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and Other Supplementary Information, Year Ended September 30, 2014

Full report available at

<http://viewer.zmags.com/publication/72d7b82d#/72d7b82d/1>

December 8, 2014

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 2014**

With this letter, please accept the FY 2014 Annual Financial Report of the State Bar of Michigan. The Annual Financial Report covers the fiscal year ended September 30, 2014, 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 2014**

FY 2014 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:

- A total of 1,243 new member applications were processed and attorney membership of the State Bar of Michigan grew to 43,856 members in good standing, an increase of 1.7% over FY 2013.
- The State Bar achieved a financial surplus of \$140,275 primarily through continued cost control, operational efficiencies, and deferral of expenses.
- The State Bar processed 1,247 character and fitness applications for the July 2013 and February 2014 exams. There were 71 District Committee interviews, 31 formal Character and Fitness Standing Committee hearings, and three hearings before the Board of Law Examiners during the most recent reporting year (May 1, 2013–April 30, 2014). 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.
- During the year ended September 30, 2014, the Board of Commissioners approved 46 Client Protection Fund claims totaling \$620,779 for payment to reimburse clients whose funds held by their attorneys were misappropriated. A total of \$394,984 in claims was disbursed from the fund in FY 2014. There is a total of \$348,672 in authorized but unpaid claims as of September 30, 2014, pending receipt of signed subrogation agreements from the prospective payees. In July 2014, the Board increased the Client Protection Fund single claimant limit from \$75,000 to \$150,000, and increased the aggregate limit from \$300,000 to \$375,000.
- During the year ended September 30, 2014, the Board approved litigation in 15 matters in which the unauthorized practice of law (UPL) is believed to have occurred. Of 102 complaints alleging UPL that were received during the same period, 27 of these complaints were closed after investigation, three are being monitored after investigation, 17 recommended for litigation are awaiting Board review, and 40 remain open pending further investigation and review. On August 6, 2014, the "A Living Trust Initiative: Who Should You Trust? Avoiding Estate Planning Mistakes" senior education program was presented by approximately 180 volunteer lawyers at more than 100 senior centers located in 50 counties around the state.
- 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. The "Lawyer Trust Accounts" seminar was presented two times during the bar year (in Oakland and Ingham counties) to assist lawyers with the ethical management of their trust accounts and to 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 a daily average of 88 referrals to members of the public.
- The Lawyers and Judges Assistance Program (LJAP) opened approximately 95 new cases and provided monitoring or referral services to 246 clients. LJAP performed 70 assessments and monitored an average of 65 clients each month. LJAP provided approximately 70 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 28 times to law students, attorneys, and judges on issues including addiction, stress management, and dealing with difficult personalities.
- The Professional Ethics Committee issued four new ethics opinions and the Judicial Ethics Committee issued six new ethics opinions.
- The State Bar's public policy program conducted a full review of 62 bills and court rules and led the advocacy on approximately 54 formal legislative and court rule positions.
- In January 2014, Senator Arlan Meekhof introduced legislation that would change the membership of the State Bar from mandatory to voluntary and no longer require that attorneys pay a periodic fee for continued membership. The State Bar immediately sent the legislation to all members of the Bar soliciting feedback; after receiving an overwhelming response to oppose the legislation, the Board of Commissioners voted to oppose the bill.
- At the request of State Bar leaders, Senator Meekhof agreed to not advance his legislation so that the Supreme Court could be given time to examine the role of the State Bar in regulating the profession. In February, in response to the State Bar's request that the Supreme Court initiate a review of how the State Bar operates within the framework of *Keller v State Bar of California*, 496 US 1 (1990), the Supreme Court formed a task force to address whether the State Bar's current programs and activities support its status as a mandatory bar and to determine whether the State Bar's duties and functions could be accomplished by means less intrusive upon the First Amendment rights of objecting individual attorneys. The task force submitted a report to the Court in June. The report recommended the State Bar remain mandatory, but also recommended several changes to the Bar's policies, procedures, and governance. The Supreme Court released the report for a 60-day public comment period. The Board of Commissioners provided a response to the report, recommending the continuation of the mandatory bar and offering several alternative changes to the policies and procedures of the State Bar.
- Earlier in 2014, the Board of Commissioners completed a review of Administrative Order 2004-01 and recommended to the Supreme Court that the interval for posting proposed legislation on the State Bar website before the State Bar can take action on legislation be changed from 14 days to 72 hours.
- The State Bar Representative Assembly adopted several resolutions for consideration by the Michigan Supreme Court, including the following proposals: (1) an amendment to MCR 2.602(B) to provide an express mechanism for the entry of consent judgments; (2) an amendment to MCR

