

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010**

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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FINANCIAL STATEMENTS

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



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, 2011, 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, 2010, presented in the financial statements are included for additional analysis only. Our audit report dated September 21, 2010, 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, 2011, 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 14, 2011, 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 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 14, 2011

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	
	2011	2010	2011	2010
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 39,297	\$ 58,739	\$ 178,747	\$ 305,363
Accounts receivable	34,403	6,040	6,136	
Pledges receivable, net of allowance			63,727	65,317
Prepaid expenses	3,315	3,040		
Total current assets	<u>77,015</u>	<u>67,819</u>	<u>248,610</u>	<u>370,680</u>
Noncurrent assets:				
Investments	7,437,008	6,202,876	6,346,730	3,103,110
Land and buildings held for investment	6,647,636	6,764,856		
Pledges receivable, net of allowance			477,365	494,060
Furniture and equipment, net	2,684	2,340		
Surrender value of life insurance policies	589,716	548,751		
Beneficial interest in perpetual trust				
Other assets				
Total noncurrent assets	<u>14,677,044</u>	<u>13,518,823</u>	<u>6,824,095</u>	<u>3,597,170</u>
Total assets	<u>\$ 14,754,059</u>	<u>\$ 13,586,642</u>	<u>\$ 7,072,705</u>	<u>\$ 3,967,850</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 161	\$ 6,206	\$ 619	\$ 3,262
Due to NMMI	94,875	59,122	171,383	150,869
Accrued employee leave	16,865	15,775		
Deferred support	13,573	1,550	362,615	321,818
Total current liabilities	<u>125,474</u>	<u>82,653</u>	<u>534,617</u>	<u>475,949</u>
Total liabilities	<u>125,474</u>	<u>82,653</u>	<u>534,617</u>	<u>475,949</u>
Net assets:				
Unrestricted	14,628,585	13,503,989		
Temporarily restricted			6,538,088	3,491,901
Permanently restricted				
Total net assets	<u>14,628,585</u>	<u>13,503,989</u>	<u>6,538,088</u>	<u>3,491,901</u>
Total liabilities and net assets	<u>\$ 14,754,059</u>	<u>\$ 13,586,642</u>	<u>\$ 7,072,705</u>	<u>\$ 3,967,850</u>

See accompanying notes to financial statements.

Permanently Restricted		Totals	
<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$	\$ 218,044	\$ 364,102
		40,539	6,040
		63,727	65,317
		3,315	3,040
		<u>325,625</u>	<u>438,499</u>
17,097,479	17,021,412	30,881,217	26,327,398
		6,647,636	6,764,856
		477,365	494,060
		2,684	2,340
		589,716	548,751
729,510	633,829	729,510	633,829
50,000	50,000	50,000	50,000
<u>17,876,989</u>	<u>17,705,241</u>	<u>39,378,128</u>	<u>34,821,234</u>
<u>\$ 17,876,989</u>	<u>\$ 17,705,241</u>	<u>\$ 39,703,753</u>	<u>\$ 35,259,733</u>
\$	\$	\$ 780	\$ 9,468
		266,258	209,991
		16,865	15,775
		376,188	323,368
		<u>660,091</u>	<u>558,602</u>
		660,091	558,602
		14,628,585	13,503,989
		6,538,088	3,491,901
17,876,989	17,705,241	17,876,989	17,705,241
<u>17,876,989</u>	<u>17,705,241</u>	<u>39,043,662</u>	<u>34,701,131</u>
<u>\$ 17,876,989</u>	<u>\$ 17,705,241</u>	<u>\$ 39,703,753</u>	<u>\$ 35,259,733</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	Unrestricted		Temporarily Restricted	
	2011	2010	2011	2010
Support and revenue:				
Contributions	\$ 1,350	\$ 570	\$ 410,468	\$ 351,304
In-kind donations	4,000	4,000		
Rental income	330,852	323,223		
Investment income (loss)	1,264,574	1,086,782	3,849,788	1,902,149
Change in cash value of life insurance	40,965	(1,761)		
Gain (loss) on sale of real estate	31,786	(104)		
Fundraising support	54,854	92,374		
Miscellaneous	6,310	893,372		
	<u>1,734,691</u>	<u>2,398,456</u>	<u>4,260,256</u>	<u>2,253,453</u>
Total support and revenue before net assets reclassifications				
Net assets released from restrictions	1,214,069	879,276	(1,214,069)	(879,276)
Permanent restrictions imposed on net assets		(2,000)		(18,266)
Total support and revenue	<u>2,948,760</u>	<u>3,275,732</u>	<u>3,046,187</u>	<u>1,355,911</u>
Expenses:				
Program services -				
NMMI support	107,463	83,062		
Alumni support	67,551	103,721		
Scholarships	642,488	460,973		
Activities and projects	538,832	325,449		
Professorships and awards	44,900	26,221		
Total program expenses	<u>1,401,234</u>	<u>999,426</u>		
Support services -				
Management and general	242,443	237,521		
Real estate	42,798	39,122		
Total supporting services	<u>285,241</u>	<u>276,643</u>		
Fundraising	<u>137,689</u>	<u>108,044</u>		
Total expenses	<u>1,824,164</u>	<u>1,384,113</u>		
Change in net assets	1,124,596	1,891,619	3,046,187	1,355,911
Net assets, beginning of year	<u>13,503,989</u>	<u>11,612,370</u>	<u>3,491,901</u>	<u>2,135,990</u>
Net assets, end of year	<u>\$ 14,628,585</u>	<u>\$ 13,503,989</u>	<u>\$ 6,538,088</u>	<u>\$ 3,491,901</u>

