Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2011 and 2010

Independent Auditors' Report

Board of Trustees
Michigan State Bar Foundation

We have audited the accompanying statements of financial position of Michigan State Bar Foundation as of September 30, 2011 and 2010, 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, 2011 and 2010, 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 16, 2011

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,073,579	$ 587,809
Marketable debt and equity securities	4,381,389	6,940,573
Accounts receivable—IOLTA	72,801	77,782
Accounts receivable	27,321	34,898
Unconditional promises to give	87,663	105,187
Accrued interest receivable	19,618	33,769
Prepaid expenses	4,598	4,590
TOTAL CURRENT ASSETS	5,666,969	7,784,608
UNCONDITIONAL PROMISES TO GIVE, less current portion	174,250	175,444
LONG-TERM INVESTMENTS	2,179,108	2,053,230
EQUIPMENT, net	26,899	38,373
TOTAL ASSETS	$ 8,047,226	$10,051,655

LIABILITIES AND NET ASSETS	2011	2010
CURRENT LIABILITIES:		
Accounts payable:		
General	$ 30,220	$ 45,191
State Bar	21,070	21,327
Grants payable	1,517,160	1,735,621
IOLTA payable	990,947	1,344,102
TOTAL CURRENT LIABILITIES	2,559,397	3,146,241
NET ASSETS:		
Unrestricted	837,619	783,181
Unrestricted, board designated	500,000	500,000
Total unrestricted	1,337,619	1,283,181
Temporarily restricted	1,971,102	3,569,003
Permanently restricted	2,179,108	2,053,230
TOTAL NET ASSETS	5,487,829	6,905,414
TOTAL LIABILITIES AND NET ASSETS	$ 8,047,226	$10,051,655

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 in accordance with generally accepted accounting principles (GAAP), and the AICPA Industry Audit and Accounting Guide for 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,

Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2011 and 2010

	2011 Unrestricted	2011 Temporarily restricted	2011 Permanently restricted	2011 Total	2010 Unrestricted	2010 Temporarily restricted	2010 Permanently restricted	2010 Total
REVENUE AND OTHER SUPPORT:								
Contributions—IOLTA—net (See Note 9)	$	$ 644,484	$	$ 644,484	$	$ 778,350	$	$ 778,350
Fellows memberships		71,637		71,637		30,046		30,046
Access to Justice Fund contributions		566,900	125,878	692,778		620,220	97,608	717,828
Disability Assistance Program		30,400		30,400		102,400		102,400
Filing fees reimbursement	68,814			68,814	71,410			71,410
Regular memberships	100			100				
Interest	46,447	209,965		256,412	50,018	284,944		334,962
Contributions and memorials	160,920	200		161,120	18,230	60		18,290
Realized gain (loss) on investments	20,749	(15,079)		5,670		26,576		26,576
Net assets released from restrictions	2,956,357	(2,956,357)			3,114,118	(3,114,118)		
TOTAL REVENUE AND OTHER SUPPORT	3,253,387	(1,447,850)	125,878	1,931,415	3,253,776	(1,271,522)	97,608	2,079,862
EXPENSES:								
Program services:								
IOLTA Grants	1,880,941			1,880,941	1,903,875			1,903,875
IOLTA Program	410,529			410,529	454,178			454,178
Fellows Program	31,541			31,541	26,440			26,440
Filing fees	147,000			147,000	161,746			161,746
Cohn Endowment Program								
Access to Justice Program	573,462			573,462	587,865			587,865
Disability Assistance Program	30,400			30,400	102,400			102,400
Other programs	50,000			50,000				
TOTAL PROGRAM SERVICES	3,123,873			3,123,873	3,236,504			3,236,504
Management and general	27,202			27,202	43,308			43,308
Fundraising	6,996			6,996	6,221			6,221
TOTAL EXPENSES	3,158,071			3,158,071	3,286,033			3,286,033
Change in net assets before unrealized gain (loss) on current marketable equity securities	95,316	(1,447,850)	125,878	(1,226,656)	(32,257)	(1,271,522)	97,608	(1,206,171)
UNREALIZED GAIN (LOSS) ON MARKETABLE EQUITY SECURITIES	(40,878)	(150,051)		(190,929)	75,640	99,422		175,062
CHANGE IN NET ASSETS	54,438	(1,597,901)	125,878	(1,417,585)	43,383	(1,172,100)	97,608	(1,031,109)
NET ASSETS, beginning of year	1,283,181	3,569,003	2,053,230	6,905,414	1,239,798	4,741,103	1,955,622	7,936,523
NET ASSETS, end of year	$ 1,337,619	$ 1,971,102	$2,179,108	$5,487,829	$1,283,181	$3,569,003	$2,053,230	$6,905,414

See notes to financial statements.

