

# Excerpts from State Bar of Michigan Audited Financial Statements

and Other Supplementary Information, Year Ended September 30, 2013



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## December 10, 2013

Honorable Robert P. Young Jr., Chief Justice, Supreme Court of Michigan,  
Hall of Justice, 925 W. Ottawa Street, Lansing, MI 48915

### RE: STATE BAR OF MICHIGAN ANNUAL FINANCIAL REPORT—FY 2013

With this letter, please accept the FY 2013 Annual Financial Report of the State Bar of Michigan. The Annual Financial Report covers the fiscal year ended September 30, 2013, and contains the audited financial statements and other information required by accounting standards or useful to understanding the operations and effectiveness of the State Bar of Michigan.

### MAJOR ACCOMPLISHMENTS IN FY 2013

FY 2013 witnessed continued successful implementation of the State Bar of Michigan's Strategic Plan and the provision of enhanced services to the members and the public in a cost-effective manner. The Strategic Plan can be accessed on the State Bar's website at <http://www.michbar.org/generalinfo/pdfs/strategicplan.pdf>.

Major accomplishments included:

- The State Bar processed 1,317 character and fitness applications for the July 2012 and February 2013 exams. There were 82 District Committee interviews, 35 formal Character and Fitness Standing Committee hearings, and nine hearings before the Board of Law Examiners during the most recent reporting year (May 1, 2012–April 30, 2013). Staff continues to create reports that automatically generate request letters, many of which are sent electronically, reducing postage costs and utilizing information imported from the online application submitted by the applicants.
- A total of 1,148 new member applications were processed and attorney membership of the State Bar of Michigan grew to 43,129 members in good standing, an increase of 1.5% over FY 2012.
- The State Bar achieved a financial surplus of \$368,036 during FY 2013 primarily through continued cost control, operational efficiencies, and deferral of expenses.
- During the year ended September 30, 2013, the Board of Commissioners approved 61 Client Protection Fund claims totaling \$456,505 for payment to reimburse clients whose funds held by their attorneys were misappropriated. A total of \$407,392 in claims was disbursed from the fund in FY 2013. There is a total of \$129,477 in authorized but unpaid claims as of September 30, 2013, pending receipt of signed subrogation agreements from the prospective payees.
- During the year ended September 30, 2013, the Board approved litigation in 27 matters in which the unauthorized practice of law (UPL) is believed to have occurred. Of 117 complaints alleging UPL that were received during the same period, 24 of these complaints were closed after investigation, 8 are being monitored after investigation, 5 recommended for litigation are awaiting Board review, and 53 remain open pending further investigation.
- State Bar staff counsel responded to approximately 10 to 20 inquiries daily from attorneys and judges seeking informal advice through the Ethics Helpline. The "Tips and Tools for a Successful Practice" ethics seminar was presented twice during the bar year to help lawyers strengthen their law practices, and the "Lawyer Trust Accounts" seminar, developed by State Bar staff counsel, was presented three times during the bar year (in Ingham, Wayne, and Oakland counties) to assist lawyers with the ethical management of their trust accounts and provide resources for effective traditional and electronic recordkeeping. Staff counsel also gave several ethics presentations to law schools, local bar associations, and bar-related entities.
- The Lawyer Referral Service (LRS) responded to telephone calls and online referral requests, providing approximately 120 to 130 referrals daily to members of the public.
- The Lawyers and Judges Assistance Program (LJAP) opened approximately 115 new cases and provided monitoring services to 205 clients during FY 2013. LJAP performed 91 assessments and monitored an average of 73 clients each month. LJAP provided 120 consults on the telephone for attorneys, law students, judges, or concerned colleagues or friends who were struggling with addiction or mental health issues. LJAP clinicians have presented 25 times to law students, attorneys, and judges on issues including addiction, stress management, and dealing with difficult personalities. The program administrator is designing a course with the chair of the Lawyers and Judges Assistance Committee to teach basic mental health and substance use disorder information to law students and practicing attorneys. Two modules have been designed and presented at University of Detroit Mercy Law School. The program administrator's talk at the 2012 ABA Commission on Lawyers Assistance Programs on Best Practices for Law Students was published in the *American University Journal of Gender, Social Policy and the Law*.
- The Professional Ethics Committee issued eight new ethics opinions, and the Judicial Ethics Committee issued one new ethics opinion.
- The State Bar's public policy program conducted a full review of 81 bills and court rules and led the advocacy on approximately 69 formal legislative and court rule positions.
- In April 2013, bills were introduced to improve Michigan's public defense system by creating a permanent Michigan Indigent Defense Commission. These bills were the result of both the governor's appointed advisory commission and a subsequent legislative workgroup. The State Bar participated in both the commission and the workgroup, and supported the resulting bills. After intense lobbying by the Bar and allied organizations, the bills passed with overwhelming support in both chambers of the legislature and were signed by Governor Snyder on July 3, 2013 with immediate effect. The Commission is currently being formed.
- The State Bar Representative Assembly adopted several resolutions during FY 2013 for consideration by the Michigan Supreme Court, including (1) a resolution to amend the Michigan Constitution in Section 19 of Article VI to delete the prohibition on being appointed or elected to judicial office after age 70, (2) a resolution to amend MCR 2.306 to prohibit electronic communication between a deponent and deponent's attorney during direct exams and depositions, (3) a resolution to amend MCR 2.203 to remedy an existing gap in the procedure by which parties are added to a lawsuit by defendants, and (4) a resolution to amend MRPC 7.2 on attorney advertising.
- Volunteers filled 638 positions on the 28 standing and special committees and other initiatives to carry out the mission of the State Bar of Michigan. Twenty-two nonlawyers joined in that work. An in-person and webinar orientation for new committee members and chairs was conducted to assure effective participation in the committee process.
- Services to the State Bar's 39 sections in FY 2013 were enhanced and reviewed with section leaders at the annual Section Chair Orientation titled "What's In It for Me? Create and Market the Value of Section Membership."
- A new section of the State Bar, the Military and Veterans' Law Section, was approved by the Board of Commissioners in July and is being launched for the 2013–2014 year. The Military and Veterans' Law Section will serve as a forum for the exchange of ideas among members engaged in the practice of military and veterans' law and will aim to help improve the quality of legal services provided to the military and veteran community in Michigan.
- The State Bar president and staff continued a tradition of visiting many of the approximately 135 local and special-purpose bars recognized by the State Bar of Michigan. The purpose of the visits is to gather information about the state of the profession throughout Michigan, support local civic education programs, familiarize members with State Bar services, provide practice management and lawyers and judges assistance seminars, participate in bench-bar gatherings, and conduct strategic planning and organizational development programs.
- The State Bar of Michigan supported diversity and inclusion in the profession in FY 2013 by:
  - Increasing the signatories to the State Bar of Michigan's Pledge to Achieve Diversity and Inclusion to 622 individuals, 258 law firms, 39 voluntary bar associations, 34 state bar sections and committees, 16 governmental and law-related entities, seven corporations, nine legal aid providers, and five law schools.
  - Surveying the Representative Assembly and Board of Commissioners regarding demographic information and paths to leadership.

