Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 20, 2012

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,060,935	$ 1,073,579
Marketable debt and equity securities	4,434,777	4,381,389
Accounts receivable—IOLTA	58,047	72,801
Accounts receivable	22,864	27,321
Unconditional promises to give	115,052	87,663
Accrued interest receivable	13,858	19,618
Prepaid expenses	4,888	4,598
TOTAL CURRENT ASSETS	5,710,421	5,666,969
UNCONDITIONAL PROMISES TO GIVE, less current portion	186,396	174,250
LONG-TERM INVESTMENTS	2,291,706	2,179,108
EQUIPMENT, net	17,342	26,899
TOTAL ASSETS	$8,205,865	$8,047,226
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
General	$ 50,966	$ 30,220
State Bar	21,491	21,070
Grants payable	738,579	1,517,160
IOLTA payable	838,616	990,947
TOTAL CURRENT LIABILITIES	1,649,652	2,559,397
NET ASSETS:		
Unrestricted	1,030,792	837,619
Unrestricted, board designated	500,000	500,000
Total unrestricted	1,530,792	1,337,619
Temporarily restricted	2,733,715	1,971,102
Permanently restricted	2,291,706	2,179,108
TOTAL NET ASSETS	6,556,213	5,487,829
TOTAL LIABILITIES AND NET ASSETS	$8,205,865	$8,047,226

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 United States of America generally accepted accounting principles (GAAP). 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

Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions—IOLTA—net (See Note 9)	$	$ 629,706	$	$ 629,706	$	$ 644,484	$	$ 644,484
Fellows memberships		77,060		77,060		71,637		71,637
Access to Justice Fund contributions		650,983	112,598	763,581		566,900	125,878	692,778
Civil Justice System Access		1,002,292		1,002,292				
Disability Assistance Program						30,400		30,400
Filing fees reimbursement	67,488			67,488	68,814			68,814
Regular memberships	275			275	100			100
Interest	52,677	170,392		223,069	46,447	209,965		256,412
Contributions and memorials	261	1,279		1,540	160,920	200		161,120
Realized gain (loss) on investments		(34,088)		(34,088)	20,749	(15,079)		5,670
Net assets released from restrictions	2,138,091	(2,138,091)			2,956,357	(2,956,357)		
TOTAL REVENUE AND OTHER SUPPORT	2,258,792	359,533	112,598	2,730,923	3,253,387	(1,447,850)	125,878	1,931,415
EXPENSES:								
Program services:								
IOLTA Grants	1,006,067			1,006,067	1,880,941			1,880,941
IOLTA Program	395,718			395,718	410,529			410,529
Fellows Program	27,375			27,375	31,541			31,541
Filing fees	145,287			145,287	147,000			147,000
Access to Justice Program	675,216			675,216	573,462			573,462
Disability Assistance Program					30,400			30,400
Other programs	145			145	50,000			50,000
TOTAL PROGRAM SERVICES	2,249,808			2,249,808	3,123,873			3,123,873
Management and general	21,424			21,424	27,202			27,202
Fundraising	6,126			6,126	6,996			6,996
TOTAL EXPENSES	2,277,358			2,277,358	3,158,071			3,158,071
Change in net assets before unrealized gain (loss) on current marketable equity securities	(18,566)	359,533	112,598	453,565	95,316	(1,447,850)	125,878	(1,226,656)
UNREALIZED GAIN (LOSS) ON MARKETABLE EQUITY SECURITIES	211,739	403,080		614,819	(40,878)	(150,051)		(190,929)
CHANGE IN NET ASSETS	193,173	762,613	112,598	1,068,384	54,438	(1,597,901)	125,878	(1,417,585)
NET ASSETS, beginning 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
NET ASSETS, end of year	$1,530,792	$2,733,715	$2,291,706	$6,556,213	$1,337,619	$1,971,102	$2,179,108	$5,487,829

See notes to financial statements.

Notes to Financial Statements (continued)

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.

• Civil Justice System Access Program—Grants and related expenses regarding access to the civil justice system for low-income residents of Michigan.

