

NEW MEXICO MILITARY
INSTITUTE FOUNDATION, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 & 2014



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
New Mexico Military Institute Foundation, Inc.
and
Mr. Tim Keller
New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Military Institute Foundation, Inc. (Foundation) (a nonprofit organization and component unit of the New Mexico Military Institute), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Foundation's basic financial statements as listed in the table of contents. The accompanying basic financial statements of the Foundation as of June 30, 2014 were audited by other auditors whose report thereon dated October 31, 2014 expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 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, 2015, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the Foundation's financial statements as a whole. The Supplementary Information 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 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 or 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, 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* in considering New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and compliance.



Axiom CPAs and Business Advisors, LLC
Albuquerque, New Mexico
October 26, 2015

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014

	Unrestricted		Temporarily Restricted	
	2015	2014	2015	2014
Assets				
Current assets:				
Cash and cash equivalents	\$ 54,549	32,797	757,818	1,286,407
Accounts receivable	8,035	11,655	-	6,426
Pledges receivable, net of allowance	-	-	47,893	46,578
Investment sales receivable	-	942,186	-	918,891
Other receivable	16,660	32,810	-	-
Prepaid expenses	11,533	3,232	1,000	1,000
Total current assets	90,777	1,022,680	806,711	2,259,302
Noncurrent assets:				
Investments	10,590,694	9,506,364	10,704,389	9,271,319
Land and buildings held for investment	6,357,662	6,466,909	-	-
Pledges receivable, net of allowance	-	-	371,650	398,255
Furniture and equipment, net	99	665	-	-
Surrender value of life insurance policies	663,347	676,448	-	-
Beneficial interest in perpetual trust	-	-	-	-
Other assets	-	-	-	-
Total noncurrent assets	17,611,802	16,650,386	11,076,039	9,669,574
Total assets	17,702,579	17,673,066	11,882,750	11,928,876
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	2,801	6,546	-	4,140
Due to NMMI	171,269	85,414	210,229	115,913
Accrued employee leave	17,251	21,347	-	-
Other payables	-	-	16,660	32,810
Unearned revenues	3,250	21,888	8,276	8,785
Annuity obligations	-	-	394,518	406,368
Total current liabilities	194,571	135,195	629,683	568,016
Total liabilities	194,571	135,195	629,683	568,016
Net assets:				
Unrestricted	17,508,008	17,537,871	-	-
Temporarily restricted	-	-	11,253,067	11,360,860
Permanently restricted	-	-	-	-
Total net assets	17,508,008	17,537,871	11,253,067	11,360,860
Total liabilities and net assets	\$ 17,702,579	17,673,066	11,882,750	11,928,876

See accompanying notes to the financial statements

Permanently Restricted		Totals	
2015	2014	2015	2014
-	-	812,367	1,319,204
-	-	8,035	18,081
-	-	47,893	46,578
-	1,620,348	-	3,481,425
-	-	16,660	32,810
-	-	12,533	4,232
-	<u>1,620,348</u>	<u>897,488</u>	<u>4,902,330</u>
18,754,681	16,348,812	40,049,764	35,126,495
-	-	6,357,662	6,466,909
-	-	371,650	398,255
-	-	99	665
-	-	663,347	676,448
715,849	740,643	715,849	740,643
50,000	50,000	50,000	50,000
<u>19,520,530</u>	<u>17,139,455</u>	<u>48,208,371</u>	<u>43,459,415</u>
<u>19,520,530</u>	<u>18,759,803</u>	<u>49,105,859</u>	<u>48,361,745</u>
-	-	2,801	10,686
-	-	381,498	201,327
-	-	17,251	21,347
-	-	16,660	32,810
-	-	11,526	30,673
-	-	394,518	406,368
-	-	<u>824,254</u>	<u>703,211</u>
-	-	<u>824,254</u>	<u>703,211</u>
-	-	17,508,008	17,537,871
-	-	11,253,067	11,360,860
<u>19,520,530</u>	<u>18,759,803</u>	<u>19,520,530</u>	<u>18,759,803</u>
<u>19,520,530</u>	<u>18,759,803</u>	<u>48,281,605</u>	<u>47,658,534</u>
<u>19,520,530</u>	<u>18,759,803</u>	<u>49,105,859</u>	<u>48,361,745</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	Unrestricted		Temporarily Restricted	
	2015	2014	2015	2014
Support and revenue:				
Contributions	\$ -	1,001,500	385,878	415,583
In-kind donations	4,000	4,623	-	-
Rental income	368,886	352,536	-	-
Investment income	313,944	1,425,817	908,850	4,195,238
Change in cash value of life insurance	(13,101)	51,443	-	-
Gain (loss) on sale of real estate	(7,373)	(955)	-	-
Fundraising support	-	62,500	-	7,147
Miscellaneous	12,703	7,073	-	-
Total support and revenue before net assets reclassifications	679,059	2,904,537	1,294,728	4,617,968
Net assets released from restrictions	1,401,928	1,345,734	(1,401,928)	(1,345,734)
Restrictions imposed on net assets	-	-	(593)	(9,000)
Total support and revenue	2,080,987	4,250,271	(107,793)	3,263,234
Expenses:				
Program services:				
NMMI Support	242,270	193,910	-	-
Alumni relations support	64,730	2,857	-	-
Scholarships	724,163	626,830	-	-
Activities and projects	714,622	589,160	-	-
Professorships and awards	49,592	49,441	-	-
Total program services	1,795,377	1,462,198	-	-
Support services:				
Management and general	254,290	249,942	-	-
Real Estate	44,875	37,224	-	-
Total supporting services	299,165	287,166	-	-
Fundraising	16,308	238,787	-	-
Total expenses	2,110,850	1,988,151	-	-
Change in net assets	(29,863)	2,262,120	(107,793)	3,263,234
Net assets, beginning of year	17,537,871	15,275,751	11,360,860	8,097,626
Net assets, end of year	\$ 17,508,008	17,537,871	11,253,067	11,360,860