- Co-sponsoring the second annual Diversity Summit in conjunction with the Federal Bar Association Eastern District of Michigan Diversity Committee. The summit focused on the creation of a pipeline initiative in Detroit.
- Offering “Building a Diversity and Inclusion Database for the Legal Profession in Michigan” at the 2013 Annual Meeting.
- The State Bar of Michigan hosted the fifth annual Pro Bono Coordinators Workshop on May 15, 2013. The workshop introduced “An Assessment of Pro Bono in Michigan,” a comprehensive examination of systematic factors that support or deter the effective engagement of pro bono lawyers in Michigan. It covered pro bono goals, assessments, recruiting pro bono attorneys, technology, and strategies to improve the pro bono culture. In addition, the State Bar of Michigan worked with the Domestic Violence Committee to provide pro bono training for family law attorneys, and with the Taxation Law Section to provide pro bono training on tax law.
- The fourth annual Justice Initiatives summit was held on April 29, 2013. Nearly 70 leaders representing Michigan courts, law firms, bar associations, and community justice organizations gathered at the State Bar of Michigan to discuss the report, *Why Did I Do That? The Science Behind Our Decisions*, which addressed the issue of unintentional bias in the justice system.
- The State Bar of Michigan held several large member events during FY 2013. In June, a Bar Leadership Forum and Upper Michigan Legal Institute were held at Mackinac Island. Bar leaders watched a video presentation by legal futurist Richard Susskind on “Changes and Challenges in the Profession.” A well-attended Annual Meeting was held in Lansing in September 2013 in conjunction with the ICLE Solo and Small Firm Institute.
- The historic Berrien County Courthouse became the State Bar of Michigan’s 38th Michigan Legal Milestone on June 26, 2013. In a dedication ceremony at the Howard Performing Arts Center in Berrien Springs, speakers highlighted the history of the 1839 courthouse and the important role that courthouses played in the state’s justice system and communities. A bronze plaque commemorating the milestone was unveiled during the dedication ceremony.
- The second annual Law Day creative contest asked participants to submit a creative entry illustrating the 2013 Law Day Theme, “Michigan—Realizing the Dream: Equality for All,” using content from one or more Michigan Legal Milestones. The contest calls for projects that highlight the significance of the Michigan Legal Milestones and their relationship to the role of the courts and/or an understanding of the role of the judiciary in Michigan’s constitutional democracy. Rather than an essay format, the new approach encourages wider participation by inviting dramatic or musical plays, debates, video game designs, essays, podcasts, commentaries, reenactments, mock trials, and short documentaries.
- The Practice Management Resource Center (PMRC) continued to provide a variety of practice management resources through its website. PMRC staff continued to respond to telephone calls from lawyers seeking informal advice via the PMRC helpline, authored practice management articles for the *Michigan Bar Journal* and external publications, and participated in numerous seminars and programs sponsored by local bar associations, the American Bar Association, the Institute of Continuing Legal Education (ICLE), law schools, and bar-related entities. Through a customized training and consulting program, PMRC staff continued to perform individualized practice management consultations and customized technology training sessions for lawyers and law firms, and conducted audits for members referred by the attorney discipline agencies.
- An iPad bookshelf app was developed, allowing members to view and download the State Bar’s growing library of digital publications. The app features a bookshelf containing the monthly *Michigan Bar Journal*, which can now be downloaded and stored for offline reading. In addition to the MBJ, members have access to an expanding list of State Bar publications and reports in digital format, including section publications. Members can also stay up to date by accessing the daily mobile edition of the e-Journal and the State Bar social media channels, including the SBM Blog, Facebook, Twitter, and LinkedIn. Videos of legal events are also part of the new and expanding digital viewing list.
- The implementation of a popular series of innovative iPad training seminars continued throughout the year, as did the development of new tools and features on the PMRC website, including the introduction of video instruction, an Apple Users Corner, and the continued development of a free online library allowing members to download practice management e-books and audio books to office computers, laptops, smartphones, and tablets.
- Services to members were enhanced with the addition of Volunteer Energy as a partner program. Our members can save money on both their residence and their business natural gas costs through the Volunteer Energy program. The program offers a competitive natural gas rate and billing through members’ current energy provider, so no additional invoicing is needed.
- The State Bar of Michigan continued to grow its new mentoring center. The web-based service is designed to match veteran attorneys with newer

