

**NEW MEXICO MILITARY
INSTITUTE FOUNDATION, INC.**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009**

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BOARD OF TRUSTEES
JUNE 30, 2010

Executive Committee		<u>Term Expires</u>
Steve Elliott	Chairman	2012
James A. Solomon	Vice-Chairman	2010
Bill Armstrong, Jr.	Secretary	N/A
Jesse F. Eckel	Treasurer	2010
Dick Waggoner	Assistant Treasurer	2010
Trustees		
John M. Henderson, III	Member	2012
S.P. "Buzz" Johnson, III	Member	2013
Harris Kerr	Member	2010
Stephen Paternoster	Member	2014
John A. Phinizy II	Alumni Representative	N/A
James H. Scroggin, II	Member	2010
David R. Vandiver	Member	2010
Ex-Officio Member		
MG Jerry W. Grizzle	Superintendent	
President and Chief Executive Officer		
Jimmy L. Barnes, CPA		

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

The Board of Trustees
New Mexico Military Institute Foundation, Inc.

We have audited the accompanying statement of financial position of New Mexico Military Institute Foundation, Inc. (a not-for-profit organization) as of June 30, 2010, and the related statements of activities, and statement of cash flows for the year then ended. These financial statements are the responsibility of the New Mexico Military Institute Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2009, presented in the financial statements are included for additional analysis only. Our audit report dated September 9, 2009, expressed an unqualified opinion on these statements; however, we have not performed any auditing procedures on this information since the date of our report

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Military Institute Foundation, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2010, on our consideration of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the financial statements as a whole.

Heinfeld, Meech & Co. P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

September 21, 2010

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Unrestricted		Temporarily Restricted	
	2010	2009	2010	2009
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 58,739	\$ 20,402	\$ 305,363	\$ 263,369
Accounts receivable	6,040	37,747		
Pledges receivable, net of allowance			65,317	52,543
Prepaid expenses	3,040	3,040		
Total current assets	<u>67,819</u>	<u>61,189</u>	<u>370,680</u>	<u>315,912</u>
Noncurrent assets:				
Investments	6,202,876	4,358,806	3,103,110	1,722,070
Land and buildings held for investment	6,764,856	6,732,221		
Pledges receivable, net of allowance			494,060	496,583
Furniture and equipment, net	2,340	481		
Surrender value of life insurance policies	548,751	550,512		
Beneficial interest in perpetual trust				
Other assets				
Total noncurrent assets	<u>13,518,823</u>	<u>11,642,020</u>	<u>3,597,170</u>	<u>2,218,653</u>
Total assets	<u>\$ 13,586,642</u>	<u>\$ 11,703,209</u>	<u>\$ 3,967,850</u>	<u>\$ 2,534,565</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 6,206	\$ 1,228	\$ 3,262	\$ 8,611
Due to NMMI	59,122	71,047	150,869	84,895
Due to Alumni Association		2,571		
Accrued employee leave	15,775	15,993		
Deferred support	1,550		321,818	305,069
Total current liabilities	<u>82,653</u>	<u>90,839</u>	<u>475,949</u>	<u>398,575</u>
Total liabilities	<u>82,653</u>	<u>90,839</u>	<u>475,949</u>	<u>398,575</u>
Net assets:				
Unrestricted	13,503,989	11,612,370		
Temporarily restricted			3,491,901	2,135,990
Permanently restricted				
Total net assets	<u>13,503,989</u>	<u>11,612,370</u>	<u>3,491,901</u>	<u>2,135,990</u>
Total liabilities and net assets	<u>\$ 13,586,642</u>	<u>\$ 11,703,209</u>	<u>\$ 3,967,850</u>	<u>\$ 2,534,565</u>

