

# Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2007 and 2006

## 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, 2007 and 2006, 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, 2007 and 2006, 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  
January 7, 2008

## MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2007 and 2006

ASSETS	2007	2006
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 1,891,663	\$ 2,318,105
Marketable debt and equity securities . . . . .	7,014,495	3,271,642
Accounts receivable—IOLTA . . . . .	529,680	409,666
Accounts receivable . . . . .	27,861	57,325
Unconditional promises to give . . . . .	136,709	155,003
Accrued interest receivable . . . . .	53,850	26,352
Prepaid expenses . . . . .	4,841	4,608
<b>TOTAL CURRENT ASSETS . . . . .</b>	<b>9,659,099</b>	<b>6,242,701</b>
<b>UNCONDITIONAL PROMISES TO GIVE,</b>		
less current portion . . . . .	231,550	266,583
<b>LONG-TERM INVESTMENTS . . . . .</b>	<b>1,136,307</b>	<b>1,045,523</b>
<b>EQUIPMENT, net . . . . .</b>	<b>10,618</b>	<b>13,531</b>
<b>TOTAL ASSETS . . . . .</b>	<b>\$ 11,037,574</b>	<b>\$ 7,568,338</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
General . . . . .	\$ 42,152	\$ 32,944
State Bar . . . . .	12,100	12,887
Grants payable . . . . .	1,205,012	869,370
IOLTA payable . . . . .	1,055,298	564,023
<b>TOTAL CURRENT LIABILITIES . . . . .</b>	<b>2,314,562</b>	<b>1,479,224</b>
<b>NET ASSETS:</b>		
Unrestricted . . . . .	1,076,733	895,942
Unrestricted, board designated . . . . .	500,000	500,000
<b>TOTAL UNRESTRICTED . . . . .</b>	<b>1,576,733</b>	<b>1,395,942</b>
Temporarily restricted . . . . .	6,009,972	3,647,649
Permanently restricted . . . . .	1,136,307	1,045,523
<b>TOTAL NET ASSETS . . . . .</b>	<b>8,723,012</b>	<b>6,089,114</b>
<b>TOTAL LIABILITIES AND NET ASSETS . . . . .</b>	<b>\$ 11,037,574</b>	<b>\$ 7,568,338</b>

See notes to financial statements.

## 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. Currently, the board has designated \$500,000 for future uses.

- 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 earned on investments related to these activities. IOLTA revenue is directly affected by changes in interest rates.

# Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>REVENUE AND OTHER SUPPORT:</b>								
Contributions—IOLTA—net (See Note 7)	\$	\$ 4,317,282	\$	\$ 4,317,282	\$	\$ 3,142,054	\$	\$ 3,142,054
Fellows memberships		86,173		86,173		43,384		43,384
Access to Justice contributions		629,676	90,784	720,460		844,072	33,781	877,853
Filing fees reimbursement	76,856			76,856	74,778			74,778
Regular memberships	250			250	925			925
Interest	72,736	316,279		389,015	43,750	161,037		204,787
Contributions	499	2,019		2,518	29,597	800		30,397
Memorials					200			200
Realized gain (loss) on investments	173,932	175,736		349,668	34,542	(21,837)		12,705
Net assets released from restrictions	3,165,066	(3,165,066)			2,523,107	(2,523,107)		
<b>TOTAL REVENUE AND OTHER SUPPORT</b>	<b>3,489,339</b>	<b>2,362,099</b>	<b>90,784</b>	<b>5,942,222</b>	<b>2,706,899</b>	<b>1,646,403</b>	<b>33,781</b>	<b>4,387,083</b>
<b>EXPENSES:</b>								
Program services:								
IOLTA Grants	1,957,694			1,957,694	1,402,085			1,402,085
IOLTA Program	442,599			442,599	438,166			438,166
Fellows program	22,709			22,709	20,351			20,351
Filing fees	98,035			98,035	105,653			105,653
Cohn endowment program	10,373			10,373	8,500			8,500
Access to Justice Program	692,831			692,831	617,506			617,506
Other programs	469			469	5,000			5,000
<b>TOTAL PROGRAM SERVICES</b>	<b>3,224,710</b>			<b>3,224,710</b>	<b>2,597,261</b>			<b>2,597,261</b>
Management and general	27,664			27,664	26,904			26,904
<b>TOTAL EXPENSES</b>	<b>3,252,374</b>			<b>3,252,374</b>	<b>2,624,165</b>			<b>2,624,165</b>
Change in net assets before unrealized gain (loss) on current marketable equity securities	236,965	2,362,099	90,784	2,689,848	82,734	1,646,403	33,781	1,762,918
<b>UNREALIZED GAIN (LOSS) ON CURRENT MARKETABLE EQUITY SECURITIES</b>	<b>(56,174)</b>	<b>224</b>		<b>(55,950)</b>	<b>10,480</b>	<b>54,281</b>		<b>64,761</b>
<b>CHANGE IN NET ASSETS</b>	<b>180,791</b>	<b>2,362,323</b>	<b>90,784</b>	<b>2,633,898</b>	<b>93,214</b>	<b>1,700,684</b>	<b>33,781</b>	<b>1,827,679</b>
<b>NET ASSETS, beginning of year</b>	<b>1,395,942</b>	<b>3,647,649</b>	<b>1,045,523</b>	<b>6,089,114</b>	<b>1,302,728</b>	<b>1,946,965</b>	<b>1,011,742</b>	<b>4,261,435</b>
<b>NET ASSETS, end of year</b>	<b>\$1,576,733</b>	<b>\$6,009,972</b>	<b>\$1,136,307</b>	<b>\$8,723,012</b>	<b>\$1,395,942</b>	<b>\$3,647,649</b>	<b>\$1,045,523</b>	<b>\$6,089,114</b>

