

**PHILADELPHIA BAR
ASSOCIATION**

Financial Statements

December 31, 2017 and 2016

**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

PHILADELPHIA BAR ASSOCIATION
December 31, 2017 and 2016

CONTENTS

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Statements of Financial Position	1
Statements of Activities	2
Statements of Cash Flows	3
Notes to Financial Statements	4-10

Independent Auditors' Report

The Board of Governors
Philadelphia Bar Association
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of the Philadelphia Bar Association, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Accountants' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philadelphia Bar Association as of December 31, 2017 and 2016, 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.

Kreischer Miller

Horsham, Pennsylvania
April 2, 2018

THE PHILADELPHIA BAR ASSOCIATION

Statements of Financial Position December 31, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 537,716	\$ 609,752
Accounts receivable	142,757	115,437
Prepaid expenses	174,660	163,349
Due from Philadelphia Bar Foundation	46,879	24,909
Investments	2,483,173	2,539,450
Total current assets	3,385,185	3,452,897
Property and equipment	150,013	153,787
	<u>\$ 3,535,198</u>	<u>\$ 3,606,684</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 145,529	\$ 323,705
Accrued expenses	228,325	250,349
Deferred membership dues	126,029	204,272
Total current liabilities	499,883	778,326
Unrestricted net assets:		
Undesignated	2,874,155	2,688,400
Section funds	161,160	139,958
Total net assets	3,035,315	2,828,358
Total liabilities and net assets	<u>\$ 3,535,198</u>	<u>\$ 3,606,684</u>

See accompanying notes to financial statements.

THE PHILADELPHIA BAR ASSOCIATION

Statements of Activities For the Years Ended December 31, 2017 and 2016

	2017	2016
Support and revenue:		
Membership dues	\$ 1,920,951	\$ 1,998,618
Lawyer referral service	388,293	620,556
Education programs	132,828	150,201
CLE programs	466,318	420,510
Publications	100,000	100,000
Interest and dividends	74,648	67,487
Realized/unrealized gain on investments	339,202	93,251
Royalty income	645,000	842,500
Meetings and events	98,807	72,918
Contributed facilities	195,000	171,867
Other income	300,043	269,536
	<hr/>	<hr/>
Total support and revenue	4,661,090	4,807,444
	<hr/>	<hr/>
Expenses:		
Employee salaries and benefits	2,347,466	2,709,992
Office and administration	654,631	633,288
Contributed facilities	195,000	171,867
Other member services	306,791	305,985
Meetings and events	162,831	160,412
Education programs	185,513	216,965
CLE programs	309,953	285,809
Contributions	100,000	100,000
Communications	37,978	28,386
Lawyer referral service	85,656	85,164
Committee activities	68,314	27,193
	<hr/>	<hr/>
Total expenses	4,454,133	4,725,061
	<hr/>	<hr/>
Change in net assets	206,957	82,383
	<hr/>	<hr/>
Net assets, beginning of year	2,828,358	2,745,975
	<hr/>	<hr/>
Net assets, end of year	\$ 3,035,315	\$ 2,828,358
	<hr/>	<hr/>

See accompanying notes to financial statements.

THE PHILADELPHIA BAR ASSOCIATION

Statements of Cash Flows Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 206,957	\$ 82,383
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	91,353	100,667
Realized/unrealized gain on investment	(339,202)	(93,251)
(Increase) decrease in:		
Accounts receivable	(27,320)	2,710
Prepaid expenses	(11,311)	66,000
Due from Philadelphia Bar Foundation	(21,970)	5,131
Increase (decrease) in:		
Accounts payable	(178,176)	136,458
Accrued expenses	(22,024)	7,248
Deferred membership dues	(78,243)	80,673
Net cash provided by (used in) operating activities	(379,936)	388,019
Cash flows from investing activities:		
Purchase of property and equipment	(87,579)	(78,570)
Purchase of investments	(849,438)	(368,263)
Proceeds from sale of investments	1,244,917	32,955
Net cash provided by (used in) investing activities	307,900	(413,878)
Net decrease in cash and cash equivalents	(72,036)	(25,859)
Cash and cash equivalents, beginning of year	609,752	635,611
Cash and cash equivalents, end of year	\$ 537,716	\$ 609,752

See accompanying notes to financial statements.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(1) Nature of Organization

The Philadelphia Bar Association (the Association), founded in 1802, is America's oldest continuing chartered bar association. The Association's purpose is 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.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Association prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for Not-for-Profit Organizations. The significant accounting and reporting policies used by the Association are described subsequently to enhance the usefulness and understandability of the financial statements.

