

MICHIGAN STATE BAR FOUNDATION

REPORT ON FINANCIAL STATEMENTS
(with supplementary information)

YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Michigan State Bar Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Michigan State Bar Foundation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Michigan State Bar Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, the Organization has implemented FASB Accounting Standard Update 2016-02, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Michigan State Bar Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Michigan State Bar Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Michigan State Bar Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2024, on our consideration of Michigan State Bar Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Michigan State Bar Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Michigan State Bar Foundation's internal control over financial reporting and compliance.

Manes Costeiran PC

February 12, 2024

**MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2023 AND 2022**

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,758,620	\$ 1,381,274
Investments - current	7,479,590	6,501,623
Accounts receivable - IOLTA	1,612,659	144,647
Accounts receivable	48,530	93,001
Grant receivable - MSHDA	169,281	-
Unconditional promises to give, net	21,820	59,864
Prepaid expenses	26,543	17,377
Total current assets	16,117,043	8,197,786
Unconditional promises to give, net, less current portion	77,798	64,744
Investments - long-term	3,382,831	3,379,281
Equipment, net	12,069	13,791
Operating lease right-of-use assets	130,684	-
TOTAL ASSETS	\$ 19,720,425	\$ 11,655,602
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 39,763	\$ 97,647
Operating lease obligation, current portion	42,512	-
Grants payable	3,262,995	1,552,868
Refundable advances	-	1,197,907
IOLTA payable	1,252,652	398,581
Total current liabilities	4,597,922	3,247,003
OPERATING LEASE OBLIGATION, less current portion	88,172	-
TOTAL LIABILITIES	4,686,094	3,247,003
NET ASSETS		
Without donor restrictions		
Undesignated	873,552	766,746
Designated	500,000	500,000
Total without donor restrictions	1,373,552	1,266,746
With donor restrictions	13,660,779	7,141,853
TOTAL NET ASSETS	15,034,331	8,408,599
TOTAL LIABILITIES AND NET ASSETS	\$ 19,720,425	\$ 11,655,602

See notes to financial statements.

**MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Contributions - IOLTA - net (See Note 11)	\$ -	\$ 7,922,000	\$ 7,922,000	\$ -	\$ 1,440,919	\$ 1,440,919
Fellows contributions	-	40,168	40,168	-	36,811	36,811
Access to Justice Fund contributions	-	1,514,325	1,514,325	-	1,481,894	1,481,894
Legal Self-Help program grant	-	650,000	650,000	-	650,000	650,000
Grant revenue - federal	8,868,901	-	8,868,901	8,225,163	-	8,225,163
Grant revenue - state	325,000	-	325,000	325,000	-	325,000
Filing fees reimbursement	62,865	-	62,865	54,459	-	54,459
Contributions and memorials	6,332	29,518	35,850	175,071	29,519	204,590
Investment return, net	110,047	303,497	413,544	148,846	203,024	351,870
Net assets released from restrictions	4,554,920	(4,554,920)	-	4,296,737	(4,296,737)	-
TOTAL REVENUE AND OTHER SUPPORT	13,928,065	5,904,588	19,832,653	13,225,276	(454,570)	12,770,706
EXPENSES						
Program services						
IOLTA Grants	1,393,801	-	1,393,801	830,026	-	830,026
IOLTA Program	739,847	-	739,847	544,090	-	544,090
Fellows Program	30,995	-	30,995	27,428	-	27,428
MSHDA Program	8,868,901	-	8,868,901	8,165,163	-	8,165,163
DHS SSI Program	325,000	-	325,000	330,998	-	330,998
Filing fees	170,410	-	170,410	114,380	-	114,380
Access to Justice Program	1,720,122	-	1,720,122	2,224,612	-	2,224,612
Legal Self-Help Program	650,000	-	650,000	650,000	-	650,000
MSBF Fund Grants	14,362	-	14,362	403,830	-	403,830
Total program services	13,913,438	-	13,913,438	13,290,527	-	13,290,527

See notes to financial statements.