See notes to financial statements.

## Notes to Financial Statements (continued)

- 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 Grants and IOLTA Program—Grants and related expenses regarding improvements in the administration of justice and civil 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.
- Cohn Endowment Program—Grants from endowment earnings have typically supported law related education.
- Access to Justice Program—Grants and related expenses regarding civil legal services to the poor.

- Other Programs—Miscellaneous programs administered by the Foundation.

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 of permanently restricted assets 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

MICHIGAN STATE BAR FOUNDATION  
STATEMENTS OF CASH FLOWS

Years Ended September 30, 2007 and 2006

	2007	2006
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
Cash flows from operating activities:		
Change in net assets	\$2,633,898	\$1,827,679
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	5,277	6,724
Realized (gain) loss on sale of marketable equity securities	349,668	(12,705)
Unrealized (gain) loss on marketable equity securities	55,950	(64,761)
Permanently restricted contributions	(90,784)	(33,781)
Accounts receivable	(90,550)	(276,686)
Unconditional promise to give	53,327	(57,959)
Accrued interest receivable	(27,498)	(10,247)
Prepaid expenses	(233)	(120)
Accounts payable and IOLTA payable	499,696	404,285
Grants payable	335,642	153,768
Total adjustments	<u>1,090,495</u>	<u>108,518</u>
Net cash provided by operating activities	3,724,393	1,936,197
Cash flows from investing activities:		
Purchase of investments	(8,221,642)	(1,689,821)
Sale of investments	3,982,387	1,308,365
Purchase of property and equipment	(2,364)	(5,672)
Net cash used by investing activities	<u>(4,241,619)</u>	<u>(387,128)</u>
Cash flows from financing activities:		
Donations of permanently restricted funds	90,784	33,781
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(426,442)</b>	<b>1,582,850</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	2,318,105	735,255
End of year	<u>\$1,891,663</u>	<u>\$2,318,105</u>

See notes to financial statements.

## Notes to Financial Statements (continued)

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.

## 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.

	Cost	Market	Unrealized gain (loss)
Investments:			
September 30, 2007:			
Government and corporate debt securities	\$5,818,004	\$5,794,782	\$(23,222)
Equities	1,840,177	2,356,020	515,843
Total	<u>\$7,658,181</u>	<u>\$8,150,802</u>	<u>\$492,621</u>
September 30, 2006:			
Government and corporate debt securities	\$2,524,499	\$2,470,370	\$(54,129)
Equities	1,244,095	1,846,795	602,700
Total	<u>\$3,768,594</u>	<u>\$4,317,165</u>	<u>\$548,571</u>

Investments are presented in the statements of financial position as follows:

	2007	2006
Marketable debt and equity securities	\$7,014,495	\$3,271,642
Long-term investments	1,136,307	1,045,523
	<u>\$8,150,802</u>	<u>\$4,317,165</u>