Permanently Restricted		Totals	
2011	2010	2011	2010
\$ 76,068	\$ 266,499	\$ 487,886	\$ 618,373
		4,000	4,000
		330,852	323,223
95,680	(34,228)	5,210,042	2,954,703
		40,965	(1,761)
		31,786	(104)
		54,854	92,374
		6,310	893,372
<u>171,748</u>	<u>232,271</u>	<u>6,166,695</u>	<u>4,884,180</u>
	20,266		
<u>171,748</u>	<u>252,537</u>	<u>6,166,695</u>	<u>4,884,180</u>
		107,463	83,062
		67,551	103,721
		642,488	460,973
		538,832	325,449
		44,900	26,221
		<u>1,401,234</u>	<u>999,426</u>
		242,443	237,521
		42,798	39,122
		<u>285,241</u>	<u>276,643</u>
		137,689	108,044
		<u>1,824,164</u>	<u>1,384,113</u>
171,748	252,537	4,342,531	3,500,067
<u>17,705,241</u>	<u>17,452,704</u>	<u>34,701,131</u>	<u>31,201,064</u>
<u>\$ 17,876,989</u>	<u>\$ 17,705,241</u>	<u>\$ 39,043,662</u>	<u>\$ 34,701,131</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 4,342,531	\$ 3,500,067
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	640	604
Realized gain on sale of investments	(550,077)	(138,995)
Unrealized (gain) loss on investments	(4,325,483)	(2,521,629)
(Gain) loss on sale of real estate	(31,786)	104
Change in cash value of life insurance policies	(40,965)	1,761
Changes in operating assets:		
(Increase) Decrease in accounts receivable	(34,499)	31,707
(Increase) decrease in pledges receivable	18,285	(10,251)
(Increase) in prepaid assets	(275)	
Changes in operating liabilities:		
Increase in payables	47,579	51,107
Increase (decrease) in accrued employee leave	1,090	(218)
Increase (decrease) in deferred support	52,820	18,299
	(520,140)	932,556
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(984)	
	(984)	
Cash flows from investing activities:		
Net proceeds from sale of real estate	149,006	2,000
Purchase of real estate		(34,738)
Purchases of investments	(3,734,546)	(1,950,720)
Proceeds from sale of investments	3,960,606	1,131,233
	375,066	(852,225)
Net increase (decrease) in cash and cash equivalents	(146,058)	80,331
Cash and cash equivalents, beginning of year	364,102	283,771
Cash and cash equivalents, end of year	\$ 218,044	\$ 364,102

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010, the Foundation received \$486,536 and \$617,803, respectively, in restricted contributions. For the years ended June 30, 2011 and 2010, the Foundation received \$330,852 and \$323,223, 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
JUNE 30, 2011 AND 2010

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
JUNE 30, 2011 AND 2010

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

Additionally, for the years ended June 30, 2011 and 2010, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$11,600 and \$12,481, respectively. For the years ended June 30, 2011 and 2010, 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
JUNE 30, 2011 AND 2010

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, 2011 and 2010. 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 expenses from net assets released from restriction are not included in the budget; therefore, the related expenses are excluded from the actual expenses reported on the budget comparison.