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
EXPENSES (continued)						
Management and general	\$ 63,548	\$ -	\$ 63,548	\$ 72,772	\$ -	\$ 72,772
Fundraising	29,955	-	29,955	19,128	-	19,128
TOTAL EXPENSES	14,006,941	-	14,006,941	13,382,427	-	13,382,427
Change in net assets before unrealized gain (loss) on marketable securities	(78,876)	5,904,588	5,825,712	(157,151)	(454,570)	(611,721)
UNREALIZED GAIN (LOSS) ON MARKETABLE SECURITIES	185,682	614,338	800,020	(548,362)	(1,830,571)	(2,378,933)
CHANGE IN NET ASSETS	106,806	6,518,926	6,625,732	(705,513)	(2,285,141)	(2,990,654)
NET ASSETS, beginning of year	1,266,746	7,141,853	8,408,599	1,972,259	9,426,994	11,399,253
NET ASSETS, end of year	\$ 1,373,552	\$ 13,660,779	\$ 15,034,331	\$ 1,266,746	\$ 7,141,853	\$ 8,408,599

See notes to financial statements.

**MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

2023				
	Program Services	Management and General	Fundraising	Total
Grants	\$ 12,819,883	\$ -	\$ -	\$ 12,819,883
Compensation of employees and related	790,528	49,715	15,385	855,628
Professional fees	93,241	4,885	-	98,126
Office expenses	13,756	594	4,118	18,468
Information technology	62,930	2,560	-	65,490
Occupancy	39,175	2,167	-	41,342
Conferences, conventions, etc.	31,377	942	10,452	42,771
Depreciation	3,924	217	-	4,141
Insurance	13,099	725	-	13,824
Dues and subscriptions	21,539	851	-	22,390
All other expenses	23,986	892	-	24,878
	<u>\$ 13,913,438</u>	<u>\$ 63,548</u>	<u>\$ 29,955</u>	<u>\$ 14,006,941</u>
2022				
	Program Services	Management and General	Fundraising	Total
Grants	\$ 12,375,500	\$ -	\$ -	\$ 12,375,500
Compensation of employees and related	709,151	32,918	12,204	754,273
Professional fees	34,363	26,993	70	61,426
Office expenses	14,819	925	6,170	21,914
Information technology	65,475	3,102	-	68,577
Occupancy	33,905	2,380	-	36,285
Conferences, conventions, etc.	16,893	1,190	-	18,083
Depreciation	4,134	311	-	4,445
Insurance	7,779	546	-	8,325
Dues and subscriptions	12,710	487	115	13,312
All other expenses	15,798	3,920	569	20,287
	<u>\$ 13,290,527</u>	<u>\$ 72,772</u>	<u>\$ 19,128</u>	<u>\$ 13,382,427</u>

See notes to financial statements.

MICHIGAN STATE BAR FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2023 AND 2022

	2023	2022
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash flows from operating activities		
Change in net assets	\$ 6,625,732	\$ (2,990,654)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	4,140	4,445
Realized (gain) loss on sale of marketable securities	(132,537)	(115,958)
Unrealized (gain) loss on marketable securities	(800,020)	2,378,933
Contributions restricted for long-term purposes	(3,550)	(1,200)
Accounts receivable	(1,423,541)	(96,741)
Grant receivable - MSHDA	(169,281)	170,929
Unconditional promises to give	24,990	(11,120)
Prepaid expenses	(9,166)	(654)
Operating lease right-of-use asset	(40,192)	-
Accounts payable and IOLTA payable	796,187	(68,091)
Operating lease liabilities	40,192	-
Refundable advances	(1,197,907)	1,197,907
Grants payable	1,710,127	(737,676)
	(1,200,558)	2,720,774
Total adjustments		
Net cash provided (used) by operating activities	5,425,174	(269,880)
Cash flows from investing activities		
Purchase of investments	(203,035)	(143,602)
Sale of investments	154,075	1,622,671
Purchase of property and equipment	(2,418)	(2,179)
	(51,378)	1,476,890
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Investment in perpetual endowment	3,550	1,200
	3,550	1,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,377,346	1,208,210
CASH AND CASH EQUIVALENTS		
Beginning of year	1,381,274	173,064
End of year	\$ 6,758,620	\$ 1,381,274

