

STATE BAR OF NEW MEXICO AND AFFILIATE

Combined Financial Statements  
For the Years Ended December 31, 2014 and 2013

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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 statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and cash flows for the years 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 combined 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 combined 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, 2014 and 2013, 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 of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. Schedules I and II on pages 20-25 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Burt & Company CPAs, LLC

July 10, 2015

STATE BAR OF NEW MEXICO AND AFFILIATE  
 Combined Statements of Financial Position  
 December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 1,944,327	1,914,927
Receivables, net:		
Grants	20,962	21,527
Program services/trade	51,283	46,932
Due from other organizations	12,300	22,068
Prepaid expenses and inventory	<u>55,244</u>	<u>84,119</u>
Total current assets	2,084,116	2,089,573
Bar Center, net	2,085,089	2,161,043
Furniture and equipment, net	<u>643,989</u>	<u>280,639</u>
Total assets	\$ <u>4,813,194</u>	<u>4,531,255</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 232,865	221,814
Pass-through obligations	547,417	598,053
Deferred revenue	461,957	524,470
Current maturities of long-term debt	40,139	43,957
Obligations under capital leases - current portion	<u>86,431</u>	<u>45,009</u>
Total current liabilities	1,368,809	1,433,303
Long-term liabilities:		
Long-term debt - noncurrent portion	1,713,556	1,763,054
Obligations under capital leases - noncurrent portion	<u>386,889</u>	<u>161,905</u>
Total long-term liabilities	<u>2,100,445</u>	<u>1,924,959</u>
Total liabilities	3,469,254	3,358,262
Net assets		
Unrestricted	662,559	482,757
Temporarily restricted	<u>681,381</u>	<u>690,236</u>
Total net assets	<u>1,343,940</u>	<u>1,172,993</u>
Total liabilities and net assets	\$ <u>4,813,194</u>	<u>4,531,255</u>

See independent auditor's report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
 Combined Statements of Activities  
 For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets		
Revenues, gains and public support:		
Member dues	\$ 1,817,989	1,753,309
Continuing legal education fees	798,194	707,719
Publications	423,173	358,363
Grants	327,263	306,124
Administration fees	226,899	146,895
Contributions and other	117,609	142,253
Client protection fund	112,245	116,242
Professional development center rental	70,293	59,248
Total revenues, gains, and public support	<u>3,893,665</u>	<u>3,590,153</u>
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>60,895</u>	<u>52,623</u>
Total net assets released from restrictions	<u>60,895</u>	<u>52,623</u>
Total unrestricted revenues, gains and other support	<u>3,954,560</u>	<u>3,642,776</u>
Expenses:		
Administration	1,693,303	1,853,211
Continuing legal education	580,595	691,613
Legal services to the public	398,550	352,816
Publications	311,639	228,536
Membership services	260,314	506,448
Bar center/PDC	232,936	253,936
Division and Committees	69,784	74,465
Sections	60,894	31,389
Board of Bar Commissioners	45,552	87,733
Client protection	44,214	190,957
Access to Justice	39,891	34,259
Mentorship program	37,086	32,406
Total expenses	<u>3,774,758</u>	<u>4,337,769</u>
Increase (decrease) in unrestricted net assets	179,802	(694,993)
Changes in temporarily restricted net assets		
Practice area sections	52,040	58,610
Client protection fund	-	76,800
Temporarily restricted revenue	<u>52,040</u>	<u>135,410</u>
Net assets released from restrictions	<u>(60,895)</u>	<u>(52,623)</u>
(Decrease) increase in temporarily restricted net assets	<u>(8,855)</u>	<u>82,787</u>
Changes in net assets	170,947	(612,206)
Net assets, beginning of year	<u>1,172,993</u>	<u>1,785,199</u>
Net assets, end of year	\$ <u>1,343,940</u>	<u>1,172,993</u>