Subsequent Events

Subsequent events have been evaluated through September 14, 2011, which is the date the financial statements were available to be issued.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND INVESTMENTS

At year end, the Foundation's deposits were \$218,044, and the bank balance was \$299,070. 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. The Foundation places no limit on the amount the Foundation may invest in any one issuer. The investments as a percentage of the Foundation's total investments are noted in the table below. Investments at June 30, 2011 and 2010 were comprised of the following.

Managed Funds/Bonds	2011	2010	Percentage of total	
			2011	2010
Cambrian Capital Resources Offshore	\$ 816,143	\$ 447,254	3%	2%
Capital Guardian Emerging Markets	1,334,060	484,819	4%	2%
Dodge & Cox International Stock	4,421,029	3,766,764	14%	14%
Fortress Partners Offshore Fund	1,645,384	1,487,928	5%	6%
Longleaf Partners Fund	556,312	888,418	2%	3%
Newport Asia Institutional	554,814	485,509	2%	2%
Pine Grove Offshore	3,287,149	3,072,920	11%	12%
Pimco Short Term Bond Fund	1,328,129	1,971,334	4%	7%
Pimco Total Return Fund	2,175,716	2,228,793	7%	8%
Private Advisors Hedged Equity	2,962,992	2,682,059	10%	10%
Vanguard Dividend Growth Fund	2,570,810		8%	0%
Vanguard Inflation-Protected Securities	1,239,543	1,155,438	4%	4%
Wellington Management Micro Cap Equity	1,418,856	1,453,287	5%	6%
Wellington Research Equity	6,570,280	6,202,875	21%	24%
	<u>30,881,217</u>	<u>26,327,398</u>		
Less:				
Deferred support	(376,188)	(323,368)		
Foundation Investments	<u>\$ 30,505,029</u>	<u>\$ 26,004,030</u>		

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

Investment income (loss) consisted of the following for the years ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 439,399	\$ 406,522
Net unrealized gains	4,325,483	2,521,629
Net realized gains	550,077	138,995
Investment expenses	<u>(104,917)</u>	<u>(112,443)</u>
Total investment income (loss)	<u>\$ 5,210,042</u>	<u>\$ 2,954,703</u>

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 expense 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
JUNE 30, 2011 AND 2010

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	\$ 6,542,838	\$ 17,876,989	\$ 24,419,827
Total funds	<u>\$ 6,542,838</u>	<u>\$ 17,876,989</u>	<u>\$ 24,419,827</u>

Changes in Endowment Net Assets for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,491,901	\$ 17,705,241	\$ 21,197,142
Contributions	410,468	76,068	486,536
Investment earnings	675,109		675,109
Net appreciation (depreciation), realized and unrealized	3,174,679	95,680	3,270,359
Appropriation of endowment assets for expense	(1,214,069)		(1,214,069)
Endowment net assets, end of year	<u>\$ 6,538,088</u>	<u>\$ 17,876,989</u>	<u>\$ 24,415,077</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. No deficiencies of this nature were reported in the current fiscal year.

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
JUNE 30, 2011 AND 2010

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 \$756,144, excluding a present value discount of \$215,052 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.

	2011	2010
Receivable in less than one year	\$ 63,727	\$ 65,317
Receivable in one to five years	247,087	243,973
Receivable in more than five years	445,330	489,071
Total pledges receivable	756,144	798,361
Less discounts to net present value	(215,052)	(238,984)
Net pledges receivable at year-end	\$ 541,092	\$ 559,377

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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.

