

State Bar of Michigan

**Financial Report
with Supplemental Information
September 30, 2009**

State Bar of Michigan

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Introductory Section

December 9, 2009

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Hall of Justice
925 W. Ottawa Street
Lansing, MI 48915

306 Townsend Street

Michael Franck Building

Lansing, MI

48933-2012

RE: STATE BAR OF MICHIGAN ANNUAL FINANCIAL REPORT - FY 2009

With this letter, please accept the FY 2009 Annual Financial Report of the State Bar of Michigan. The Annual Financial Report covers the fiscal year ended September 30, 2009, 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 2009

Fiscal year 2009 witnessed continued successful implementation of the State Bar Strategic Plan and the provision of enhanced services to the members and the public in a cost-effective manner. The 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 of Michigan planned and initiated the formation of a special task force on adapting the judicial branch to changes in Michigan's economy and demographics (Judicial Crossroads Task Force). The task force will present its recommendations in 2010.
- The SBM supported a successful presentation before the State Officers Compensation Commission arguing against proposed reductions in judicial compensation.
- The SBM provided input and comment on the Michigan Supreme Court recusal standards.
- The State Bar formed a workgroup at the request of the Michigan Supreme Court to review proposed modifications to the disciplinary procedural rules. The workgroup's comprehensive recommendations were approved by the BOC and forwarded to the Supreme Court.

- The State Bar developed a new online video management system and collaborated with the Michigan Supreme Court to host Supreme Court oral arguments, administrative conferences, and administrative hearings on the SBM website.
- The SBM assisted in a collaborative effort to respond to inquiries made by the Michigan Supreme Court and bankers regarding the proposed Trust Account Overdraft Notification rule.
- The State Bar's president-elect, executive director, and representative of the International Law Section participated in the first SBM investment mission in collaboration with the governor. The group traveled to Israel and met with the Israeli Bar, law school, and Israeli Supreme Court officials. The purpose of the collaboration is to support state efforts toward international economic development in Michigan by fostering a better understanding of Michigan's legal system and cooperation with foreign bars.
- A total of 1,081 new member applications were processed and attorney membership of the State Bar of Michigan grew to 40,515 members.
- The State Bar achieved a financial surplus of \$462,740 during FY 2009 primarily through continued cost control and deferral of staff positions.
- During the 12 months ending September 30, 2009, the Board of Commissioners approved a total of 49 Client Protection Fund claims totaling \$339,069 for payment to reimburse clients whose funds held in trust by their attorneys were misappropriated. A total of \$494,661 in claims was disbursed from the Fund in FY 2009. There is a total of \$89,435 in authorized but unpaid claims as of September 30, 2009, pending receipt of signed subrogation agreements from the prospective payees. One claim in the amount of \$2,000 was administratively dropped in FY 2009. A total of \$16,288 was collected from 14 respondents on subrogation files. The Client Protection Fund ended the year with net assets of \$2,077,622, exclusive of the approved but unpaid claims awaiting subrogation agreements.
- The State Bar processed 1,271 character and fitness applications, conducted 50 district committee interviews and 18 formal character and fitness standing committee hearings, and participated in eight hearings before the Board of Law Examiners during the most recent reporting year. In addition, applications for the Michigan bar examination, and the character and fitness certification process, are now online and interactive. The information applicants enter online is imported into the State Bar's database, eliminating the need for duplicate data entry and reducing the cost of document storage.
- A total of 56 complaints alleging the unauthorized practice of law (UPL) were received by the State Bar of Michigan during the 12 months ending September 30, 2009. The State Bar's permanent injunction against Perez-DeLeon for the unauthorized practice of law was successfully enforced in state and federal court.

- The Ethics Helpline responded to an average of 10 to 20 inquiries daily from attorneys and judges seeking assistance through the Ethics Helpline. In addition, Bar staff made several presentations to local bar associations and bar-related entities on ethical and practice management issues.
- The SBM helped promote and guide institutionalization of a “Professionalism in Action” (law school orientation) program at the Michigan State University College of Law and Thomas M. Cooley Law School campuses. The program is available to all Michigan law schools.
- The Lawyer Referral Service (LRS) responded to telephone calls and online referral requests, providing an average of 120 referrals daily. The LRS began accepting Lawyer Referral Service requests through the michbar.org webpage.
- The Practice Management Resource Center (PMRC) continued to provide a variety of resources on its website, which received an average of 19,042 page views monthly. PMRC staff responded to approximately 312 telephone calls from lawyers seeking help via the PMRC helpline. The PMRC launched its Customized Training & Consulting Program, which provides specifically tailored practice management, risk management, and/or technology-based sessions to lawyers and law firms, and collaborated with the Attorney Grievance Commission and the Attorney Discipline Board to provide mandatory training as a component of the disciplinary process. In addition, “Tips and Tools for a Successful Practice” seminars were hosted to help lawyers strengthen their law practices.
- The State Bar of Michigan held several large events during FY 2009. Fifty-year SBM members were honored at the "Golden Celebration" in May 2009. In June, a Bar Leadership Forum and Upper Michigan Legal Institute were conducted at Mackinac Island. A well-attended Annual Meeting was held in Dearborn in September 2009 in conjunction with the ICLE Solo and Small Firm Institute.
- The State Bar of Michigan sponsored a live remote Law Day broadcast on May 1 that was simulcast from the State Bar Michael Franck building in Lansing to radio stations statewide and hosted a Law Day Luncheon in cooperation with the Michigan Lawyers Auxiliary. In addition, the SBM supported numerous law-related education initiatives, including the Law-Related Education Summit, and a well-received Detroit Public School program, “Educating for Everyday Democracy: The Jury Process.”
- The *Michigan Bar Journal* won the top award for large bars (more than 15,000 members) for "Excellence in Publications" from the National Association of Bar Executives Communications Section.
- The State Bar of Michigan conducted two events in conjunction with its Michigan Legal Milestones program that honors important cases, events and personalities in our state's history: 1) installed a plaque at Zussman Park at City Hall in Hamtramck commemorating the 1981 *Poletown* decision and 2) dedicated the 34th Legal Milestone commemorating the 1982 beating death of Vincent Chin and the two cases that arose from Chin's death at a ceremony held at the Chinese Community Center in Madison Heights.

- The State Bar's public policy program developed and advocated for approximately 45 legislative and court rule positions and coordinated the provision of technical assistance to the legislature. In addition, the SBM led a lobbying effort on indigent criminal defense, including participation in Michigan-focused congressional hearings, and various educational forums. Further, the SBM engaged in educational lobbying efforts to highlight the problems with a proposed tax on legal services.
- Volunteer lawyers filled 699 positions on the 27 standing and special committees and initiatives to carry out the mission of the State Bar of Michigan. Thirty-six non-lawyers joined them in that work. The implementation of the first online committee appointment process resulted in a record number of applicants to serve on SBM committees.
- Services to the State Bar's 38 sections were enhanced and reviewed with section leaders at the second annual Section Chair Orientation.
- The State Bar president and staff made more than 125 visits to the 135 local and special-purpose voluntary bars in Michigan. Two new bar associations were recognized: the South Asian Bar Association and the Monroe Criminal Defense Bar.
- A new Master Lawyers Section was approved by the Board of Commissioners for implementation in FY 2010 based on recommendations from the Senior Lawyers Section Planning Workgroup. The workgroup reviewed the needs of the rapidly growing number of senior lawyers and focused on assuring that relevant services are available to senior lawyers, that the public is protected as lawyers age in their practice, and that meaningful programs are available to help senior lawyers contribute their considerable skills to the community.
- The State Bar improved its cost effectiveness by implementing a new employee compensation structure based on an independent compensation study, and also negotiated more favorable rates for employee health insurances and other services contracts.
- The SBM supported the Economics of Law Practice survey workgroup, including how to respond to an empirical challenge arising from the *Smith v Khouri*, 481 Mich 519 (2008) decision.
- The online member directory on the SBM website was updated to expand searches to include modifications to search using city, state, and foreign country. Attorneys who have been suspended for non-payment of dues, members on disciplinary suspension, members who have had their license revoked, former members who have resigned, and former members who are deceased were also added to the database search. Additionally, a new navigation menu was added to the online member directory for easy access to sections that were removed from the 2009 print directory. Moving these sections online resulted in over 100 less pages in the print directory, reducing paper and postage costs.
- The SBM launched a new e-Journal mobile web version that members can easily access on their smartphones and PDAs. By linking to the mobile pages, members now have access to the latest appellate opinion summaries with links to the full case opinions. In addition, the SBM also launched an opinion and summary search engine to search the more than 38,000 e-Journal case summaries by court, year, month, practice area, text, case name, and judge.

