily restricted assets.

Prepaid expenses consist primarily of advance payments for insurance and maintenance agreements.

Equipment is stated at cost. Depreciation is computed over the estimated useful lives of the assets on the straight-line method and the Foundation's capitalization policy is \$1,000.

Contract services for personnel consist of reimbursement to other entities for services provided to the Foundation. These personnel are covered under the benefit plans of their respective entities.

*Reclassifications*—Certain prior year amounts have been reclassified to conform to the current year format for comparative purposes.

**NOTE 2—ORGANIZATION, RISKS AND UNCERTAINTIES**

The Michigan State Bar Foundation was formed on September 30, 1947 as a non-profit corporation under U.S. Internal Revenue Code Section 501(c)(3). Created in recognition of the legal profession's responsibilities to the public, the Foundation provides financial assistance to educational, research and public service projects that promote advancements in the administration of justice, further a better understanding of our legal system and improve relations among the legal profession, the courts and the public, and further the delivery of legal services to the poor. No provision for income taxes is required due to the Foundation's tax-exempt status.

*Credit Risk*—The Foundation is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and investments, promises to give and accounts receivable.

The Foundation places its cash and investments with high credit quality financial institutions. Although such investments and cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 3—INVESTMENTS**

The fair values of investments are estimated based on quoted market prices for those of similar investments. Investments consist of traded securities on the New York Stock Exchange and U.S. Governmental Securities.

**MICHIGAN STATE BAR FOUNDATION  
STATEMENTS OF CASH FLOWS**

**Years Ended September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	\$ 215,948	\$ (536,551)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,802	9,182
Realized (gain) loss on sale of marketable equity securities	(43,924)	2,609
Unrealized (gain) loss on marketable equity securities	(151,362)	(135,395)
Permanently restricted contributions	(126,753)	(15,803)
Accounts receivable	(41,532)	(19,933)
Unconditional promise to give	37,742	336,308
Accrued interest receivable	2,136	7,716
Prepaid expenses	(641)	244
Accounts payable and IOLTA payable	83,782	(13,084)
Grants payable	120,520	(103,209)
Total adjustments	<u>(111,230)</u>	<u>68,635</u>
Net cash provided (used) by operating activities	<u>104,718</u>	<u>(467,916)</u>
Cash flows from investing activities:		
Purchase of investments	(1,485,669)	(907,798)
Sale of investments	1,288,052	1,557,513
Purchase of property and equipment	(1,530)	—
Net cash provided (used) by investing activities	<u>(199,147)</u>	<u>649,715</u>
Cash flows from financing activities:		
Donations of permanently restricted funds	126,753	15,803
NET INCREASE IN CASH AND CASH EQUIVALENTS	32,324	197,602
CASH AND CASH EQUIVALENTS:		
Beginning of year	702,931	505,329
End of year	<u>\$ 735,255</u>	<u>\$ 702,931</u>

See notes to financial statements.



	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain (Loss)</u>
<b>Investments:</b>			
<b>September 30, 2005:</b>			
Government and debt securities	\$2,255,122	\$2,176,824	\$ (78,298)
Equities	1,119,312	1,681,419	562,107
<b>Total</b>	<b>\$3,374,434</b>	<b>\$3,858,243</b>	<b>\$483,809</b>
<b>September 30, 2004:</b>			
Government and debt securities	\$2,084,632	\$2,043,922	\$ (40,710)
Equities	1,048,261	1,421,418	373,157
<b>Total</b>	<b>\$3,132,893</b>	<b>\$3,465,340</b>	<b>\$332,447</b>

**NOTE 4—UNCONDITIONAL PROMISES TO GIVE**

	<b>2005</b>			<b>2004</b>
	<u>Access to Justice</u>	<u>Fellows Program</u>	<u>Total</u>	
Gross amounts due in:				
Less than one year	\$ 80,231	\$ 65,150	\$ 145,381	\$259,507
One to five years	65,422	189,842	255,264	200,659
More than five years	—	36,150	36,150	37,060
<b>Total</b>	<b>\$145,653</b>	<b>\$291,142</b>	<b>\$436,795</b>	<b>\$497,226</b>
Current portion—net	\$ 78,259	\$ 55,754	\$ 134,013	\$221,330
Long-term portion—net	59,972	169,642	229,614	180,039
	<u>\$138,231</u>	<u>\$225,396</u>	<u>\$363,627</u>	<u>\$401,369</u>

The discount rate used was 4% for 2004 and 2005.

The above amounts are net of an allowance for uncollectible amounts of \$30,771 and \$35,405 at September 30, 2005 and 2004, respectively.

