

Michigan State Bar Foundation Report on Financial Statements

Years Ended September 30, 2015 and 2014

Independent Auditor's Report

To the Board of Directors
Michigan State Bar Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Michigan State Bar Foundation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maner Costerisan, P.C.

December 22, 2015

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

ASSETS	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 799,281	\$ 710,879
Investments—current	4,819,718	4,261,177
Accounts receivable—IOLTA	63,001	57,886
Accounts receivable	122,050	127,905
Unconditional promises to give	96,566	83,968
Accrued interest receivable	13,186	10,079
Prepaid expenses	4,872	5,050
TOTAL CURRENT ASSETS	5,918,674	5,256,944
UNCONDITIONAL PROMISES TO GIVE,		
less current portion	176,083	190,794
INVESTMENTS—long-term	2,877,675	2,693,432
EQUIPMENT, net	20,244	21,417
TOTAL ASSETS	\$8,992,676	\$8,162,587
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
General	\$ 60,746	\$ 36,447
State Bar	24,429	24,125
Capital lease obligation, current portion	2,651	2,445
Grants payable	596,254	586,848
IOLTA payable	557,496	696,726
TOTAL CURRENT LIABILITIES	1,241,576	1,346,591
CAPITAL LEASE OBLIGATION, less current portion	8,496	11,147
TOTAL LIABILITIES	1,250,072	1,357,738
NET ASSETS:		
Unrestricted	1,092,486	1,169,975
Unrestricted, board designated	500,000	500,000
Total unrestricted	1,592,486	1,669,975
Temporarily restricted	3,272,443	2,441,442
Permanently restricted	2,877,675	2,693,432
TOTAL NET ASSETS	7,742,604	6,804,849
TOTAL LIABILITIES AND NET ASSETS	\$8,992,676	\$8,162,587

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. Amounts not received or expended are included in temporarily restricted net assets. These resources originate from IOLTA activities, the Access to Justice Campaign, gifts,

Michigan State Bar Foundation Statements of Activities

Years Ended September 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
REVENUE AND OTHER SUPPORT:								
Contributions—IOLTA—net (See Note 10)	\$	\$ 663,718	\$	\$ 663,718	\$	\$ 638,194	\$	\$ 638,194
Fellows memberships		43,216		43,216		58,746		58,746
Access to Justice Fund contributions		991,209	184,243	1,175,452		818,885	197,965	1,016,850
Civil Justice System Access Program		1,349,545		1,349,545				
Legal Self-Help Program grant		400,000		400,000		400,000		400,000
Filing fees reimbursement	64,315			64,315	62,788			62,788
Regular memberships	400			400	625			625
Interest	81,628	232,800		314,428	68,439	203,467		271,906
Contributions and memorials	10	5,246		5,256	8,170	7,001		15,171
Realized gain (loss) on investments	294	(1,368)		(1,074)	11,927	(13,566)		(1,639)
Net assets released from restrictions	2,630,158	(2,630,158)			2,558,943	(2,558,943)		
TOTAL REVENUE AND OTHER SUPPORT	2,776,805	1,054,208	184,243	4,015,256	2,710,892	(446,216)	197,965	2,462,641
EXPENSES:								
Program services:								
IOLTA grants	349,739			349,739	305,436			305,436
IOLTA Program	408,366			408,366	396,594			396,594
Fellows Program	25,955			25,955	32,227			32,227
Filing fees	127,763			127,763	131,150			131,150
Cohn Endowment Program	1,344			1,344	1,300			1,300
Access to Justice Program	1,410,639			1,410,639	1,092,566			1,092,566
Civil Justice System Access Program					216,760			216,760
Legal Self-Help Program	400,000			400,000	400,000			400,000
Other programs	1,870			1,870				
TOTAL PROGRAM SERVICES	2,725,676			2,725,676	2,576,033			2,576,033
Management and general	22,056			22,056	30,224			30,224
Fundraising	6,401			6,401	94,142			94,142
TOTAL EXPENSES	2,754,133			2,754,133	2,700,399			2,700,399
Change in net assets before unrealized gain (loss) on current marketable securities	22,672	1,054,208	184,243	1,261,123	10,493	(446,216)	197,965	(237,758)
UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	(100,161)	(223,207)		(323,368)	117,781	263,352		381,133
CHANGE IN NET ASSETS	(77,489)	831,001	184,243	937,755	128,274	(182,864)	197,965	143,375
NET ASSETS, beginning of year	1,669,975	2,441,442	2,693,432	6,804,849	1,541,701	2,624,306	2,495,467	6,661,474
NET ASSETS, end of year	\$1,592,486	\$3,272,443	\$2,877,675	\$7,742,604	\$1,669,975	\$2,441,442	\$2,693,432	\$6,804,849

See notes to financial statements.