- A new agreement with Casemaker provides members free access for one year to premium state and federal legal research materials, including case law, constitutions, and statutes for all 50 states and the District of Columbia, with subscription options and revenue opportunities available thereafter.
- The SBM now provides Federal Express Advantage and UPS shipping programs for the SBM membership.
- The SBM launched the "A Lawyer Helps" program and website dedicated to the program that provides members with an opportunity to demonstrate how lawyers assist and aid the public.
- The State Bar implemented a new "Sharepoint" collaboration portal to support the efficiency of committee and section work. In addition, the Google search engine on the SBM website was upgraded and expanded to help members locate information.
- As part of the SBM's Pro Bono Initiative, a number of training programs were conducted, including domestic violence training, foreclosure prevention training, veterans training, and a Pro Bono summit was held. As part of the SBM Equal Access Initiative, the Jury Curriculum Project was completed.
- The Access to Justice Campaign total for the fiscal year ended September 30, 2009 was more than \$647,000 in contributions and new pledges (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. Almost \$9.2 million has been received to date by the Access to Justice Fund in donations and pledges. The Access to Justice Fund is held by the Michigan State Bar Foundation, which receives, administers, and distributes donations according to the Access to Justice Fund Guidelines at www.msbf.org/atjfund.

FY 2009 FINANCIAL SUMMARY

The State Bar achieved a financial surplus of \$462,740 in the Administrative Fund during FY 2009 primarily through continued cost control and deferral of staff positions. The State Bar's Net Assets in the Administrative Fund totaled \$10,797,395 as of September 30, 2009, and operates without any debt.

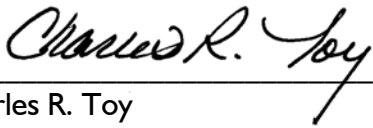
APPROVED FY 2010 BUDGET

The State Bar Board of Commissioners has approved a deficit budget for FY 2010 of (\$189,975) that focuses on continued spending for strategic programs. A summary of the FY 2010 approved budget was published in the November 2009 *Michigan Bar Journal* and can also be found on the State Bar's website at www.michbar.org/generalinfo/.

MANAGEMENT'S RESPONSIBILITY

The State Bar of Michigan's management is responsible for the information provided in this FY 2009 Annual Financial Report. The basic financial statements and related notes are audited by the independent accounting firm of Plante & Moran, PLLC, in accordance with auditing standards generally accepted in the United States of America, and their opinion is provided as a part of this report.

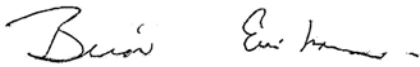
Questions or comments on this FY 2009 Annual Financial Report should be directed to Ms. Janet K. Welch, executive director of the State Bar of Michigan.



Charles R. Toy
President



Janet K. Welch
Executive Director



Brian D. Einhorn
Treasurer



James C. Horsch
Director of Finance and Administration

FY 2009 STATE BAR OF MICHIGAN BOARD OF COMMISSIONERS

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Charles R. Toy, Lansing, President-Elect
W. Anthony Jenkins, Detroit, Vice President
Julie I. Fershtman, Farmington Hills, Secretary
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Overview of the State Bar of Michigan

STATE BAR ORGANIZATION

The State Bar of Michigan was established in 1935 by the Michigan legislature. By law, members include all persons who are licensed to practice law in the State of Michigan. The State Bar is a public body corporate funded primarily by member dues and not by governmental appropriations. The State Bar is regulated by the Michigan Supreme Court through the Michigan Supreme Court Rules Concerning the State Bar of Michigan. The mission of the State Bar is to aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in Michigan.

The State Bar is governed by a Board of Commissioners. The minimum number of commissioners on the Board is 31 and the maximum number is 33. For the year ended September 30, 2009, there were 32 commissioners on the Board. The Board of Commissioners has six commissioner committees that provide oversight to the operations of the Bar: the Executive Committee, Finance Committee, Audit Committee, Programs and Services Committee, Professional Standards Committee, and the Public Policy, Image, and Identity Committee. The president, president-elect, vice president, secretary, and treasurer comprise the elected officers of the State Bar. A 10-member Executive Committee comprised of the officers, the representative assembly chair and vice-chair, and three other commissioners chosen by the president manage the affairs of the Bar between Board meetings.

A 142-member Representative Assembly of the Bar is the final policymaking body of the State Bar. Its elected officers are the chair, chair-elect, and clerk.

As of September 30, 2009, there were 26 standing committees and three special committees and subentities of the State Bar, whose members are appointed each year by the President, each with a specific jurisdictional statement governing their responsibilities. In addition, there are 38 sections of the State Bar, each with their own bylaws approved by the Board of Commissioners. A total of 36 sections are funded by dues from their membership.

The State Bar employs a paid staff to carry out its mission under the supervision of the executive director, appointed by the Board of Commissioners. The Bar employed 66.50 full-time equivalent employees (FTEs) at the end of fiscal year 2009, compared to 63.50 full-time equivalent employees at the end of fiscal year 2008. Salaries and benefits totaled approximately \$5.5 million, or about 60 percent of total Administrative Fund expenses.

STATE BAR PROGRAMS AND MEMBERSHIP SERVICES

The State Bar administers, operates, and provides for a wide variety of programs and member services that benefit both the public interest and the members of the Bar, including:

- Administering the character and fitness process by which bar applicants are admitted to the practice of law. This work includes bar application processing, character and fitness investigations, and interviews and hearings (primarily funded by investigation fees paid by prospective applicants).
- Investigating and seeking injunctive relief against parties engaged in the unauthorized practice of law (UPL), educating members about what constitutes UPL, and providing education to the public on lawyer selection and the hazards of obtaining legal services from nonlawyers.
- Providing informal ethics advice to lawyers about the propriety of their conduct based on the Michigan Rules of Professional Conduct and applicable ethics opinions.
- Rendering written ethics opinions by the Ethics Committee.
- Reviewing and evaluating new laws and court rules for their impact on the administration of justice and on the profession and advocating for policies consistent with the mission of the State Bar.
- Publishing the *Michigan Bar Journal* 11 times a year and an annual Directory issue.
- Publishing an e-Journal that updates the legal profession daily on changes to laws and summarizes cases to help attorneys stay up-to-date with the law.
- Operating an online Public Policy Resource Center and publishing the weekly Public Policy update to increase awareness of public policy issues of particular interest to lawyers.
- Maintaining an Internet site that serves as both a research tool and a source of information about the State Bar.
- Operating a Lawyers and Judges Assistance Program that provides confidential referral, assessment, monitoring, and counseling services to lawyers, judges, and law students challenged by substance use and mental health issues.
- Providing member affinity programs that offer discounted services to members, including credit cards, insurance, rental cars, and other business and personal services.
- Providing annual Bar membership identification cards to members and, when requested, Certificates of Good Standing.
- Providing a member orientation for the newest members of the Bar.

- Providing members the opportunity to actively participate, network, and share information in Bar member interest groups (sections) and State Bar committees, including providing administrative support to these groups.
- Providing Bar organizations with a "print on demand" service for newsletter preparation, (primarily offset with fees).
- Holding an annual meeting and conference, an annual leadership conference, and periodic seminars that provide for networking and educational updates (partially offset with fees).
- Conducting the Upper Michigan Legal Institute that provides educational opportunities for Northern Michigan lawyers (partially offset with fees).
- Providing an online tool for attorneys to search for Michigan case law and related references.
- Providing members and Bar organizations with meeting rooms and related meeting services at the State Bar headquarters.
- Administering a Client Protection Fund that provides for reimbursements to members of the general public who have been victimized by the few lawyers who have misappropriated funds entrusted to them (primarily funded by member assessments).
- Operating a subscriber-based lawyer referral service that provides referrals to the general public and affords subscribing lawyers the opportunity for potential clients to be referred to them (partially funded by the subscribing lawyers).
- Administering the State Bar's justice initiatives programs, which include promoting the effective delivery of high-quality legal services to all Michigan residents, especially those with lower incomes; raising both public and professional awareness of the fair delivery of justice in our state and promoting equal application of law for all citizens; and administering the Bar's Access to Justice fundraising campaign in support of private giving to nonprofit civil legal aid programs in Michigan.
- Operating a Practice Management Resource Center (PMRC) to provide basic and up-to date practice information by means of a frequently updated website containing articles, features and forms; an onsite education center and lending library; telephone assistance; and seminars on topics designed to assist lawyers in managing the business aspects of practicing law (some for minimal fees).

