

STATE BAR OF NEW MEXICO AND AFFILIATE  
Albuquerque, New Mexico

COMBINED FINANCIAL STATEMENTS  
December 31, 2012

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## **Independent Auditors' Report**

To the Board of Bar Commissioners  
State Bar of New Mexico and  
New Mexico State Bar Foundation  
Albuquerque, New Mexico

We have audited the accompanying combined financial statements of State Bar of New Mexico and New Mexico State Bar Foundation (collectively, the Organization), both not-for-profit corporations, which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined 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.

### **Auditors' 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 of America. 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 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, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012, 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 of America.

*CliftonLarsonAllen LLP*

Albuquerque, New Mexico  
June 26, 2013

**STATE BAR OF NEW MEXICO AND AFFILIATE  
COMBINED STATEMENT OF FINANCIAL POSITION  
December 31, 2012**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 1,373,790
Receivables, net:	
Grants	27,645
Program services/trade	85,464
Due from other organizations	25,639
Prepaid expenses and inventory	<u>58,609</u>
Total current assets	1,571,147

**BAR CENTER, net** 2,214,301

**FURNITURE AND EQUIPMENT, net** 309,772

**TOTAL ASSETS** \$ 4,095,220

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable and accrued expenses	\$ 336,606
Pass-through obligations	530,648
Deferred revenue	409,692
Current maturities of long-term debt	30,203
Obligations under capital leases - current portion	<u>40,361</u>
Total current liabilities	<u>1,347,510</u>

**LONG-TERM LIABILITIES**

Deferred lease incentive	70,991
Long-term debt - noncurrent portion	708,135
Obligations under capital leases - noncurrent portion	<u>183,385</u>
Total long-term liabilities	<u>962,511</u>

Total liabilities 2,310,021

**NET ASSETS**

Unrestricted	1,177,448
Temporarily restricted	<u>607,751</u>
Total net assets	<u>1,785,199</u>

**TOTAL LIABILITIES AND NET ASSETS** \$ 4,095,220

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

**STATE BAR OF NEW MEXICO AND AFFILIATE  
COMBINED STATEMENT OF ACTIVITIES  
Year Ended December 31, 2012**

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues, gains and public support:	
Member dues	\$ 1,737,589
Continuing Legal Education Fees	621,840
Publications	335,787
Grants	304,577
Administration fees	105,957
Contributions and other	128,143
Professional development center rental	111,973
Client protection fund	<u>111,648</u>
Total revenues, gains, and public support	<u>3,457,514</u>
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>42,583</u>
Total net assets released from restrictions	<u>42,583</u>
Total unrestricted revenues, gains and other support	<u>3,500,097</u>
Expenses:	
Administration	1,806,587
Continuing Legal Education	670,554
Publications	459,610
Legal Services to the Public	323,176
Membership services	302,101
Bar Center/PDC	274,840
Pro Hac Vice	156,547
Client Protection	147,430
Board of Bar Commissioners	105,611
Equal Access to Justice	89,105
Division and Committees	56,122
Sections	42,583
Mentorship Program	29,177
Young Lawyers Division	<u>2,289</u>
Total expenses	<u>4,465,732</u>
Decrease in unrestricted net assets	<u>(965,635)</u>

**CHANGES IN TEMPORARILY RESTRICTED  
NET ASSETS**

Practice area sections	59,402
Client protection fund	<u>120,000</u>
Temporarily restricted revenue	179,402
Net assets released from restrictions	<u>(42,583)</u>
Increase in temporarily restricted net assets	<u>136,819</u>
<b>CHANGE IN NET ASSETS</b>	(828,816)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,614,015</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,785,199</u>

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

**STATE BAR OF NEW MEXICO AND AFFILIATE  
COMBINED STATEMENT OF CASH FLOWS  
Years Ended December 31, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in unrestricted net assets	\$ (965,635)
Change in temporarily restricted net assets	<u>136,819</u>

Total change in net assets (828,816)

Adjustments to reconcile change in net assets to net cash used by operating activities:

Depreciation and amortization	194,072
Bad debt provision	6,007
Change in operating assets and liabilities:	
Receivables	(2,983)
Prepaid expenses and inventory	2,792
Pass-through obligations	145,313
Accounts payable and accrued expenses	97,336
Deferred lease incentive	70,991
Deferred revenue	<u>(304,600)</u>

Total adjustments 208,928

Net cash used by operating activities (619,888)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of furniture and equipment	<u>(291,730)</u>
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Net cash used in investing activities (291,730)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal payments on capital leases	(19,899)
Proceeds from capital lease	221,508
Principal payments on long-term debt	<u>(28,777)</u>