Permanently Restricted		Totals	
<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
\$	\$	\$ 364,102	\$ 283,771
		6,040	37,747
		65,317	52,543
		3,040	3,040
		<u>438,499</u>	<u>377,101</u>
17,021,412	16,734,646	26,327,398	22,815,522
		6,764,856	6,732,221
		494,060	496,583
		2,340	481
		548,751	550,512
633,829	668,058	633,829	668,058
50,000	50,000	50,000	50,000
<u>17,705,241</u>	<u>17,452,704</u>	<u>34,821,234</u>	<u>31,313,377</u>
<u>\$ 17,705,241</u>	<u>\$ 17,452,704</u>	<u>\$ 35,259,733</u>	<u>\$ 31,690,478</u>
\$	\$	\$ 9,468	\$ 9,839
		209,991	155,942
			2,571
		15,775	15,993
		323,368	305,069
		<u>558,602</u>	<u>489,414</u>
		<u>558,602</u>	<u>489,414</u>
		13,503,989	11,612,370
		3,491,901	2,135,990
<u>17,705,241</u>	<u>17,452,704</u>	<u>17,705,241</u>	<u>17,452,704</u>
<u>17,705,241</u>	<u>17,452,704</u>	<u>34,701,131</u>	<u>31,201,064</u>
<u>\$ 17,705,241</u>	<u>\$ 17,452,704</u>	<u>\$ 35,259,733</u>	<u>\$ 31,690,478</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	Unrestricted		Temporarily Restricted	
	2010	2009	2010	2009
Support and revenue:				
Contributions	\$ 570	\$ 10,781	\$ 351,304	\$ 267,365
In-kind donations	4,000	4,000		
Rental income	323,223	306,535		
Investment income (loss)	1,086,782	(1,421,659)	1,902,149	(4,038,815)
Change in cash value of life insurance	(1,761)	86,857		
Gain (loss) on sale of real estate	(104)	65,448		
Fundraising support	92,374	113,881		
Miscellaneous	893,372	3,059		
	<u>2,398,456</u>	<u>(831,098)</u>	<u>2,253,453</u>	<u>(3,771,450)</u>
Total support and revenue before net assets reclassifications				
Net assets released from restrictions	879,276	729,274	(879,276)	(729,274)
Permanent restrictions imposed on net assets	(2,000)		(18,266)	
Total support and revenue	<u>3,275,732</u>	<u>(101,824)</u>	<u>1,355,911</u>	<u>(4,500,724)</u>
Expenses:				
Program services -				
NMMI support	83,062	157,756		
Alumni support	103,721	11,463		
Scholarships	460,973	401,121		
Activities and projects	325,449	374,545		
Professorships and awards	26,221	60,282		
Total program expenses	<u>999,426</u>	<u>1,005,167</u>		
Support services -				
Management and general	237,521	226,094		
Real estate	39,122	39,911		
Total supporting services	<u>276,643</u>	<u>266,005</u>		
Fundraising	108,044	116,599		
Total expenses	<u>1,384,113</u>	<u>1,387,771</u>		
Change in net assets	1,891,619	(1,489,595)	1,355,911	(4,500,724)
Net assets, beginning of year	11,612,370	13,101,965	2,135,990	6,636,714
Net assets, end of year	<u>\$ 13,503,989</u>	<u>\$ 11,612,370</u>	<u>\$ 3,491,901</u>	<u>\$ 2,135,990</u>