See independent auditor's report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
 Combined Statements of Cash Flows  
 For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 179,802	(694,993)
Change in temporarily restricted net assets	(8,855)	82,787
Total change in net assets	170,947	(612,206)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	179,097	194,203
Gain on disposal of assets	(16,142)	-
Change in operating assets and liabilities:		
Receivables	5,982	48,221
Prepaid expenses and inventory	28,875	(25,510)
Accounts payable and accrued expenses	11,051	(114,792)
Pass-through obligations	(50,636)	(1,096)
Deferred revenue	(62,513)	183,279
Deferred lease incentive	-	(55,445)
Total adjustments	<u>95,714</u>	<u>228,860</u>
Net cash provided (used) by operating activities	266,661	(383,346)
Cash flows from investing activities:		
Proceeds from sale of assets	16,500	-
Purchase of assets	(152,317)	(95,101)
Net cash used in investing activities	<u>(135,817)</u>	<u>(95,101)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(53,316)	(731,327)
Principal payments on capital leases	(48,128)	(49,089)
Proceeds from line of credit	-	200,000
Proceeds from long-term debt	-	1,800,000
Payments on line of credit	-	(200,000)
Net cash (used) provided by financing activities	<u>(101,444)</u>	<u>1,019,584</u>
Net increase in cash and cash equivalents	29,400	541,137
Cash and cash equivalents, beginning of year	<u>1,914,927</u>	<u>1,373,790</u>
Cash and cash equivalents, end of year	\$ <u>1,944,327</u>	<u>1,914,927</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ <u>104,257</u>	<u>67,534</u>
Non-cash transactions:		
Equipment acquired through capital lease	\$ <u>407,056</u>	<u>16,711</u>
Increase in capital lease due to unused lease incentive	\$ <u>-</u>	<u>15,546</u>

See independent auditor's report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements  
December 31, 2014 and 2013

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 State Bar has been in continuing existence since January 1886. 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 combination.

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.

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).

A. 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, and handles printing/production jobs for internal and outside entities.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements (continued)  
December 31, 2014 and 2013

1. Definition of Reporting Entity (continued)

A. Programs of State Bar (continued)

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

Annual Meeting - The State Bar and The Center for 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.

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 \$35.

Committees - Standing committees which help strengthen the legal profession, work on causes of interest, and increase access to the legal system.

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

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. Several public education and legal services programs are sponsored by the Young Lawyers Division (YLD), including Constitution Day, V.A. Civil Legal Advice Clinics, Law Day, and Wills for Heroes.

Member Benefits Program - Vendors participating in the State Bar's Member Benefits Program provide savings on products and services to members. Companies offering discounts on insurance, financial services, teleconferencing and fitness club memberships, to name a few, participate.

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.



STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements (continued)  
December 31, 2014 and 2013

1. Definition of Reporting Entity (continued)

A. Programs of State Bar (continued)

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 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 inquires from the membership.

Fee 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.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements (continued)  
December 31, 2014 and 2013

1. Definition of Reporting Entity (continued)

A. Programs of State Bar (continued)

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 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. Beginning in 2014, the State Bar charges an administrative fee of \$25 for each registration fee.

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 has an annual budget created from membership dues 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 2014 and 2013, respectively, they had four and 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.

B. Programs of the Foundation

The Foundation's principal programs are comprised of:

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

1. Definition of Reporting Entity (continued)

B. Programs of the Foundation (continued)

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:

Legal Resources 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.

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

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

2. Summary of Significant Accounting Policies

A. Use of Estimates in Preparing Financial Statements

The preparation of combined financial statement 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.

B. 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

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements (continued)  
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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, 2014 and 2013. The Organization did not have any permanently restricted net assets.

C. 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.

D. 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, 2014 and 2013.

E. 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 straight-line 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 \$3,500 or greater and an estimated useful life of greater than one year. Depreciation expense totaled \$179,097 and \$194,203 for the years ended December 31, 2014 and 2013, respectively.

F. Inventories

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

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

G. 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.

H. Financial Instruments

The Organization's financial instruments, subject to FASB ASC Section 820, *Fair Value Measurements and Disclosures*, include receivables, accounts payable, capital leases, and debt. The carrying amounts of 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.

I. 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. At December 31, 2014 and 2013, the Organization had \$1,416,981 and \$1,263,413 of cash and cash equivalents in excess of the federally insured limits, respectively. 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.

J. 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.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

J. Net Assets and Changes Therein (continued)

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, 2014 and 2013.

K. 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.

L. Functional Classification of Expenses

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

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.

M. Advertising Costs

The Organization expenses advertising costs as incurred. Expenses incurred for the years ended December 31, 2014 and 2013 were \$9,949 and \$22,522, respectively.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

N. 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 believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

As of December 31, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2012 forward.

O. 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.

P. Reclassifications

Certain amounts in the 2013 financial statements have been reclassified for comparative purposes to conform to the 2014 presentation.