Net cash provided by financing activities 172,832

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (738,786)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 2,112,576

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 1,373,790

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Interest paid	<u>\$ 37,714</u>
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The accompanying notes are an integral part of the financial statements.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

State Bar of New Mexico (State Bar) was incorporated under the laws of the State of New Mexico in 1978. Prior to 1978, State Bar operated as an agency of the Supreme Court of New Mexico, established by State Statute on March 17, 1925. The purposes of State Bar are to aid the courts in administering justice and preserving the rule of law and to foster a high standard of integrity and competence within the legal profession. State Bar's activities include collection of dues; publications, including a *Bar Bulletin* and a *Bar Directory*; and development and promotion of programs for the membership and the public, such as annual meeting, membership programs, public legal education and information, lawyer referral, and technology.

New Mexico State Bar Foundation (the Foundation) started business as of January 1, 1991, and was incorporated under the laws of the State of New Mexico on February 18, 1991. The Foundation and State Bar are governed by an interlocking board of directors, whereby all the director positions of the Foundation's board must concurrently be serving as a director on the board of State Bar, and the two organizations are financially interrelated. Therefore, as State Bar has a controlling financial interest in the Foundation, their financial statements have been combined as required by accounting principles generally accepted in the United States of America, collectively referred to as the Organization. Significant intercompany accounts and transactions are eliminated in consolidation.

The purposes of the Foundation are to provide high quality, affordable, professional training and education programs and services primarily to the New Mexico legal community. Additionally, the Foundation sponsors, promotes, and assists social welfare projects and programs for the benefit and well-being of persons in the State of New Mexico, including projects and programs for the family, the elderly and the youth of New Mexico. Such projects and programs may, but are not required to, relate to legal services for needy and elderly persons and victims of neglect. The Foundation's educational services also include producing live seminars, live legal educational teleconferences and audio/video recording, as well as providing customized programs for local bar associations, law firms and other professional organizations to meet special training needs.

The Foundation is organized exclusively for charitable and educational purposes, including making distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code of 1986 (or any corresponding future United States Internal Revenue Code revision).

**Programs of State Bar**

State Bar's principal programs are comprised of:

**Communications** - Publishes a weekly *Bar Bulletin*, and the annual *Bench and Bar Directory* for State Bar members and other interested individuals and subscribers. Communications also manages public legal education programs and publications, produces public legal information pamphlets and handles printing/production jobs for internal and outside entities.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

**Programs of State Bar (continued)**

**Membership Programs and Services** - Services offered by State Bar to its membership include:

Affinity Program - Vendors participating in the State Bar's Affinity Program provide savings on products and services to members. Companies offering discounts on insurance, financial services, travel and office supplies, to name a few, participate.

Annual Meeting - The State Bar and Continuing Legal Education collaborate on putting the Annual Meeting together. The State Bar will present awards to recognize those who have distinguished themselves or who have made exemplary contributions to the State Bar.

Committees - Standing committees that plan and support special membership programs and benefits.

Divisions - Young Lawyers Division, Senior Lawyers Division and Paralegals Division.

Membership Labels - Mailings to membership.

Online Legal Research - The Board of Bar Commissioners has entered into a contract with Fastcase to provide free online legal research for State Bar members.

Professional Development Center - The Bar Center offers use of rooms as a service to members of the State Bar. They are also available to rent for interested parties.

Legal Services to the Public – State Bar funds committees and programs that support legal services to the people of New Mexico. State Bar also provides financial support to the Public Legal Services Department of the Foundation. Several public education and legal services programs are sponsored by the Young Lawyers Division (YLD), including the Legal Clinic, Law Week, Voices Against Violence, Wills for Heroes and Federal Emergency Management Agency (FEMA). State Bar provides administrative support to Equal Access to Justice (EAJ) for the campaign to support public legal service providers.

Mentorship Program – Approved by the New Mexico Supreme Court through NMRA 24-110, the Bridge the Gap mentorship program pairs new lawyers recently admitted to practice with experienced lawyers who serve as mentors for a twelve month period. Mentors and new lawyers meet a minimum of 12 times, seven of which must be in person, to discuss the practical issues in the practice of law and to complete activities chosen from a mentoring curriculum.