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, 2011 and 2010 the following amounts for charitable remainder unitrusts are recorded as deferred support.

	2011	2010
Ralph R. Conner	\$ 362,615	\$ 321,818
Total Deferred Support	\$ 362,615	\$ 321,818

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:

2012	\$ 293,348
2013	293,348
2014	276,848
2015	249,948
2016	245,747
Later Years	5,810,526
Total minimum lease payments	\$ 7,169,765

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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, 2011 and 2010, \$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, 2011 and 2010, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2011 and 2010, \$266,258 and \$209,991, respectively, were due to the Institute for operating expenses and support. For the years ended June 30, 2011 and 2010, the Foundation provided \$1,396,484 and \$999,426, respectively, in scholarships and awards for the benefit of institute cadets and faculty.

NOTE 10 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the Foundation's full-time employees participate in a public employee retirement system authorized under the Education Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) 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 (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB 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 ERB, P.O. Box 26129, Santa Fe, NM 87502-0129. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Effective July 1, 2009 through June 30, 2011, plan members were required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The Foundation was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross covered salary of employees earning more than \$20,000 annually. Effective July 1, 2011 plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually are required to contribute 11.15% of their gross salary. The Foundation is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary of employees earning more than \$20,000 annually. The contribution requirements of plan members and the Foundation are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Foundation's contributions to the ERB for the years ended June 30, 2011, 2010 and 2009 were \$22,142, \$14,294 and \$15,277, respectively, which equal the required contributions for each year.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

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
JUNE 30, 2011 AND 2010

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, 2011, the statute required each participating employer to contribute 1.67% of each participating employee’s annual salary; each participating employee was required to contribute 0.83% of their salary. In the fiscal years ending June 30, 2012 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>
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, 2011, 2010 and 2009 were \$3,384, \$2,522 and \$2,615, 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, 2011
(WITH COMPARATIVE TOTALS OF 2010 ACTUAL)

	<u>Unaudited Budget</u>	<u>2011 Actual</u>	<u>Variance</u>	<u>2010 Actual</u>
Revenues:				
Rents:				
1900 North Main/ Dairy Queen	\$ 21,400	\$ 30,912	\$ (9,512)	\$ 27,190
2200 North Main/ Denny's	33,990	36,004	(2,014)	33,387
2000 North Main/ Sally Port Inn	129,876	129,879	(3)	137,128
2110 North Main/ Whataburger	33,000	65,308	(32,308)	64,520
College and Main/ F&H Investments	50,148	50,149	(1)	50,148
401 West College/ Roswell Regional Hospital	18,600	18,600		10,850
Total rents	<u>287,014</u>	<u>330,852</u>	<u>(43,838)</u>	<u>323,223</u>
Other revenues:				
Contributions		1,350	(1,350)	570
Earnings from unrestricted investments	320,000	209,450	110,550	74,533
Gain on sale of assets		31,786	(31,786)	(104)
Change in cash value of life insurance policies		40,965	(40,965)	(1,761)
In-kind revenue	4,000	4,000		4,000
Fundraising support	62,500	54,854	7,646	92,374
Other income or fund transfers	6,200	6,310	(110)	893,372
Unrealized gain (loss) on investments		1,055,124	(1,055,124)	1,012,249
Total other revenues	<u>392,700</u>	<u>1,403,839</u>	<u>(1,011,139)</u>	<u>2,075,233</u>
 Total rents and other revenues	 <u>\$ 679,714</u>	 <u>\$ 1,734,691</u>	 <u>\$ (1,054,977)</u>	 <u>\$ 2,398,456</u>
 Expenses:				
Foundation expenses:				
Accounting and auditing	16,000	14,029	1,971	13,607
Auto allowance/travel	600	236	364	242
Computer hardware and software	20,200	16,993	3,207	3,680
Depreciation		640	(640)	604
Executive committee contingency	3,500	667	2,833	1,738
Executive director professional development	2,000	1,718	282	1,363
Director's insurance	10,000	9,277	723	9,277
Legal service	10,000	1,183	8,817	10,547
Miscellaneous	2,000	5,356	(3,356)	23,706
Office supplies	12,000	12,217	(217)	16,316
Rent expense	4,000	4,000		4,000
Salaries, taxes and benefits	176,000	175,592	408	258,797
Travel	1,500	535	965	1,688
Total Foundation expenses	<u>257,800</u>	<u>242,443</u>	<u>15,357</u>	<u>345,565</u>