- 2.305(A)(1), Subpoena for Taking Deposition, to clarify that a subpoena cannot be issued in a case until the guidelines of MCR 2.306(A)(1) have been met; (3) an amendment to MCR 2.003(D)(3)(a) concerning a chief judge who has also been disqualified on a case; (4) a modification to MCR 2.403(G)(1), Scheduling Case Evaluation Hearing, to provide the advance notice of the names of the case evaluators before showing up at a case evaluation; and (5) an amendment to MCR 7.109 to allow an indigent person to move for the waiver of transcript fees on appeals from agency decisions.
- Volunteers filled 601 positions on the 26 standing and special committees, four initiatives, and the Justice Initiatives cabinet to help carry out the mission of the State Bar of Michigan. A total of 13 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, and compliance with court rules, administrative orders, and State Bar bylaws and policies.
  - During FY 2014, the State Bar published the 2014 Economics of Law Practice Survey Report. The survey has two practical objectives: to provide timely, relevant, and accurate information to inform and guide the practical management decisions of Michigan attorneys; and to track and illustrate changes and trends within the legal profession. The survey monitors and reports on several points of information useful to attorneys including attorney income; prevailing average hourly billing rates by several indicators including fields of practice, judicial circuit, and geographic location; time allocated to billable and nonbillable professional activities; management practices; and perceptions regarding current and future economic circumstances related to the practice of law.
  - Services to the State Bar's 40 sections were enhanced and reviewed with section leaders at the annual Section Chair Orientation titled "The Future of the Profession: Embracing Changes and Challenges in Our Section Work."
  - During FY 2014, membership in the sections totaled 65,071, including 34,561 paid memberships representing 18,885 individuals. Free section memberships are offered to new members, those qualifying for the Young Lawyers Section or Master Lawyers Section, and members of the judiciary.
  - Services to sections improved by introducing an online law student section application, refining the automation of free section memberships, implementing a new online "new member" application that markets section membership to new members, creating profiles for each section, and implementing an automatic e-blast to members whose voluntary free section memberships are expiring.
  - 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 bar visits began with the traditional Upper Peninsula Tour: the State Bar president, Representative Assembly chair, executive director, and District A commissioner visited seven bar associations in three days. All visits throughout the year included the distribution of a new member benefits brochure, a 20-page resource showing "literally hundreds of tools and resources designed to enrich your legal career, promote civic participation and leadership, and support quality and balance between personal and professional life."
  - The State Bar of Michigan supported diversity and inclusion in the profession by:
    - Increasing the signatories to the State Bar of Michigan's Pledge to Achieve Diversity and Inclusion to 678 individuals, 258 law firms, 39 voluntary bar associations, 36 State Bar sections and committees, 16 governmental and law-related entities, seven corporations, nine legal aid providers, and each of the four law schools in the state for a total of 1,086 signatures.
    - Developing a strategy through the Diversity and Inclusion Advisory Committee (DIAC) to monitor the progress and implementation of a number of the recommendations from the State Bar Task Force on Race/Ethnic and Gender Issues in the Courts and the Legal Profession that were promulgated in 1996. The committee prioritized 21 recommendations out of the total of 167 to focus on in the coming year.
    - DIAC also developed a "Pipeline Program Guide" that describes various programs across the state and is available online and in hard copy. To date, more than 20 programs have been inventoried.