See notes to financial statements.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions. The Foundation has designated, from net assets without donor restrictions, net assets to be used for support of future operations and contributions. The appropriated funds at September 30 are as follows:

	2023	2022
Total board designated net assets - operating reserve	\$ 500,000	\$ 500,000

Net Assets With Donor Restrictions - Net assets subject to donor (or grantor) imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. These resources originate from IOLTA activities, the Access to Justice Campaign, Civil Justice System Access Program, gifts, grants, bequests, contracts, emergency appeals, and investment income earned on investments related to these activities. Other donor restrictions are perpetual in nature, where the donor stipulates that resources are maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, or when the stipulated purpose has been accomplished.

Functional Allocation of Expenses

The costs of providing program and other activities have been reported in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification of expenses that are allocated to program or supporting functions of the Organization. Allocated expenses primarily consist of compensation of officers and related benefits, leased employees, occupancy, information technology, professional fees, meetings and travel, and various other expense classifications necessary to support the day-to-day operations of the Organization. Employee driven expenses are allocated based on salary and wage analysis. All other allocated expenses utilize management’s estimated use of resources.

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 low-income persons.
- Fellows Program – A giving program that recognized Michigan lawyers for their professional excellence and service to the community, while also raising funding for the Foundation’s activities.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses (continued)

- MSHDA Program - Grants and related expenses regarding the eviction diversion program.
- Filing fees - Funds expended to provide grants for civil legal services to low-income persons.
- DHS SSI – Contract revenues from the Michigan Department of Human Services are distributed to legal services organizations to provide assistance to individuals in applying for SSI or other federal disability benefits.
- Access to Justice Program - Grants and related expenses regarding civil legal services to low-income persons.
- 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

Cash and cash equivalents consist of cash accounts and money market funds.

Investments

Investments with readily determinable fair values are reported at fair value. Net investment return or loss is included in the statement of activities and consists of interest and dividend income, realized gains and losses, less investment expenses. Amounts on deposit for investment purposes are not considered cash equivalents for cash flows purposes. Losses on investments of net assets restricted in perpetuity in excess of the original gift reduce net assets without donor restrictions. Subsequent related gains are recorded as increases in net assets without donor restriction until the gain offsets the amount of losses previously recorded as decreases in net assets without donor restriction.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Grants Receivable

Accounts receivable and grants receivable represent consideration from third parties, of which the Organization has an unconditional right to receive. Accounts receivable and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Currently, no allowance for doubtful accounts is considered necessary. Changes to the valuation allowance have not been material to the financial statements. Beginning and ending balances for accounts receivable and grants receivable are reported as follows for the year ended September 30:

	2023	2022
Receivables, beginning of year	\$ 237,648	\$ 140,907
Receivables, end of year	\$ 1,661,189	\$ 237,648
Grants receivable, beginning of year	\$ -	\$ 170,929
Grants receivable, end of year	\$ 169,281	\$ -

Unconditional Promises to Give

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 6 for changes in the valuation allowance.

Prepaid Expenses

Prepaid expenses consist primarily of advance payments for insurance and maintenance agreements.

Equipment

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.

Leases

The Organization determines whether an arrangement is or contains a lease at inception. On the commencement date, operating leases are recorded as operating lease right-of-use (ROU) assets in the financial position while finance leases are recorded as finance lease ROU assets. Lease liabilities represent the Organization's contractual obligation to make lease payments over the term of the lease.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

For operating leases, the lease liability is measured as the present value of the lease payment over the lease term using either the rate implicit in the lease, if it is determinable, or a risk-free rate if the implicit rate is not determinable. Operating ROU assets are calculated as the present value of the remaining lease payment plus unamortized initial direct costs and prepayments or rent, less any unamortized lease incentives. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Organization has elected to not recognize a ROU asset and lease liability for leases with an initial term of 12 months or less but includes the expenses associated with short term leases in the statement of activities and changes in net assets.