Permanently Restricted		Totals	
2010	2009	2010	2009
\$ 266,499	\$ 181,561	\$ 618,373	\$ 459,707
		4,000	4,000
		323,223	306,535
(34,228)	(266,301)	2,954,703	(5,726,775)
		(1,761)	86,857
		(104)	65,448
		92,374	113,881
		893,372	3,059
<u>232,271</u>	<u>(84,740)</u>	<u>4,884,180</u>	<u>(4,687,288)</u>
<u>20,266</u>			
<u>252,537</u>	<u>(84,740)</u>	<u>4,884,180</u>	<u>(4,687,288)</u>
		83,062	157,756
		103,721	11,463
		460,973	401,121
		325,449	374,545
		26,221	60,282
		<u>999,426</u>	<u>1,005,167</u>
		237,521	226,094
		39,122	39,911
		<u>276,643</u>	<u>266,005</u>
		<u>108,044</u>	<u>116,599</u>
		<u>1,384,113</u>	<u>1,387,771</u>
252,537	(84,740)	3,500,067	(6,075,059)
<u>17,452,704</u>	<u>17,537,444</u>	<u>31,201,064</u>	<u>37,276,123</u>
<u>\$ 17,705,241</u>	<u>\$ 17,452,704</u>	<u>\$ 34,701,131</u>	<u>\$ 31,201,064</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ 3,500,067	\$ (6,075,059)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	604	525
Realized gain on sale of investments	(138,995)	(77,265)
Unrealized (gain) loss on investments	(2,521,629)	6,155,499
(Gain) loss on sale of real estate	104	(65,448)
Change in cash value of life insurance policies	1,761	(86,857)
Changes in operating assets:		
Decrease in accounts receivable	31,707	13,284
(Increase) decrease in pledges receivable	(10,251)	45,276
(Increase) in prepaid assets		(168)
Changes in operating liabilities:		
Increase in payables	51,107	26,698
Increase (decrease) in accrued employee leave	(218)	2,500
Increase (decrease) in deferred support	18,299	(101,554)
	932,556	(162,569)
Cash flows from investing activities:		
Net proceeds from sale of real estate	2,000	402,091
Purchase of real estate	(34,738)	(158,426)
Purchases of investments	(1,950,720)	(3,647,776)
Proceeds from sale of investments	1,131,233	3,333,360
	(852,225)	(70,751)
Net increase (decrease) in cash and cash equivalents	80,331	(233,320)
Cash and cash equivalents, beginning of year	283,771	517,091
Cash and cash equivalents, end of year	\$ 364,102	\$ 283,771

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION

The New Mexico Military Institute Foundation, Inc. (Foundation) is a not-for-profit corporation, which was incorporated in the State of New Mexico on October 9, 1945. The Foundation receives support from contributions, earnings on investments, and rental of real estate.

The purpose of the Foundation is to create, maintain and administer assets for the benefit of the New Mexico Military Institute (NMMI), a state educational institution, located in Roswell, New Mexico. The earnings from these assets are to be used for research, scientific and literacy purposes; for increasing the buildings, equipment and other facilities of the Institute; to provide for scholarships for Institute cadets and to promote general growth, welfare and maintenance of the Institute. The Foundation is considered a component unit of the Institute in accordance with government auditing standards generally accepted in the United States of America and these financial statements include all activities over which the Foundation has responsibility.

The Foundation receives, and is dependent on, contributions and on rental income from ground leases and commercial buildings located in Chaves County, New Mexico. For the years ended June 30, 2010 and 2009, the Foundation received \$617,803 and \$448,926, respectively, in restricted contributions. For the years ended June 30, 2010 and 2009, the Foundation received \$323,223 and \$306,535, respectively, in rental income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Foundation is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows.

- *Unrestricted net assets* – net assets that are not subject to donor-imposed restrictions.
- *Temporarily restricted net assets* – net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* – net assets subject to donor-imposed restrictions that must be maintained permanently by the Foundation.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Temporarily restricted net assets are those whose use by the Foundation have been limited by donors to a specific time period or purpose. When a donor restriction expires, either when the stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released from restriction in the accompanying financial statements.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises and other gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Expense Allocation

Directly identifiable expenses of the Foundation's programs are charged to program expenses. Supporting services expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all cash on hand, demand deposits, and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt and equity securities at their fair value in the Statement of Financial Position. Investment income or loss (including unrealized gains and losses on investments, interest, and dividends) is included in the Statement of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Additionally, for the years ended June 30, 2010 and 2009, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$12,481 and \$12,611, respectively. For the years ended June 30, 2010 and 2009, the Foundation did not pay any income tax or interest expense.