• 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 net assets in

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF CASH FLOWS

Years Ended September 30, 2012 and 2011

	2012	2011
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	$ 1,068,384	$ (1,417,585)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,824	11,475
Realized (gain) loss on sale of marketable equity securities	34,088	(5,670)
Unrealized (gain) loss on marketable equity securities	(614,819)	190,929
Permanently restricted contributions	(112,598)	(125,878)
Accounts receivable	19,211	12,558
Unconditional promise to give	(39,535)	18,718
Accrued interest receivable	5,760	14,151
Prepaid expenses	(290)	(8)
Accounts payable and IOLTA payable	(131,164)	(368,383)
Grants payable	(778,581)	(218,461)
Total adjustments	(1,607,104)	(470,569)
Net cash used by operating activities	(538,720)	(1,888,154)
Cash flows from investing activities:		
Purchase of investments	(2,099,497)	(3,563,467)
Sale of investments	2,514,242	5,811,513
Purchase of property and equipment	(1,267)	
Net cash provided by investing activities	413,478	2,248,046
Cash flows from financing activities:		
Donations of permanently restricted funds	112,598	125,878
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,644)	485,770
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,073,579	587,809
End of year	$1,060,935	$1,073,579

See notes to financial statements.

Notes to Financial Statements (continued)

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 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. Certain investments are subject to changes in fair value daily.

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, 2012:			
Government securities, corporate debt securities and mutual funds	$3,330,709	$3,415,557	$ 84,848
Equities	3,090,549	3,310,926	220,377
Total	$6,421,258	$6,726,483	$305,225

(Continued on next page)

(Continued)	Cost basis	Market value	Unrealized gain (loss)
Investments:			
September 30, 2011:			
Government securities, corporate debt securities and mutual funds	$ 4,077,591	$4,095,098	$ 17,507
Equities	2,792,500	2,465,399	(327,101)
Total	$6,870,091	$6,560,497	$(309,594)

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

	2012	2011
Marketable debt and equity securities	$ 4,434,777	$ 4,381,389
Long-term investments	2,291,706	2,179,108
	$6,726,483	$6,560,497

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 from year to year.

The following is a market value summary by the level of the inputs used, as of September 30, 2012 and 2011, 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, 2012
Valued on a recurring basis:				
Mutual funds:				
Index funds	$ 937,931	$ —	$ —	$ 937,931
Growth funds	1,176,319	—	—	1,176,319
Fixed income funds	1,142,716	—	—	1,142,716
Value funds	1,196,674	—	—	1,196,674
Corporate and foreign bonds/notes:				
AAA credit rating	25,266	—	—	25,266
AA credit rating	—	98,793	—	98,793
A credit rating	—	409,855	—	409,855
US government securities	—	1,052,537	—	1,052,537
Mortgage-backed securities	—	46,503	—	46,503

(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, 2012
Valued on a recurring basis *(Continued)*:				
Collateralized mortgage obligations	—	203,470	—	203,470
Asset-backed securities	—	436,419	—	436,419
Total	$4,478,906	$2,247,577	$ —	$ 6,726,483

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
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

NOTE 5—UNCONDITIONAL PROMISES TO GIVE

	2012			
	Access to Justice Program	Fellows Program	Total	2011
Gross amounts due in:				
Less than one year	$ 62,691	$ 53,750	$ 116,441	$ 89,604
One to five years	2,851	181,405	184,256	185,406
More than five years	—	37,975	37,975	37,425
Total	$ 65,542	$ 273,130	$338,672	$ 312,435
Current portion—net	$ 61,836	$ 53,216	$ 115,052	$ 87,663
Long-term portion—net	2,704	183,692	186,396	174,250
Total—net	$ 64,540	$236,908	$301,448	$ 261,913

The discount rates used to determine the net amounts above ranged from 1–2%, which amounted to $10,270 and $19,675 for 2012 and 2011, respectively.

The above net amounts are net of an allowance for uncollectible amounts of $26,953 and $30,847 at September 30, 2012 and 2011, respectively.

NOTE 6—EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following.