The Organization has elected to utilize a risk-free rate as the discount rate when determining the present value of remaining lease payments for both operating and financing leases. Additionally, the Organization has elected to not separate non-lease components from lease components and, instead, to account for each separate lease component and the related non-lease component as a single lease component.

Contract Services

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.

Refundable Advances

The Organization records refundable advances when funds are received in advance for which conditions of the agreement have not been met and then subsequently recognized as revenue upon meeting the conditions of the agreement. Beginning and ending balances for refundable advances is reported as follows for the year ended September 30:

	2023	2022
Refundable advances, beginning of year	\$ 1,197,907	\$ -
Refundable advances, end of year	\$ -	\$ 1,197,907

Revenue Recognition

Contribution Revenue

Contributions of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Unconditional contributions expected to be collected within one year are reported at their net realizable value. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Contribution Revenue (continued)

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional.

Contract Revenue

Contract revenue recognized by the Organization is comprised of contracts committed from various funding agencies for use in the Organization's activities. All funding sources are providing revenue streams to the Organization for the benefit of the public. Contract revenue is recognized as revenue upon receipt and meeting all conditional requirements of the funding arrangement. Any funds received in advance for which conditions of the agreement have not been met are recognized as refundable advances and then subsequently recognized as revenue upon meeting the conditions of the agreement.

The following schedule shows the Organization's revenues disaggregated according to the timing of transfer of goods or services for the year ended September 30:

	2023	2022
Contributions - IOLTA - net	\$ 7,922,000	\$ 1,440,919
Fellows contributions	40,168	36,811
Access to Justice Fund contributions	1,514,325	1,481,894
Legal Self-Help program grant	650,000	650,000
Grant revenue - federal	8,868,901	8,225,163
Grant revenue - state	325,000	325,000
Filing fees reimbursement	62,865	54,459
Contributions and memorials	35,850	204,590
Investment return, net	413,544	351,870
Total revenue and support	\$ 19,832,653	\$ 12,770,706

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). The Foundation provides leadership and resources for improving access to the civil justice system, including civil legal aid for low-income households, improving the administration of justice and other goals closely aligned with the civil justice system. The Foundation is a tax-exempt organization.

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.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - ORGANIZATION, RISKS, AND UNCERTAINTIES (continued)

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 February 12, 2024, which is the date the financial statements were available to be issued.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and equivalents, and various investments (see Notes 4 and 5).

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - LIQUIDITY AND AVAILABILITY (continued)

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following at September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Financial assets available at year-end		
Cash and equivalents	\$ 6,758,620	\$ 1,381,274
Investments	10,862,421	9,880,904
Accounts receivable - IOLTA	1,612,659	144,647
Accounts receivable	48,530	93,001
Grant receivable - MSHDA	169,281	-
Unconditional promises to give	<u>99,618</u>	<u>124,608</u>
Total financial assets available at year-end	19,551,129	11,624,434
Donor-imposed restrictions		
Less subject to expenditure for specified purpose	(7,906,351)	(1,963,535)
Endowment fund		
Less purpose restricted funds	(2,371,597)	(1,799,037)
Less perpetual funds	(3,382,831)	(3,379,281)
Add amount appropriated for next year	<u>12,050,766</u>	<u>13,491,240</u>
Net financial assets after donor-imposed restrictions	17,941,116	17,973,821
Board designations		
Less designated funds	<u>(500,000)</u>	<u>(500,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,441,116</u>	<u>\$ 17,473,821</u>

Amounts not available include amounts set aside for restricted purposes and amounts set aside for the endowment that could be drawn upon if the governing board approves that action. Amounts appropriated from either endowment or net assets with donor restrictions within one year of the date of the statement of financial position are considered available.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Foundation's governing board has designated a portion of its unrestricted resources as a one-year operating reserve in the event that revenues and available funds are diminished or eliminated to the point that the Foundation could not operate. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the board.