Investment Pools

The Foundation maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). As of year end, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Contributions and Pledges

The Foundation recognizes contributions as revenue when they are received or unconditionally pledged. The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from donor restrictions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness which represent level 3 inputs.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

Donated Services and Facilities

Donated services are recognized in the financial statements as contributions if the services:

- Create or enhance nonfinancial assets or
- Require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased if not donated.

Office space donated by the New Mexico Military Institute (including building maintenance, utilities, and janitorial services) is valued and described in Note 9.

Life Insurance

The Foundation is the owner and beneficiary of numerous life insurance policies gifted to it by donors. The policies are presented at their aggregate cash value at June 30, 2010 and 2009. Increases in cash value during the year are recognized as earned revenue.

Annual Leave

Accumulated unpaid vacation is accrued when incurred. In the event of separation, an employee may be eligible for payment of accumulated unpaid vacation up to a maximum of 20 days. Accumulated sick leave is not paid upon separation of employment.

Furniture and Equipment

All acquisitions of furniture and equipment with a cost in excess of \$1,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Furniture and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which is three to ten years for all assets.

Budget

The operating budget of the Foundation is prepared for unrestricted activities and is subject to the approval of the Board of Trustees, but is not legally adopted or subject to any other proceedings. The adopted budget of the Foundation is prepared on a basis consistent with accounting principles generally accepted in the United States of America except expenditures from net assets released from restriction are not included in the budget; therefore, the related expenditures are excluded from the actual expenditures reported on the budget comparison.

Subsequent Events

Subsequent events have been evaluated through October 8, 2010, which is the date the financial statements were available to be issued.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 – CASH AND INVESTMENTS

At year end, the Foundation's deposits were \$364,102, and the bank balance was \$373,476. The balances were insured by the Federal Deposit Insurance Corporation.

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value. Fair value for investments are determined by reference to quoted market prices or other relevant information generated by market transactions which represent level 1 inputs. Investments at June 30, 2010 and 2009 were comprised of the following.

<u>Managed Funds/Bonds</u>	<u>2010</u>	<u>2009</u>
Cambrian Capital Resources Offshore	\$ 447,254	\$
Capital Guardian Emerging Markets	484,819	
Dodge & Cox International Stock	3,766,764	3,326,328
Fortress Partners Offshore Fund	1,487,928	1,279,993
Longleaf Partners Fund	888,418	672,795
Newport Asia Institutional	485,509	402,498
Pine Grove Offshore	3,072,920	2,748,933
Pimco Short Term Bond Fund	1,971,334	1,733,767
Pimco Total Return Fund	2,228,793	2,073,442
Private Advisors Hedged Equity	2,682,059	2,460,244
Vanguard Inflation-Protected Securities	1,155,438	1,053,860
Wellington Management Micro Cap Equity	1,453,287	1,178,705
Wellington Management Research Equity	<u>6,202,875</u>	<u>5,884,957</u>
	26,327,398	22,815,522
Less:		
Deferred support	<u>(323,368)</u>	<u>(305,069)</u>
Foundation Investments	<u>\$ 26,004,030</u>	<u>\$22,510,453</u>

Investment income (loss) consisted of the following for the years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 406,522	\$ 425,004
Net unrealized gains (losses)	2,521,629	(6,155,499)
Net realized gains	138,995	77,265
Investment expenses	<u>(112,443)</u>	<u>(73,545)</u>
Total investment income (loss)	<u>\$ 2,954,703</u>	<u>\$ (5,726,775)</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 – ENDOWMENTS

The Foundation's endowments consist of donor-restricted contributions that were made to its foundation. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

A. Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 – ENDOWMENTS (Cont'd)