Notes to Financial Statements (continued)

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.

• 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.

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF CASH FLOWS

Years Ended September 30, 2011 and 2010

	2011	2010
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	$ (1,417,585)	$(1,031,109)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	11,475	9,068
Realized gain on sale of marketable equity securities	5,670	26,576
Unrealized (gain) loss on marketable equity securities	190,929	(175,062)
Permanently restricted contributions	(125,878)	(97,608)
Accounts receivable	12,558	27,776
Unconditional promise to give	18,718	124,425
Accrued interest receivable	14,151	14,379
Prepaid expenses	(8)	43
Accounts payable and IOLTA payable	(368,383)	52,256
Grants payable	(218,461)	(317,037)
Total adjustments	(459,229)	(335,184)
Net cash used by operating activities	(1,876,814)	(1,366,293)
Cash flows from investing activities:		
Purchase of investments	(3,563,467)	(6,065,398)
Sale of investments	5,800,173	7,114,075
Purchase of property and equipment		(22,175)
Net cash provided by investing activities	2,236,706	1,026,502
Cash flows from financing activities:		
Donations of permanently restricted funds	125,878	97,608
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	485,770	(242,183)
CASH AND CASH EQUIVALENTS:		
Beginning of year	587,809	829,992
End of year	$1,073,579	$ 587,809

See notes to financial statements.

Notes to Financial Statements (continued)

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 net assets in excess of the original gift 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 unrestricted 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 5 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 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.

In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

The Foundation evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through the auditors' opinion date, which is the date the financial statements were available to be issued.

NOTE 3—INVESTMENTS

Investments consist of traded securities on the New York Stock Exchange and U.S. Governmental Securities, corporate debt securities and mutual funds. IOLTA funds are not invested in equities or equity funds.

	Cost basis	Market value	Unrealized gain (loss)
Investments:			
September 30, 2011:			
Government securities, corporate debt securities and mutual funds	$ 4,077,592	$4,095,098	$ 17,506
Equities	2,792,500	2,465,399	(327,101)
Total	$ 6,870,092	$6,560,497	$(309,595)
Investments:			
September 30, 2010:			
Government securities, corporate debt securities and mutual funds	$ 6,108,032	$6,202,420	$ 94,388
Equities	3,004,437	2,791,383	(213,054)
Total	$ 9,112,469	$8,993,803	$(118,666)

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

	2011	2010
Marketable debt and equity securities	$4,381,389	$6,940,573
Long-term investments	2,179,108	2,053,230
	$6,560,497	$8,993,803

NOTE 4—FAIR VALUE MEASUREMENTS

The Foundation is subject to the provisions of accounting standards to report certain assets at fair value. The standard establishes a hierarchy that prioritizes the inputs to valuation techniques giving the highest priority to readily available unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) when market prices are not readily available or reliable. The three levels of the hierarchy are described below.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Foundation's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

From time to time, changes in valuation techniques may result in reclassification of an investment's assigned level within the hierarchy.

