

PHILADELPHIA BAR ASSOCIATION

Financial Statements

December 31, 2018 and 2017

Kreischer
Miller

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PHILADELPHIA BAR ASSOCIATION
December 31, 2018 and 2017

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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses 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 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Philadelphia Bar Association adopted new accounting guidance in 2018 related to the presentation of financial statements for not-for-profit entities. Prior year disclosures have also been revised to reflect the retrospective application of adopting these changes in accounting. Our opinion is not modified with respect to this matter.

Kreischer Miller

Horsham, Pennsylvania
March 29, 2019

THE PHILADELPHIA BAR ASSOCIATION

Statements of Financial Position December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 524,537	\$ 537,716
Accounts receivable	145,746	142,757
Prepaid expenses	136,747	174,660
Due from Philadelphia Bar Foundation	39,631	46,879
Investments	2,159,544	2,483,173
Total current assets	3,006,205	3,385,185
Property and equipment	21,988	150,013
	<u>\$ 3,028,193</u>	<u>\$ 3,535,198</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 124,953	\$ 145,529
Accrued expenses	187,177	228,325
Deferred membership dues	130,176	126,029
Total current liabilities	442,306	499,883
Net assets:		
Without donor restrictions		
Undesignated	2,431,991	2,874,155
Section funds	153,896	161,160
Total net assets	2,585,887	3,035,315
Total liabilities and net assets	<u>\$ 3,028,193</u>	<u>\$ 3,535,198</u>

See accompanying notes to financial statements.

THE PHILADELPHIA BAR ASSOCIATION

Statements of Activities

For the Years Ended December 31, 2018 and 2017

	2018	2017
Support and revenue:		
Membership dues	\$ 1,887,736	\$ 1,920,951
Lawyer referral service	404,225	388,293
Education programs	164,140	145,868
CLE programs	245,885	259,808
Publications	100,000	100,000
Net investment return	(114,752)	413,850
Royalty income	375,000	645,000
Meetings and events	284,105	305,317
Contributed facilities	195,000	195,000
Other income	221,720	287,003
	<hr/>	<hr/>
Total support and revenue	3,763,059	4,661,090
	<hr/>	<hr/>
Expenses:		
Member program services	2,025,549	2,301,103
Management and general	1,338,671	1,199,381
Membership development	945,541	953,649
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Total expenses	4,309,761	4,454,133
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Change in net assets prior to other income (expenses)	(546,702)	206,957
Gain on sale of collection items, net of fees	146,885	-
Impairment of website-related assets	(49,611)	-
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Change in net assets	(449,428)	206,957
Net assets, beginning of year	3,035,315	2,828,358
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Net assets, end of year	\$ 2,585,887	\$ 3,035,315
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See accompanying notes to financial statements.

THE PHILADELPHIA BAR ASSOCIATION

Statements of Functional Expenses
 Years Ended December 31, 2018 and 2017

	2018			Total
	Member Program Services	Management and General	Membership Development	
Employee salaries and benefits	\$ 1,028,052	\$ 677,395	\$ 478,463	\$ 2,183,910
Office and administration	320,799	212,669	150,214	683,682
Contributed facilities	91,498	60,658	42,844	195,000
Other member services	142,594	94,531	66,770	303,895
Meetings and events	154,497	102,421	72,343	329,261
Education programs	103,882	68,867	48,643	221,392
CLE programs	72,481	48,050	33,939	154,470
Contributions	46,922	31,106	21,972	100,000
Communications	5,111	3,388	2,393	10,892
Lawyer referral service	37,910	25,132	17,751	80,793
Committee activities	21,803	14,454	10,209	46,466
	<u>\$ 2,025,549</u>	<u>\$ 1,338,671</u>	<u>\$ 945,541</u>	<u>\$ 4,309,761</u>