    - Co-Chair Judge Cynthia Stephens and staff liaison Gregory Conyers of DIAC headed up a team of National Consortium for Racial and Ethnic Fairness in the Courts board members who developed the annual meeting for that body. More than 150 judges, lawyers, and law professionals from around the country gathered to discuss diversity and inclusion issues affecting the legal system and the profession.
  - The State Bar of Michigan hosted the sixth annual Pro Bono Coordinators Workshop on May 14, 2014. The workshop provided an opportunity to showcase advancements in the State Bar's pro bono work, including the successful development of the tax pro bono referral program with the Taxation Law Section. That program placed more than 40 cases with pro bono lawyers. The Pro Bono Initiative also developed a policy recognizing that alternative dispute resolution voluntary work can be considered pro bono under the State Bar's voluntary standard in certain circumstances. The State Bar also created a new pro bono partnership with the Intellectual Property Law Section and the U.S. Patent Law office with a referral system for low-income entrepreneurs.
  - For the fifth year in a row, the State Bar of Michigan Pro Bono Initiative sponsored Pro Bono Month in conjunction with the American Bar Association's Pro Bono Week celebration, a national recognition of pro bono activities. The pro bono celebration is an opportunity to recruit more pro bono volunteers, increase legal services to the poor, mobilize community support for pro bono, foster collaborative relationships, and recognize and publicize the pro bono efforts of Michigan's lawyers. Pro Bono Month continues to grow and October 2013 was the most successful in terms of events planned and posted on the State Bar's Pro Bono Month website, which included more than 50 events throughout Michigan.
  - The fifth annual Justice Initiatives Summit was held on April 28, 2014. More than 60 judges, court staff, access to justice advocates, language interpreters, community partners, U.S. Department of Justice representatives and others gathered at the State Bar of Michigan to discuss the topic of "Language Access: Best Practices in Michigan Courts."
  - The State Bar of Michigan Equal Access Initiative and Committee on Justice Initiatives presented a panel discussion on "Language Access—Best Practices in Michigan Courts" during the SBM Annual Meeting in Grand Rapids. The Michigan Supreme Court adopted language access rules in September 2013 to assure access to justice for people with limited English proficiency. All of the state's trial courts have adopted plans to improve access to the courts for those with limited English proficiency, and they are working with legal practitioners and their local communities to implement the new rules. The panel discussion moderated by SBM Equal Access Initiative Co-Chair Maya Watson reviewed MCR 1.111, MCR 8.127, and the American Bar Association Standards for Language Access in Courts. The panelists showed attendees how to use the request and order form for interpreters on the Michigan Legal Help website and introduced the Spanish version of the website. The panel discussed judicial discretion in determining the need for interpreters, criteria and tests for certification of foreign language interpreters, practical tips for how to work with interpreters, and best practices for courtroom and courthouse operations.
  - In June, a Bar Leadership Forum and Upper Michigan Legal Institute were held at Mackinac Island. Sarah Sladek, CEO of XYZ University and an internationally respected author and association membership expert, spoke to bar leaders on how to engage the next generation of association and section members. A well-attended Annual Meeting was held in Grand Rapids in September 2014 in conjunction with the ICLE Solo and Small-Firm Institute.
  - At the ABA Annual Meeting in Boston in August, the SBM Young Lawyers Section won the Comprehensive Award of Achievement for the full breadth of new and expanded programs they offered throughout the