The Foundation's governing board has determined that the amount of financial assets available to meet cash needs for general expenditures within one year is appropriate in order to continue to provide consistent support to organizations who rely on funding provided to them by the Foundation should the Foundation's financial condition change. This is consistent with the mission of the Foundation as described in Note 2 to the financial statements.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - INVESTMENTS

Investments consist of mutual funds which consist of domestic equity funds, international equity funds, domestic bond funds, investment grade bond funds, international bond funds, bond index funds, corporate bond index funds, and treasury index funds. IOLTA funds are not invested in equities or equity funds.

	<u>Cost Basis</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Investments			
September 30, 2023			
Mutual funds - equities	\$ 4,955,855	\$ 4,791,616	\$ (164,239)
Mutual funds - fixed income	<u>5,329,303</u>	<u>6,070,805</u>	<u>741,502</u>
Total	<u>\$ 10,285,158</u>	<u>\$ 10,862,421</u>	<u>\$ 577,263</u>
Investments			
September 30, 2022			
Mutual funds - equities	\$ 5,082,266	\$ 5,372,145	\$ 289,879
Mutual funds - fixed income	<u>5,021,395</u>	<u>4,508,759</u>	<u>(512,636)</u>
Total	<u>\$ 10,103,661</u>	<u>\$ 9,880,904</u>	<u>\$ (222,757)</u>

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

	<u>2023</u>	<u>2022</u>
Investments - current	\$ 7,479,590	\$ 6,501,623
Investments - long-term	<u>3,382,831</u>	<u>3,379,281</u>
	<u>\$ 10,862,421</u>	<u>\$ 9,880,904</u>

Net investment return consists of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 306,126	\$ 259,559
Realized gain (loss)	132,537	115,958
Investment expenses	<u>(25,119)</u>	<u>(23,647)</u>
Investment return, net	413,544	351,870
Unrealized gain (loss)	<u>800,020</u>	<u>(2,378,933)</u>
Total	<u>\$ 1,213,564</u>	<u>\$ (2,027,063)</u>

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - 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, 2023 and 2022.

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

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.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

The following is a market value summary by the level of the inputs used, as of September 30, 2023 and 2022, in evaluating the Foundation's assets carried at fair value. The inputs or methodology used for valuing securities may not be an indication of the risk associated with investing in those securities.

Description	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total September 30, 2023
Valued on a recurring basis				
Mutual funds - equities				
Passive domestic equities	\$ 3,677,856	\$ -	\$ -	\$ 3,677,856
Passive international equities	2,392,949	-	-	2,392,949
Mutual funds - fixed income				
Passive domestic bonds	1,096,258	-	-	1,096,258
Long investment grade bonds	260,865	-	-	260,865
Intermediate investment grade bonds	327,128	-	-	327,128
Short investment grade bonds	498,662	-	-	498,662
Passive international bonds	391,848	-	-	391,848
Short term bond index	751,996	-	-	751,996
Short term corporate bond index	733,592	-	-	733,592
Short term treasury index	731,267	-	-	731,267
Total	\$ 10,862,421	\$ -	\$ -	\$ 10,862,421
Description	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total September 30, 2022
Valued on a recurring basis				
Mutual funds - equities				
Passive domestic equities	\$ 3,405,023	\$ -	\$ -	\$ 3,405,023
Passive international equities	1,967,122	-	-	1,967,122
Mutual funds - fixed income				
Passive domestic bonds	971,448	-	-	971,448
Long investment grade bonds	205,223	-	-	205,223
Intermediate investment grade bonds	283,056	-	-	283,056
Short investment grade bonds	447,526	-	-	447,526
Passive international bonds	345,399	-	-	345,399
Short term bond index	765,641	-	-	765,641
Short term corporate bond index	737,869	-	-	737,869
Short term treasury index	752,597	-	-	752,597
Total	\$ 9,880,904	\$ -	\$ -	\$ 9,880,904

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - UNCONDITIONAL PROMISES TO GIVE

