

DAVID G. FAW

CERTIFIED PUBLIC

ACCOUNTANT

PHILADELPHIA BAR ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2011

**PHILADELPHIA BAR ASSOCIATION
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For the year ended December 31, 2011**

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ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors
Philadelphia Bar Association
Philadelphia, Pennsylvania

I have audited the accompanying statement of financial position of the Philadelphia Bar Association (a nonprofit corporation) as of December 31, 2011 and the related statements of activities, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior-year summarized comparative information has been derived from the Organization's December 31, 2010 financial statements and, in my report dated March 31, 2011, I expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Certified Public Accountant
March 20, 2012

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF FINANCIAL POSITION
December 31, 2011
(with comparative totals as of December 31, 2010)

	2011	2010
<u>Assets</u>		
Cash and equivalents	\$ 754,348	\$ 1,007,572
Accounts receivable	71,362	156,108
Investments	1,735,450	997,649
Due from Philadelphia Bar Foundation	41,438	25,806
Prepaid expenses	237,187	309,631
Property and equipment	191,872	155,082
Collection items	1,733,500	1,733,500
Total assets	\$ 4,765,157	\$ 4,385,348
 <u>Liabilities</u>		
Accounts payable and accrued expenses	\$ 392,706	\$ 389,026
Deferred membership dues	293,879	155,240
Total liabilities	686,585	544,266
 <u>Net assets</u>		
<u>Unrestricted</u>		
Section funds	169,141	172,988
General membership fund	1,880,552	1,660,914
Contingency funds	2,028,879	2,007,180
Total net assets	4,078,572	3,841,082
Total liabilities and net assets	\$ 4,765,157	\$ 4,385,348

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

PHILADELPHIA BAR ASSOCIATION
STATEMENT OF ACTIVITIES
For the year ended December 31, 2011
(with comparative totals for the year ended December 31, 2010)

	<u>Unrestricted</u>			Total 2011	Total 2010
	<u>Sections</u>	<u>General Membership</u>	<u>Contingency</u>		
<u>Support and revenue</u>					
Membership dues	\$ 76,899	\$ 2,192,094	\$ -	\$ 2,268,993	\$ 2,419,015
Lawyer referral service	-	923,370	-	923,370	710,114
Education programs	118,503	-	-	118,503	124,079
Publications	-	305,000	-	305,000	290,000
Interest and dividends	-	15,652	19,029	34,681	41,099
(Loss) gain on investments	-	(11,081)	-	(11,081)	82,504
Royalty income	-	645,000	-	645,000	545,000
Special events	-	314,238	-	314,238	250,585
Contributed facilities	-	200,000	-	200,000	200,000
Other income	-	407,198	-	407,198	291,164
	<u>195,402</u>	<u>4,991,471</u>	<u>19,029</u>	<u>5,205,902</u>	<u>4,953,560</u>
<u>Expenses</u>					
Employee salaries and benefits	-	2,543,931	-	2,543,931	2,589,965
Office and administration	-	899,031	-	899,031	855,387
Contributed facilities	-	200,000	-	200,000	200,000
Other member services	-	330,848	-	330,848	311,915
Meeting services and special events	-	498,656	-	498,656	469,179
Education programs	199,249	-	-	199,249	183,969
Contributions	-	125,000	-	125,000	125,000
Communications	-	32,456	-	32,456	32,780
Lawyer referral service	-	95,602	-	95,602	85,602
Committee activities	-	43,639	-	43,639	40,858
Total expenses	<u>199,249</u>	<u>4,769,163</u>	<u>-</u>	<u>4,968,412</u>	<u>4,894,655</u>
Change in net assets	<u>\$ (3,847)</u>	<u>\$ 222,308</u>	<u>\$ 19,029</u>	<u>\$ 237,490</u>	<u>\$ 58,905</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, 2011
(with comparative totals for the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 237,490	\$ 58,905
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	103,993	106,693
Loss (gain) on investment	11,081	(82,504)
Changes in assets and liabilities:		
Prepaid expenses	72,444	8,468
Related party and other receivables	69,114	(98,544)
Accounts payable and accrued expenses	3,680	(75,031)
Deferred membership dues	<u>138,639</u>	<u>76,187</u>
Net cash provided by (used in) operating activities	<u>636,441</u>	<u>(5,826)</u>
<u>Cash flows from investing activities</u>		
Purchase of equipment	(140,783)	(109,499)
Purchases of marketable securities	(1,646,606)	(540,537)
Sales of marketable securities	<u>897,724</u>	<u>502,762</u>
Net cash used in investing activities	<u>(889,665)</u>	<u>(147,274)</u>
Decrease in cash and equivalents	(253,224)	(153,100)
Cash and equivalents at beginning of year	<u>1,007,572</u>	<u>1,160,672</u>
Cash and equivalents at end of year	<u>\$ 754,348</u>	<u>\$ 1,007,572</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