(Continued on next page)

## 56 State Bar Audited Financial Statements

2013–2014 bar year including their New Member Orientation, Sports & Entertainment Symposium, Annual Summit, public speaking workshop, immigration law workshop, back-to-school program, and much more. The YLS won the Service to the Public Award of Achievement for a new program they launched on March 1, “Cracking the Legal Field Pipeline Diversity Mock Trial Competition.” The mock trial competition hosted approximately 80 metropolitan Detroit area students aged 6 to 18 at the University of Detroit Mercy School of Law.

- The 39th Michigan Legal Milestone commemorating Governor G. Menen Williams and the Great Ferris Fire was dedicated on August 28, 2014. In a dedication ceremony on the campus of Ferris State University in Big Rapids, speakers recalled the life of Michigan’s former governor and Supreme Court justice, the events of the fire that almost completely destroyed Ferris, and the perseverance of Governor Williams in rebuilding the school as a state university. A bronze plaque commemorating the milestone was unveiled during the dedication ceremony.
- The third annual Law Day creative contest asked participants to submit a creative entry illustrating the 2014 Law Day theme, “Democracy: Why Every Vote Matters,” 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, podcasts, commentaries, reenactments, mock trials, and short documentaries.
- The Practice Management Resource Center (PMRC) continued to update and provide a variety of practice management resources through its website. The video instruction component of the PMRC website grew as new videos were developed and added during the year.
- PMRC staff continued to respond to telephone calls from lawyers and their staff seeking informal advice via the PMRC helpline, authored practice management articles for the *Michigan Bar Journal* and external publications, and participated in and developed numerous seminars and programs sponsored by the PMRC and/or 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 consultations for members referred by the attorney discipline agencies. This included, but was not limited to, training and working with clinic directors and IT personnel at the University of Detroit Mercy School of Law to update 10–15 of the school’s clinics to Time Matters practice management software.
- PMRC personnel developed and implemented a series of live “Lunch and Learn” seminars throughout the year to include modules on practice management, technology, and social media. There was continued development of the PMRC libraries with several new additions to both the hard copy and free online libraries.
- Services to members were enhanced with the addition of the ABA book discount program, SurePayroll, and WordRake. State Bar of Michigan members can now save 15% at the ABA web store and 10% (and free trial offer) on WordRake, an editing software designed to help lawyers write more effectively in less time. Additionally, the new SurePayroll program offers special member pricing and offers features such as direct deposit for employees, employee access to payroll information through an on-line self-service portal, vacation and sick balances tracking, year-end W2s and 1099s, new hire reporting, and much more.
- Work continued on the conversion of the State Bar of Michigan website from a “cold fusion” environment to a “dot net” environment. This two-year project involves a total redesign of the main website pages, the member area ecommerce website, and the new social media SBM Connect website. The new website is expected to launch in December 2014. Section SBM Connect sites began launching in September with completion expected by November 30. Following the launch of the section sites, SBM committee sites will also be hosted through SBM Connect.

- The State Bar will soon be transitioning to a new and improved member directory that will allow members to significantly enhance their profiles, including expanding their biographical listings and uploading photos, videos, articles, and publications. The new member directory is part of a software platform that will also allow members to communicate with each other and allow the public to search for legal representation. The platform is being developed in conjunction with CloudLaw, Inc., which agreed to provide its platform to the State Bar and its members free of charge in return for the State Bar’s development assistance.
- The new State Bar of Michigan mobile directory app was introduced, which includes direct access to the SBM online member directory, a directory of Michigan and U.S. legislators, and links to the latest digital issues of the *Michigan Bar Journal*, e-Journal, and SBMBlog. The app also has a text alert feature allowing members to sign up for member alerts, dues notice information, special event news, and e-Journal alerts.
- The Access to Justice Campaign revenue (including pledges) for the fiscal year ended September 30, 2014, 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 \$13.1 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 2014 FINANCIAL SUMMARY

The State Bar achieved a financial surplus of \$140,275 in the Administrative Fund primarily through continued cost control, operational efficiencies, and deferral of expenses. The State Bar’s net position in the Administrative Fund totaled \$12,811,968 and the Client Protection Fund has \$2,508,917 in net position as of September 30, 2014. Additionally, the Retiree Health Care Trust has \$2,108,468 for future retiree health care premiums. The State Bar operates without any debt.

#### APPROVED FY 2015 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2015 of (\$340,029) that focuses on continued spending for accomplishing the State Bar’s strategic focus. A summary of the FY 2015 approved budget was published in the November 2014 *Michigan Bar Journal* and can also be found on the State Bar’s website at [www.michbar.org/generalinfo/](http://www.michbar.org/generalinfo/). Deficit budgets after several years of static membership dues are a normal and anticipated feature of bar association budgeting.

#### MANAGEMENT’S RESPONSIBILITY

The State Bar of Michigan’s management is responsible for the information provided in this FY 2014 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 2014 Annual Financial Report should be directed to Janet K. Welch, executive director of the State Bar of Michigan.



Thomas C. Rombach  
President



Janet K. Welch  
Executive Director



Jennifer M. Grieco  
Treasurer



James C. Horsch  
Director of Finance and Administration