	2017			
	Member Program Services	Management and General	Membership Development	Total
Employee salaries and benefits	\$ 1,212,753	\$ 632,111	\$ 502,600	\$ 2,347,464
Office and administration	342,252	178,389	141,840	662,481
Contributed facilities	100,741	52,508	41,751	195,000
Other member services	150,498	78,442	62,371	291,311
Meetings and events	179,836	93,734	74,530	348,100
Education programs	105,368	54,920	43,668	203,956
CLE programs	72,598	37,840	30,087	140,525
Contributions	51,662	26,927	21,411	100,000
Communications	14,506	7,561	6,012	28,079
Lawyer referral service	45,149	23,533	18,711	87,393
Committee activities	25,740	13,416	10,668	49,824
	<u>\$ 2,301,103</u>	<u>\$ 1,199,381</u>	<u>\$ 953,649</u>	<u>\$ 4,454,133</u>

THE PHILADELPHIA BAR ASSOCIATION

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (449,428)	\$ 206,957
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	84,476	91,353
Realized/unrealized (gain) loss on investment	188,577	(339,202)
Impairment of website-related assets	49,611	-
Gain on sale of collection items, net of fees	(146,885)	-
(Increase) decrease in:		
Accounts receivable	(2,989)	(27,320)
Prepaid expenses	37,913	(11,311)
Due from Philadelphia Bar Foundation	7,248	(21,970)
Increase (decrease) in:		
Accounts payable	(13,851)	(178,176)
Accrued expenses	(41,148)	(22,024)
Deferred membership dues	4,147	(78,243)
Net cash used in operating activities	(282,329)	(379,936)
Cash flows from investing activities:		
Purchase of property and equipment	(6,062)	(87,579)
Purchase of investments	(1,467,327)	(849,438)
Proceeds from sale of collection items	140,160	-
Proceeds from sale of investments	1,602,379	1,244,917
Net cash provided by investing activities	269,150	307,900
Net decrease in cash and cash equivalents	(13,179)	(72,036)
Cash and cash equivalents, beginning of year	537,716	609,752
Cash and cash equivalents, end of year	\$ 524,537	\$ 537,716

See accompanying notes to financial statements.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(1) Nature of Organization

The Philadelphia Bar Association (the Association), founded in 1802, is America's oldest continuing chartered bar association. The mission of the Association is to serve the legal profession and the public by promoting justice, professional excellence and respect for the rule of law. In so doing, the Association strives to foster understanding of, involvement in and access to 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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The Association has only net assets without donor restrictions 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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(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, 2018 and 2017; accordingly, no allowances for uncollectability are deemed necessary.

Investments

Investments are recorded at fair value in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, net of external investment expenses.

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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

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.

The Association is required to file a *Return of Organization Exempt from Income Tax* (Form 990) with the Internal Revenue Service (IRS). In addition, the Association files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. The Association follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) (Topic-10), *Accounting for Income Taxes*, and management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the years ended December 31, 2018 and 2017, and accordingly, there is no liability for unrecognized benefits. The Association's filings are still open to examination by taxing authorities for fiscal years 2015 and later.

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.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses attributable to a specific functional area are reported as expenses of those functional areas. Certain costs that benefit multiple areas (indirect costs) have been allocated among the programs and supporting services consistently on the basis of time and effort.

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.

Recent Accounting Pronouncements

Financial Statement Presentation

In 2018, the Association implemented the requirements of the FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 requires certain changes to the presentation of financial statements of not-for-profit entities, including the addition of a statement of functional expenses and additional new disclosures. There was no material impact on the Association's reported total net assets, liabilities, net assets or change in net assets upon adoption of the new standard. ASU 2016-14 has been applied retrospectively to all periods presented.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which updates the accounting guidance on revenue recognition. This standard is intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements.

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides guidance to not-for-profit entities as they adopt FASB ASU 2014-09, *Revenue from Contracts with Customers*, specifically as it relates to grants and contracts. The new guidance applies to all entities that receive or make contributions, including business entities.