Endowment Net Asset Composition by Type of Fund as of current fiscal year end:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 3,491,901	\$ 17,705,241	\$ 21,197,142
Total funds	<u>\$ 3,491,901</u>	<u>\$ 17,705,241</u>	<u>\$ 21,197,142</u>

Changes in Endowment Net Assets for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,135,990	\$ 17,452,704	\$ 19,588,694
Net asset reclassification based on change in donor stipulations	(18,266)	20,266	2,000
Contributions	351,304	266,499	617,803
Investment earnings	358,540		358,540
Net appreciation (depreciation), realized and unrealized	1,543,609	(34,228)	1,509,381
Appropriation of endowment assets for expenditure	(879,276)		(879,276)
Endowment net assets, end of year	<u>\$ 3,491,901</u>	<u>\$ 17,705,241</u>	<u>\$ 21,197,142</u>

B. Funds with Deficiencies

From time to time, the fair values of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$44,533 at year end.

C. Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a Passive Policy Index consisting of S&P 500 (40%), Russell 2000 (10%), EAFE (20%), and Barclays US Aggregate (30%) while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return in excess of the Passive Policy Index, or at a minimum, a return equal to the spending policy plus CPI. Actual returns in any given year may vary from this amount.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 – ENDOWMENTS (Concl'd)

D. Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity investments to achieve its long-term return objectives within prudent risk constraints.

E. Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year 5 percent of the average value of its pooled investment ending value calculated over the prior twelve quarters. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at year end totaled \$798,361, excluding a present value discount of \$238,984 measured at a discount rate approximately 4 percent. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness which represent level 3 inputs.

	2010	2009
Receivable in less than one year	\$ 65,317	\$ 52,543
Receivable in one to five years	243,973	224,051
Receivable in more than five years	489,071	535,810
Total pledges receivable	798,361	812,404
Less discounts to net present value	(238,984)	(263,278)
Net pledges receivable at year-end	<u>\$ 559,377</u>	<u>\$ 549,126</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 6 – LAND AND BUILDINGS HELD FOR INVESTMENTS

Land held for investment consists of various developed and undeveloped lots, primarily in the area of Roswell, New Mexico. All land held for investment is reported at market value using recent comparative sales, inquiries of appraisers, and actual appraisals to estimate the fair market value which represent level 3 inputs. Land is sold at the direction of the Board of Trustees. During the current fiscal year the Foundation sold land on Mulberry Street for \$2,000, incurring a realized loss of \$104.

NOTE 7 – DEFERRED SUPPORT

The principal amount of life gifts, charitable remainder unitrusts and accumulated earnings, which are temporarily restricted, are included in investments in the Statements of Financial Position and will be reflected as support in the Statements of Activities when the term of the life income gifts have been met and the income is no longer restricted. At June 30, 2010 and 2009 the following amounts for charitable remainder unitrusts are recorded as deferred support.

	2010	2009
Ralph R. Conner	\$ 323,368	\$ 305,069
Total Deferred Support	\$ 323,368	\$ 305,069

NOTE 8 – LEASE AGREEMENTS

Lease agreements between the Foundation and tenants of its property are for terms up to 60 years and generally included provisions for escalation based upon the Consumer Price Index, as well as, renewal options at the end of the primary term.

Minimum future rental income on leases as of year end:

2011		\$ 287,017
2012		287,017
2013		287,017
2014		290,017
2015		282,617
Later Years		6,370,296
Total minimum lease payments		\$ 7,803,981

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 9 – RELATED PARTY TRANSACTION

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the years ended June 30, 2010 and 2009, \$4,000 was recorded each year as a contribution for the use of office space with a corresponding amount recorded as rent expense.

For the years ended June 30, 2010 and 2009, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2010 and 2009, \$209,991 and \$155,942, respectively, were due to the Institute for operating expenses and support. For the years ended June 30, 2010 and 2009, the Foundation provided \$999,426 and \$1,005,167, respectively, in scholarships and awards for the benefit of institute cadets and faculty.