	<u>Unaudited Budget</u>	<u>2011 Actual</u>	<u>Variance</u>	<u>2010 Actual</u>
Expenses:				
NMMI support:				
Cadet activities	\$ 20,000	\$ 45,447	\$ (25,447)	\$ 20,000
Miscellaneous	25,000	15,000	10,000	6,090
Scholarships	100,000	100,000		19,090
Superintendent	20,000	24,786	(4,786)	22,683
Total NMMI support	<u>165,000</u>	<u>185,233</u>	<u>(20,233)</u>	<u>67,863</u>
Alumni support:				
Alumni Association support	<u>90,000</u>	<u>26,405</u>	<u>63,595</u>	<u>52,287</u>
Real estate:				
Grounds maintenance	2,000	2,410	(410)	2,901
Miscellaneous real estate expense	1,500	6,882	(5,382)	857
Property insurance	7,500	6,786	714	7,615
Property tax	29,000	26,720	2,280	27,749
Total real estate	<u>40,000</u>	<u>42,798</u>	<u>(2,798)</u>	<u>39,122</u>
Fundraising:				
Salary & Benefits	97,000	89,772		
Operations	28,000	23,444		
Total fundraising	<u>125,000</u>	<u>113,216</u>		
Total expenses	<u>\$ 677,800</u>	<u>\$ 610,095</u>	<u>\$ 55,921</u>	<u>\$ 504,837</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2011

<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	\$ 39,297	\$ 53,189
Wells Fargo	Restricted	Checking	25,922	93,056
Wells Fargo	Wells Fargo Treasury Fund	Money Market	152,825	152,825
			<u>\$ 218,044</u>	<u>\$ 299,070</u>
Investments:				
Cambrian Capital	CamCap Resources Offshore Fund	Investment	\$ 816,143	\$ 816,143
Capital Guardian	Capital Guardian Emerging Markets Fund	Investment	1,334,060	1,334,060
Dodge & Cox	D&C International Stock Fund	Investment	4,421,029	4,421,029
Fortress Investment Group	Fortress Partners Offshore Fund	Investment	1,645,384	1,645,384
Longleaf Partners	Longleaf Partners Fund	Investment	556,312	556,312
Newport Asia	Newport Asia Institutional Fund	Investment	554,814	554,814
Pine Grove	Pine Grove Offshore Fund	Investment	3,287,149	3,287,149
Pimco	Pimco Short Term Bond Fund	Investment	1,328,129	1,326,535
Pimco	Pimco Total Return Fund	Investment	2,175,716	2,169,793
Private Advisors	Private Advisors Hedged Equity Fund	Investment	2,962,992	2,962,992
Vanguard	Vanguard Dividend Growth Fund	Investment	2,570,810	2,570,810
Vanguard	Vanguard Inflation-Protected Securities Fund	Investment	1,239,543	1,239,543
Wellington	Wellington Management Micro Cap Equity	Investment	1,418,856	1,418,857
Wellington	Wellington Management Research Equity	Investment	6,570,280	6,570,280
			<u>\$ 30,881,217</u>	<u>\$ 30,873,701</u>

COMPLIANCE SECTION

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HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



**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 New Mexico Military Institute Foundation, Inc. as of and for the year ended June 30, 2011 and have issued our report thereon dated September 14, 2011. 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

Management of the New Mexico Military Institute Foundation, Inc. is responsible for establishing and maintaining effective 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 14, 2011

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011

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 14, 2011, to discuss the financial statements and auditors' reports. Melissa Spangler, Partner; and Cynthia Montoya, Senior Associate; represented Heinfeld, Meech & Co. Jimmy Barnes, President & CEO; and Dick Waggoner, Treasurer; represented the New Mexico Military Institute Foundation, Inc.

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