Financial Statement of Presentation

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 unrestricted net assets that consist of Association funds and Section funds.

Sections are specialty groups with the Association that focus on unique areas of law or business. The net assets that have been designated by the Board of Governors' represent resources available for use by the following Sections:

- 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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Continued...

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Accounts Receivable

Accounts receivable are stated at the amount the Association expects to collect. Management reviews substantially all older receivable balances and determines which of those, in whole or in part, are uncollectible. Management believes it is not exposed to significant credit risk and considers accounts receivable to be fully collectable at December 31, 2017 and 2016; accordingly, no allowances for uncollectability are deemed necessary.

Investments

Investments are recorded at fair value in the statements of financial position. Changes in fair value, realized gains and losses, interest and dividends earned on investments are recognized in the statements of activities.

Property and Equipment

Property and equipment are recorded at cost. Items with a cost of over \$1,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. Useful lives range from three to five years for website design, furniture and equipment. Expenditures for normal maintenance and repairs are expensed as incurred.

Revenue Recognition

Revenue from membership dues are deferred and recognized over the term of the related membership period. Dues are renewed annually based on a calendar year membership period. CLE program revenues are recognized when the course or program is held. Royalty income is recognized at a fixed rate over the term of the agreement for the Association's endorsement of certain insurance plan options made available to its members.

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Association with events and programs. The value of this contributed time is not reflected in these financial statements because the criteria for recognition has not been satisfied.

Income Taxes

The Association is exempt from federal and state income taxes under Section 501(c)(6) of the Internal Revenue Code and, therefore, no provision for income taxes is included in the accompanying financial statements.

Continued...

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

The Association files Federal Form 990. With few exceptions, the Association is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for the years before 2014. It is difficult to predict the final timing and resolution of any particular uncertain tax position. Management regularly evaluates its tax positions with regard to issues affecting its exempt status; the Association does not currently anticipate significant changes in its uncertain tax position over the next 12 months.

Concentration of Risk

Financial instruments that potentially subject the Association to a concentration of credit risk consist principally of cash and cash equivalents, investments and accounts receivable. The Association places its cash and temporary cash investments with financial institutions and, at times, such cash balances may be in excess of the FDIC insurance limits. The Association has not experienced any losses from maintaining cash accounts which are not insured or are in excess of federally insured limits.

The Association uses an external investment advisory firm which, in conjunction with the Finance Committee, is responsible for the prudent management of the Association's investment portfolio. Through the use of a globally diversified investment strategy, the primary investment objectives of the Association are 1) to grow the assets of the investment portfolio at a rate that is greater than the rate of inflation and 2) to provide cash flow on occasion and at the discretion of the Association to supplement the general fund. With the approval of the Board of Governors, the Association may also draw principal from this account from time to time in order to maintain operations and meet financial commitments of the Association.

The Association invests in various investments securities which are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amount reported on the statements of financial position.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Continued...

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements

In August 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*; which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and additional disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for the Association's year ending December 31, 2018, with early adoption permitted. The Association has not adopted this guidance for 2017 and is currently evaluating the impact of adoption.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which updates the accounting guidance for leases. FASB ASU 2016-02 improves transparency and comparability among companies by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. FASB ASU 2016-02 is effective for fiscal year ending December 31, 2020, with early application permitted. The Association has not adopted this guidance for 2017 and is currently evaluating the impact of adoption.

Subsequent Events

The Association has evaluated subsequent events through April 2, 2018, the date the financial statements were available to be issued.