NOTE 10 – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description. Substantially all of the Foundation's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 9.4% of their gross salary. The Foundation is required to contribute 10.9% of the gross covered salary. The contribution requirements of plan members and the Foundation are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Foundation's contributions to PERA for the fiscal years ending June 30, 2010, 2009, and 2008 were \$21,144, \$23,432, and \$19,687, respectively, which equal the amount of the required contributions for each fiscal year.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 11 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description. The Foundation contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

**NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 11 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (Concl'd)

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2010, the statute required each participating employer to contribute 1.3% of each participating employee’s annual salary; each participating employee was required to contribute 0.65% of their salary. In the fiscal years ending June 30, 2011 through June 30, 2013 the contribution rates for employees and employers will rise as follows.

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2011	1.666%	0.833%
2012	1.834	0.917
2013	2.000	1.000

Also, employers joining the program after January 1, 1998, are required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Foundation's contributions to the RHCA for the years ended June 30, 2010, 2009 and 2008 were \$2,522, \$2,615 and \$2,348, respectively, which equal the required contributions for each year.

SUPPLEMENTARY INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS OF 2009 ACTUAL)

	<u>Unaudited Budget</u>	<u>2010 Actual</u>	<u>Variance</u>	<u>2009 Actual</u>
Revenues:				
Rents:				
1900 North Main/ Dairy Queen	\$ 21,400	\$ 27,190	\$ (5,790)	\$ 31,640
2200 North Main/ Denny's	29,991	33,387	(3,396)	35,189
2000 North Main/ Sally Port Inn	129,876	137,128	(7,252)	129,879
2110 North Main/ Whataburger	33,000	64,520	(31,520)	62,752
College and Main/ F&H Investments	50,148	50,148		47,074
401 West College/ Roswell Regional Hospital		10,850	(10,850)	
Total rents	<u>264,415</u>	<u>323,223</u>	<u>(58,808)</u>	<u>306,534</u>
Other revenues:				
Contributions		570	(570)	10,781
Earnings from unrestricted investments	193,000	74,533	118,467	84,635
Gain on sale of assets		(104)	104	65,448
Change in cash value of life insurance policies		(1,761)	1,761	86,857
In-kind revenue	4,000	4,000		4,000
Fundraising support	125,000	92,374	32,626	113,881
Other income or fund transfers	3,300	893,372	(890,072)	3,059
Unrealized gain (loss) on investments		1,012,249	(1,012,249)	(1,506,293)
Total other revenues	<u>325,300</u>	<u>2,075,233</u>	<u>(1,749,933)</u>	<u>(1,137,632)</u>
 Total rents and other revenues	 <u>\$ 589,715</u>	 <u>\$ 2,398,456</u>	 <u>\$ (1,808,741)</u>	 <u>\$ (831,098)</u>
 Expenditures:				
Foundation expenditures:				
Accounting and auditing	14,000	13,607	393	12,178
Auto allowance/travel	600	242	358	325
Computer hardware and software	3,300	3,680	(380)	2,872
Depreciation		604	(604)	525
Executive committee contingency	3,500	1,738	1,762	3,337
Executive director professional development	2,000	1,363	637	1,060
Director's insurance	10,000	9,277	723	9,277
Legal service	10,000	10,547	(547)	5,639
Miscellaneous	21,500	23,706	(2,206)	6,455
Office supplies	12,000	16,316	(4,316)	20,378
Rent expense	4,000	4,000		4,000
Salaries, taxes and benefits	277,000	258,797	18,203	274,598
Travel	8,500	1,688	6,812	2,049
Total Foundation expenditures	<u>366,400</u>	<u>345,565</u>	<u>20,835</u>	<u>342,693</u>