Q. Subsequent Events

Management evaluated subsequent events through July 10, 2015, the date the financial statements were available to be issued.

3. Cash and Cash Equivalents

	<u>2014</u>	<u>2013</u>
State Bar of New Mexico	\$ 1,350,068	1,654,275
Bar Foundation	<u>594,259</u>	<u>260,652</u>
Total cash and cash equivalents	<u>\$ 1,944,327</u>	<u>1,914,927</u>

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

4. Due from other Organizations and Pass-Through Obligations

During the years ended December 31, 2014 and 2013, State Bar charged other organizations \$29,541 and \$24,364, respectively, for administrative and accounting services.

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

	<u>2014</u>	<u>2013</u>
Western States Conference	\$ 12,300	22,047
Other	-	21
Total	<u>\$ 12,300</u>	<u>22,068</u>

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:

	<u>2014</u>	<u>2013</u>
The Disciplinary Board	\$ 314,520	292,463
Funds held on behalf of Supreme Court	197,782	272,049
Other	35,115	33,541
Total pass-through obligations	<u>\$ 547,417</u>	<u>598,053</u>

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.

5. Property and Equipment

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

	<u>2014</u>	<u>2013</u>
Bar Center:		
Capital building costs, beginning of year	\$ 2,924,628	2,883,091
Capital building improvements	23,076	41,537
Capital building cost, end of year	2,947,704	2,924,628
Less accumulated depreciation	(1,408,857)	(1,309,827)
	1,538,847	1,614,801
Land	546,242	546,242
	<u>\$ 2,085,089</u>	<u>2,161,043</u>



STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

5. Property and Equipment (continued)

	2014	2013
Furniture and Equipment:		
Furniture and equipment	\$ 1,194,660	821,843
Less accumulated depreciation	(550,671)	(541,204)
	\$ 643,989	280,639

6. Deferred Revenue

Deferred revenue consisted of the following at December 31:

	2014	2013
General operating:		
Capital member dues collected in advance	\$ 448,877	510,500
Member designated		
Section dues collected in advance	13,080	13,970
Total	\$ 461,957	524,470

7. Leases

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

	2014	2013
Equipment	\$ 510,331	233,657
Less accumulated depreciation	49,725	50,423
Total	\$ 460,606	183,234

The Organization leases equipment under a capital lease agreement that expires December 2017. At December 31, 2014 and 2013, lease amortization expense of \$27,439 and \$46,731, respectively, is included in depreciation expense. Future minimum lease payments for capital leases, excluding executor costs, are as follows at December 31:

2015	\$	109,763
2016		109,763
2017		109,763
2018		109,763
2019		100,616
Net minimum lease obligations		539,668
Less interest		66,348
Present value of minimum lease payments		473,320
Less current portion		86,431
Obligations under capital leases, net of current portion	\$	386,889

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Combined Financial Statements (continued)  
December 31, 2014 and 2013

7. Leases (continued)

The Organization leased equipment under operating lease that expired on February 2016. During October 2014, the capital and operating leases for printing and production equipment were consolidated into a new 60-month capital lease agreement, with monthly payments of \$8,701, in exchange for new equipment. Total rent expense was \$60,753 and \$82,676, respectively, for the years ended December 31, 2014 and 2013.

8. Short-Term Borrowings and Long-Term Debt

The Company has 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, 2014 and 2013. The line bears interest at 1.625% over the Wall Street Prime rate (3.25% at December 31, 2014) and is secured by the Organization's ownership interest in the Bar Center. The line of credit matures May 13, 2015.

Long-term debt consists of the following:

	2014	2013
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 \$1,800,000. The note is payable in monthly installments of principal and interest at inception of the obligation of \$10,395 and matures October 15, 2023. The note is secured by the Organization's ownership interest in the Bar Center.	\$ 1,753,695	1,791,932
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. Vehicle was sold in March 2014.	-	15,079
	1,753,695	1,807,011
Less current maturities	40,139	43,957
Total	\$ 1,713,556	1,763,054

Long-term debt maturities are as follows for the years ending December 31:

STATE BAR OF NEW MEXICO AND AFFILIATE  
Notes to Financial Statements (continued)  
December 31, 2014 and 2013

8. Short-Term Borrowings and Long-Term Debt (continued)

2015		\$	40,139
2016			42,140
2017			44,241
2018			46,446
2019			48,762
Thereafter			<u>1,531,967</u>
Total		\$	<u>1,753,695</u>

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.