(3) Fair Value Measurements

FASB *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Continued...

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(3) Fair Value Measurements, Continued

There has been no change in the methodologies used at December 31, 2017 and 2016. Following is a description of the valuation methodologies used for assets measured at fair value.

Description	Assets at Fair Value as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
Cash and equivalents	\$ 25,709	\$ 25,709	\$ -	\$ -
Corporate bonds	390,814	-	390,814	-
Government and agency securities	89,456	-	89,456	-
Equities	1,977,194	1,977,194	-	-
Total assets at fair value	\$ 2,483,173	\$ 2,002,903	\$ 480,270	\$ -

Description	Assets at Fair Value as of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Cash and equivalents	\$ 66,358	\$ 66,358	\$ -	\$ -
Corporate bonds	344,982	-	344,982	-
Government and agency securities	112,274	-	112,274	-
Equities	2,015,836	2,015,836	-	-
Total assets at fair value	\$ 2,539,450	\$ 2,082,194	\$ 457,256	\$ -

Corporate bonds, government and agency securities are traded or based on the yields of comparable securities with similar terms. Equity securities are valued at the closing price reported in active open markets.

(4) Property and Equipment

Property and equipment consist of the following at December 31:

	2017	2016
Furniture and equipment	\$ 134,641	\$ 100,085
Website	252,610	323,634
	387,251	423,719
Accumulated depreciation	(237,238)	(269,932)
	\$ 150,013	\$ 153,787

Depreciation expense was \$91,353 and \$100,667 for the years ended December 31, 2017 and 2016, respectively.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(5) Related Parties

The Association provides facilities and support services to the Philadelphia Bar Foundation, a related party to the Association. The total amount of facilities and services provided to the Foundation for the years ended December 31, 2017 and 2016 was \$18,795 and \$25,021, respectively. In addition, the Association provides payroll services and other administrative costs on behalf of the Foundation. Amounts receivable from the Foundation at December 31, 2017 and 2016 are \$46,879 and \$24,909, respectively.

(6) Pension Plan

The Association has a noncontributory defined contribution pension plan which covers all employees of the Association who have reached the age of 21 and are credited with one-year of service. Under the terms of the plan and depending on years of service, 8.5%, 10% or 13% of the participating employees' compensation is contributed by the Association. Employer contributions to the plan for the years ended December 31, 2017 and 2016 were \$177,988 and \$198,401, respectively.

(7) Facility Lease Agreement

Effective September 1, 2016 and extending through August 31, 2031, the Association and the City of Philadelphia (the City) agreed to amend its existing occupancy agreement for approximately 15,600 square feet of space located at 1101 Market Street. Under the terms of the amendment, the City will pay a portion of rent and operating expenses associated with the current facility.

Per the terms of this agreement, for the years ended December 31, 2017 and 2016, the Association paid \$165,410 and \$180,970, respectively, to the City for its portion of the rent and operating expenses of the facility.

Future minimum lease payments under this agreement are as follows:

Year Ending December 31,	Amount
2018	\$ 165,410
2019	\$ 165,410
2020	\$ 165,410
2021	\$ 165,410
2022	\$ 165,410
Thereafter	\$ 1,433,553

Continued...

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2017 and 2016

(7) Facility Lease Agreement, Continued

To provide a more realistic measurement of the cost of operations, the Association has recognized contributed facilities valued at \$195,000 and \$171,867 in 2017 and 2016, respectively. The amount represents the estimated rental value of the portion of office space contributed to the Association by the City based on a fair value of \$23 per square foot and adjusted by the amount the Association paid to the City as noted above.

The contributed facilities and related facility expense are recognized in the accompanying statements of activities.

(8) Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the member programs and management and general services benefited.

Functional expenses have been summarized as follows at December 31:

	2017	2016
Member program services	\$ 3,117,893	\$ 3,307,543
Management and general	1,336,240	1,417,518
	<u>\$ 4,454,133</u>	<u>\$ 4,725,061</u>