

**PHILADELPHIA BAR
ASSOCIATION**

Financial Statements

December 31, 2015 and 2014

**Kreischer
Miller**

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PHILADELPHIA BAR ASSOCIATION
December 31, 2015 and 2014

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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 statement of financial position as of December 31, 2015 and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matter

The financial statements of Philadelphia Bar Association for the year ended December 31, 2014 were audited by another auditor whose report dated March 26, 2015 expressed an unmodified opinion on those statements.

Kreischer Miller

Horsham, Pennsylvania
September 30, 2016

PHILADELPHIA BAR ASSOCIATION

Statements of Financial Position December 31, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 635,611	\$ 409,637
Accounts receivable	118,147	95,686
Prepaid expenses	229,349	243,861
Due from Philadelphia Bar Foundation	30,040	51,376
Investments	2,110,891	1,981,447
Total current assets	3,124,038	2,782,007
Other assets:		
Property and equipment	175,884	160,287
Collection items	-	1,683,500
Total assets	\$ 3,299,922	\$ 4,625,794
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 187,247	\$ 217,263
Accrued expenses	243,101	260,557
Deferred membership dues	123,599	182,992
Total current liabilities	553,947	660,812
Unrestricted net assets:		
Undesignated	2,614,335	3,828,730
Section funds	131,640	136,252
Total net assets	2,745,975	3,964,982
Total liabilities and net assets	\$ 3,299,922	\$ 4,625,794

See accompanying notes to financial statements.

THE PHILADELPHIA BAR ASSOCIATION

Statements of Activities

For the Years Ended December 31, 2015 and 2014

	2015	2014
Support and revenue:		
Membership dues	\$ 2,019,558	\$ 2,133,183
Lawyer referral service	499,071	631,429
Education programs	144,904	138,350
Publications	100,000	59,431
Interest and dividends	45,455	35,990
Realized/unrealized (loss) gain on investments	(35,459)	78,364
Royalty income	940,000	915,000
Meetings and events	274,814	368,066
Contributed facilities	177,830	168,100
Other income	279,599	272,887
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Total support and revenue	4,445,772	4,800,800
	<hr/>	<hr/>
Expenses:		
Employee salaries and benefits	2,550,132	2,586,678
Office and administration	669,150	775,393
Contributed facilities	177,830	168,100
Other member services	325,225	298,468
Meetings and events	423,837	497,744
Education programs	225,793	250,743
Contributions	100,000	100,000
Communications	37,506	21,981
Lawyer referral service	75,259	110,971
Committee activities	49,047	36,157
	<hr/>	<hr/>
Total expenses	4,633,779	4,846,235
	<hr/>	<hr/>
Change in net assets prior to impairment loss on collections	(188,007)	(45,435)
Impairment loss on collection items	(1,031,000)	(50,000)
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Change in net assets	(1,219,007)	(95,435)
Net assets, beginning of year	3,964,982	4,060,417
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Net assets, end of year	\$ 2,745,975	\$ 3,964,982
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See accompanying notes to financial statements.

PHILADELPHIA BAR ASSOCIATION

Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (1,219,007)	\$ (95,435)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	106,849	106,179
Realized/unrealized loss (gain) on investment	35,459	(78,364)
Impairment loss on collection items	1,031,000	50,000
Proceeds from sale of collection item	652,500	-
(Increase) decrease in:		
Accounts receivable	(22,461)	(52,448)
Prepaid expenses	14,512	(26,423)
Due from Philadelphia Bar Foundation	21,336	(70,894)
Increase (decrease) in:		
Accounts payable	(30,016)	58,385
Accrued expenses	(17,456)	(8,745)
Deferred membership dues	(59,393)	(190,739)
Net cash provided by (used in) operating activities	513,323	(308,484)
Cash flows from investing activities:		
Purchase of property and equipment	(122,446)	(98,655)
Purchase of investments	(973,195)	(1,709,798)
Proceeds from sale of investments	808,292	1,927,335
Net cash (used in) provided by investing activities	(287,349)	118,882
Net increase (decrease) in cash and cash equivalents	225,974	(189,602)
Cash and cash equivalents, beginning of year	409,637	599,239
Cash and cash equivalents, end of year	\$ 635,611	\$ 409,637

See accompanying notes to financial statements.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(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 a unique area 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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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.

