

DAVID G. FAW
CERTIFIED PUBLIC
ACCOUNTANT

PHILADELPHIA BAR ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2012

PHILADELPHIA BAR ASSOCIATION
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For the year ended December 31, 2012

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DAVID G. FAW
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INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Philadelphia Bar Association
Philadelphia, Pennsylvania

Report on the Financial Statements

I have audited the accompanying financial statements of Philadelphia Bar Association (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, cash flows and changes in net assets for the year then ended, and the related notes to the financial statements. The prior-year summarized comparative information has been derived from the Organization's December 31, 2011 financial statements and, in my report dated March 20, 2012, I expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Bar Association as of December 31, 2012, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "David A. Jones".

Certified Public Accountant
March 28, 2013

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2012
(with comparative totals as of December 31, 2011)

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and equivalents	\$ 701,012	\$ 754,348
Accounts receivable	31,692	71,362
Prepaid expenses	219,797	237,187
Due from Philadelphia Bar Foundation	29,330	41,438
Investments	1,636,589	1,735,450
Property and equipment	206,467	191,872
Collection items	<u>1,733,500</u>	<u>1,733,500</u>
Total assets	<u>\$ 4,558,387</u>	<u>\$ 4,765,157</u>
<u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 507,201	\$ 392,706
Deferred membership dues	<u>203,935</u>	<u>293,879</u>
Total liabilities	<u>711,136</u>	<u>686,585</u>
<u>Net assets</u>		
<u>Unrestricted</u>		
Section funds	168,197	169,141
General membership fund	1,626,717	1,880,552
Contingency funds	<u>2,052,337</u>	<u>2,028,879</u>
Total net assets	<u>3,847,251</u>	<u>4,078,572</u>
Total liabilities and net assets	<u>\$ 4,558,387</u>	<u>\$ 4,765,157</u>

The accompanying notes are an integral part of these financial statements.

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2012
(with comparative totals for the year ended December 31, 2011)

	<u>Unrestricted</u>			Total 2012	Total 2011
	Sections	General Membership	Contingency		
<u>Support and revenue</u>					
Membership dues	\$ 78,627	\$ 2,229,148	\$ -	\$2,307,775	\$ 2,268,993
Lawyer referral service	-	530,747	-	530,747	923,370
Education programs	132,940	-	-	132,940	118,503
Publications	-	14,650	-	14,650	305,000
Interest and dividends	-	11,696	20,788	32,484	34,681
Gain (loss) on investments	-	101,348	-	101,348	(11,081)
Royalty income	-	645,000	-	645,000	645,000
Special events	-	298,594	-	298,594	314,238
Contributed facilities	-	184,000	-	184,000	200,000
Other income	-	424,641	-	424,641	407,198
	<u>211,567</u>	<u>4,439,824</u>	<u>20,788</u>	<u>4,672,179</u>	<u>5,205,902</u>
<u>Expenses</u>					
Employee salaries and benefits	-	2,492,273	-	2,492,273	2,543,931
Office and administration	-	870,342	-	870,342	899,031
Contributed facilities	-	184,000	-	184,000	200,000
Other member services	-	378,657	-	378,657	330,848
Meeting services and special events	-	472,066	-	472,066	498,656
Education programs	212,511	-	-	212,511	199,249
Contributions	-	125,000	-	125,000	125,000
Communications	-	32,044	-	32,044	32,456
Lawyer referral service	-	104,588	-	104,588	95,602
Committee activities	-	32,019	-	32,019	43,639
Total expenses	<u>212,511</u>	<u>4,690,989</u>	<u>-</u>	<u>4,903,500</u>	<u>4,968,412</u>
Change in net assets	<u>\$ (944)</u>	<u>\$ (251,165)</u>	<u>\$ 20,788</u>	<u>\$ (231,321)</u>	<u>\$ 237,490</u>

The accompanying notes are an integral part of these financial statements.

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
(with comparative totals for the year ended December 31, 2011)

	2012	2011
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (231,321)	\$ 237,490
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	111,830	103,993
Loss (gain) on investment	(101,348)	11,081
Changes in assets and liabilities:		
Prepaid expenses	17,390	72,444
Related party and other receivables	51,778	69,114
Accounts payable and accrued expenses	114,495	3,680
Deferred membership dues	(89,944)	138,639
Net cash (used in) provided by operating activities	(127,120)	636,441
<u>Cash flows from investing activities</u>		
Purchase of equipment	(126,425)	(140,783)
Purchases of marketable securities	(2,694,044)	(1,646,606)
Sales of marketable securities	2,894,253	897,724
Net cash provided by (used in) investing activities	73,784	(889,665)
Decrease in cash and equivalents	(53,336)	(253,224)
Cash and equivalents at beginning of year	754,348	1,007,572
Cash and equivalents at end of year	\$ 701,012	\$ 754,348
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF CHANGES IN NET ASSETS
For the year ended December 31, 2012
(with comparative totals for the year ended December 31, 2011)