Notes to Financial Statements (continued)

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, management and general, and fundraising.

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 and bar leadership development.

- 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.

- Legal Self-Help Program—Grants and related expenses regarding provision of legal information and forms online, support for and operation of legal self-help centers, and training related to legal self-help.

- 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

MICHIGAN STATE BAR FOUNDATION STATEMENTS OF CASH FLOWS

Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	\$ 937,755	\$ 143,375
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	8,228	6,720
Realized (gain) loss on sale of marketable securities	1,074	1,639
Unrealized (gain) loss on marketable securities	323,368	(381,133)
Permanently restricted contributions	(184,243)	(197,965)
Accounts receivable	740	(77,852)
Unconditional promises to give	2,113	29,332
Accrued interest receivable	(3,107)	7,961
Prepaid expenses	178	(323)
Accounts payable and IOLTA payable	(114,627)	(81,785)
Grants payable	9,406	(101,924)
Total adjustments	<u>43,130</u>	<u>(795,330)</u>
Net cash provided (used) by operating activities	<u>980,885</u>	<u>(651,955)</u>
Cash flows from investing activities:		
Purchase of investments	(2,132,319)	(1,577,643)
Sale of investments	1,065,093	1,820,368
Purchase of property and equipment	(7,055)	
Net cash provided (used) by investing activities	<u>(1,074,281)</u>	<u>242,725</u>
Cash flows from financing activities:		
Principal payments on capital lease obligation	(2,445)	(581)
Donations of permanently restricted funds	184,243	197,965
Net cash provided by financing activities	<u>181,798</u>	<u>197,384</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	88,402	(211,846)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>710,879</u>	<u>922,725</u>
End of year	<u>\$799,281</u>	<u>\$710,879</u>

See notes to financial statements.

Notes to Financial Statements (continued)

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.

Unconditional Promises to Give and Accounts Receivable—These amounts 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 or the timing of the receipt.

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 December 22, 2015, 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, government securities, corporate debt securities and mutual funds. IOLTA funds are not invested in equities or equity funds.

	Cost basis	Fair value	Unrealized gain (loss)
Investments:			
September 30, 2015:			
Government securities, corporate debt securities and mutual funds	\$ 3,244,747	\$ 3,261,625	\$ 16,878
Equities	3,521,789	4,435,768	913,979
Total	<u>\$6,766,536</u>	<u>\$ 7,697,393</u>	<u>\$ 930,857</u>
Investments:			
September 30, 2014:			
Government securities, corporate debt securities and mutual funds	\$ 2,419,647	\$ 2,472,354	\$ 52,707
Equities	3,280,737	4,482,255	1,201,518
Total	<u>\$5,700,384</u>	<u>\$6,954,609</u>	<u>\$1,254,225</u>

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

	2015	2014
Investments—current	\$4,819,718	\$ 4,261,177
Investments—long-term	2,877,675	2,693,432
	<u>\$7,697,393</u>	<u>\$6,954,609</u>

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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

Mutual funds: Valued at the daily closing price, net asset value (NAV) as reported by the various mutual funds.

Common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

U.S. government securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Mortgage backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on recent market transactions and spread data for similar instruments.

Collateralized mortgage obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on recent market transactions.

Asset backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities based on the last business day. This includes basing value on recent market transactions.

