

Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2008 and 2007

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, 2008 and 2007, 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, 2008 and 2007, 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, P.C.
Certified Public Accountants
Lansing, Michigan
December 22, 2008

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,139,990	\$ 1,891,663
Marketable debt and equity securities	7,658,042	7,014,495
Accounts receivable—IOLTA	297,972	529,680
Accounts receivable	42,468	27,861
Unconditional promises to give	161,167	136,709
Accrued interest receivable	60,240	53,850
Prepaid expenses	4,571	4,841
TOTAL CURRENT ASSETS	10,364,450	9,659,099
UNCONDITIONAL PROMISES TO GIVE,		
less current portion	270,837	231,550
LONG-TERM INVESTMENTS	1,879,245	1,136,307
EQUIPMENT, net	31,552	10,618
TOTAL ASSETS	\$12,546,084	\$ 11,037,574
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
General	\$ 31,093	\$ 42,152
State Bar	16,563	12,100
Grants payable	2,625,784	1,205,012
IOLTA payable	1,327,906	1,055,298
TOTAL CURRENT LIABILITIES	4,001,346	2,314,562
NET ASSETS:		
Unrestricted	705,276	1,076,733
Unrestricted, board designated	500,000	500,000
Total unrestricted	1,205,276	1,576,733
Temporarily restricted	5,460,217	6,009,972
Permanently restricted	1,879,245	1,136,307
TOTAL NET ASSETS	8,544,738	8,723,012
TOTAL LIABILITIES AND NET ASSETS	\$12,546,084	\$ 11,037,574

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, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions—IOLTA—net (See Note 7)	\$	\$ 3,345,620	\$	\$ 3,345,620	\$	\$ 4,317,282	\$	\$ 4,317,282
Fellows memberships		59,633		59,633		86,173		86,173
Access to Justice Fund contributions		861,441	742,938	1,604,379		629,676	90,784	720,460
Disability assistance program		14,800		14,800				
Filing fees reimbursement	78,436			78,436	76,856			76,856
Regular memberships	275			275	250			250
Interest	61,588	433,872		495,460	72,736	316,279		389,015
Contributions and memorials	9,572	8,101		17,673	499	2,019		2,518
Realized gain on investments	56,149	93,911		150,060	173,932	175,736		349,668
Net assets released from restrictions	4,817,139	(4,817,139)			3,165,066	(3,165,066)		
TOTAL REVENUE AND OTHER SUPPORT	5,023,159	239	742,938	5,766,336	3,489,339	2,362,099	90,784	5,942,222
EXPENSES:								
Program services:								
IOLTA Grants	3,600,574			3,600,574	1,957,694			1,957,694
IOLTA Program	419,228			419,228	442,599			442,599
Fellows program	25,518			25,518	22,709			22,709
Filing fees	107,505			107,505	98,035			98,035
Cohn endowment program					10,373			10,373
Access to Justice Program	715,412			715,412	692,831			692,831
Disability assistance program	14,800			14,800				
Other programs	5,000			5,000	469			469
TOTAL PROGRAM SERVICES	4,888,037			4,888,037	3,224,710			3,224,710
Management and general	26,376			26,376	27,664			27,664
Fundraising	27,376			27,376				
TOTAL EXPENSES	4,941,789			4,941,789	3,252,374			3,252,374
Change in net assets before unrealized loss on current marketable equity securities	81,370	239	742,938	824,547	236,965	2,362,099	90,784	2,689,848
UNREALIZED GAIN (LOSS) ON CURRENT MARKETABLE EQUITY SECURITIES	(452,827)	(549,994)		(1,002,821)	(56,174)	224		(55,950)
CHANGE IN NET ASSETS	(371,457)	(549,755)	742,938	(178,274)	180,791	2,362,323	90,784	2,633,898
NET ASSETS, beginning of year	1,576,733	6,009,972	1,136,307	8,723,012	1,395,942	3,647,649	1,045,523	6,089,114
NET ASSETS, end of year	\$1,205,276	\$5,460,217	\$1,879,245	\$8,544,738	\$1,576,733	\$6,009,972	\$1,136,307	\$8,723,012

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.

- Disability Assistance Program—Contract revenues from the Michigan Department of Human Services are distributed to legal services organizations to provide representation for clients seeking to qualify for federal disability income.

- 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

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MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS

Years Ended September 30, 2008 and 2007

	2008	2007
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	\$ (178,274)	\$ 2,633,898
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	7,634	5,277
Realized loss on sale of marketable equity securities	150,060	349,668
Unrealized loss on marketable equity securities	1,002,821	55,950
Permanently restricted contributions	(742,938)	(90,784)
Accounts receivable	217,101	(90,550)
Unconditional promise to give	(63,745)	53,327
Accrued interest receivable	(6,390)	(27,498)
Prepaid expenses	270	(233)
Accounts payable and IOLTA payable	266,012	499,696
Grants payable	1,420,772	335,642
Total adjustments	2,251,597	1,090,495
Net cash provided by operating activities	2,073,323	3,724,393
Cash flows from investing activities:		
Purchase of investments	(10,106,468)	(8,221,642)
Sale of investments	7,567,102	3,982,387
Purchase of property and equipment	(28,568)	(2,364)
Net cash used by investing activities	(2,567,934)	(4,241,619)
Cash flows from financing activities:		
Donations of permanently restricted funds	742,938	90,784
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	248,327	(426,442)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,891,663	2,318,105
End of year	<u>\$2,139,990</u>	<u>\$1,891,663</u>

See notes to financial statements.

