

Excerpts from "State Bar of Michigan Annual Financial Report



Michael Franck Building • 306 Townsend Street
Lansing, Michigan 48933-2012 • Telephone: (517) 346-6300
or (800) 968-1442 • Fax: (517) 482-6248

with Supplemental Information, September 30, 2006"

Full report available at www.michbar.org/generalinfo/pdfs/FY2006_Annual_Fin_Report.pdf

November 2, 2006

Michigan Supreme Court, Honorable Clifford W. Taylor, Chief Justice,
Hall of Justice, 925 W. Ottawa St., P.O. Box 30052, Lansing, MI 48915

RE: STATE BAR OF MICHIGAN ANNUAL REPORT—FY 2006

With this letter, please accept the FY 2006 Annual Report of the State Bar of Michigan. The Annual Report covers the fiscal year ended September 30, 2006, and contains the audited financial statements and other information required by accounting standards or necessary to explain the operations and results of the State Bar of Michigan.

MAJOR ACCOMPLISHMENTS IN FY 2006

Fiscal year 2006 witnessed continued implementation of the State Bar Strategic Plan and the provision of enhanced services to the members and the public in a cost-effective manner. Major accomplishments included:

- Implementation continued on the Strategic Plan updated and approved by the Board of Commissioners in June 2005, which provides a strategic direction to the Bar and focuses on six key areas: programs and services, public policy, image and identity, human resources, fiscal resources, and structure and governance. The approved Plan is on the State Bar's website at http://www.michbar.org/generalinfo/StrategicPlan_AM_2005s.pdf.
- A number of new positions were hired in accordance with the Strategic Plan, including an IJAP counselor, a Director of Research and Development, a Manager of Development and External Affairs, and a Deputy General Counsel, to better serve the members and the public.
- The State Bar staffed and implemented the Practice Management Resource Center (PMRC) in FY 2006, which provides law office management support for attorneys. The PMRC provides telephone support, website information, seminars, and a lending library to help lawyers in the practice of law.
- Another successful Annual Meeting was held in Ypsilanti in September 2006, as well as a Bar Leadership Forum and Upper Michigan Legal Institute at Mackinac Island in June 2006.
- The State Bar achieved another financial surplus during FY 2006 through continued cost control, deferral of staff positions, favorable investment results, and other revenue increases. The State Bar has Net Assets in the Administrative Fund of \$8,851,357 and operates without any debt.
- A total of 108 unauthorized practice of law (UPL) complaints were received by the State Bar of Michigan for investigation for the 12 months ending September 30, 2006. One UPL prosecution, which was initiated in FY 2005, resulted in an injunction in FY 2006. One matter has been resolved by stipulation and a Consent Order will be entered in the near future. One motion was filed for order to show cause for violation of previously entered injunction. The defendant was found in contempt and sentenced to 220 days in jail, \$1,100 fine, and restitution to the victims in excess of \$10,000. Of the 108 complaints received in the 12 months ended September 30, 2006, 42 remain open and 66 have been closed. There are currently 113 open UPL investigations (including 71 cases that were opened prior to FY 2006).
- During the 12 months ending September 30, 2006, the Board of Commissioners approved a total of 51 Client Protection Fund claims totaling \$244,301 for payment to reimburse clients whose funds held in trust by their attorneys were misappropriated. A total of \$227,098 was paid out from the Fund in FY 2006. There is a total of \$59,985 in authorized but unpaid claims as of September 30, 2006, pending receipt of signed subrogation agreements from the prospective payees. The Client Protection Fund ended the year with net assets of \$1,523,096, exclusive of the approved but unpaid claims awaiting subrogation agreements.

- The Access to Justice Campaign total for the fiscal year October 1, 2005 through September 30, 2006 was approximately \$995,000 in contributions and new pledges (unaudited, net of adjustments). The Access to Justice Campaign was established in 1997 through the partnership of SBM, the Michigan State Bar Foundation, and the state's legal aid providers, to support civil legal aid to the poor. More than \$6.4 million has been received to date by the Access to Justice Fund in donations, pledges, and planned gifts. 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.msb.org/atjfund.
- Additional "E-Commerce" applications were completed in FY 2006, including online affiliate dues and online new member applications, which provide the capability through the Internet and the State Bar's website to pay dues and apply for new membership.
- The State Bar implemented the best practices for not-for-profits from the Sarbanes-Oxley legislation, and drafted a disaster recovery plan.

FY 2006 FINANCIAL SUMMARY

The State Bar recorded a surplus of \$847,598 in the Administrative Fund during FY 2006 as compared to an increase in Net Assets in FY 2005 of \$1,473,327, primarily due to continued cost control and favorable investment income.

Compared to the FY 2006 budget, the State Bar had a favorable variance in Net Assets of \$1,146,075. This was primarily due to lower operating expenses than budget due to personnel vacancies and continued diligent expense management; and to a lesser extent from favorable variances in investment income. The State Bar's Net Assets in the Administrative Fund totaled \$8,851,357 as of September 30, 2006.

APPROVED FY 2007 BUDGET

The State Bar Board of Commissioners has approved a budget for FY 2007 that focuses on continued spending for strategic programs. The State Bar is committed to achieving the budget, subject to unpredictable investment gains and losses due to market fluctuations. A summary of the FY 2007 approved budget was published in the November 2006 *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 2006 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 2006 Annual Report should be directed to Ms. Janet K. Welch, Interim Executive Director of the State Bar of Michigan.

Kimberly M. Cahill
President

Janet K. Welch
Interim Executive Director

W. Anthony Jenkins
Treasurer

James C. Horsch
Director of Finance and Administration