	2012	2011
Computers and equipment	$ 74,410	$73,142
Office furniture	15,378	15,378
	89,788	88,520
Less accumulated depreciation	72,446	61,621
Equipment—net	$ 17,342	$26,899
Depreciation expense	$ 10,824	$ 11,475

NOTE 7—NET ASSETS

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

Purpose and time restrictions accomplished and other items.

	2012	2011
IOLTA—grants	$1,006,067	$1,880,941
IOLTA expenses	395,718	410,529
Fellows memberships	60,945	61,025
Access to Justice Program grants and expenses	675,216	573,462
Disability Assistance Program	—	30,400
Special programs	145	—
	$2,138,091	$2,956,357

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

	2012	2011
IOLTA Program	$ 243,880	$ 976,941
Fellows memberships to be collected	236,909	220,794
Franck Program	100,293	96,941
Cohn Endowment Program	9,643	7,649
Access to Justice Program time and purpose restrictions	1,134,717	664,517
Civil Justice System Access Program	1,002,879	—
Special programs	5,394	4,260
	$2,733,715	$1,971,102

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

	2012	2011
Access to Justice Program	$2,241,706	$2,129,108
Cohn Endowment Program	50,000	50,000
	$2,291,706	$2,179,108

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, 2012 were as follows.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, October 1, 2011	$ —	$210,102	$2,179,108	$2,389,210
Investment return:				
Investment income	—	106,318	—	106,318
Net appreciation (realized and unrealized)	—	390,036	—	390,036
Total investment return	—	496,354	—	496,354
Contributions	—	—	112,598	112,598
Appropriation of endowment assets for expenditure	—	(6,621)	—	(6,621)
Endowment net assets, end of year, September 30, 2012	$ —	$699,835	$2,291,706	$2,991,541

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)
Endowment net assets, end of year, September 30, 2011	$ —	$210,102	$2,179,108	$2,389,210

	2012	2011
The portion of perpetual endowment funds that is to be retained permanently either by explicit donor stipulation or by UPMIFA	$2,291,706	$2,179,108

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, 2012. 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, 2012.

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.

	2012	2011
IOLTA funds (accrual basis)—net of bank service charges	$ 691,190	$721,809
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	(61,484)	(77,325)
IOLTA revenue—net of funds received in an agency capacity	$629,706	$644,484

Calculation of funds received in an agency capacity.

	2012	2011
IOLTA funds (accrual basis)	$691,190	$721,809
Administrative expenses and investment activity	(429,806)	(431,082)
IOLTA funds—net	$261,384	$290,727

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, 2012 and 2011, fees charged by institutions were $54,277 and $62,903, respectively.

2012

	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds—net	$ 261,384	$ 261,384	$ 261,384
Allocation per administrative order	10%	5%	15%
	26,138	13,069	39,207
Allocation of accumulated funds at beginning of year	976,013	14,934	990,947
Interest earned	22,096	180	22,276
Total funds available	1,024,247	28,183	1,052,430
Payments made	(198,880)	(14,934)	(213,814)
IOLTA payable, end of year	$ 825,367	$ 13,249	$ 838,616

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

NOTE 10—LEASED FACILITIES

Facilities are leased under agreements running through September 30, 2015. Rental expense for the years ended September 30, 2012 and 2011 was approximately $35,744 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,	
2013	$ 34,754
2014	34,754
2015	34,754
Total	$104,262

NOTE 11—ASSETS HELD AT CAPITAL REGION COMMUNITY FOUNDATION

An Access to Justice Fund has been established at the Capital Region Community Foundation with the Michigan State Bar Foundation as the beneficiary. Funds contributed by third party donors are held in the Access to Justice Fund and distributions from the fund are made in accordance with the spending policy of the Capital Region Community Foundation. The Capital Region Community Foundation retains variance power and therefore these amounts are not included in the Michigan State Bar Foundation's Statement of Financial Position. The assets held in this endowment fund at the Capital Region Community Foundation were valued at $2,029,760 and $1,663,426 at September 30, 2012 and 2011, respectively.