	<u>Unaudited Budget</u>	<u>2010 Actual</u>	<u>Variance</u>	<u>2009 Actual</u>
Expenditures:				
NMMI support:				
Athletic Director	\$	\$	\$	\$ 1,884
Cadet activities	20,000	20,000		20,000
Dean of Academics				1,125
Commandant of Cadets				23
Miscellaneous	2,500	6,090	(3,590)	128,396
VP of Facilities				306
Scholarships		19,090	(19,090)	106,674
Superintendent	20,000	22,683	(2,683)	5,823
VP Finance				199
Total NMMI support	<u>42,500</u>	<u>67,863</u>	<u>(25,363)</u>	<u>264,430</u>
Alumni support:				
Alumni Association support	<u>15,000</u>	<u>52,287</u>	<u>(37,287)</u>	<u>11,463</u>
Real estate:				
Grounds maintenance	2,000	2,901	(901)	1,905
Miscellaneous real estate expense	1,500	857	643	1,776
Property insurance	7,000	7,615	(615)	6,247
Property tax	29,000	27,749	1,251	28,191
Remediation expenses				1,792
Total real estate	<u>39,500</u>	<u>39,122</u>	<u>378</u>	<u>39,911</u>
Total expenditures	<u>\$ 463,400</u>	<u>\$ 504,837</u>	<u>\$ (41,437)</u>	<u>\$ 658,497</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION INC.
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2010

<u>Institution</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash and equivalents:				
Wells Fargo	Operating	Checking	\$ 58,739	\$ 63,113
Wells Fargo	Restricted	Checking	58,401	63,401
Wells Fargo	Wells Fargo Treasury Fund	Money Market	246,962	246,962
			<u>\$ 364,102</u>	<u>\$ 373,476</u>
Investments:				
Cambrian Capital	CamCap Resources Offshore Fund	Investment	\$ 447,254	\$ 447,254
Capital Guardian	Capital Guardian Emerging Markets Fund	Investment	484,819	484,819
Dodge & Cox	D&C International Stock Fund	Investment	3,766,764	3,766,764
Fortress Investment Group	Fortress Partners Offshore Fund	Investment	1,487,928	1,487,928
Longleaf Partners	Longleaf Partners Fund	Investment	888,418	888,418
Newport Asia	Newport Asia Institutional Fund	Investment	485,509	485,509
Pine Grove	Pine Grove Offshore Fund	Investment	3,072,920	3,072,920
Pimco	Pimco Short Term Bond Fund	Investment	1,971,334	1,971,334
Pimco	Pimco Total Return Fund	Investment	2,228,793	2,228,793
Private Advisors	Private Advisors Hedged Equity Fund	Investment	2,682,059	2,682,059
Vanguard	Vanguard Inflation-Protected Securities Fund	Investment	1,155,438	1,155,438
Wellington	Wellington Management Micro Cap Equity	Investment	1,453,287	1,453,287
Wellington	Wellington Management Research Equity	Investment	6,202,875	6,202,875
			<u>\$ 26,327,398</u>	<u>\$ 26,327,398</u>

COMPLIANCE SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Hector H. Balderas
New Mexico State Auditor

The Board of Trustees
New Mexico Military Institute Foundation, Inc.

We have audited the financial statements of the governmental activities, of the New Mexico Military Institute Foundation, Inc. as of and for the year ended June 30, 2010 and have issued our report thereon dated September 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Military Institute Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

September 21, 2010

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None

FINANCIAL STATEMENT PREPARATION

These financial statements were prepared by Heinfeld, Meech & Co., P.C. from the original books and records of the New Mexico Military Institute Foundation, Inc.

EXIT CONFERENCE

An exit conference was held on September 27, 2010, to discuss the financial statements and auditors' reports. Jim Rebenar, Manager; and Christopher Heinfeld, Senior Auditor; represented Heinfeld, Meech & Co. Jimmy Barnes, President & CEO; and Jesse Eckel, Treasurer; represented the New Mexico Military Institute Foundation.

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