	<u>Unrestricted</u>			<u>Total</u>
	<u>Sections</u>	<u>General Membership</u>	<u>Contingency</u>	
Balances, January 1, 2011	\$ 172,988	\$ 1,660,914	\$ 2,007,180	\$ 3,841,082
Change in net assets	(3,847)	222,308	19,029	237,490
Net asset transfers during year	-	(2,670)	2,670	-
Balances, December 31, 2011	169,141	1,880,552	2,028,879	4,078,572
Change in net assets	(944)	(251,165)	20,788	(231,321)
Net asset transfers during year	-	(2,670)	2,670	-
Balances, December 31, 2012	<u>\$ 168,197</u>	<u>\$ 1,626,717</u>	<u>\$ 2,052,337</u>	<u>\$ 3,847,251</u>

The accompanying notes are an integral part of these financial statements.

PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 1 - Organization and Nature of Activities

The Philadelphia Bar Association (the Association), founded in 1802, is America's oldest continuing chartered bar association. It works to strengthen and unify the legal profession, promote professional development and improve the justice system. The Association's primary source of income is derived from annual membership dues.

Note 2 - Summary of Significant Accounting Policies

Financial Statement Presentation

The Association follows the accounting principles established for non-profit organizations. As a result, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association has only one class of net assets, unrestricted, which has three elements described below in detail.

Unrestricted Net Assets

General Membership - unrestricted resources representing the portion of expendable funds that are available for support of program or general and administrative operations.

Sections - represents resources available for use by the following Sections organized by the Association:

- Family Law Section
- Section on Taxation
- Business Law Section
- Criminal Justice Section
- Probate and Trust Section
- Real Property Section
- Public Interest Section
- Section on Workers Compensation
- State Civil Litigation Section

Contingency - On June 25, 1992, the Association's Board of Governors voted to create a formal contingency reserve fund. The purpose of the fund is to provide for certain capital acquisitions and asset replacements.

Contributions

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 2 - Summary of Significant Accounting Policies (continued)

The Association regularly receives contributed services from unpaid volunteer officers, committee members and others. However, under established non-profit accounting principles the value of these types of services is not required to be recognized in the financial statements.

Income Taxes

The Association is a not-for-profit corporation and has been recognized as exempt from federal income taxes under Section 501 (c) (6) of the Internal Revenue Code and accordingly does not record a provision for income taxes on its related earnings. The Association regularly reviews and evaluates its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. It believes that in the event of an examination by taxing authorities, its positions would prevail based upon the technical merits of such positions. Therefore, the Association has concluded that no tax benefits or liabilities are required to be recognized.

The Association's Forms 990, Return of Organization Exempt from Income Tax, for the years ending December 31, 2012, 2011 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Statement of Cash Flows

The Association utilizes the indirect method for reporting the increase or decrease in cash and cash equivalents. Cash equivalents are defined by the Association as short term, highly liquid investments with original maturities of less than three months.

Financial Instruments

The carrying amount of cash, cash equivalents, accounts receivable, prepaid expenses, payables, accruals and deferred revenue approximate fair value due to their short-term nature.

Donated Services

As stated above, a significant portion of the Association's functions and activities are conducted by volunteer officers and committee members who are unpaid. The value of this contributed time is not required to be reflected in the accompanying financial statements and is not susceptible to objective measurement or valuation.

Membership Dues

Membership dues are recognized as revenue in the applicable membership period. Dues received in advance are recorded as deferred income. Dues are renewed annually based on a calendar year membership period.

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012**

Note 2 - Summary of Significant Accounting Policies (continued)

Office Equipment, Furniture and Fixtures

Office equipment, furniture and fixtures are stated at cost less accumulated depreciation of \$241,341 at December 31, 2012. Depreciation is calculated by the straight-line method, based on the shorter of the estimated useful asset lives or lease term. Estimated useful lives are: office equipment, furniture and fixtures - 5 to 10 years. The Association follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000.

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/11</u>	<u>Depreciation Year end 12/31/12</u>	<u>Net book Value 12/31/12</u>
Equipment and Furniture	<u>\$ 447,808</u>	<u>\$ 129,511</u>	<u>\$ 111,830</u>	<u>\$ 206,467</u>

Allowance for Doubtful Accounts Receivable

The Association uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific amounts due. All accounts receivable are due within approximately one year and are expected to be fully realizable.