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, 2011
(with comparative totals for the year ended December 31, 2010)

	<u>Unrestricted</u>			<u>Total</u>
	<u>Sections</u>	<u>General Membership</u>	<u>Contingency</u>	
Balances, January 1, 2010	\$ 153,139	\$ 1,595,564	\$ 2,033,474	\$ 3,782,177
Change in net assets	19,849	20,887	18,169	58,905
Net asset transfers during year	-	44,463	(44,463)	-
Balances, December 31, 2010	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	<u>\$ 169,141</u>	<u>\$ 1,880,552</u>	<u>\$ 2,028,879</u>	<u>\$ 4,078,572</u>

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

**PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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, 2011

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.

Compensated Absences

The Association has a policy of compensating personnel who leave the employ of the Association for unused vacation time. It has been the policy not to reflect this contingent liability in the financial statements. The Association estimates that its liability for compensable vacation time amounted to approximately \$66,111 as of December 31, 2011.

Income Taxes

The Association is a not-for-profit corporation and has been recognized as exempt from federal income taxes under Section 501 (c) (3) 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, 2011, 2010 and 2009 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 following methods and assumptions were used by the Association in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, accounts receivable, payables, accruals and deferred revenue: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

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.

**PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Leasehold Improvements, Office Equipment, Furniture and Fixtures

Leasehold improvements, office equipment, and furniture and fixtures are stated at cost less accumulated depreciation of \$258,271 at December 31, 2011. 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: leasehold improvements - 30 years; 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 12/31/10</u>	<u>Depreciation Year end 12/31/11</u>	<u>Net book Value 12/31/11</u>
Equipment and Furniture	<u>\$ 450,143</u>	<u>\$ 154,278</u>	<u>\$ 103,993</u>	<u>\$ 191,872</u>

Allowance for Doubtful Accounts Receivable

The Association recognizes doubtful accounts receivable by the use of the specific write-off method. Under this approach, an account is written off at the time it is definitely determined to be uncollectible. All accounts that were doubtful of collection as of December 31, 2011 have been written off.

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 2011.

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 \$178,716 in 2011.

**PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

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. 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, \$151,700 has been reflected in occupancy expense for the year ended December 31, 2011.

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

December 31, 2012	\$ 159,500
2013	167,300
2014	175,100
2015	182,900
2016	<u>55,833</u>
	<u>\$ 740,633</u>

Note 6 - Contributed Facilities

To provide a more realistic measurement of the cost of operations, the Association has recognized contributed facilities valued at \$200,000 in 2011. 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 - Commitments and Contingencies

Effective beginning May 1, 2008, the Association entered into a four year facilities management agreement with a local company for reproduction and mailroom services. Certain specified leases in the name of the Association have been assumed by the service provider, as have all related maintenance contracts. The fees for equipment, maintenance and other services totaled \$97,841.

Note 8 - 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.

**PHILADELPHIA BAR ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

Note 9 - 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, 2011 are as follows:

<u>Description</u>	<u>Assets Measured at Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant other Observable Inputs (Level 2)</u>	<u>Significant other Unobservable Inputs (Level 3)</u>
Mutual Funds:				
Equity	\$ 213,350	\$ 213,350	\$ -	\$ -
Fixed Income	111,606	111,606	-	-
U.S. Treasury Notes	26,290	26,290	-	-
U.S. Treasury Bonds	19,156	19,156	-	-
Corporate Bonds	86,104	86,104	-	-
Equities	532,475	532,475	-	-
Certificates of Deposit	746,469	-	746,469	-
Collection Items	<u>1,733,500</u>	<u>-</u>	<u>-</u>	<u>1,733,500</u>
Total assets measured at fair value	<u>\$ 3,468,950</u>	<u>\$ 988,981</u>	<u>\$ 746,469</u>	<u>\$ 1,733,500</u>

Note 10 - Concentration of Credit Risk

The Association maintains cash accounts, which, at times, may exceed federally insured limits. As of December 31, 2011, cash balances in excess of insured limits were \$268,508. 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, 2011 was \$1,090,670. 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 11 - 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, 2010, from which the summarized information was derived.

Note 12 - Evaluation of Subsequent Events

The Organization has evaluated subsequent events through March 20, 2012, the date which the financial statements were available to be issued. No items were noted which require disclosure in the financial statements.