MEMBERSHIP AND AFFILIATE STATISTICS

Below are the statistics for each class of member and affiliate group, for the year ended September 30, 2009:

Attorney Members

Active Members	38,223
Emeritus Members	983
Inactive Members	<u>1,309</u>
Total Attorney Members	<u><u>40,515</u></u>

Affiliates

Law Students	278
Legal Administrators	25
Legal Assistants	<u>464</u>
Total Affiliates	<u><u>767</u></u>

NOTE: These figures reflect members and affiliates in good standing and do not include those suspended for nonpayment of dues, suspended for discipline, disbarred, resigned, or deceased.

Financial Section

Independent Auditor's Report

To the Board of Commissioners
State Bar of Michigan
Lansing, Michigan

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Michigan as of September 30, 2009 and for the year then ended, which collectively comprise the basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the State Bar of Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the State Bar of Michigan as of September 30, 2009 and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited), as identified in the table of contents, is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the State Bar of Michigan. The accompanying introductory section and other supplemental information, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The introductory section and other supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

December 9, 2009

**Management's Discussion and Analysis
(Unaudited)**

State Bar of Michigan

Management's Discussion and Analysis (Unaudited)

Brief Description of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so that the reader can understand the State Bar of Michigan financially as a whole and understand the activity within each fund of the State Bar. The financial statements and related information are organized in this report as follows:

Independent Auditor's Report - Expresses the audit opinion of the independent accounting firm.

Management's Discussion and Analysis (MD&A) - Supplemental information, which discusses the operations of the Bar and provides expanded financial information and related analysis.

Basic Financial Statements:

- Statement of Net Assets (Balance Sheet) - Discloses the financial position of the State Bar and each fund.
- Statement of Revenue, Expenses, and Changes in Net Assets (Income Statement) - Discloses the sources of revenue, the various expenses, and impact on Net Assets for the State Bar and each fund.
- Statement of Cash Flows - Shows the sources and uses of cash for the State Bar and each fund.

Notes to the Financial Statements - Provides integral information needed to explain the basis for the numbers used within the Basic Financial Statements.

Supplementary Information - Provides additional information to better understand the financial position of the State Bar.

Summary of FY 2009 Financial Information

The audited Financial Statements, including the Statement of Net Assets, the Statement of Revenue, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, are shown on pages 19 through 23.

Following is a financial analysis comparing FY 2009 with FY 2008 for the Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets. Also shown is a financial analysis comparing FY 2009 actual with the FY 2009 budget for the Statement of Revenue, Expenses, and Changes in Net Assets. The financial exhibits in the "Other Supplemental Information" section of this report shown on pages 35 through 44 are also helpful reference material for this analysis.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2009 Statement of Net Assets Compared to FY 2008

Administrative Fund	September 30		Increase (Decrease)	%
	2009	2008		
Assets	<u>\$ 13,049,859</u>	<u>\$ 12,020,516</u>	<u>\$ 1,029,343</u>	8.56%
Liabilities	\$ 2,252,464	\$ 1,685,861	\$ 566,603	33.61%
Net Assets - Invested in Capital Assets	5,304,611	5,613,273	(308,662)	(5.50%)
Net Assets - Unrestricted	<u>5,492,784</u>	<u>4,721,382</u>	<u>771,402</u>	16.34%
Net Assets and Liabilities	<u>\$ 13,049,859</u>	<u>\$ 12,020,516</u>	<u>\$ 1,029,343</u>	8.56%

Assets increased by \$1,029,343, or 8.56 percent, primarily due to higher cash, partially offset by a decrease in capital assets. Liabilities increased by \$566,603, or 33.61 percent, due to higher deferred revenues. Net Assets increased as a result of the surplus of \$771,402, or 16.34 percent during FY 2009.

Client Protection Fund	September 30		Increase	%
	2009	2008		
Assets	<u>\$ 2,166,325</u>	<u>\$ 2,135,403</u>	<u>\$ 30,922</u>	1.45%
Liabilities	\$ 88,703	\$ 59,520	\$ 29,183	49.03%
Net Assets	<u>2,077,622</u>	<u>2,075,883</u>	<u>1,739</u>	0.08%
Net Assets and Liabilities	<u>\$ 2,166,325</u>	<u>\$ 2,135,403</u>	<u>\$ 30,922</u>	1.45%

Assets increased by \$30,922, or 1.45 percent, due to higher cash and dues from other funds, partially offset by lower investments. Liabilities increased by \$29,183 or 49.03 percent, primarily due to higher deferred revenue. Net Assets increased as a result of the surplus of \$1,739, or .08 percent during FY 2009.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2009 Statement of Net Assets Compared to FY 2008 (Continued)

Sections	September 30		Decrease	%
	2009	2008		
Assets	<u>\$ 1,601,808</u>	<u>\$ 1,657,597</u>	<u>\$ (55,789)</u>	(3.37%)
Net Assets	<u>\$ 1,601,808</u>	<u>\$ 1,657,597</u>	<u>\$ (55,789)</u>	(3.37%)

All of the individual assets and liabilities of the Sections are held within the Administrative Fund, and are shown as assets in "Due from (to) other funds." Both Assets and Net Assets decreased by \$55,789, or 3.37 percent, as a result of expenses being greater than Section revenues during the year.

Analysis of FY 2009 Statement of Revenue, Expenses, and Changes in Net Assets Compared to FY 2008

Administrative Fund	September 30		Increase (Decrease)	%
	2009	2008		
Operating Revenue	\$ 9,362,897	\$ 9,480,177	\$ (117,280)	(1.24%)
Operating Expenses	<u>9,113,504</u>	<u>9,391,904</u>	<u>(278,400)</u>	(2.96%)
Operating Income	249,393	88,273	161,120	182.52%
Nonoperating Revenue	<u>213,347</u>	<u>341,866</u>	<u>(128,519)</u>	(37.59%)
Increase in Net Assets	<u>\$ 462,740</u>	<u>\$ 430,139</u>	<u>\$ 32,601</u>	7.58%

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Administrative Fund

The Administrative Fund's Operating Income increased by \$161,120 or 182.52 percent during FY 2009 due to a decrease in Operating Expenses of \$278,400, or 2.96 percent, partially offset by a decrease in Operating Revenue of \$117,280 or 1.24 percent.

The Administrative Fund's Operating Revenue decreased by \$117,280 or 1.24 percent during FY 2009, primarily due to a decrease in affinity and publications revenue, partially offset by increases in dues, legal settlements and grants.

The Administrative Fund's Operating Expenses decreased by \$278,400 or 2.96 percent during FY 2009 due to lower non-labor expenses of \$414,435 or 10.27 percent, due primarily to lower Executive Offices expenses, affinity program expenses, and publications expenses; partially offset by higher labor expenses of \$136,035 or 2.54 percent.

The Administrative Fund's Nonoperating Revenue decreased by \$128,519 or 37.59 percent during FY 2009, due to lower investment income.

As a result, the Administrative Fund's Increase in Net Assets increased by \$32,601 in FY 2009 as compared to FY 2008, due to a surplus of \$462,740 in FY 2009 compared to a surplus of \$430,139 in FY 2008. To recap, the primary reason for this increase was due to an increase in Operating Income of \$161,120, and a decrease in Nonoperating Revenue of \$128,519.

Client Protection Fund

The Client Protection Fund experienced an increase in Net Assets of \$1,739 in FY 2009 compared to an increase of \$83,446 in FY 2008, resulting in a year-over-year decrease of \$81,707 or 97.92 percent, due primarily to increased claims payments, increased administrative expenses, and lower investment income; partially offset by higher revenue.