## NOTE 4—UNCONDITIONAL PROMISES TO GIVE

	2007			2006
	Access to Justice	Fellows program	Total	
Gross amounts due in:				
Less than one year	\$75,940	\$63,200	\$139,140	\$182,162
One to five years	62,453	200,000	262,453	298,688
More than five years		43,750	43,750	33,200
Total	<u>\$138,393</u>	<u>\$306,950</u>	<u>\$445,343</u>	<u>\$514,050</u>

**NOTE 4—UNCONDITIONAL PROMISES TO GIVE (continued)**

Current portion—net	\$ 75,940	\$ 60,769	\$ 136,709	\$ 155,003
Long-term portion—net	55,316	176,234	231,550	266,583
Total—net	<u>\$131,256</u>	<u>\$237,003</u>	<u>\$368,259</u>	<u>\$421,586</u>

The discount rate used to determine the net amounts above was 4% and 5%, which amounted to \$45,347 and \$64,243 for 2007 and 2006, respectively.

The above net amounts are net of an allowance for uncollectible amounts of \$31,737 and \$28,221 at September 30, 2007 and 2006, respectively.

**NOTE 5—EQUIPMENT AND DEPRECIATION**

Equipment at September 30 consists of the following:

	2007	2006
Computers and equipment	\$57,188	\$55,954
Office furniture	12,040	12,040
	<u>69,228</u>	<u>67,994</u>
Less accumulated depreciation	58,610	54,463
Equipment—net	<u>\$10,618</u>	<u>\$13,531</u>
Depreciation expense	\$ 5,277	\$ 6,724

**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:

	2007	2006
IOLTA—grants	\$1,957,694	\$1,402,085
IOLTA expenses	442,599	438,166
Fellows memberships	61,100	56,850
Cohn Endowment	10,373	8,500
Access to Justice Program grants and expenses	692,831	617,506
Special programs	469	
	<u>\$3,165,066</u>	<u>\$2,523,107</u>

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

	2007	2006
IOLTA program	\$5,038,212	\$2,841,561
Fellows memberships to be collected	237,003	211,930
Franck program	73,656	60,216
Cohn Endowment and memorial programs	3,485	2,096
Access to Justice Program time and purpose restrictions	653,616	529,396
Special programs	4,000	2,450
	<u>\$6,009,972</u>	<u>\$3,647,649</u>

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

	2007	2006
Access to Justice Program	\$1,086,307	\$ 995,523
Cohn Endowment	50,000	50,000
	<u>\$1,136,307</u>	<u>\$1,045,523</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 increase resources for 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 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:

	2007	2006
IOLTA funds (accrual basis)	\$5,040,158	\$3,626,870
Less allocation for Gender and Racial/Ethnic Issues and Supreme Court Historical Society	(722,876)	(484,816)
IOLTA revenue—net of funds received in an agency capacity	<u>\$4,317,282</u>	<u>\$3,142,054</u>

Calculation of funds received in an agency capacity:

	2007	2006
IOLTA funds (accrual basis)	\$5,040,158	\$3,626,870
Administrative expenses and investment activity	(433,422)	(475,514)
IOLTA funds—net	<u>\$4,606,736</u>	<u>\$3,151,356</u>

	2007		
	Gender and Racial/Ethnic Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	\$4,606,736	\$4,606,736	\$4,606,736
Allocation per administrative order	10%	5%	15%
	460,674	230,337	691,011
Allocation of accumulated funds at beginning of year	403,609	160,414	564,023
Interest earned	25,131	6,735	31,866
Total funds available	889,414	397,486	1,286,900
Payments made	(71,188)	(160,414)	(231,602)
IOLTA payable, end of year	<u>\$ 818,226</u>	<u>\$ 237,072</u>	<u>\$1,055,298</u>

	2006		
	Gender and Racial/Ethnic Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	\$3,151,356	\$3,151,356	\$3,151,356
Allocation per administrative order	10%	5%	15%
	315,136	157,568	472,704
Allocation of accumulated funds at beginning of year	118,676	54,191	172,867
Interest earned	9,266	2,846	12,112
Total funds available	443,078	214,605	657,683
Payments made	(39,469)	(54,191)	(93,660)
IOLTA payable, end of year	<u>\$ 403,609</u>	<u>\$ 160,414</u>	<u>\$ 564,023</u>

**NOTE 8—LEASED FACILITIES**

Facilities are leased under agreements running through September 30, 2010. Rental expense for the year ended September 30, 2007 and 2006 was approximately \$32,951 and \$31,744, 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:

Year ending September 30,	
2008	\$ 31,744
2009	31,744
2010	31,744
Total	<u>\$95,232</u>