	2023			2022
	Access to Justice	Fellows Program	Total	
Gross amounts due in				
Less than one year	\$ 10,961	\$ 12,700	\$ 23,661	\$ 62,709
One to five years	3,000	80,945	83,945	75,750
More than five years	-	25,719	25,719	16,100
Total	<u>\$ 13,961</u>	<u>\$ 119,364</u>	<u>\$ 133,325</u>	<u>\$ 154,559</u>
Current portion - net	\$ 10,717	\$ 11,103	\$ 21,820	\$ 59,864
Long-term portion - net	<u>3,000</u>	<u>74,798</u>	<u>77,798</u>	<u>64,744</u>
Total - net	<u>\$ 13,717</u>	<u>\$ 85,901</u>	<u>\$ 99,618</u>	<u>\$ 124,608</u>

The discount rate used to determine the net amounts above was 5.1% and 4.5%, which amounted to \$21,761 and \$16,765 for 2023 and 2022, respectively.

The above net amounts are net of an allowance for uncollectible amounts of \$11,946 and \$12,280 at September 30, 2023 and 2022, respectively.

NOTE 7 - EQUIPMENT AND DEPRECIATION

Equipment at September 30 consists of the following:

	2023	2022
Computers and equipment	\$ 54,924	\$ 54,924
Office furniture	16,475	14,057
Leasehold improvements	<u>1,525</u>	<u>1,525</u>
	72,924	70,506
Less accumulated depreciation	<u>60,855</u>	<u>56,715</u>
Equipment - net	<u>\$ 12,069</u>	<u>\$ 13,791</u>
Depreciation expense	<u>\$ 4,140</u>	<u>\$ 4,445</u>

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – LEASE COMMITMENTS

The Organization maintains an operating lease for occupancy space categorized as a right-to-use asset on the statement of financial position in the amount of \$130,684 at September 30, 2023. The operating lease matures September 2026, resulting in a remaining lease term of 3 years. Monthly estimated payments are \$3,630 over the life of the lease. The Organization utilized the federal daily risk-free rate of 0.96% to calculate the discount rate for the operating lease. The weighted average remaining lease term was 3 years.

Operating lease expense recognized in the statement of functional expenses related to lease agreements are as follows for the year ended September 30, 2023:

Occupancy related to operating lease liability	\$ 41,242
Other occupancy expenses	<u>100</u>
Occupancy lease expense	<u><u>\$ 41,342</u></u>

Future minimum payments under the operating lease are as follows:

Year Ending September 30,	
2024	\$ 42,512
2025	44,836
2026	<u>45,250</u>
Total undiscounted cash flows	132,598
Less present value discount	<u>(1,914)</u>
Total operating lease liabilities	<u><u>\$ 130,684</u></u>

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

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

Purpose and time restrictions accomplished and other items:

	2023	2022
IOLTA - grants	\$ 1,393,801	\$ 830,026
IOLTA expenses	739,847	544,090
Fellows program	51,150	35,805
Access to Justice program grants and expenses	1,720,122	2,236,816
Legal Self-Help program	<u>650,000</u>	<u>650,000</u>
	<u><u>\$ 4,554,920</u></u>	<u><u>\$ 4,296,737</u></u>

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions subject to passage of time or restricted purpose.

	2023	2022
IOLTA program	\$ 6,519,828	\$ 704,669
Fellows program	86,882	97,864
Franck program	156,418	152,303
Access to Justice program time and purpose restrictions	3,372,223	2,694,657
Special programs	142,597	113,079
	\$ 10,277,948	\$ 3,762,572

Endowment funds consist of the following.

	2023	2022
Access to Justice Program	\$ 3,382,831	\$ 3,379,281

NOTE 10 - ENDOWMENT

The Foundation's endowment consists of one individual donor-restricted fund established for the following purpose.