Sections

The Sections experienced a decrease in Net Assets of \$55,789 in FY 2009 compared to an increase of \$87,649 in FY 2008, resulting in a year-over-year decrease of \$143,438 or 163.65 percent, due to lower revenues and higher expenses.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of FY 2009 Revenue, Expenses, and Changes in Net Assets as Compared to FY 2009 Approved Budget - Administrative Fund

	September 30		Favorable	
	2009	2009	(Unfavorable)	
	Actual	Budget	Variance	%
Operating Revenue	\$ 9,362,897	\$ 9,530,600	\$ (167,703)	(1.76%)
Operating Expenses	<u>9,113,504</u>	<u>10,031,233</u>	<u>917,729</u>	9.15%
Operating Income (Loss)	249,393	(500,633)	750,026	N/A
Nonoperating Revenue	<u>213,347</u>	<u>300,000</u>	<u>(86,653)</u>	(28.88%)
Increase in Net Assets	<u>\$ 462,740</u>	<u>\$ (200,633)</u>	<u>\$ 663,373</u>	N/A

The Administrative Fund's Operating Income was better than budget by \$750,026 due to a favorable variance in Operating Expenses of \$917,729 or 9.15 percent, partially offset by an unfavorable variance in operating revenue of \$167,703 or 1.76 percent.

The Administrative Fund's Operating Revenue was unfavorable to budget by \$167,703 or 1.76 percent, primarily due to lower affinity revenue, publications revenue and annual meeting revenue; partially offset by higher dues, lawyer referral service revenue, legal settlements and grants.

The Administrative Fund's Operating Expenses were favorable to budget by \$917,729 or 9.15 percent during FY 2009 due to lower labor expenses of \$154,447 or 2.73 percent, due primarily to benefit changes and vacancies; and due to lower non-labor expenses of \$763,282 or 17.42 percent, due primarily to lower depreciation expense, member and affinity program expenses, publications expense, information technology expense, justice initiatives expense, professional standards expense, outside consultant expense, and finance processing expense.

The Administrative Fund's Nonoperating Revenue was unfavorable to budget by \$86,653, or 28.88 percent, due to lower investment returns than budgeted.

As a result, the Administrative Fund's Increase in Net Assets in FY 2009 was favorable to budget by \$663,373 due to a surplus of \$462,740 compared to a budgeted decrease of \$200,633. To recap, the primary reasons for this favorable variance were due to a favorable variance in Operating Income of \$750,026, partially offset by an unfavorable variance in Nonoperating Revenue of \$86,653.

State Bar of Michigan

Management's Discussion and Analysis (Unaudited) (Continued)

Analysis of Capital Assets

Capital assets consisting of land, building, furniture and equipment, and computer equipment/software decreased by \$308,662. This decrease is due to current year depreciation expense of \$503,638 being greater than current year additions of \$194,976. More detailed information about the State Bar's capital assets is presented in Note 4 to the financial statements.

Basic Financial Statements

State Bar of Michigan

Statement of Net Assets September 30, 2009

	Administrative Fund	Client Protection Fund	Sections	Total
Assets				
Current Assets				
Cash (Note 2)	\$ 3,623,688	\$ 454,367	\$ -	\$ 4,078,055
Investments (Note 2)	5,126,041	1,625,673	-	6,751,714
Accounts receivable:				
Trade	389,534	21,947	-	411,481
Foundation	24,402	-	-	24,402
Due from (to) other funds	(1,666,146)	64,338	1,601,808	-
Inventory	15,917	-	-	15,917
Prepaid expenses	231,812	-	-	231,812
Total current assets	7,745,248	2,166,325	1,601,808	11,513,381
Capital Assets - Net (Note 4)	5,304,611	-	-	5,304,611
Total assets	<u>\$ 13,049,859</u>	<u>\$ 2,166,325</u>	<u>\$ 1,601,808</u>	<u>\$ 16,817,992</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 647,879	\$ -	\$ -	\$ 647,879
Accrued expenses	356,133	-	-	356,133
Deferred revenue	1,248,452	88,703	-	1,337,155
Total current liabilities	2,252,464	88,703	-	2,341,167
Net Assets				
Invested in capital assets	5,304,611	-	-	5,304,611
Unrestricted	5,492,784	2,077,622	1,601,808	9,172,214
Total net assets	10,797,395	2,077,622	1,601,808	14,476,825
Total liabilities and net assets	<u>\$ 13,049,859</u>	<u>\$ 2,166,325</u>	<u>\$ 1,601,808</u>	<u>\$ 16,817,992</u>

State Bar of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2009

	Administrative Fund	Client	Sections	Total
		Protection Fund		
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,093,830	\$ 590,321	\$ 1,577,993	\$ 9,262,144
Bar Journal	268,612	-	-	268,612
Bar Journal Directory	173,612	-	-	173,612
Bar Leadership Forum	10,508	-	-	10,508
Rent/Attorney Discipline System Fee	83,043	-	-	83,043
Justice Initiatives	11,600	-	-	11,600
Lawyers and Judges Assistance	49,206	-	-	49,206
Annual Meeting	139,327	-	-	139,327
Upper Michigan Legal Institute	9,292	-	-	9,292
Ethics	3,337	-	-	3,337
50-yr Golden Celebration	1,330	-	-	1,330
Print-on-Demand Services	113,744	-	-	113,744
e-Journal	63,684	-	-	63,684
Lawyer Referral Service	131,564	-	-	131,564
Member and Endorsed Services	658,692	-	-	658,692
Character and Fitness	273,173	-	-	273,173
Practice Management Resource Center	2,232	-	-	2,232
Internet	29,457	-	-	29,457
Other revenue	246,654	27,056	-	273,710
Total operating revenue	9,362,897	617,377	1,577,993	11,558,267

State Bar of Michigan

Statement of Revenue, Expenses, and Changes in Net Assets (Continued) Year Ended September 30, 2009

	Administrative Fund	Client Protection Fund	Sections	Total
Expenses				
Labor expenses:				
Salaries	\$ 3,719,459	\$ -	\$ -	\$ 3,719,459
Employee benefits and payroll taxes	1,774,672	-	-	1,774,672
Total labor expenses	5,494,131	-	-	5,494,131
Non-labor expenses:				
Executive Offices	576,584	-	-	576,584
Finance and Administration	1,205,957	-	-	1,205,957
Information Services	197,062	-	-	197,062
Member Services and Communications	1,417,724	-	-	1,417,724
Professional Standards	146,962	-	-	146,962
Justice Initiatives	75,084	-	-	75,084
Claims payments	-	494,661	-	494,661
Client Protection Fund administrative expenses	-	170,690	-	170,690
Sections expenses	-	-	1,633,782	1,633,782
Total non-labor expenses	3,619,373	665,351	1,633,782	5,918,506
Total operating expenses	9,113,504	665,351	1,633,782	11,412,637
Operating Income (Loss)	249,393	(47,974)	(55,789)	145,630
Nonoperating Revenue - Investment income	213,347	49,713	-	263,060
Increase (Decrease) in Net Assets	462,740	1,739	(55,789)	408,690
Net Assets - Beginning of year	10,334,655	2,075,883	1,657,597	14,068,135
Net Assets - End of year	<u>\$ 10,797,395</u>	<u>\$ 2,077,622</u>	<u>\$ 1,601,808</u>	<u>\$ 14,476,825</u>

State Bar of Michigan

Statement of Cash Flows Year Ended September 30, 2009

	Administrative Fund	Client		Total
		Protection Fund	Sections	
Cash Flows from Operating Activities				
Membership dues and fees	\$ 7,614,488	\$ 630,334	\$ 1,577,993	\$ 9,822,815
Other receipts	2,215,665	(35,787)	-	2,179,878
Payments to employees	(5,434,376)	(181,520)	-	(5,615,896)
Payments to suppliers	(3,062,682)	-	(1,577,993)	(4,640,675)
Payments for claims	-	(494,661)	-	(494,661)
Net cash provided by (used in) operating activities	1,333,095	(81,634)	-	1,251,461
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(194,976)	-	-	(194,976)
Cash Flows from Investing Activities				
Sales of investments - Net	785,256	236,420	-	1,021,676
Investment income	211,470	47,212	-	258,682
Net cash provided by investing activities	996,726	283,632	-	1,280,358
Net Increase in Cash	2,134,845	201,998	-	2,336,843
Cash - Beginning of year	1,488,843	252,369	-	1,741,212
Cash - End of year	<u>\$ 3,623,688</u>	<u>\$ 454,367</u>	<u>\$ -</u>	<u>\$ 4,078,055</u>

State Bar of Michigan

Statement of Cash Flows (Continued) Year Ended September 30, 2009

Reconciliation of operating income to net cash from operating activities:

	Administrative Fund	Client Protection Fund	Sections	Total
Operating income (loss)	\$ 249,393	\$ (47,974)	\$ (55,789)	\$ 145,630
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	503,638	-	-	503,638
Changes in assets and liabilities:				
Accounts receivable	(38,509)	(21,947)	-	(60,456)
Prepaid expenses	61,794	-	-	61,794
Accounts payable	(13,810)	(10,830)	-	(24,640)
Accrued expenses	59,755	-	-	59,755
Due from (to) other funds	(14,893)	(40,896)	55,789	-
Deferred revenue	520,658	40,013	-	560,671
Inventory	5,069	-	-	5,069
Net cash provided by (used in) operating activities	<u>\$ 1,333,095</u>	<u>\$ (81,634)</u>	<u>\$ -</u>	<u>\$ 1,251,461</u>

During 2009, there were no noncash investing, capital, and financing activities.