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, 2015 and 2014, 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:	Level 2:	Level 3:	Total September 30, 2015
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Valued on a recurring basis:				
Mutual funds:				
Index funds	\$ 1,566,487	\$ —	\$ —	\$ 1,566,487
Growth funds	1,168,725	—	—	1,168,725
Fixed income funds	1,376,490	—	—	1,376,490
Value funds	1,700,556	—	—	1,700,556
Corporate and foreign bonds/notes:				
AA credit rating	—	95,119	—	95,119
A credit rating	—	631,750	—	631,750
BAA credit rating	—	29,263	—	29,263
US government securities	—	870,627	—	870,627
Mortgage-backed securities	—	12,598	—	12,598
Collateralized mortgage obligations	—	37,792	—	37,792
Asset-backed securities	—	207,986	—	207,986
Total	<u>\$5,812,258</u>	<u>\$1,885,135</u>	<u>\$ —</u>	<u>\$ 7,697,393</u>

Description	Level 1:	Level 2:	Level 3:	Total September 30, 2014
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs	
Valued on a recurring basis:				
Mutual funds:				
Index funds	\$ 1,587,454	\$ —	\$ —	\$ 1,587,454
Growth funds	1,158,352	—	—	1,158,352
Fixed income funds	1,368,067	—	—	1,368,067
Value funds	1,736,448	—	—	1,736,448
Corporate and foreign bonds/notes:				
AA credit rating	—	45,344	—	45,344
A credit rating	—	255,860	—	255,860
BAA credit rating	—	15,350	—	15,350
US government securities	—	379,533	—	379,533
Mortgage-backed securities	—	19,732	—	19,732
Collateralized mortgage obligations	—	46,804	—	46,804
Asset-backed securities	—	341,665	—	341,665
Total	<u>\$5,850,321</u>	<u>\$1,104,288</u>	<u>\$ —</u>	<u>\$ 6,954,609</u>

NOTE 5—UNCONDITIONAL PROMISES TO GIVE

	2015			2014
	Access to Justice	Fellows Program	Total	
Gross amounts due in:				
Less than one year	\$47,232	\$ 50,150	\$ 97,382	\$ 85,253
One to five years	75	172,525	172,600	186,831
More than five years	—	34,550	34,550	40,450
Total	<u>\$47,307</u>	<u>\$257,225</u>	<u>\$304,532</u>	<u>\$312,534</u>
Current portion—net	\$46,913	\$ 49,653	\$ 96,566	\$83,968
Long-term portion—net	72	176,011	176,083	190,794
Total—net	<u>\$46,985</u>	<u>\$225,664</u>	<u>\$272,649</u>	<u>\$274,762</u>

The discount rate used to determine the net amounts above was 1%, which amounted to \$9,323 and \$10,446 for 2015 and 2014, respectively.

The above net amounts are net of an allowance for uncollectible amounts of \$22,560 and \$27,326 at September 30, 2015 and 2014, respectively.

NOTE 6—EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following.

	2015	2014
Computers and equipment	\$78,714	\$73,274
Office furniture	14,718	14,718
	93,432	87,992
Less accumulated depreciation	73,188	66,575
Equipment—net	<u>\$20,244</u>	<u>\$21,417</u>
Depreciation expense	<u>\$ 8,228</u>	<u>\$ 6,720</u>

NOTE 7—LEASES

Capital Lease

The Foundation leases a copier under a capital lease. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities.

The copier is included in the Foundation's capitalized equipment with a cost of \$14,173 and accumulated depreciation of \$3,543.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of September 30, 2015:

Year ending September 30:

2016	\$ 3,457
2017	3,457
2018	3,457
2019	2,594
Total minimum lease payments	12,965
Less amount representing interest	1,818
Present value of minimum lease payments	<u>\$11,147</u>
Capital lease obligation, current portion	\$ 2,651
Long-term portion	8,496
	<u>\$11,147</u>

Amortization of assets held under capital lease is included with depreciation expense.

Operating Lease

Facilities are leased under agreements running through September 30, 2020. Rental expense for the years ended September 30, 2015 and 2014 was approximately \$37,580 and \$37,098, respectively. Minimum future rental amounts are calculated on the base monthly rent amount which includes office space, phone, and internet. 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:

2016	\$ 44,384
2017	44,384
2018	44,384
2019	44,384
2020	44,384
Total	<u>\$221,920</u>

NOTE 8—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.