Note 3 - Related Parties

The Chancellor, Chancellor-Elect, and Executive Director of the Philadelphia Bar Association are three (3) designated voting Trustees of the Board of the Philadelphia Bar Foundation. In addition, the Association provides support services for the Foundation and share facilities. Compensation for such services and facilities amounted to \$25,000 in 2012.

Note 4 - Pension Plan

The Association has a noncontributory defined contribution pension plan which covers all employees of the Association who meet a one-year minimum service requirement. Under the terms of the plan and depending on years of service, 8.5%, 10% or 13% of the participating employees' compensation is payable by the Association to the trustee of the plan. Total pension expense was \$204,552 in 2012.

Note 5 - Amended Occupancy Agreement

Effective July 1, 2009 and extending through August 31, 2016, the Association and the City of Philadelphia agreed to amend their existing occupancy agreement for the space located at 1101 Market Street. Under the terms of the amendment the City will continue to pay rent and all operating expenses associated with the current occupancy (approximately 15,600 square feet). The Association agreed to pay the City an initial annual sum of \$140,000 as a contribution towards the City's primary lease obligations for the stated space. Annual increases in the Association's contribution are based on 50 cents per square foot or \$7,800 per year until expiration. Under this agreement, \$159,500 has been reflected in occupancy expense for the year ended December 31, 2012.

PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 5 - Amended Occupancy Agreement (continued)

Future minimum payments over the next five years are as follows:

December 31, 2013	\$	167,300
2014		175,100
2015		182,900
2016		55,833
2017		-
		<u>\$ 581,133</u>

Note 6 - Contributed Facilities

To provide a more realistic measurement of the cost of operations, the Association has recognized contributed facilities valued at \$184,000 in 2012. The amount represents the estimated rental value of office space donated by the City of Philadelphia to the Association and its related charitable organizations based on \$22 per square foot and subtracting the actual occupancy cost stated in Note 5.

The amount of contributed facilities recognized as income equals the amount expensed. Therefore there is no resultant effect on the change in net assets.

Note 7 - Collection Items

The Association's collections are made up of portraits of well-known judges and lawyers, other art objects and historic documents and autographs and are stated at the most recent appraisal value. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The Association has no immediate plans to sell any of its collection items.

Note 8 - Concentration of Credit Risk

The Association maintains cash accounts, which, at times, may exceed federally insured limits. As of December 31, 2012, cash balances in excess of insured limits were \$96,609. Also, the Association maintains temporary cash investments with Merrill Lynch. Accounts at this institution are not insured by the Federal Deposit Insurance Corporation. Uninsured risk at December 31, 2012 was \$875,556. The Association has not experienced any losses from maintaining cash accounts which are not insured or are in excess of federally insured limits. Management believes that it is not exposed to any significant credit risk on its cash accounts.

Note 9 - Prior Year Information

Certain financial statements contained herein include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

Note 10 - Fair Value Measurements

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at December 31, 2012 are as follows:

Description	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other Observable Inputs (Level 2)	Significant other Unobservable Inputs (Level 3)
Equity:				
Health Care	\$ 121,140	\$ 121,140	\$ -	\$ -
Consumer Staples	95,422	95,422	-	-
Information Technology	179,316	179,316	-	-
Consumer Discretionary	91,870	91,870	-	-
Industrials	83,541	83,541	-	-
Materials	32,626	32,626	-	-
Financials	117,556	117,556	-	-
Telecommunication Services	22,320	22,320	-	-
Utilities	16,200	16,200	-	-
Energy	81,180	81,180	-	-
Fixed Income				
Long Term Bond	151,094	-	151,094	-
Intermediate Term Bond	41,418	-	41,418	-
Short Term Bond	602,906	-	602,906	-
Collection Items	<u>1,733,500</u>	-	-	<u>1,733,500</u>
Total assets measured at fair value	<u>\$ 3,370,089</u>	<u>\$ 841,171</u>	<u>\$ 795,418</u>	<u>\$ 1,733,500</u>

Note 11 - Functional Expenses

Functional expenses have been summarized as of December 31, 2012 as follows:

Member program services	\$ 3,236,310
Management and general	1,667,190
Fundraising	-
	<u>\$ 4,903,500</u>

Note 12 - Evaluation of Subsequent Events

The Organization has evaluated subsequent events through March 28, 2013, the date which the financial statements were available to be issued. No items were noted which require disclosure in the financial statements.