State Bar of Michigan

Fiduciary Funds Statement of Net Assets September 30, 2009

	Retiree Health Care Trust Fund
Assets	
Investments (Note 2)	\$ 475,159
Accounts receivable	18,791
	<hr/>
Total assets	<u>\$ 493,950</u>
 Net Assets - Held in trust for employee benefits	 <u>\$ 493,950</u>

State Bar of Michigan

Fiduciary Funds Statement of Changes in Net Assets September 30, 2009

	Retiree Health Care Trust Fund
Additions	
Contributions	\$ 228,791
Investment Income	<u>40,159</u>
Net Increase	268,950
Net Assets Held in Trust for Employee Benefits	
Beginning of year	<u>225,000</u>
End of year	<u><u>\$ 493,950</u></u>

Note I - Significant Accounting Policies

The accounting policies of the State Bar of Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The State Bar of Michigan is the association of the members of the Bar of this state, organized and existing as a public body corporate pursuant to powers of the Supreme Court over the Bar of the State. The State Bar of Michigan shall, under the rules of the Supreme Court, aid in promoting improvements in the administration of justice and advancements in jurisprudence, in improving relations between the legal profession and the public, and in promoting the interests of the legal profession in this state.

No component units are required to be reported in the State Bar of Michigan's financial statements. The State Bar of Michigan's financial statements are included in the State of Michigan Comprehensive Annual Financial Report as a component unit. For accountability purposes, the accounts of the State Bar of Michigan are organized into three distinct funds, each of which is considered a separate accounting entity:

Administrative Fund - The Administrative Fund is the main operating fund for the State Bar of Michigan, and accounts for all of the activities that are not accounted for in another fund.

Client Protection Fund - The Client Protection Fund is a voluntary program established for the purpose of reimbursing clients who have been victimized by the few lawyers who violate the profession's ethical standards and misappropriate funds entrusted to them. It is funded primarily by dues assessments and to a lesser extent, by interest income and unspent judicial election campaign funds. The Client Protection Fund concerns itself with investigation of claims, the distribution of authorized payments, and the institution and prosecution of all subrogation actions seeking to recoup monies paid from the fund.

In addition to claims paid shown in the Statement of Revenue, Expenses, and Changes in Net Assets, there is a total of \$89,435 in claims that have been authorized by the Board of Commissioners as of September 30, 2009, but are awaiting signed subrogation agreements for payment.

Note 1 - Significant Accounting Policies (Continued)

Sections - With the exception of the Young Lawyers Section and the Judicial Conference, the Sections are self-funded, voluntary memberships that promote the particular interests of attorneys practicing in their respective specialty areas of law. Each section operates within the definitions of its own set of by-laws, which must be approved by the Board of Commissioners of the State Bar of Michigan. Sections plan and carry out programs, publications, and activities of interest. Financial services, such as receipts and disbursements processing, financial reporting, dues processing, meeting rooms and arrangements, and related support services are provided to the Sections and charged against the Administrative Fund; further, the interest and investment income or loss on Section's Funds are retained within the Administrative Fund.

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The State Bar of Michigan follows the "business-type" activities reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the Bar's financial activities.

Basis of Accounting

The State Bar of Michigan follows the accounting rules promulgated by the Governmental Accounting Standards Board. Additionally, the State Bar of Michigan follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB. The State Bar of Michigan has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the proprietary fund model is followed, and the full accrual basis of accounting is used.

Proprietary Fund Accounting - The Fiduciary Fund is used to account for assets held by the Bar in a trustee capacity. This fund includes the State Bar of Michigan Retiree Health Premium Trust (the "Plan"). The Plan is reported within the basic financial statements even though its resources cannot be used to fund the Bar's operations because of the fiduciary responsibility that the Bar retains relative to the operations of the Plan.

Investments - Investments include all monies other than bank deposits (checking and savings accounts) and petty cash. Investments are recorded at fair market value.

Note 1 - Significant Accounting Policies (Continued)

Prepaid Expenses - Prepaid expenses reported in the Administrative Fund represent advance payment for future year expenses.

Capital Assets - All capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is charged as an expense against the operations of the proprietary funds on a straight-line basis, based on the appropriate depreciation schedule for each class of capital assets. It is the policy of the State Bar to capitalize all assets that have useful lives of greater than two years with an acquisition cost of \$500 or more per item or group of items.

Deferred Revenue - Income is recognized as revenue as it is earned. Prepayments of annual dues are recorded as deferred until the revenue is earned over the dues year.

Operating Revenue - All revenue from programmatic sources is considered to be operating revenue.

Non-labor Expenses - All operating expenses except salaries, employee benefits, and payroll taxes are considered to be non-labor expenses. These expenses include supplies, utilities, postage, printing, contractor expenses, and other items.

Accounts Receivable - Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal member payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. At September 30, 2009, the allowance for doubtful accounts was \$10,498.

Reclassification - Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Note 2 - Deposits and Investments

The State Bar of Michigan has designated four primary financial institutions for the deposit of its cash and investments. The State Bar of Michigan's cash and investments, except for the Client Protection Fund, are combined with the Sections. The cash and investments of the Client Protection Fund are maintained in separate accounts. The Finance Committee of the Board monitors the investments according to its investment policy. At year end, investments consisted solely of CDARS and certificates of deposits that are with banks in amounts not exceeding the FDIC limits, and therefore are completely insured by the FDIC (principal and accrued interest).

Note 2 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State Bar of Michigan's deposits may not be returned. Due to the recent financial system collapse, the State Bar has practiced a policy of ensuring that all bank deposits are insured by the FDIC (NOW and checking accounts) or collateralized by government securities.

At year end, the State Bar of Michigan (including deposits held on behalf of the Attorney Discipline System) had \$11,584,700 of bank deposits (checking, savings, NOW, certificates of deposit and CDARS accounts) and of that balance, 100 percent was insured.

Note 3 - Related Party

The State Bar of Michigan provides employee and financial services to the Attorney Discipline System for a fee. The Attorney Discipline System is the adjudicative arm of the Supreme Court that is empowered to discipline and reinstate attorneys in accordance with the Court Rules. The State Bar of Michigan and the Attorney Discipline System have a common bank savings account and share the same employer tax ID number. The fee billed to the Attorney Discipline System for the year ended September 30, 2009 was \$42,189.

State Bar of Michigan

Notes to Financial Statements September 30, 2009

Note 4 - Capital Assets

A summary of capital assets at September 30, 2009 follows:

	Beginning Balance	Additions	Disposals	Ending Balance	Depreciable Life-Years
Capital assets not being depreciated - Land	\$ 380,545	\$ -	\$ -	\$ 380,545	-
Capital assets being depreciated:					
Building	7,561,533	10,253		7,571,786	10-50
Furniture and equipment	2,000,392	13,123	-	2,013,515	5-20
Computer equipment/software	1,364,476	171,600	(139,409)	1,396,667	3-5
Total capital assets	11,306,946	194,976	(139,409)	11,362,513	
Less accumulated depreciation:					
Building	3,402,115	217,356	-	3,619,471	
Furniture and equipment	1,189,797	140,634	-	1,330,431	
Computer equipment/software	1,101,761	145,648	(139,409)	1,108,000	
Total accumulated depreciation	5,693,673	503,638	(139,409)	6,057,902	
Total net capital assets	<u>\$ 5,613,273</u>	<u>\$ (308,662)</u>	<u>\$ -</u>	<u>\$ 5,304,611</u>	
Depreciation expense				<u>\$ 503,638</u>	

Note 5 - Line of Credit

The State Bar of Michigan has no long-term debt. To maximize flexibility, the State Bar of Michigan has an unsecured bank line of credit through April 17, 2010 for \$1,000,000 at a rate of the LIBOR index plus 2.150 percentage points. As of September 30, 2009, no draws have been made on this line of credit.