Impairment of Collection Items

The Association's collection items consisted of several paintings, a portrait collection and some historical documents. During 2015, the Association sold one painting for \$652,500, net of fees, and determined that the fair value of the remaining collection was impaired. For the years ended December 31, 2015 and 2014 an impairment loss of \$1,031,000 and \$50,000, respectively, on the collection is reported in the accompanying statements of activities.

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.

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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(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 2012. 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 Trustees, 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.

Accounts receivable are stated at the amount the Association expects to collect. Management reviews substantially all older receivable balances and determining 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, 2015 and 2014; accordingly, no allowances for uncollectability are deemed necessary. Approximately 73% of the Association's accounts receivable are derived from one corporation.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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.

Reclassifications

Certain 2014 amounts have been reclassified in order to conform to the current year presentation.

Subsequent Events

The Association has evaluated subsequent events through September 30, 2016, the date the financial statements were available to be issued.

(3) Fair Value Measurements

Financial Accounting Standards Board (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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(3) Fair Value Measurements, Continued

There have been no change in the methodologies used at December 31, 2015 and 2014. Following is a description of the valuation methodologies used for assets measured at fair value.

Description	Assets at Fair Value as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Corporate bonds	\$ 309,003	\$ -	\$ 309,003	\$ -
Government and agency securities	84,169	-	84,169	-
Equity	1,717,719	1,717,719	-	-
Total assets at fair value	\$ 2,110,891	\$ 1,717,719	\$ 393,172	\$ -

Description	Assets at Fair Value as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
Corporate bonds	881,184	-	881,184	-
Equity	1,100,263	1,100,263	-	-
Total assets at fair value	\$ 1,981,447	\$ 1,100,263	\$ 881,184	\$ -

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:

	2015	2014
Furniture and equipment	\$ 86,062	\$ 81,096
Website	354,254	368,490
	440,316	449,586
Accumulated depreciation	(264,432)	(289,299)
	\$ 175,884	\$ 160,287

Depreciation expense was \$106,849 and 106,179 for the years ended December 31, 2015 and 2014, respectively.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2015 and 2014

(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 year ended December 31, 2015 and 2014 was \$271,779 and \$228,235, respectively. The amount due to the Association from the Foundation at December 31, 2015 and 2014 is \$30,040 and \$51,376, 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, 2015 and 2014 were \$180,532 and \$184,215 respectively.

(7) Facility Lease Agreement

Effective July 1, 2009 and extending through August 31, 2016, 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 the above agreement, for the years ended December 31, 2015 and 2014, the Association paid \$182,900 and \$175,100, respectively, to the City for its portion of the rent and operating expenses of the facility.

Effective September 1, 2016, the Association agreed to amend its sublease agreement with the City through August 31, 2031. Future minimum lease payments under this agreement are as follows:

Year Ending December 31,	Amount
2016	\$ 180,970
2017	\$ 165,410
2018	\$ 165,410
2019	\$ 165,410
2020	\$ 165,410
Thereafter	\$ 1,778,158

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**Notes to Financial Statements
December 31, 2015 and 2014**

(7) Facility Lease Agreement, Continued

To provide a more realistic measurement of the cost of operations, the Association has recognized contributed facilities valued at \$177,830 and \$168,100 in 2015 and 2014, 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 is 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 programs and management and general services benefited.

Functional expenses have been summarized as follows at December 31:

	2015	2014
Member program services	\$ 3,243,645	\$ 3,392,365
Management and general	1,390,134	1,453,870
	<u>\$ 4,633,779</u>	<u>\$ 4,846,235</u>

(9) New Program Offering

Effective February 2016, the Association became a statewide Continuing Legal Education (CLE) provider in Pennsylvania, Delaware and New Jersey offering CLE courses to lawyers and members of the business and legal communities throughout the region.