	2015	2014
IOLTA—grants	\$ 349,739	\$ 305,436
IOLTA expenses	408,366	396,594
Fellows memberships	58,200	59,900
Cohn Endowment Program	1,344	1,300
Access to Justice Program grants and expenses	1,410,639	1,178,953
Civil Justice System Access Program	—	216,760
Special programs	1,870	—
Legal Self-Help Program	400,000	400,000
	<u>\$2,630,158</u>	<u>\$2,558,943</u>

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

	2015	2014
IOLTA Program	\$ 117,592	\$ 200,403
Fellows memberships to be collected	225,664	240,648
Franck Program	117,413	110,655
Cohn Endowment Program	15,566	13,063
Access to Justice Program time and purpose restrictions	1,426,099	1,862,700
Civil Justice System Access Program	1,352,760	—
Special programs	17,349	13,973
	<u>\$3,272,443</u>	<u>\$2,441,442</u>

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

	2015	2014
Access to Justice Program	\$2,827,675	\$2,643,432
Cohn Endowment Program	50,000	50,000
	<u>\$2,877,675</u>	<u>\$2,693,432</u>

NOTE 9—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, 2015 were as follows.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, October 1, 2014	\$ —	\$ 1,595,932	\$ 2,693,432	\$ 4,289,364
Investment return:				
Investment income	—	207,261	—	207,261
Net depression (realized and unrealized)	—	(220,598)	—	(220,598)
Total investment return	—	(13,337)	—	(13,337)
Contributions	—	8,191	184,243	192,434
Appropriation of endowment assets for expenditure	—	(420,823)	—	(420,823)
Endowment net assets, end of year, September 30, 2015	\$ —	\$ 1,169,963	\$ 2,877,675	\$ 4,047,638

Changes in endowment net assets for the year ending September 30, 2014 were as follows.

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year, October 1, 2013	\$ —	\$ 1,178,334	\$ 2,495,467	\$ 3,673,801
Investment return:				
Investment income	—	175,597	—	175,597
Net appreciation (realized and unrealized)	—	260,143	—	260,143
Total investment return	—	435,740	—	435,740
Contributions	—	113	197,965	198,078
Appropriation of endowment assets for expenditure	—	(18,255)	—	(18,255)
Endowment net assets, end of year, September 30, 2014	\$ —	\$ 1,595,932	\$ 2,693,432	\$ 4,289,364

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. 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, 2015 and 2014 respectively.

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 10—RESTRICTED ACTIVITIES

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.

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The following is a summary of the IOLTA activity for the years ended September 30.

	2015	2014
IOLTA funds (accrual basis)—net of bank service charges	\$718,480	\$692,535
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	<u>(54,762)</u>	<u>(54,341)</u>
IOLTA revenue—net of funds received in an agency capacity	<u>\$663,718</u>	<u>\$638,194</u>
Calculation of funds received in an agency capacity.		
	2015	2014
IOLTA funds (accrual basis)	\$718,480	\$692,535
Administrative expenses and investment activity	<u>(409,550)</u>	<u>(409,436)</u>
IOLTA funds—net	<u>\$308,930</u>	<u>\$283,099</u>

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, 2015 and 2014, fees charged by institutions were \$10,013 and \$12,657, respectively.

	2015		
	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA payable
IOLTA funds—net	\$ 308,930	\$308,930	\$308,930
Allocation per administrative order	10%	5%	15%
	<u>30,893</u>	<u>15,447</u>	<u>46,340</u>
Allocation of accumulated funds at beginning of year	682,454	14,272	696,726
Interest earned	8,318	104	8,422
Total funds available	<u>721,665</u>	<u>29,823</u>	<u>751,488</u>
Payments made	<u>(179,719)</u>	<u>(14,273)</u>	<u>(193,992)</u>
IOLTA payable, end of year	<u>\$ 541,946</u>	<u>\$ 15,550</u>	<u>\$ 557,496</u>

	2014		
	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA payable
IOLTA funds—net	\$ 283,099	\$283,099	\$283,099
Allocation per administrative order	10%	5%	15%
	<u>28,310</u>	<u>14,155</u>	<u>42,465</u>
Allocation of accumulated funds at beginning of year	757,553	14,769	772,322
Interest earned	11,758	118	11,876
Total funds available	<u>797,621</u>	<u>29,042</u>	<u>826,663</u>
Payments made	<u>(115,167)</u>	<u>(14,770)</u>	<u>(129,937)</u>
IOLTA payable, end of year	<u>\$ 682,454</u>	<u>\$ 14,272</u>	<u>\$ 696,726</u>

NOTE 11—BENEFICIAL INTEREST IN 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 \$2,128,162 and \$2,301,677 at September 30, 2015 and 2014, respectively.