The following is a market value summary by the level of the inputs used, as of September 30, 2011 and 2010, in evaluating the Foundation's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

Description	Level 1: Quoted prices in active markets for identical assets	Level 2: Significant other observable inputs	Level 3: Significant unobservable inputs	Total September 30, 2011
Valued on a recurring basis:				
Mutual funds:				
Index funds	$ 692,361	$ —	$ —	$ 692,361
Growth funds	905,565	—	—	905,565
Fixed income funds	1,047,530	—	—	1,047,530
Value funds	867,473	—	—	867,473

(Continued) Description	Level 1: Quoted prices in active markets for identical assets	Level 2: Significant other observable inputs	Level 3: Significant unobservable inputs	Total September 30, 2011
Valued on a recurring basis *(Continued)*:				
Corporate and foreign bonds/notes:				
AAA credit rating	355,834	—	—	355,834
AA credit rating	—	355,840	—	355,840
A credit rating	—	543,913	—	543,913
US government securities	427,052	—	—	427,052
Mortgage-backed securities	—	113,294	—	113,294
Collateralized mortgage obligations	—	626,241	—	626,241
Asset-backed securities	—	625,394	—	625,394
Total	$4,295,815	$2,264,682	$ —	$ 6,560,497

Description	Level 1: Quoted prices in active markets for identical assets	Level 2: Significant other observable inputs	Level 3: Significant unobservable inputs	Total September 30, 2010
Valued on a recurring basis:				
Mutual funds:				
Index funds	$ 830,036	$ —	$ —	$ 830,036
Balanced funds	372,468	—	—	372,468
Growth funds	981,886	—	—	981,886
Fixed income funds	1,114,894	—	—	1,114,894
Value funds	606,994	—	—	606,994
Corporate and foreign bonds/notes:				
AAA credit rating	312,558	—	—	312,558
AA credit rating	—	243,206	—	243,206
A credit rating	—	905,688	—	905,688
US government securities	1,742,246	—	—	1,742,246
Mortgage-backed securities	—	214,474	—	214,474
Collateralized mortgage obligations	—	829,384	—	829,384
Asset-backed securities	—	839,969	—	839,969
Total	$5,961,082	$3,032,721	$ —	$8,993,803

NOTE 5—UNCONDITIONAL PROMISES TO GIVE

	2011			
	Access to Justice	Fellows program	Total	2010
Gross amounts due in:				
Less than one year	$35,804	$ 53,800	$ 89,604	$ 108,411
One to five years	6,806	178,600	185,406	186,410
More than five years	—	37,425	37,425	32,650
Total	$42,610	$269,825	$312,435	$ 327,471
Current portion—net	$34,918	$ 52,745	$ 87,663	$ 105,187
Long-term portion—net	6,201	168,049	174,250	175,444
Total—net	$ 41,119	$220,794	$261,913	$280,631

The discount rate used to determine the net amounts above was 2%, which amounted to $19,675 and $19,033 for 2011 and 2010, respectively.

The above net amounts are net of an allowance for uncollectible amounts of $30,847 and $27,807 at September 30, 2011 and 2010, respectively.

NOTE 6—EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following.

	2011	2010
Computers and equipment	$73,142	$86,129
Office furniture	15,378	15,378
	88,520	101,507
Less accumulated depreciation	61,621	63,134
Equipment—net	$26,899	$38,373
Depreciation expense	$ 11,475	$ 9,068

NOTE 7—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.

	2011	2010
IOLTA—grants	$1,880,941	$1,903,875
IOLTA expenses	410,529	454,178
Fellows memberships	61,025	65,800
Access to Justice Program grants and expenses	573,462	587,865
Disability Assistance Programs	30,400	102,400
	$2,956,357	$3,114,118

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

	2011	2010
IOLTA program	$ 976,941	$2,567,513
Fellows memberships to be collected	220,794	210,182
Franck program	96,941	92,362
Cohn Endowment Program	7,649	4,925
Access to Justice Program time and purpose restrictions	664,517	689,961
Special programs	4,260	4,060
	$1,971,102	$3,569,003

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

	2011	2010
Access to Justice Program	$2,129,108	$2,003,230
Cohn Endowment Program	50,000	50,000
	$2,179,108	$2,053,230

NOTE 8—ENDOWMENT

The Foundation's endowment consists of two individual donor-restricted funds established for the following purposes.

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 is permanently restricted by option of the donor. Income and capital gains are restricted for the purpose of the program.