**Regulatory Program – General Counsel**

The Office of General Counsel is a professional office that assists the State Bar and the Bar Foundation with policy and regulatory functions of an integrated bar. Specifically, its functions are to protect the legal and policy interest of the State Bar; assist in governance

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

**Programs of State Bar (continued)**

and regulatory functions; provide a professional legal resource for leadership, volunteers and staff; assist with outreach to the judiciary; and advise in the areas of legislative, executive and judicial processes. In addition to the internal support provided to the State Bar as noted above, the Office of General Counsel advises, provides legal support and administers the following programs:

Attorney Helpline (member and non-admitted) provides members of the State Bar and non-admitted attorneys information and referrals in areas of attorney regulation, registrations, rules and practice.

Client Assistance Information provides members of the public with information pamphlets concerning their relationship with their attorney, including advising on issues such as communication, billing, client files and fee disputes.

Client Protection Fund administers the Client Protection Fund Commission, which investigates claims against lawyers on issues regarding reimbursable losses caused by a lawyer's misappropriation of client funds or other dishonest conduct.

Ethics Assistance for Attorneys includes the following:

- Advisory Helpline provides quick ethics answers to questions posed to the ethics helpline.
- Ethics Advisory Opinions are archived and searchable by date of issue or by topical index on the State Bar's website.
- Ethics Advisory Committee assists lawyers with questions regarding one's own conduct in relation to the New Mexico Rules of Professional Conduct. The committee provides written formal and informal responses to inquiries from the membership.

Free Arbitration Program provides fee arbitration to resolve fee disputes between attorneys and their clients or disputes between attorneys. This free program is designed to provide an efficient and confidential alternative to litigation.

Judges and Lawyers Assistance Program assists judges and lawyers with mental illness, emotional distress and substance abuse with the support they need.

Lawyers Professional Liability and Insurance Committee advises the State Bar regarding risk management activities and provides information on professional malpractice insurance for members.

Pro Hac Vice - Pursuant to Rule 24-106 NMRA, the State Bar of New Mexico collects a registration fee of \$250 from non-admitted attorneys intending to appear in civil actions before New Mexico courts. The State Bar holds these fees in a special fund on behalf of the Supreme Court (the State Bar Pro Hac Vice Fund) which must be distributed at least annually by order of the Supreme Court to nonprofit organizations providing or supporting the provision of civil legal services to the poor. The State Plan for delivery of

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

**Programs of State Bar** (continued)

civil legal services is to be used as a guide for distribution of these funds and as the State Plan is revised, these guidelines may also be revised.

**Practice Area Sections** - 20 voluntary groups relating to practice areas. Within the State Bar, there are various practice areas, or industry groups, called Sections. Each Section is given an annual budget and maintains its own designated piece of the Organization's net assets as stated in Section Bylaws, Article 9.1 of *Section Finances*. The Section's fund balance on December 31st of each year shall be considered carryover funds and shall be included in the Section's budget for the coming fiscal year. All funds in excess of one year's worth of dues will be forfeited and transferred to the State Bar General Account. Should the Section be saving funds for a future activity, the Section may request additional funds of the Finance Committee. The request should include a plan detailing the ways in which the excess funds would be spent in the following year and a budget.

**Governance** - Board of Bar Commissioners (the Board) is established by Supreme Court Rule 24-101C as the governing board of the State Bar. The Board is responsible for overseeing the Executive Director, Committees, Commissions, Divisions and Task Forces and makes decisions to fulfill the mission of improving the quality of legal services to the citizens of New Mexico. The Board meets four to eight times a year, and in 2011 they had five regularly scheduled meetings. While Board members receive no compensation, they do receive mileage and per diem allowances for travel, in accordance with the State of New Mexico and IRS travel policies.

**Programs of the Foundation**

The Foundation's principal programs are comprised of:

**Center for Legal Education (CLE)** - Provides high quality, affordable, professional training and education programs and services to the New Mexico legal community. CLE offers a full range of educational services, including live seminar programs, live legal education teleconferences, audio and video recordings, publications and other professional services to meet special training needs.

**Legal Services to the Public** - Provides programs, activities and opportunities for both members of the bar and the public:

Lawyer Referral for the Elderly Program (LREP) - LREP is a legal services provider program for the elderly. LREP assists individuals 55 years of age and older in finding legal representation for civil legal issues by referring cases to volunteer attorneys throughout New Mexico. LREP provides program participants with legal advice and information and conducts workshops and clinics to provide legal information to senior citizens. LREP is funded by the State of New Mexico Aging and Long-Term Services Department. The funds received from agencies and private foundations are restricted for use by LREP and are subject to possible future cutbacks due to change in funding priorities.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

**Programs of the Foundation** (continued)

Bridge to Justice Referral Program (BTJ) provides a variety of referral services ranging from referring cases received from the state's legal services corporation providers, to pro bono referrals from the public, to full fee referrals. Lawyers Care provides referrals to the general public for a fee to the caller of \$30.