attorneys who have similar interests and backgrounds. The veteran attorneys will be called on to provide advice and counsel on everything from filing a brief to preparing for closing arguments. Mentors and mentees are able to search user profiles and initiate contact with one another via the MentorBoard, with e-mail addresses kept confidential until a contact request has been made and accepted.

- The groundwork was laid for the conversion of the State Bar of Michigan website to transition from a “cold fusion” environment to a “dot net” environment. This two-year project will involve a total redesign of the main website pages, the member area e-commerce website, and the new social media SBM Connect website. In addition, a new enhanced online member directory was approved by the Board of Commissioners which will launch in the 2013–2014 fiscal year. The enhanced directory will allow members to upload photos, expand their biographical listings, and specify fields of practice.
- The *Michigan Bar Journal* had 40 entries in its Short-Story Contest, held every two years. Thirteen stories vied for the winners circle, and top honors went to James C. Herrinton for “*The People v Sangamon Railsplitter*.”
- The SBM Newslinks service was upgraded to receive legal posts through a news aggregator service that scans more than 190,000 global publications daily for news of interest to the legal community. The links are reviewed by SBM staff and compiled into the daily Newslinks sent to subscriber members.
- Casemaker, the online research tool offered free to State Bar of Michigan members, launched a new app making it easy to access the service through a smartphone or tablet. In addition, all Michigan judges and their staff were provided free enhanced premium tools and training from Casemaker, including access to CaseCheck+, Casemaker Digest, and CiteCheck.
- State Bar facility improvements continued with the implementation of meeting room upgrades to improve audio and video capabilities.
- The Access to Justice Campaign revenue (including pledges) for the fiscal year ended September 30, 2013, was more than \$895,000 (unaudited). The Access to Justice Campaign is a partnership of the State Bar of Michigan, the Michigan State Bar Foundation, and Michigan’s legal aid providers to increase resources for civil legal aid to the poor in Michigan. Approximately \$12.3 million has been received to date by the Access to Justice Fund in donations and pledges. Access to Justice Fund contributions are received and administered by the Michigan State Bar Foundation according to the Access to Justice Fund guidelines at [www.msbf.org/atjfund](http://www.msbf.org/atjfund).

#### FY 2013 FINANCIAL SUMMARY

The State Bar achieved a financial surplus of \$368,036 in the Administrative Fund during FY 2013 primarily through continued cost control, operational efficiencies, and deferral of expenses. The State Bar’s net position in the Administrative Fund totaled \$12,671,693, and the Client Protection Fund has \$2,419,173 in net position as of September 30, 2013. Additionally, the Retiree Health Care Trust has \$1,771,508 for future retiree health care premiums. The State Bar operates without any debt.


#### APPROVED FY 2014 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2014 of (\$486,588) that focuses on continued spending for accomplishing the State Bar’s strategic focus. A summary of the FY 2014 approved budget was published in the November 2013 *Michigan Bar Journal* and can also be found on the State Bar’s website at [www.michbar.org/generalinfo/](http://www.michbar.org/generalinfo/).

#### MANAGEMENT’S RESPONSIBILITY

The State Bar of Michigan’s management is responsible for the information provided in this FY 2013 Annual Financial Report. The basic financial statements and related notes are audited by the independent accounting firm of Andrews Hooper Pavlik PLC in accordance with auditing standards generally accepted in the United States of America, and their opinion is provided as a part of this report.

Questions or comments on this FY 2013 Annual Financial Report should be directed to Janet K. Welch, executive director of the State Bar of Michigan.



Brian D. Einhorn  
President

Janet K. Welch  
Executive Director



Donald G. Rockwell  
Treasurer



James C. Horsch  
Director of Finance and Administration