A. 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 5 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 2014 and 2013 were \$58,104 and \$58,982, respectively.

B. 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 Financial Statements (continued)  
December 31, 2014 and 2013

9. Commitments and Contingencies (continued)

C. 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 2014 and 2013, there were no refunds of membership dues made related to these challenge proceedings.

D. LREP

The Foundation receives a significant portion of its revenue for LREP from state awards. LREP received \$327,263 and \$306,124, respectively, from state awards for the years ended December 31, 2014 and 2013. Due to possible cutbacks and changes in funding priorities, it is uncertain whether LREP will be awarded those grants/contracts in the future.

E. 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.

10. Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Practice area sections	\$ 96,268	105,123
Client Protection Fund	<u>585,113</u>	<u>585,113</u>
Total	<u>\$ 681,381</u>	<u>690,236</u>

SUPPLEMENTARY INFORMATION

STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule I - Combining Statements of Financial Position  
December 31, 2014

<u>ASSETS</u>	<u>State Bar</u>	<u>State Bar Foundation</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 1,350,068	594,259	1,944,327	-	1,944,327
Receivables, net:					
Grants	-	20,962	20,962	-	20,962
Program services/trade	38,206	13,077	51,283	-	51,283
Due from other organizations	12,300	-	12,300	-	12,300
Prepaid expenses and inventory	45,100	10,144	55,244	-	55,244
Total current assets	<u>1,445,674</u>	<u>638,442</u>	<u>2,084,116</u>	-	<u>2,084,116</u>
Due from Foundation/State Bar	1,045,118	-	1,045,118	(1,045,118)	-
Bar Center, net	1,342,977	742,112	2,085,089	-	2,085,089
Furniture and equipment, net	<u>626,222</u>	<u>17,767</u>	<u>643,989</u>	-	<u>643,989</u>
Total assets	<u>\$ 4,459,991</u>	<u>1,398,321</u>	<u>5,858,312</u>	<u>(1,045,118)</u>	<u>4,813,194</u>
 <u>LIABILITIES AND NET ASSETS</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 170,685	62,180	232,865	-	232,865
Pass-through obligations	536,690	10,727	547,417	-	547,417
Deferred revenue	456,961	4,996	461,957	-	461,957
Current maturities of long-term debt	40,139	-	40,139	-	40,139
Obligations under capital leases - current portion	<u>86,431</u>	<u>-</u>	<u>86,431</u>	<u>-</u>	<u>86,431</u>
Total current liabilities	1,290,906	77,903	1,368,809	-	1,368,809
Long-term liabilities:					
Due to Foundation/State Bar	-	1,045,118	1,045,118	(1,045,118)	-
Long-term debt	1,713,556	-	1,713,556	-	1,713,556
Obligations under capital leases	<u>386,889</u>	<u>-</u>	<u>386,889</u>	<u>-</u>	<u>386,889</u>
Total long-term liabilities	<u>2,100,445</u>	<u>1,045,118</u>	<u>3,145,563</u>	<u>(1,045,118)</u>	<u>2,100,445</u>
Total liabilities	3,391,351	1,123,021	4,514,372	(1,045,118)	3,469,254
Net assets:					
Unrestricted	387,259	275,300	662,559	-	662,559
Temporarily restricted	<u>681,381</u>	<u>-</u>	<u>681,381</u>	<u>-</u>	<u>681,381</u>
Total net assets	<u>1,068,640</u>	<u>275,300</u>	<u>1,343,940</u>	<u>-</u>	<u>1,343,940</u>
Total liabilities and net assets	<u>\$ 4,459,991</u>	<u>1,398,321</u>	<u>5,858,312</u>	<u>(1,045,118)</u>	<u>4,813,194</u>

See independent auditors' report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule I - Combining Statements of Financial Position (continued)  
December 31, 2013