**Young Lawyers Division** - Sponsors public service programs such as the Legal Clinic, Law Week, Voices Against Violence, Wills for Heroes and FEMA.

**Membership Programs and Services** - Includes Annual Meeting and social and networking opportunities.

**Governance** - The Board will evaluate State Bar's progress in meeting its mission, goals and objectives, and will continue strategic planning for State Bar's future priorities and programs.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates in Preparing Financial Statements**

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

**Basis of Presentation**

Combined financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 958, *Not-for-Profit Entities*. Under section 958, the Organization 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 Organization reports unrestricted net assets and temporarily restricted net assets at December 31, 2012. The Organization did not have any permanently restricted net assets.

**Cash and Cash Equivalents**

For purposes of the combined statement of cash flows, the Organization considers all interest-bearing deposits with original maturities of three months or less to be cash equivalents. Certificates of deposit with original or remaining maturities greater than three months are not considered cash equivalents.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Management utilizes the allowance method of accounting for receivables arising from program services. Management believes that substantially all receivables from program services are collectible. Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The Organization had an allowance of approximately \$9,800 for uncollectable receivables as of December 31, 2012.

**Property and Equipment**

Property and equipment are recorded at cost for purchased items and at fair market value at the date of contribution for donated items. Depreciation is calculated using the straightline method over the estimated useful lives of the individual assets, which range from one to thirty-nine years. The Organization capitalized all assets with a value of \$500 or greater and an estimated useful life of greater than one year until the end of April. During the April 29, 2011 Board of Directors meeting, the board approved to increase the capitalization policy to \$3,500. Depreciation expense totaled \$194,072 for the year ended December 31, 2012.

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

**Revenue Recognition**

Dues, subscriptions, and advertising are recognized as revenue in the period to which they relate. Amounts collected in advance are recorded as deferred revenue until earned.

Dues designated for the operation of the Bar Center are recognized as revenue in the period to which they relate. Amounts collected in advance are recorded as deferred revenue until earned.

**Financial Instruments**

The Organization's financial instruments, subject to FASB ASC Section 820, *Fair Value Measurements and Disclosures*, include certificates of deposit, receivables, accounts payable, capital leases, and debt. The carrying amounts of certificates of deposit, receivables and accounts payable, because of their current nature, approximate fair value. Obligations under capital leases and debt are based on terms and interest rates consistent with the current market, which by their nature, approximate fair value.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash and equivalents and trade accounts receivable.

The Organization maintains its cash and cash equivalents in accounts which, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these accounts. Credit risk with respect to trade accounts receivable is generally diversified due to the large number of parties comprising the Organization's member and customer base.

**Net Assets and Changes Therein**

Net assets and income, expenses, gains and losses are classified based on the existence or absence of source-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Unrestricted net assets represent those resources that are not restricted by their source, or for which source-imposed restrictions have expired. Included in unrestricted are mandatory dues fees that are designated for the Client Protection Fund program.

Temporarily Restricted - Temporarily restricted net assets reflect source-imposed restrictions that require the Organization to use or expend the related assets as specified. The restrictions are satisfied either by the passage of time or by the satisfaction of source specified purposes.

The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use through either purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are recorded in the unrestricted net asset category. The Organization reports both unrestricted net assets and temporarily restricted net assets at December 31, 2012.

**Contributions**

All unconditional contributions to the Organization, including promises to give, are recorded as income when the promises are made. Conditional contributions are recognized as income when the conditions on which they depend have been substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

**Functional Classification of Expenses**

Expenses are presented on a functional basis allocated among the Organization's various programs, including management and general. Expenses and support services related to a specific program are allocated directly according to their natural expenditure classification.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Other expenditures that are common to several programs are allocated based on various relationships, such as square footage, direct labor or periodic time and expense studies.

**Advertising Costs**

The Organization expenses advertising costs as incurred. Expenses incurred for the year ended December 31, 2012 were \$23,975.

**Income Taxes**

State Bar is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. Income from food services provided for the benefit of the Professional Development Center, as well as advertising, subscriptions and publishing not directly related to State Bar's tax exempt purpose, is subject to taxation as unrelated business income. However, unrelated business income activities net of related costs do not generally result in taxable income.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, its normal activities do not result in any income tax liability. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization adopted the FASB's requirements for accounting for uncertain tax positions on January 1, 2009. The Organization determined that it was not required to record a liability related to uncertain tax positions as a result of implementing the new requirements.