Note 6 - Risk Management

The State Bar of Michigan is exposed to various risks of loss related to property loss, torts, errors and omissions, employee theft, employee injuries (workers' compensation), as well as medical benefits provided to employees. The State Bar of Michigan has purchased commercial insurance for these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The State Bar's Finance Committee reviews risks and insurance coverage on its directors and officers liability policy, property and general liability policy, and umbrella policy.

Note 7 - Legal Issues

The State Bar of Michigan is presently not involved in any lawsuits, whether as a plaintiff or defendant, and is not presently incurring legal fees relative to any lawsuit and is not aware of any lawsuits that are imminent.

Note 8 - Retirement Plans

Plan Description - The State Bar of Michigan participates in the State of Michigan's defined benefit plan, pursuant to the State Employees Retirement Plan Act (PA 240 of 1943) that covers most state employees, as well as eligible and former employees of related component units such as the State Bar of Michigan. The defined benefit plan is available to employees and former employees hired on or before March 31, 1997 and who have not elected the defined contribution plan (collectively known as Tier 1 employees). The plan provides defined benefits for retirement, disability, death benefits, and annual cost of living adjustment to plan members, whose eligibility is subject to age, retirement, years of service, and vesting requirements. The state legislature establishes the benefit provisions and employer payments to the State for the plan.

Employees not covered by the defined benefit plan (collectively known as Tier 2 employees) are covered by the State Bar of Michigan Retirement Plan (defined contribution plan) administered by the State Bar.

The State of Michigan Plans issue a publicly available financial report that includes financial statements and required supplementary information for the systems. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Funding Policy - For the defined benefit plan, the State Bar of Michigan is required to pay the State at an actuarially determined rate, which was 18.84 percent of Tier 1 payroll for the fiscal year ended September 30, 2009.

For the defined contribution plan, the State Bar of Michigan contributes 4.0 percent of each employee's pay with a match of up to 3.0 percent of each employee's pay based on employee contributions, subject to plan limits. In addition to the contribution percentages above, for employees hired before January 1, 2004 and not eligible for retiree healthcare benefits, the State Bar also makes additional voluntary contributions.

Note 8 - Retirement Plans (Continued)

The State Bar of Michigan contributions to the plans, including the cost of administering the plans, excluding postemployment benefits (see Note 9) for the years ended September 30, 2009, 2008, and 2007, were \$355,703, \$380,488, and \$325,354, respectively.

Note 9 - Postemployment Benefits

Plan description: Employees, former employees, and retirees of the State Bar of Michigan who were hired on or before March 31, 1997 (or who had equivalent service with other agencies) and who participate in either the defined benefit retirement plan or the defined contribution retirement plan, and meet certain vesting and other requirements at retirement, will receive healthcare benefits from the State of Michigan. The cost of retiree healthcare benefits is determined by the State of Michigan based upon statute. Effective January 1, 2004, pursuant to a settlement agreement with the State of Michigan, the State Bar of Michigan assumed responsibility for paying the actual cost of the postemployment benefits to the State of Michigan for eligible retirees instead of being assessed a fee each year by the State of Michigan based on the State Bar of Michigan's active payroll. Currently, the plan has 31 members (including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits).

This is a single employer defined benefit plan administered by the State Bar of Michigan. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the employer.

Funding policy: The State Bar of Michigan has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the State Bar has made contributions to advance-fund these benefits.

Note 9 - Postemployment Benefits (Continued)

Funding progress: For the year ended September 30, 2009, the State Bar of Michigan has estimated the cost of providing retiree health care benefits through an actuarial valuation as of October 1, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows for September 30, 2009:

Annual required contribution (recommended)	\$ 289,882
Interest on the prior year's net OPEB obligation	-
Less adjustment of the annual required contribution	<u>-</u>
Annual OPEB cost	289,882
Amounts contributed:	
Payments of current premiums	(61,091)
Advance funding	<u>(228,791)</u>
Decrease in net OPEB obligation	(289,882)
OPEB obligation - Beginning of year	<u>-</u>
OPEB obligation - End of year	<u><u>\$ -</u></u>

The annual OPEB costs and the percentage contributed to the plan were as follows:

	Fiscal Year Ended September 30 2009	Fiscal Year Ended September 30 2008
	<u>2009</u>	<u>2008</u>
Annual OPEB costs	\$ 289,882	\$ 289,882
Percentage contributed	100%	100%

Note 9 - Postemployment Benefits (Continued)

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of October 1, 2007:

Actuarial value of assets	\$	-
Actuarial accrued liability (AAL)	\$	2,985,765
Unfunded AAL	\$	2,985,765
Funded ratio		- %

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2007 actuarial valuation, the unit credit actuarial cost method was used. The actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include a rate of return on investments of present and future assets of 7.0 percent, compounded annually, and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4 percent after eight years.

Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at September 30, 2009 was 28 years.

Other Supplemental Information

State Bar of Michigan

Schedule of Revenue and Expenses - Sections

	Balance October 1, 2008	Revenue	Expenses	Balance September 30, 2009
Administrative	\$ 33,837	\$ 15,198	\$ 14,338	\$ 34,697
Alternative Dispute Resolution	23,982	32,276	30,018	26,240
American Indian	14,449	3,492	4,924	13,017
Animal	11,343	6,095	5,458	11,980
Antitrust, Franchising, and Trade Regulation	44,401	5,455	15,709	34,147
Appellate Practice	28,590	18,745	20,737	26,598
Arts, Communication, Entertainment, and Sports	10,041	6,052	8,586	7,507
Aviation	15,250	3,575	1,392	17,433
Business	135,916	126,374	103,777	158,513
Children's Law	14,464	18,950	18,251	15,163
Consumer	17,769	10,410	11,814	16,365
Criminal	71,359	45,469	57,386	59,442
Elder Law and Disability Rights	75,795	63,874	85,232	54,437
Environmental	51,928	22,109	14,417	59,620
Family	123,770	175,371	187,621	111,520
General Practice	8,499	23,600	26,743	5,356
Health Care	67,637	34,100	36,226	65,511
Information Technology	28,494	12,601	6,851	34,244
Insurance and Indemnity Law	2,590	9,400	4,815	7,175
Intellectual Property	36,338	36,137	52,842	19,633
International	28,351	13,310	15,060	26,601
Judicial Conference	-	18,451	17,752	699
Labor and Employment	48,757	86,835	98,128	37,464
Latin American Bar Activities	8,984	797	-	9,781
Law Practice Management and Legal Administrator Section	50,135	18,955	15,663	53,427
Law Student	3,194	4,020	2,270	4,944
Legal Assistants	18,673	15,930	15,689	18,914
Litigation	101,709	53,878	63,009	92,578
Negligence	31,293	110,202	113,800	27,695
Prisons and Corrections	440	2,745	2,790	395
Probate and Estate Planning	62,301	126,810	70,333	118,778
Public Corporation	33,435	24,678	44,917	13,196
Real Property	223,692	220,856	217,684	226,864
Senior Lawyers	(3,695)	5,430	1,730	5
Social Security	13,210	12,510	15,848	9,872
Taxation	122,175	66,060	86,930	101,305
Workers' Compensation	70,333	56,918	69,792	57,459
Young Lawyers	28,158	70,325	75,250	23,233
Total	\$ 1,657,597	\$ 1,577,993	\$ 1,633,782	\$ 1,601,808