**NOTE 5—EQUIPMENT AND DEPRECIATION**

Equipment at September 30 consists of the following:

	<b>2005</b>	<b>2004</b>
Computers and equipment	\$ 50,283	\$49,660
Office furniture	12,040	12,040
	<u>62,323</u>	<u>61,700</u>
Less accumulated depreciation	47,740	39,845
<b>Equipment—net</b>	<b>\$ 14,583</b>	<b>\$ 21,855</b>
Depreciation expense	\$ 8,802	\$ 9,182

**NOTE 6—NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses or satisfying the restricted purposes.

Purpose and time restrictions accomplished and other items:

	<b>2005</b>	<b>2004</b>
IOLTA—Grants	\$1,068,557	\$1,165,938
IOLTA expenses	383,444	332,626
Fellows memberships	64,250	62,350
Cohn Endowment	—	2,401
Access to Justice Program expenses	659,435	811,544
Release of assets due to time restrictions and other	171,155	217,285
	<u>\$2,346,841</u>	<u>\$2,592,144</u>

Temporarily restricted net assets at year end consist of the following:

	<b>2005</b>	<b>2004</b>
IOLTA Program	\$ 1,433,913	\$ 1,545,674
Fellows memberships to be collected	225,396	215,378
Franck Program	55,998	51,198
Cohn Endowment and memorial programs	6,444	1,605
Access to Justice Program time and purpose restrictions	225,214	382,821
	<u>\$1,946,965</u>	<u>\$2,196,676</u>

Permanently restricted net assets at year end consist of the following:

	<b>2005</b>	<b>2004</b>
Access to Justice Program	\$ 961,742	\$ 834,989
Cohn Endowment	50,000	50,000
	<u>\$ 1,011,742</u>	<u>\$ 884,989</u>

**NOTE 7—ENDOWMENT AND RESTRICTED ACTIVITIES**

*Cohn Endowment Program*—The principal of the Irwin I. Cohn Endowment Fund shall be kept intact under all circumstances. Any income or capital gains generated from the principal may be used.

*Access to Justice*—Program to improve civil legal services for low-income persons. The principal can be permanently restricted by option of the donor. Temporarily restricted contributions and income are restricted for the purpose of the program.

*Franck Program* (Michael Franck Fund for Professional Responsibility)—The income and principal are restricted to the furtherance of professional responsibility.

*IOLTA Program* (Interest on Lawyer's Trust Accounts)—The Michigan Supreme Court issued Administrative Order 1990-2 that the Board of Trustees of the Michigan State Bar Foundation would administer the IOLTA Program established pursuant to amendment of Rule 1.15 of the Michigan Rules of Professional Conduct (MRPC). Administrative Order 1997-9, effective November 14, 1997, modified Order 1990-2. The Michigan Supreme Court also adopted amendments to MRPC 1.15, effective June 15, 2005 and effective October 18, 2005.

After administrative expenses, the IOLTA funds are to be distributed by the Foundation in accordance with administrative orders issued by the Michigan Supreme Court. Under the current order, IOLTA funds distributed to the Michigan Supreme Court for Gender and Racial/Ethnic issues and to the Michigan Supreme Court Historical Society are reported in an agency capacity.

The following is a summary of the IOLTA activity for the years ended September 30:

	<b>2005</b>	<b>2004</b>
IOLTA funds (accrual basis)	\$ 1,468,642	\$ 1,072,354
Less allocation for Gender and Racial/Ethnic Issues and Supreme Court Historical Society	(163,739)	(109,631)
IOLTA revenue—net	<u>\$ 1,304,903</u>	<u>\$ 962,723</u>
IOLTA funds (accrual basis)	\$ 1,468,642	\$ 1,072,354
Administrative expenses and investment activity	(407,079)	(358,557)
<b>IOLTA funds—net</b>	<b>\$ 1,061,563</b>	<b>\$ 713,797</b>

	<b>2005</b>		
	<u>Gender and Racial/Ethnic Issues</u>	<u>Supreme Court Historical Society</u>	<u>Total IOLTA Payable</u>
IOLTA funds—net	\$ 1,061,563	\$ 1,061,563	\$ 1,061,563
Allocation per administrative order	10%	5%	15%
	106,156	53,078	159,234
Allocation of accumulated funds at beginning of year	57,855	36,683	94,538
Interest earned	3,210	1,112	4,322
Total funds available	167,221	90,873	258,094
Payments made	(48,545)	(36,682)	(85,227)
<b>IOLTA payable, end of year</b>	<b>\$ 118,676</b>	<b>\$ 54,191</b>	<b>\$ 172,867</b>

	<b>2004</b>		
	<u>Gender and Racial/Ethnic Issues</u>	<u>Supreme Court Historical Society</u>	<u>Total IOLTA Payable</u>
IOLTA funds—net	\$ 713,797	\$ 713,797	\$ 713,797
Allocation per administrative order	10%	5%	15%
	71,380	35,690	107,070
Allocation of accumulated funds at beginning of year	48,017	38,532	86,549
Interest earned	1,569	992	2,561
Total funds available	120,966	75,214	196,180
Payments made	(63,111)	(38,531)	(101,642)
<b>IOLTA payable, end of year</b>	<b>\$ 57,855</b>	<b>\$ 36,683</b>	<b>\$ 94,538</b>

**NOTE 8—LEASED FACILITIES**

Facilities are leased under agreements running through September 30, 2010. Rental expense for the year ended September 30, 2005 and 2004 was approximately \$31,099 and \$30,609, respectively. Minimum future rental amounts are calculated on the base monthly rent amount. The rent payment is adjusted annually by the Consumer Price Index. The maximum annual increase per adjustment is 10%.

Minimum future rentals under this lease are as follows:

<u>Year Ending September 30</u>	
2006	\$ 31,744
2007	31,744
2008	31,744
2009	31,744
2010	31,744
<b>Total</b>	<b>\$158,720</b>