As of December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2010 forward.

**Sales Taxes**

Taxes assessed by various governmental authorities on sales transactions are recorded as a liability and included in accrued expenses on the accompanying balance sheet, until remitted to the applicable authorities. Such taxes are not included in revenues or expenses.

**Subsequent Events**

Management evaluated subsequent events through June 26, 2013, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2012, but prior to June 26, 2013, that provided additional evidence about conditions that existed at December 31, 2012 have been recognized in the financial statements for the year ended December 31, 2012. Events or transactions that provided evidence about conditions that did not exist at December 31, 2012, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2012.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 3 – CASH AND CASH EQUIVALENTS**

State Bar of New Mexico	\$ 1,214,931
Bar Foundation	<u>158,859</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 1,373,790</u></b>

**NOTE 4 - DUE FROM OTHER ORGANIZATIONS AND PASS-THROUGH OBLIGATIONS**

During 2012, State Bar charged other organizations \$33,896 for administrative and accounting services.

At December 31, 2012, receivables arising from daily business activities were as follows:

Western States Conference	\$ 23,525
Other	<u>2,114</u>
<b>Total</b>	<b><u>\$ 25,639</u></b>

Pass-through obligations represent moneys collected by State Bar for other organizations resulting from the common billing process for dues, directed voluntary contributions and participant registrations. These obligations consisted of the following at December 31, 2012:

The Disciplinary Board	\$ 223,573
Funds held on behalf of Supreme Court	196,285
Other	<u>110,790</u>
<b>Total pass-through obligations</b>	<b><u>\$ 530,648</u></b>

Funds held on behalf of Supreme Court represent pro bono contributions and pro hac vice fees that the State Bar has collected and are pending disbursement as ordered by Supreme Court.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment, including the Bar Center, furniture and equipment, consisted of the following at December 31, 2012:

<b>Bar Center:</b>	
Capital building costs, beginning of year	\$ 2,835,380
Capital building improvements	<u>47,711</u>
Capital building cost, end of year	2,883,091
Less accumulated depreciation	<u>(1,215,032)</u>
	1,668,059
Land	<u>546,242</u>
<b>Total Bar Center, net</b>	<b><u>\$ 2,214,301</u></b>
<b>Furniture and equipment:</b>	
Furniture and equipment	\$ 827,724
Less accumulated depreciation	<u>(517,952)</u>
<b>Total furniture and equipment, net</b>	<b><u>\$ 309,772</u></b>

**NOTE 6 – DEFERRED REVENUE**

Deferred revenue consisted of the following at December 31, 2012:

General operating:	
Capital Member dues collected in advance	\$ 396,662
Member designated:	
Section dues collected in advance	<u>13,030</u>
<b>Total</b>	<b><u>\$ 409,692</u></b>

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
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**NOTE 7 - LEASES**

Capitalized leased assets included in furniture and equipment consisted of the following at December 31, 2012:

Equipment	\$ 297,663
Less accumulated depreciation	<u>(74,769)</u>
<b>Total</b>	<b><u>\$ 222,894</u></b>

The Organization leases equipment under capital lease agreements, which expire at various dates through December 2017 and have various renewal and purchase options. The lease amortization expense is included in depreciation expense. Future minimum lease payments for capital leases, excluding executor costs, are as follows at December 31, 2012:

Years ending December 31:

2013	\$ 61,680
2014	54,740
2015	54,740
2016	54,740
2017	<u>50,179</u>
Net minimum lease obligations	276,079
Less interest	<u>(52,333)</u>
Present value of minimum lease payments	223,746
Less current portion	<u>(40,361)</u>
<b>Obligations under capital leases, net of current portion</b>	<b><u>\$ 183,385</u></b>

During 2012, the State Bar received a lease incentive in the amount of \$70,991, which is reported as a deferred lease incentive on the combined statement of financial position. Of this amount, \$19,000 was a rebate related to a capital lease entered into during 2012, with payments beginning in January 2013, which will be recognized as income over the life of the lease. The remaining \$51,991 is an incentive for a future lease to be entered into during 2013 which will be recognized as income over the life of the lease upon entering into a subsequent lease.