As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified as permanently restricted net assets (a) the original value of initial gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the Fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Changes in endowment net assets for the year ending September 30, 2011 were as follows.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, October 1, 2010	$ —	$237,195	$2,053,230	$2,290,425
Investment return:				
Investment income	—	71,401	—	71,401
Net appreciation (realized and unrealized)	—	(87,664)	—	(87,664)
Total investment return	—	(16,263)	—	(16,263)
Contributions	—	—	125,878	125,878
Appropriation of endowment assets for expenditure	—	(10,830)	—	(10,830)
Other changes: Transfers	—	—	—	—
Endowment net assets, end of year, September 30, 2011	$ —	$210,102	$2,179,108	$2,389,210

Changes in endowment net assets for the year ending September 30, 2010 were as follows.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, October 1, 2009	$ —	$ 62,406	$1,955,622	$2,018,028
Investment return:				
Investment income	—	75,406	—	75,406
Net appreciation (realized and unrealized)	—	101,597	—	101,597
Total investment return	—	177,003	—	177,003
Contributions	—	—	97,608	97,608
Appropriation of endowment assets for expenditure	—	(2,214)	—	(2,214)
Other changes: Transfers	—	—	—	—
Endowment net assets, end of year, September 30, 2010	$ —	$237,195	$2,053,230	$2,290,425

	2011	2010
The portion of perpetual endowment funds that is to be retained permanently either by explicit donor stipulation or by UPMIFA	$2,179,108	$2,053,230

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets as of September 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Foundation. There were no such deficiencies as of September 30, 2011.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce the following results.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Endowment funds available for spending are determined by the Foundation using a total return system. The spending policy will use the average of the market value of the fund as of September 30 for the previous five years. At the end of each successive fiscal year, the most recent year will be added and the initial year will be dropped. The calculation is as follows:

a. Each year a five-year rolling average of the market value is determined as of September 30.

b. The amount which can be spent will be up to 5% of the average market value calculated in "a" above.

The funds that may be spent under this spending policy for a particular endowment fund may be drawn from both ordinary income earned (i.e., dividends, interest, rents, royalties, etc.) and capital appreciation, both realized and unrealized, for that endowment fund. All income and appreciation not needed to meet spending needs for a particular endowment fund is credited directly to that fund and reinvested. A designated endowment recipient may elect to reinvest the spending amount available rather than receive payment.

NOTE 9—RESTRICTED ACTIVITIES

Disability Assistance Program—Beginning in 2008 the Michigan State Bar Foundation entered into contracts with the Michigan Department of Human Services covering four 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/Racial/Ethnic related 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.

	2011	2010
IOLTA funds (accrual basis)—net of bank service charges	$ 721,809	$891,944
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	(77,325)	(113,594)
IOLTA revenue—net of funds received in an agency capacity	$644,484	$778,350

Calculation of funds received in an agency capacity.

	2011	2010
IOLTA funds (accrual basis)	$721,809	$891,944
Administrative expenses and investment activity	(431,082)	(426,862)
IOLTA funds—net	$290,727	$465,082

IOLTA revenues presented in the Statement of Activities are reported net of any applicable fees charged by financial institutions. For the years ended September 30, 2011 and 2010, fees charged by institutions were $62,903 and $64,040, respectively.

2011

	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	$ 290,727	$ 290,727	$ 290,727
Allocation per administrative order	10%	5%	15%
	29,073	14,536	43,609
Allocation of accumulated funds at beginning of year	1,319,934	24,168	1,344,102
Interest earned	33,319	397	33,716
Total funds available	1,382,326	39,101	1,421,427
Payments made	(406,313)	(24,167)	(430,480)
IOLTA payable, end of year	$ 976,013	$ 14,934	$ 990,947

2010

	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	$ 465,082	$ 465,082	$ 465,082
Allocation per administrative order	10%	5%	15%
	46,508	23,254	69,762
Allocation of accumulated funds at beginning of year	1,230,506	56,234	1,286,740
Interest earned	42,920	913	43,833
Total funds available	1,319,934	80,401	1,400,335
Payments made	—	(56,233)	(56,233)
IOLTA payable, end of year	$1,319,934	$ 24,168	$1,344,102

NOTE 10—LEASED FACILITIES

Facilities are leased under agreements running through September 30, 2015. Rental expense for the year ended September 30, 2011 and 2010 was approximately $34,754 and $34,754, 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,	
2012	$ 34,754
2013	34,754
2014	34,754
2015	34,754
Total	$139,016