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Notes to Financial Statements December 31, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

Revenue Recognition, Continued

Both of the revenue recognition standards are effective for the Association's year ending December 31, 2019. The Association has not adopted this guidance for 2018 and is currently evaluating the impact of adoption on its financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, (Topic 842). ASU 2016.02 improves transparency and comparability among organizations by requiring recognition of lease assets and lease liabilities in the statement of financial position, except for leases with lease terms of 12 months or less. Lease assets represent the right to use the underlying asset for the lease term, and lease liabilities represent the liability to make lease payments. Organizations are also required to disclose key information about leasing arrangements. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2019, with early adoption permitted. The Association is currently evaluating the impact of adoption on its financial statements.

Reclassification

Certain items in the accompanying 2017 financial statements have been reclassified to conform to current year presentation.

Subsequent Events

The Association has evaluated subsequent events through March 29, 2019, the date the financial statements were available to be issued.

(3) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2018
Cash and cash equivalents	\$ 524,537
Accounts receivable	145,746
Investments	2,159,544
Due from Foundation	39,631
	<u>\$ 2,869,458</u>

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(3) Liquidity and Availability, Continued

As part of the Association's liquidity management, the Association structured a policy where by financial assets are available for general expenditures, liabilities and other obligations as they become due. The Association invests cash in excess of its daily requirement in short-term investments.

(4) Fair Value Measurements

FASB 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.

There has been no change in the methodologies used at December 31, 2018 and 2017. Following is a description of the valuation methodologies used for assets measured at fair value.

Description	Assets at Fair Value as of December 31, 2018			
	Total	Level 1	Level 2	Level 3
Cash and equivalents	\$ 58,405	\$ 58,405	\$ -	\$ -
Corporate bonds	382,120	-	382,120	-
Government and agency securities	88,992	-	88,992	-
Open end mutual funds/ETFs	342,082	342,082	-	-
Equities	1,287,945	1,287,945	-	-
Total assets at fair value	\$ 2,159,544	\$ 1,688,432	\$ 471,112	\$ -

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(4) Fair value Measurements, Continued

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	-
Open end mutual funds/ETFs	376,273	376,273	-	-
Equities	1,600,921	1,600,921	-	-
Total assets at fair value	<u>\$ 2,483,173</u>	<u>\$ 2,002,903</u>	<u>\$ 480,270</u>	<u>\$ -</u>

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

(5) Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017
Furniture and equipment	\$ 56,856	\$ 134,641
Website	190,255	252,610
	<u>247,111</u>	<u>387,251</u>
Accumulated depreciation	<u>(225,123)</u>	<u>(237,238)</u>
	<u>\$ 21,988</u>	<u>\$ 150,013</u>

For the year ended December 31, 2018, management recorded an impairment loss of \$49,611 in the statements of activities associated with various unused components of its website.

During 2018, the Association sold various collection items at auction consisting of paintings, portraits and other historical items. For the year ended December 31, 2018 a gain of \$146,885, net of fees, was recorded on the accompanying statements of activities. The collection items had a net book value of zero at the time of sale.

PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements December 31, 2018 and 2017

(6) 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, 2018 and 2017 was \$20,585 and \$18,795, 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, 2018 and 2017 are \$39,631 and \$46,879, respectively.

(7) 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, 2018 and 2017 were \$141,901 and \$177,988, respectively.

(8) 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, 2018 and 2017, the Association paid \$165,410 to the City for its portion of the rent and operating expenses of the facility.

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PHILADELPHIA BAR ASSOCIATION

Notes to Financial Statements
December 31, 2018 and 2017

(8) Facility Lease Agreement, Continued

Future minimum lease payments under this agreement are as follows:

Year Ending December 31,	Amount
2019	\$ 165,410
2020	\$ 165,410
2021	\$ 165,410
2022	\$ 165,410
2023	\$ 165,410
Thereafter	\$ 1,268,143

To provide a more realistic measurement of the cost of operations, the Association has recognized contributed facilities valued at \$195,000 in 2018 and 2017. 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.