The Organization leases equipment under operating leases that expire on various dates through February 2016. Total rent expense was \$62,690 for the year ended December 31, 2012.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 7 – LEASES (CONTINUED)**

Future minimum lease payments for operating leases are as follows:

2013	\$ 79,879
2014	71,643
2015	46,935
2016 and thereafter	<u>69,061</u>
<b>Total minimum lease payments</b>	<b><u>\$ 267,518</u></b>

**NOTE 8 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

In May 2012, the Company entered into a \$200,000 revolving line of credit agreement with a bank. There were no outstanding amounts borrowed against the line of credit at December 31, 2012. The line bears interest at 1.625% over the Wall Street Prime rate (3.25% at December 31, 2012) and is secured by the Organization's ownership interest in the Bar Center. The line of credit matures May 13, 2013.

Long-term debt consists of the following:

State Bar mortgage note payable to a financial institution used to finance the State Bar's interest in the Bar Center. The note has a variable interest rate set at an initial rate of 4.875% and face amount of \$754,198. The note is payable in monthly installments of principal and interest at inception of the obligation of \$4,928 and matures May 13, 2021. The note is secured by the Organization's ownership interest in the Bar Center.

\$ 717,672

Note payable to a financial institution used to finance the purchase of a vehicle with an original loan amount of \$28,348, bearing interest at 2.49%, due in monthly installments of \$503, maturing July 2016, secured by the vehicle.

20,666

738,338

Less current maturities (30,203)

**Total** **\$ 708,135**

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 8 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT (CONTINUED)**

Long-term debt maturities are as follows:

Years ending December 31:

2013	\$ 30,203
2014	31,573
2015	33,008
2016	31,894
2017	29,913
2018 and thereafter	<u>581,747</u>
<b>Total</b>	<b><u>\$ 738,338</u></b>

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

**Bar Center**

In February 1989, the Supreme Court of New Mexico authorized State Bar to acquire land and build a Bar Center at the Journal Center in Albuquerque. Also authorized was a \$25 increase in mandatory membership dues to finance the project. State Bar acquired approximately 2.2 acres of land at the Journal Center for this project. The Foundation and State Bar entered into an agreement dated October 13, 1995, to acquire interest in the Bar Center as tenants-in-common. The Foundation is a 501(c)(3) corporation authorized to receive charitable donations for the Bar Center project. State Bar's interest in the Bar Center, following the Foundation's final buy-in, is approximately 63 percent. State Bar's interest in the Bar Center was largely funded through mortgage debt.

**Retirement Plan**

The Organization provides a Retirement Savings Plan for its employees who attain an age of 18 and complete one year of service. This plan allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Organization matches contributions equal to 100 percent of the employee contribution up to five percent of the employee's annual compensation. The amount elected to be deferred by the employee cannot exceed the limitations prescribed by law. Employees vest immediately in their contributions and vest in the Organization's contributions over a five-year period of service. The Organization's contributions to the plan in 2012 were \$47,534.

**Cafeteria Plan**

The Organization adopted a "Cafeteria Plan" under the provisions of Section 125 of the Internal Revenue Code, effective February 1, 1991. The plan permits eligible employees of the Organization a choice between cash compensation and various nontaxable benefits. Employees are eligible to participate in the plan if their customary employment consists of at least 1,000 hours per year and they have completed 30 days of service with the Organization.

**STATE BAR OF NEW MEXICO AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2012**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Member Challenges**

On an annual basis, State Bar is required to publish and distribute to its membership the State Bar's budget for the upcoming year. The members are then given the opportunity to dispute the State Bar's position as to whether a proposed future expenditure is germane to the practice of law in New Mexico. In the event a member does challenge the nature of the activity, State Bar may be required to refund to that particular member a portion of his/her membership dues equal to his/her share of the financial burden related to that activity. During 2012, there were no refunds of membership dues made related to these challenge proceedings.

**LREP**

The Foundation receives a significant portion of its revenue for LREP from state awards. LREP received \$304,577 from state awards for the year ended December 31, 2012. Due to possible cutbacks and changes in funding priorities, it is uncertain whether LREP will be awarded those grants/contracts in the future.

**Claim Contingencies**

The Organization is subject to claims that arise in the ordinary course of its business; however, the Organization carries insurance for the majority of these claims. In the opinion of Management, based on the advice of counsel, the amount of the ultimate liability with respect to these pending claims will not materially affect the financial position, results of operations or liquidity of the Organization.

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2012:

Client Protection Fund	\$ 529,553
Practice area sections	<u>78,198</u>
<b>Total</b>	<b><u>\$ 607,751</u></b>

This information is an integral part of the accompanying financial statements.