State Bar of Michigan

Comparative Statement of Net Assets Administrative Fund

	September 30		Variance	
	2009	2008	Increase (Decrease)	
			Amount	%
Assets				
Current Assets				
Cash	\$ 3,623,688	\$ 1,488,843	\$ 2,134,845	143.39%
Investments	5,126,041	5,909,420	(783,379)	(13.26%)
Accounts receivable:				
Trade	389,534	354,724	34,810	9.81%
Foundation	24,402	20,703	3,699	17.87%
Due from (to) other funds	(1,666,146)	(1,681,039)	14,893	(0.89%)
Inventory	15,917	20,986	(5,069)	(24.15%)
Prepaid expenses	231,812	293,606	(61,794)	(21.05%)
Total current assets	7,745,248	6,407,243	1,338,005	20.88%
Capital Assets - Net	<u>5,304,611</u>	<u>5,613,273</u>	<u>(308,662)</u>	<u>(5.50%)</u>
Total assets	<u>\$ 13,049,859</u>	<u>\$ 12,020,516</u>	<u>\$ 1,029,343</u>	<u>8.56%</u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 647,879	\$ 661,689	\$ (13,810)	(2.09%)
Accrued expenses	356,133	296,378	59,755	20.16%
Deferred revenue	1,248,452	727,794	520,658	71.54%
Total liabilities	2,252,464	1,685,861	566,603	33.61%
Net Assets				
Invested in capital assets	5,304,611	5,613,273	(308,662)	(5.50%)
Unrestricted	5,492,784	4,721,382	771,402	16.34%
Total net assets	<u>10,797,395</u>	<u>10,334,655</u>	<u>462,740</u>	<u>4.48%</u>
Total liabilities and net assets	<u>\$ 13,049,859</u>	<u>\$ 12,020,516</u>	<u>\$ 1,029,343</u>	<u>8.56%</u>

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year Administrative Fund

	Year Ended September 30		Variance	
	2009	2008	Increase (Decrease) Amount	%
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,093,830	\$ 7,003,700	\$ 90,130	1.29%
Bar Journal	268,612	315,591	(46,979)	(14.89%)
Bar Journal Directory	173,612	211,938	(38,326)	(18.08%)
Bar Leadership Forum	10,508	10,819	(311)	(2.87%)
Rent/Attorney Discipline System Fee	83,043	79,524	3,519	4.43%
Justice Initiatives	11,600	5,000	6,600	132.00%
Lawyers and Judges Assistance	49,206	53,873	(4,667)	(8.66%)
Annual Meeting	139,327	149,553	(10,226)	(6.84%)
Upper Michigan Legal Institute	9,292	9,212	80	0.87%
Ethics	3,337	2,925	412	14.09%
50-Yr Golden Celebration	1,330	2,555	(1,225)	(47.95%)
Print-on-Demand Services	113,744	160,689	(46,945)	(29.21%)
e-Journal	63,684	88,265	(24,581)	(27.85%)
Lawyer Referral Service	131,564	105,744	25,820	24.42%
Member and Endorsed Services/Affinity Programs	658,692	796,851	(138,159)	(17.34%)
Character and Fitness	273,173	282,339	(9,166)	(3.25%)
Practice Management Resource Center	2,232	18,232	(16,000)	(87.76%)
Internet	29,457	32,971	(3,514)	(10.66%)
Other revenue	246,654	150,396	96,258	64.00%
Total operating revenue	9,362,897	9,480,177	(117,280)	(1.24%)
Expenses				
Labor expenses:				
Salaries	3,719,459	3,516,743	202,716	5.76%
Employee benefits and payroll taxes	1,774,672	1,841,353	(66,681)	(3.62%)
Total labor expenses	5,494,131	5,358,096	136,035	2.54%
Non-labor expenses:				
Executive Offices:				
Executive Office	86,882	84,232	2,650	3.15%
Human Resources	87,217	155,726	(68,509)	(43.99%)
Representative Assembly	53,977	48,764	5,213	10.69%
Board of Commissioners	110,852	121,360	(10,508)	(8.66%)
Outreach, Committees, Section Support, Local and Affinity Bars	120,827	135,073	(14,246)	(10.55%)
General Counsel	9,371	117,789	(108,418)	(92.04%)
Government Relations	71,986	71,047	939	1.32%
Research and Development	35,472	42,008	(6,536)	(15.56%)
Total Executive Offices	576,584	775,999	(199,415)	(25.70%)

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year (Continued) Administrative Fund

	Year Ended September 30		Variance	
			Increase (Decrease)	
	2009	2008	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Finance and Administration:				
Administration	\$ 43,272	\$ 46,980	\$ (3,708)	(7.89%)
Facilities Services	397,959	326,342	71,617	21.95%
Financial Services	261,088	297,114	(36,026)	(12.13%)
Depreciation	503,638	529,212	(25,574)	(4.83%)
Total Finance and Administration	1,205,957	1,199,648	6,309	0.53%
Information Technology Services	197,062	195,672	1,390	0.71%
Member Services and Communications:				
Member and Endorsed Services	155,995	337,525	(181,530)	(53.78%)
Annual Meeting	175,545	191,448	(15,903)	(8.31%)
50 Year Golden Celebration	15,982	17,849	(1,867)	(10.46%)
Upper Michigan Legal Institute	16,510	12,468	4,042	32.42%
Bar Leadership Forum	28,889	15,638	13,251	84.74%
Bar Journal Directory	214,239	240,232	(25,993)	(10.82%)
Bar Journal	576,669	546,865	29,804	5.45%
Print-on-Demand	74,775	98,600	(23,825)	(24.16%)
Internet	56,551	79,364	(22,813)	(28.74%)
e-Journal	18,238	22,941	(4,703)	(20.50%)
Media Relations	84,331	82,810	1,521	1.84%
Total Member Services and Communications	1,417,724	1,645,740	(228,016)	(13.85%)

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Prior Year (Continued) Administrative Fund

	Year Ended September 30		Variance	
			Increase (Decrease)	
	2009	2008	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Justice Initiatives	\$ 75,084	\$ 51,377	\$ 23,707	46.14%
Professional Standards:				
Ethics	15,155	13,553	1,602	11.82%
Character and Fitness	38,611	42,140	(3,529)	(8.37%)
Client Protection Fund Expense	6,740	5,660	1,080	19.08%
Lawyer Referral Service	9,720	7,078	2,642	37.33%
Lawyer and Judges Assistance	44,785	57,567	(12,782)	(22.20%)
Practice Management Resource Center	12,188	24,450	(12,262)	(50.15%)
Unauthorized Practice of Law	19,763	14,924	4,839	32.42%
Total Professional Standards	<u>146,962</u>	<u>165,372</u>	<u>(18,410)</u>	(11.13%)
Total non-labor expenses	<u>3,619,373</u>	<u>4,033,808</u>	<u>(414,435)</u>	(10.27%)
Total operating expenses	<u>9,113,504</u>	<u>9,391,904</u>	<u>(278,400)</u>	(2.96%)
Operating Income	249,393	88,273	161,120	182.52%
Nonoperating Revenue - Investment income	<u>213,347</u>	<u>341,866</u>	<u>(128,519)</u>	(37.59%)
Increase in Net Assets	462,740	430,139	32,601	7.58%
Net Assets - Beginning of year	<u>10,334,655</u>	<u>9,904,516</u>	<u>430,139</u>	4.34%
Net Assets - End of year	<u>\$10,797,395</u>	<u>\$ 10,334,655</u>	<u>\$ 462,740</u>	4.48%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget Administrative Fund