<u>ASSETS</u>	<u>State Bar</u>	<u>State Bar Foundation</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:					
Cash and cash equivalents	\$ 1,654,275	260,652	1,914,927	-	1,914,927
Receivables, net:					
Grants	-	21,527	21,527	-	21,527
Program services/trade	55,549	15,477	71,026	(24,094)	46,932
Due from other organizations	22,068	-	22,068	-	22,068
Prepaid expenses and inventory	44,933	39,186	84,119	-	84,119
Total current assets	<u>1,776,825</u>	<u>336,842</u>	<u>2,113,667</u>	<u>(24,094)</u>	<u>2,089,573</u>
Due from Foundation/State Bar	605,731	-	605,731	(605,731)	-
Bar Center, net	1,392,696	768,347	2,161,043	-	2,161,043
Furniture and equipment, net	252,878	27,761	280,639	-	280,639
Total assets	<u>\$ 4,028,130</u>	<u>1,132,950</u>	<u>5,161,080</u>	<u>(629,825)</u>	<u>4,531,255</u>
 <u>LIABILITIES AND NET ASSETS</u>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 155,947	89,961	245,908	(24,094)	221,814
Pass-through obligations	594,998	3,055	598,053	-	598,053
Deferred revenue	524,470	-	524,470	-	524,470
Current maturities of long-term debt	43,957	-	43,957	-	43,957
Obligations under capital leases - current portion	45,009	-	45,009	-	45,009
Total current liabilities	<u>1,364,381</u>	<u>93,016</u>	<u>1,457,397</u>	<u>(24,094)</u>	<u>1,433,303</u>
Long-term liabilities:					
Due to Foundation/State Bar	-	605,731	605,731	(605,731)	-
Long-term debt	1,763,054	-	1,763,054	-	1,763,054
Obligations under capital leases	161,905	-	161,905	-	161,905
Total long-term liabilities	<u>1,924,959</u>	<u>-</u>	<u>1,924,959</u>	<u>-</u>	<u>1,924,959</u>
Total liabilities	<u>3,289,340</u>	<u>698,747</u>	<u>3,988,087</u>	<u>(629,825)</u>	<u>3,358,262</u>
Net assets					
Unrestricted	48,554	434,203	482,757	-	482,757
Temporarily restricted	690,236	-	690,236	-	690,236
Total net assets	<u>738,790</u>	<u>434,203</u>	<u>1,172,993</u>	<u>-</u>	<u>1,172,993</u>
Total liabilities and net assets	<u>\$ 4,028,130</u>	<u>1,132,950</u>	<u>5,161,080</u>	<u>(629,825)</u>	<u>4,531,255</u>

See independent auditors' report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule II - Combining Statements of Activities  
For the Year Ended December 31, 2014

	State Bar	State Bar Foundation	Combined	Eliminations	Consolidated
Changes in unrestricted net assets:					
Revenues, gains and public support:					
Member dues	\$ 1,817,989	-	1,817,989	-	1,817,989
Continuing legal education fees	-	798,194	798,194	-	798,194
Publications	425,081	-	425,081	(1,908)	423,173
Grants	-	327,263	327,263	-	327,263
Administration fees	226,899	-	226,899	-	226,899
Contributions and other	100,269	17,340	117,609	-	117,609
Client protection fund	112,245	-	112,245	-	112,245
Professional development center rental	70,369	-	70,369	(76)	70,293
Total revenues, gains, and public support	2,752,852	1,142,797	3,895,649	(1,984)	3,893,665
Net assets released from restrictions:					
Satisfaction of program restrictions	60,895	-	60,895	-	60,895
Total net assets released from restrictions	60,895	-	60,895	-	60,895
Total unrestricted revenues, gains and other support	2,813,747	1,142,797	3,956,544	(1,984)	3,954,560
Expenses:					
Administration	1,412,844	280,459	1,693,303	-	1,693,303
Continuing legal education	-	582,579	582,579	(1,984)	580,595
Legal services to the public	-	398,550	398,550	-	398,550
Publications	311,639	-	311,639	-	311,639
Membership services	260,314	-	260,314	-	260,314
Bar Center/PDC	232,715	221	232,936	-	232,936
Divisions and Committees	69,784	-	69,784	-	69,784
Sections	60,894	-	60,894	-	60,894
Board of Bar Commissioners	45,552	-	45,552	-	45,552
Client protection	44,214	-	44,214	-	44,214
Access to Justice	-	39,891	39,891	-	39,891
Mentorship program	37,086	-	37,086	-	37,086
Total expenses	2,475,042	1,301,700	3,776,742	(1,984)	3,774,758
Decrease in unrestricted net assets	338,705	(158,903)	179,802	-	179,802

See independent auditors' report and accompanying notes.



STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule II - Combining Statements of Activities (continued)  
For the Year Ended December 31, 2014

	<u>State Bar</u>	<u>State Bar Foundation</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Consolidated</u>
Changes in temporarily restricted net assets:					
Practice area sections	52,040	-	52,040	-	52,040
Client protection fund	-	-	-	-	-
Net assets released from restrictions	<u>(60,895)</u>	<u>-</u>	<u>(60,895)</u>	<u>-</u>	<u>(60,895)</u>
Increase (decrease) in temporarily restricted net assets	<u>(8,855)</u>	<u>-</u>	<u>(8,855)</u>	<u>-</u>	<u>(8,855)</u>
Change in net assets	329,850	(158,903)	170,947	-	170,947
Net assets, beginning of year	<u>738,790</u>	<u>434,203</u>	<u>1,172,993</u>	<u>-</u>	<u>1,172,993</u>
Net assets, end of year	\$ <u>1,068,640</u>	<u>275,300</u>	<u>1,343,940</u>	<u>-</u>	<u>1,343,940</u>

See independent auditors' report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule II - Combining Statements of Activities (continued)  
For the Year Ended December 31, 2013

	<u>State Bar</u>	<u>State Bar Foundation</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Consolidated</u>
Changes in unrestricted net assets					
Revenues, gains and public support:					
Member dues	\$ 1,753,309	-	1,753,309	-	1,753,309
Continuing legal education fees	-	707,719	707,719	-	707,719
Publications	380,972	-	380,972	(22,609)	358,363
Grants	-	306,124	306,124	-	306,124
Administration fees	146,895	-	146,895	-	146,895
Contributions and other	73,117	69,136	142,253	-	142,253
Client protection fund	116,242	-	116,242	-	116,242
Professional development center rental	76,002	415	76,417	(17,169)	59,248
Total revenues, gains, and public support	<u>2,546,537</u>	<u>1,083,394</u>	<u>3,629,931</u>	<u>(39,778)</u>	<u>3,590,153</u>
Net assets released from restrictions:					
Satisfaction of program restrictions	52,623	-	52,623	-	52,623
Total net assets released from restrictions	<u>52,623</u>	<u>-</u>	<u>52,623</u>	<u>-</u>	<u>52,623</u>
Total unrestricted revenues, gains and other support	2,599,160	1,083,394	3,682,554	(39,778)	3,642,776
Expenses:					
Administration	1,484,311	368,900	1,853,211	-	1,853,211
Continuing legal education	-	731,391	731,391	(39,778)	691,613
Membership services	506,448	-	506,448	-	506,448
Legal services to the public	-	352,816	352,816	-	352,816
Bar Center/PDC	253,716	220	253,936	-	253,936
Publications	228,536	-	228,536	-	228,536
Client protection	190,957	-	190,957	-	190,957
Board of Bar Commissioners	87,733	-	87,733	-	87,733
Divisions and Committees	68,248	6,217	74,465	-	74,465
Access to Justice	-	34,259	34,259	-	34,259
Mentorship program	32,406	-	32,406	-	32,406
Section	31,389	-	31,389	-	31,389
Total expenses	<u>2,883,744</u>	<u>1,493,803</u>	<u>4,377,547</u>	<u>(39,778)</u>	<u>4,337,769</u>
Decrease in unrestricted net assets	(284,584)	(410,409)	(694,993)	-	(694,993)

See independent auditors' report and accompanying notes.

STATE BAR OF NEW MEXICO AND AFFILIATE  
Schedule II - Combining Statements of Activities (continued)  
For the Year Ended December 31, 2013

	<u>State Bar</u>	<u>State Bar Foundation</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Consolidated</u>
Changes in temporarily restricted net assets:					
Practice area sections	58,610	-	58,610	-	58,610
Client protection fund	76,800	-	76,800	-	76,800
Net assets released from restrictions	<u>(52,623)</u>	<u>-</u>	<u>(52,623)</u>	<u>-</u>	<u>(52,623)</u>
Increase (decrease) in temporarily restricted net assets	<u>82,787</u>	<u>-</u>	<u>82,787</u>	<u>-</u>	<u>82,787</u>
Change in net assets	(201,797)	(410,409)	(612,206)	-	(612,206)
Net assets, beginning of year	<u>940,587</u>	<u>844,612</u>	<u>1,785,199</u>	<u>-</u>	<u>1,785,199</u>
Net assets, end of year	\$ <u>738,790</u>	<u>434,203</u>	<u>1,172,993</u>	<u>-</u>	<u>1,172,993</u>

See independent auditors' report and accompanying notes.