Access to Justice - This program seeks to increase resources for civil legal services for low-income persons. The principal is restricted in perpetuity 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 permitting 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 net assets restricted in perpetuity (a) the original value of initial gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 net assets restricted in perpetuity is classified as donor 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.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - ENDOWMENT (continued)

Interpretation of Relevant Law (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the Fund
- b. The purposes of the Foundation and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Foundation
- g. The investment policies of the Foundation

Changes in endowment net assets for the year ending September 30, 2023 were as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Accumulated Investment Gains</u>	<u>Original Gifts in Perpetuity by Donor</u>	
Endowment net assets, beginning of year, October 1, 2022	<u>\$ 1,800,323</u>	<u>\$ 3,379,281</u>	<u>\$ 5,179,604</u>
Investment return, net			
Investment income	162,552	-	162,552
Investment expenses	(13,695)	-	(13,695)
Net gain (realized and unrealized)	<u>603,548</u>	<u>-</u>	<u>603,548</u>
Total investment return, net	<u>752,405</u>	<u>-</u>	<u>752,405</u>
Contributions	<u>-</u>	<u>3,550</u>	<u>3,550</u>
Appropriation of endowment assets for expenditure	<u>(181,131)</u>	<u>-</u>	<u>(181,131)</u>
Endowment net assets, end of year, September 30, 2023	<u><u>\$ 2,371,597</u></u>	<u><u>\$ 3,382,831</u></u>	<u><u>\$ 5,754,428</u></u>

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - ENDOWMENT (continued)

Changes in endowment net assets for the year ending **September 30, 2022** were as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Accumulated Investment Gains</u>	<u>Original Gifts in Perpetuity by Donor</u>	
Endowment net assets, beginning of year October 1, 2021	\$ 3,436,674	\$ 3,378,081	\$ 6,814,755
Investment return, net			
Investment income	166,515	-	166,515
Investment expenses	(13,695)	-	(13,695)
Net loss (realized and unrealized)	(1,580,930)	-	(1,580,930)
Total investment return, net	(1,428,110)	-	(1,428,110)
Contributions	-	1,200	1,200
Appropriation of endowment assets for expenditure	(208,241)	-	(208,241)
Endowment net assets, end of year September 30, 2022	<u>\$ 1,800,323</u>	<u>\$ 3,379,281</u>	<u>\$ 5,179,604</u>

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of September 30, 2023 and 2022 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.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - ENDOWMENT (continued)

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 11 - 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 designating the Michigan State Bar Foundation as the entity to administer the IOLTA Program, as established by Rule 1.15 of the Michigan Rules of Professional Conduct. AO 1997-9, modified the prior order, in terms of distribution of IOLTA net proceeds. On April 27, 2021, the Michigan Supreme Court issued AO 2021-3 and rescinded AO 1997-9.

After administrative expenses, IOLTA net proceeds are distributed pursuant to AO 2021-3 including 1) 70% to support the delivery of civil legal services to the poor; 2) 15% to support programs to promote the improvements in the administration of justice; 3) 10% to support increased access to justice, including matters related to gender, racial, and ethnic equality; and 4) 5% not to exceed a maximum of \$50,000 to support the activities of the Michigan Supreme Court Historical Society (MSCHS) plus an amount computed annually to equal the cumulative, compounded increase to date in the Consumer Price Index for all Urban Consumers since 2022.

Pursuant to the administrative order, the Foundation shall consider and prioritize recommendations from the State Court Administrator when disbursing the 10% to support increased access to justice, including matters related to gender, racial, and ethnic equality. In addition, any funds in excess of the maximum distribution to the MSCHS are divided evenly among the other three categories.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - RESTRICTED ACTIVITIES (continued)

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

	2023	2022
IOLTA funds (accrual basis) - net of bank service charges	\$ 8,834,389	\$ 1,607,605
Less allocation for Gender/Racial/Ethnic Related Issues and Supreme Court Historical Society	(912,389)	(166,686)
IOLTA revenue - net of funds received in an agency capacity	\$ 7,922,000	\$ 1,440,919

Calculation of funds received in an agency capacity:

	2023	2022
IOLTA funds (accrual basis)	\$ 8,834,389	\$ 1,607,605
Administrative expenses and investment activity	(748,207)	(538,829)
IOLTA funds - net	\$ 8,086,182	\$ 1,068,776

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, 2023 and 2022, fees charged by institutions were \$1,704 and \$9,538, respectively.