Notes to Financial Statements (continued)

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.

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, 2008:			
Government and corporate debt securities	\$ 7,659,813	\$ 7,531,785	\$(128,028)
Equities	2,387,674	2,005,502	(382,172)
Total	<u>\$10,047,487</u>	<u>\$9,537,287</u>	<u>\$(510,200)</u>
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>

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

	2008	2007
Marketable debt and equity securities	\$7,658,042	\$ 7,014,495
Long-term investments	1,879,245	1,136,307
	<u>\$9,537,287</u>	<u>\$8,150,802</u>

NOTE 4—UNCONDITIONAL PROMISES TO GIVE

	2008			2007
	Access to Justice	Fellows program	Total	
Gross amounts due in:				
Less than one year	\$108,400	\$ 54,350	\$ 162,750	\$139,140
One to five years	108,212	194,800	303,012	262,453
More than five years		45,525	45,525	43,750
Total	<u>\$216,612</u>	<u>\$294,675</u>	<u>\$511,287</u>	<u>\$445,343</u>

NOTE 4—UNCONDITIONAL PROMISES TO GIVE (continued)

Current portion—net	\$108,400	\$ 52,767	\$ 161,167	\$136,709
Long-term portion—net	94,093	176,744	270,837	231,550
Total—net	<u>\$202,493</u>	<u>\$229,511</u>	<u>\$432,004</u>	<u>\$368,259</u>

The discount rate used to determine the net amounts above was 3% and 4%, which amounted to \$40,693 and \$45,347 for 2008 and 2007, respectively.

The above net amounts are net of an allowance for uncollectible amounts of \$38,606 and \$31,737 at September 30, 2008 and 2007, respectively.

NOTE 5—EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following:

	2008	2007
Computers and equipment	\$62,339	\$57,188
Office furniture	15,378	12,040
	<u>77,717</u>	<u>69,228</u>
Less accumulated depreciation	46,165	58,610
Equipment—net	<u>\$ 31,552</u>	<u>\$10,618</u>
Depreciation expense	<u>\$ 7,634</u>	<u>\$ 5,277</u>

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:

	2008	2007
IOLTA—grants	\$3,600,574	\$1,957,694
IOLTA expenses	419,228	442,599
Fellows memberships	67,125	61,100
Cohn Endowment		10,373
Access to Justice Program grants and expenses	715,412	692,831
Disability Assistance programs	14,800	
Special programs		469
	<u>\$4,817,139</u>	<u>\$3,165,066</u>

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

	2008	2007
IOLTA program	\$4,700,904	\$5,038,212
Fellows memberships to be collected	229,511	237,003
Franck program	80,374	73,656
Cohn Endowment and memorial programs	8,068	3,485
Access to Justice Program time and purpose restrictions	429,259	653,616
Special programs	12,101	4,000
	<u>\$5,460,217</u>	<u>\$6,009,972</u>

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

	2008	2007
Access to Justice Program	\$1,829,245	\$1,086,307
Cohn Endowment	50,000	50,000
	<u>\$1,879,245</u>	<u>\$1,136,307</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—This program seeks 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.

Disability Assistance Program—In 2008 the Michigan State Bar Foundation entered into a contract with the Michigan Department of Human Services covering three fiscal years to receive and distribute to legal services organizations funds appropriated by the Legislature for the purpose of providing representation for clients seeking to qualify for federal disability income.

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 consistent 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:

	2008	2007
IOLTA funds (accrual basis)	\$3,927,985	\$5,040,158
Less allocation for Gender and Racial/Ethnic Issues and Supreme Court Historical Society	(582,365)	(722,876)
IOLTA revenue—net of funds received in an agency capacity	<u>\$3,345,620</u>	<u>\$4,317,282</u>

Calculation of funds received in an agency capacity:

	2008	2007
IOLTA funds (accrual basis)	\$3,927,985	\$5,040,158
Administrative expenses and investment activity	(373,352)	(433,422)
IOLTA funds—net	<u>\$3,554,633</u>	<u>\$4,606,736</u>

	2008		
	Gender and Racial/Ethnic Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	\$3,554,633	\$3,554,633	\$3,554,633
Allocation per administrative order	10%	5%	15%
	355,463	177,732	533,195
Allocation of accumulated funds at beginning of year	818,226	237,072	1,055,298
Interest earned	41,962	7,209	49,171
Total funds available	1,215,651	422,013	1,637,664
Payments made	(72,686)	(237,072)	(309,758)
IOLTA payable, end of year	<u>\$ 1,142,965</u>	<u>\$ 184,941</u>	<u>\$1,327,906</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>

NOTE 8—LEASED FACILITIES

Facilities are leased under agreements running through September 30, 2010. Rental expense for the year ended September 30, 2008 and 2007 was approximately \$33,741 and \$32,951, 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,	
2009	\$ 31,744
2010	<u>31,744</u>
Total	<u>\$63,488</u>