	Year Ended September 30		Budget Variance	
	2009	2009	Favorable (Unfavorable)	
	Actual	Budget	Amount	%
Revenue				
Operating revenue:				
Membership dues and fees	\$ 7,093,830	\$ 7,073,000	\$ 20,830	0.29%
Bar Journal	268,612	329,000	(60,388)	(18.36%)
Bar Journal Directory	173,612	237,500	(63,888)	(26.90%)
Bar Leadership Forum	10,508	10,200	308	3.02%
Rent/Attorney Discipline System Fee	83,043	83,000	43	0.05%
Justice Initiatives	11,600	-	11,600	100.00%
Annual Meeting	139,327	184,000	(44,673)	(24.28%)
Upper Michigan Legal Institute	9,292	9,400	(108)	(1.15%)
Ethics	3,337	3,000	337	11.23%
50-Yr Golden Celebration	1,330	2,500	(1,170)	(46.80%)
Print-on-Demand Services	113,744	125,500	(11,756)	(9.37%)
e-Journal	63,684	83,500	(19,816)	(23.73%)
Lawyer Referral Service	131,564	65,000	66,564	102.41%
Lawyers and Judges Assistance	49,206	50,500	(1,294)	(2.56%)
Member and Endorsed Services/Affinity Programs	658,692	776,900	(118,208)	(15.22%)
Character and Fitness	273,173	271,000	2,173	0.80%
Practice Management Resource Center	2,232	18,200	(15,968)	(87.74%)
Internet	29,457	30,000	(543)	(1.81%)
Other revenue	246,654	178,400	68,254	38.26%
Total operating revenue	9,362,897	9,530,600	(167,703)	(1.76%)
Expenses				
Labor expenses:				
Salaries	3,719,459	3,717,227	(2,232)	(0.06%)
Employee benefits and payroll taxes	1,774,672	1,931,351	156,679	8.11%
Total labor expenses	5,494,131	5,648,578	154,447	2.73%
Non-labor expenses:				
Executive Offices:				
Executive Office	86,882	88,600	1,718	1.94%
Human Resources	87,217	116,325	29,108	25.02%
Representative Assembly	53,977	49,850	(4,127)	(8.28%)
Outreach, Committees, Section Support, and Local and Affinity Bars	120,827	131,800	10,973	8.33%
Board of Commissioners	110,852	117,850	6,998	5.94%
General Counsel	9,371	29,600	20,229	68.34%
Government Relations	71,986	98,825	26,839	27.16%
Research and Development	35,472	99,275	63,803	64.27%
Total Executive Offices	576,584	732,125	155,541	21.25%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget (Continued) Administrative Fund

	Year Ended September 30		Budget Variance	
			Favorable (Unfavorable)	
	2009 Actual	2009 Budget	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Finance and Administration:				
Administration	\$ 43,272	\$ 49,875	\$ 6,603	13.24%
Facilities Services	397,959	378,200	(19,759)	(5.22%)
Financial Services	261,088	304,000	42,912	14.12%
Depreciation	503,638	545,000	41,362	7.59%
Total Finance and Administration	1,205,957	1,277,075	71,118	5.57%
Information Technology Services	197,062	232,110	35,048	15.10%
Member Services and Communications:				
Member and Endorsed Services	155,995	399,600	243,605	60.96%
Annual Meeting	175,545	259,000	83,455	32.22%
50 Year Golden Celebration	15,982	22,500	6,518	28.97%
Upper Michigan Legal Institute	16,510	17,750	1,240	6.99%
Bar Leadership Forum	28,889	35,050	6,161	17.58%
Bar Journal Directory	214,239	238,500	24,261	10.17%
Bar Journal	576,669	566,600	(10,069)	(1.78%)
Print-on-Demand Services	74,775	90,750	15,975	17.60%
Internet	56,551	86,300	29,749	34.47%
e-Journal	18,238	19,400	1,162	5.99%
Media Relations	84,331	100,700	16,369	16.26%
Total Member Services and Communications	1,417,724	1,836,150	418,426	22.79%

State Bar of Michigan

Schedule of Revenue, Expenses, and Changes in Net Assets Compared to Budget (Continued) Administrative Fund

	Year Ended September 30		Budget Variance	
	2009	2009	Favorable (Unfavorable)	
	Actual	Budget	Amount	%
Expenses (Continued)				
Non-labor expenses (Continued):				
Justice Initiatives	\$ 75,084	\$ 100,570	\$ 25,486	25.34%
Professional Standards:				
Ethics	15,155	21,100	5,945	28.18%
Character and Fitness	38,611	52,350	13,739	26.24%
Client Protection Fund Expense	6,740	14,425	7,685	53.28%
Lawyer Referral Service	9,720	9,400	(320)	(3.40%)
Lawyer and Judges Assistance	44,785	52,900	8,115	15.34%
Practice Management Resource Center	12,188	28,600	16,412	57.38%
Unauthorized Practice of Law	19,763	25,850	6,087	23.55%
Total Professional Standards	<u>146,962</u>	<u>204,625</u>	<u>57,663</u>	28.18%
Total non-labor expenses	<u>3,619,373</u>	<u>4,382,655</u>	<u>763,282</u>	17.42%
Total operating expenses	<u>9,113,504</u>	<u>10,031,233</u>	<u>917,729</u>	9.15%
Operating Income (Loss)	249,393	(500,633)	750,026	N/A
Nonoperating Revenue - Investment income	<u>213,347</u>	<u>300,000</u>	<u>(86,653)</u>	(28.88%)
Increase (Decrease) in Net Assets	462,740	(200,633)	663,373	N/A
Net Assets - Beginning of year	<u>10,334,655</u>	<u>10,334,655</u>	-	-
Net Assets - End of year	<u>\$ 10,797,395</u>	<u>\$ 10,134,022</u>	<u>\$ 663,373</u>	6.55%

State Bar of Michigan

Historical Financial Summaries Five-year Financial Summary Administrative Fund

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Operating Revenues:					
Membership Dues and Fees	\$ 6,705,235	\$ 6,762,604	\$ 6,893,351	\$ 7,003,700	\$ 7,093,830
Other Operating Revenues	<u>2,433,173</u>	<u>2,426,461</u>	<u>2,463,542</u>	<u>2,476,477</u>	<u>2,269,067</u>
Total Operating Revenues	9,138,408	9,189,065	9,356,893	9,480,177	9,362,897
Operating Expenses:					
Salaries	3,102,434	3,535,174	3,467,319	3,516,743	3,719,459
Employee Benefits and Payroll Taxes	1,224,073	1,385,756	1,454,713	1,841,353	1,774,672
Other Operating Expenses	<u>3,638,990</u>	<u>3,732,897</u>	<u>4,021,508</u>	<u>4,033,808</u>	<u>3,619,373</u>
Total Operating Expenses	<u>7,965,497</u>	<u>8,653,827</u>	<u>8,943,540</u>	<u>9,391,904</u>	<u>9,113,504</u>
Operating Income	1,172,911	535,238	413,353	88,273	249,393
Nonoperating Revenues (Expenses):					
Investment Income	465,508	312,360	639,806	341,866	213,347
Interest on Debt	<u>(165,092)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>300,416</u>	<u>312,360</u>	<u>639,806</u>	<u>341,866</u>	<u>213,347</u>
Increase in Net Assets	<u>\$ 1,473,327</u>	<u>\$ 847,598</u>	<u>\$ 1,053,159</u>	<u>\$ 430,139</u>	<u>\$ 462,740</u>
Net Assets at Beginning of Fiscal Year	\$ 6,530,432	\$ 8,003,759	\$ 8,851,357	\$ 9,904,516	\$ 10,334,655
Net Assets at End of Fiscal Year	\$ 8,003,759	\$ 8,851,357	\$ 9,904,516	\$ 10,334,655	\$ 10,797,395
Net Assets as a % of Total Expenses	98.44%	102.28%	110.74%	110.04%	118.48%

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Historical Financial Summaries Five-year Financial Summary Client Protection Fund

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Operating Revenues:					
Membership Dues and Fees	\$ 547,851	\$ 556,882	\$ 567,848	\$ 577,151	\$ 590,321
Other Operating Revenues	<u>16,119</u>	<u>6,958</u>	<u>47,363</u>	<u>13,917</u>	<u>27,056</u>
Total Operating Revenues	563,970	563,840	615,211	591,068	617,377
Operating Expenses:					
Claims Payments	212,874	227,098	183,428	441,565	494,661
Other Operating Expenses	<u>151,576</u>	<u>148,750</u>	<u>143,907</u>	<u>148,640</u>	<u>170,690</u>
Total Operating Expenses	<u>364,450</u>	<u>375,848</u>	<u>327,335</u>	<u>590,205</u>	<u>665,351</u>
Operating Income (Loss)	199,520	187,992	287,876	863	(47,974)
Nonoperating Revenues -					
Investment Income	<u>102,890</u>	<u>89,022</u>	<u>181,465</u>	<u>82,583</u>	<u>49,713</u>
Increase in Net Assets	<u>\$ 302,410</u>	<u>\$ 277,014</u>	<u>\$ 469,341</u>	<u>\$ 83,446</u>	<u>\$ 1,739</u>
Net Assets at Beginning of Fiscal Year	\$ 943,672	\$ 1,246,082	\$ 1,523,096	\$ 1,992,437	\$ 2,075,883
Net Assets at End of Fiscal Year	\$ 1,246,082	\$ 1,523,096	\$ 1,992,437	\$ 2,075,883	\$ 2,077,622
Net Assets as a % of Total Expenses	341.91%	405.24%	608.68%	351.72%	312.26%