	2023		
	Gender/ Racial/Ethnic/ ATJ Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds - net	\$ 8,086,182	\$ 8,086,182	\$ 8,086,182
Allocation per administrative order	10%	5%	15%
Allocation of accumulated funds	808,618	404,309	1,212,927
at beginning of year	344,499	54,082	398,581
Interest earned	14,688	2,640	17,328
Total funds available	1,167,805	461,031	1,628,836
Payments made	(84,623)	(53,205)	(137,828)
Amounts reallocated	114,919	(353,275)	(238,356)
IOLTA payable, end of year	\$ 1,198,101	\$ 54,551	\$ 1,252,652

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - RESTRICTED ACTIVITIES (continued)

	2022		
	Gender/ Racial/Ethnic Related Issues	Supreme Court Historical Society	Total IOLTA Payable
IOLTA funds - net	\$ 1,068,776	\$ 1,068,776	\$ 1,068,776
Allocation per administrative order	10%	5%	15%
	106,878	53,439	160,317
Allocation of accumulated funds at beginning of year	459,530	46,207	505,737
Interest earned	5,727	643	6,370
Total funds available	572,135	100,289	672,424
Payments made	(127,636)	(46,207)	(173,843)
Amounts reallocated	(100,000)	-	(100,000)
IOLTA payable, end of year	<u>\$ 344,499</u>	<u>\$ 54,082</u>	<u>\$ 398,581</u>

NOTE 12 - 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 \$2,510,997 and \$2,305,352 at September 30, 2023 and 2022, respectively.

**MICHIGAN STATE BAR FOUNDATION
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

For the year ended September 30, 2023, the Organization implemented the Financial Accounting Standards Board (the "FASB") Accounting Standard Update ("ASU") No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02"). On February 25, 2016, the FASB issued ASU 2016-02 and thereafter issued additional ASU's to clarify and update the guidance in ASU 2016-02 (collectively, the "new lease standard"). The objective of ASU 2016-02 is to increase transparency and comparability in financial reporting by requiring financial position recognition of leases and note disclosure of certain information about lease arrangements. The Organization adopted the new lease standard using the effective date method of the modified retrospective transition, under which amounts in prior periods presented were not restated. The restatement of the beginning of the year had no impact on net assets. The change in assets and liabilities are as follows:

	Assets	Liabilities
Balance as of September 30, 2022, as previously stated	\$ 11,655,602	\$ 3,247,003
Adoption of FASB ASU 2016-02	170,876	170,876
Balance as of October 1, 2022, as restated	\$ 11,826,478	\$ 3,417,879

SUPPLEMENTARY INFORMATION

**MICHIGAN STATE BAR FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2023**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Expenses</u>
U.S. Department of Treasury Passed through Michigan State Housing Development Authority Emergency Rental Assistance Program - COVID-19 HML-2022-Michigan-9962-CERA2	21.023	<u>\$ 8,868,901</u>
Total federal expenditures		<u><u>\$ 8,868,901</u></u>

MICHIGAN STATE BAR FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Michigan State Bar Foundation under programs of the federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Michigan State Bar Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of Michigan State Bar Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Michigan State Bar Foundation has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The Organization does not pass through federal funds.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
Michigan State Bar Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Michigan State Bar Foundation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Michigan State Bar Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Michigan State Bar Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Michigan State Bar Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Michigan State Bar Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

February 12, 2024



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of the
Michigan State Bar Foundation

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Michigan State Bar Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Michigan State Bar Foundation's major federal program for the year ended September 30, 2023. Michigan State Bar Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Michigan State Bar Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Michigan State Bar Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Michigan State Bar Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Michigan State Bar Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Michigan State Bar Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Michigan State Bar Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Michigan State Bar Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Michigan State Bar Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Michigan State Bar Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maney Costeiran PC

February 12, 2024

**MICHIGAN STATE BAR FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2023**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)?

_____ Yes X No

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
21.023	Emergency Rental Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

**MICHIGAN STATE BAR FOUNDATION
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2023**

There were no audit findings for the year ended September 30, 2022.