See accompanying notes to the financial statements

Permanently Restricted		Totals	
2015	2014	2015	2014
784,928	641,218	1,170,806	2,058,301
-	-	4,000	4,623
-	-	368,886	352,536
(24,794)	56,084	1,198,000	5,677,139
-	-	(13,101)	51,443
-	-	(7,373)	(955)
-	-	-	69,647
-	-	12,703	7,073
760,134	697,302	2,733,921	8,219,807
-	-	-	-
593	9,000	-	-
760,727	706,302	2,733,921	8,219,807
-	-	242,270	193,910
-	-	64,730	2,857
-	-	724,163	626,830
-	-	714,622	589,160
-	-	49,592	49,441
-	-	1,795,377	1,462,198
-	-	254,290	249,942
-	-	44,875	37,224
-	-	299,165	287,166
-	-	16,308	238,787
-	-	2,110,850	1,988,151
760,727	706,302	623,071	6,231,656
18,759,803	18,053,501	47,658,534	41,426,878
19,520,530	18,759,803	48,281,605	47,658,534

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUND 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities	\$ 623,071	6,231,656
Change in net assets		
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	566	689
Realized gain on sale of investments	(350,331)	(2,235,567)
Unrealized gain on investments	(491,014)	(3,168,382)
Change in cash value of life insurance policies	13,101	(51,443)
Change in cash value of perpetual trust	24,794	(56,084)
Loss on sale of real estate	7,373	955
Property transferred to NMMI	44,243	50,193
Changes in operating assets:		
Decrease in accounts and other receivables	26,196	5,307
Decrease in pledges receivable	25,290	26,437
(Increase) decrease in prepaid assets	(8,301)	230
Changes in operating liabilities:		
Increase in payables	156,136	67,341
Increase (decrease) in accrued employee leave	4,096	(1,109)
Increase in deferred support	19,147	3,827
Increase in annuity obligations	11,850	37,612
Net cash used for operating activities	<u>106,217</u>	<u>911,662</u>
Cash flows from investing activities:		
Net proceeds from sale of real estate	66,794	1,800
Purchase of real estate	(9,162)	(85,273)
Purchase of investments	(7,382,982)	(2,479,215)
Proceeds from sale of investments	6,712,296	2,227,884
Net cash used for investing activities	<u>(613,054)</u>	<u>(334,804)</u>
Net increase (decrease) in cash and cash equivalents	(506,837)	576,858
Cash and cash equivalents, beginning of year	<u>1,319,204</u>	<u>742,346</u>
Cash and cash equivalents, end of year	\$ <u><u>812,367</u></u>	<u><u>1,319,204</u></u>

See accompanying notes to financial statements

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 and 2014, the Foundation received \$1,170,806 and \$1,056,801, respectively, in restricted contributions. For the years ended June 30, 2015 and 2014, the Foundation received \$368,886 and \$352,536, 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. Unrestricted net assets may be designated for specific purposes, such as quasi-endowments, by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unless otherwise designated, unrestricted net assets are used for the support of NMMI programs.
- *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.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. 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.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

Additionally, for the years ended June 30, 2015 and 2014, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$6,747 and \$13,926, respectively. For the years ended June 30, 2015 and 2014, the Foundation did not pay any income tax or interest expense.

Fair Value of Assets and Liabilities The Foundation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 820 (ASC 820), *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes has been provided in the financial statements. As of year-end, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Foundation's Form 990, Return of Organization Exempt from Income Taxes, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

Contributions and Pledges

The Foundation recognizes contributions as revenue when they are received or unconditionally pledged. The Foundation reports gifts of cash and other asset 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.

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, 2015 and 2014. 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.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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 October 26, 2015, which is the date the financial statements were available to be issued.

NOTE 3 – CASH AND INVESTMENTS

At year end, the Foundation's deposits were \$812,367, and the bank balance was \$921,123.

Fair Value Measurements. ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows.

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the assets or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level or any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

The Foundation's Investments are carried at fair value. The estimated fair value of Investments is based on quoted market prices, except for certain alternative investments for which quoted market prices are not available. The estimated fair value of these alternative investments is based on the most recent valuations provided by the external investment managers.

The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of the fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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 tables below. Investments at June 30, 2015 and 2014 were comprised of the following.

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2015	Percent of Total
Archstone Absolute Return Strategies Fund	Absolute Return	\$	3,417,954		3,417,954	9%
CamCap Resources Offshore Fund	Hedged Equity		932,297		932,297	2%
Capital Group Emerging Markets Fund	International Equity	1,307,287			1,307,287	3%
Dodge & Cox International Stock Fund	International Equity	4,117,271			4,117,271	10%
Fortress Partners Offshore Fund	Absolute Return			225,976	225,976	1%
Longleaf Partners Small Cap Fund	Small Cap Equity	940,075			940,075	2%
Maverick Stable Fund LTD	Hedged Equity		2,125,147		2,125,147	5%
Newport Asia Institutional Fund	International Equity		1,367,079		1,367,079	3%
Rock Springs	Domestic Equity			1,353,354	1,353,354	3%
IR&M Core Bond Fund II LLC	Fixed Income		1,667,081		1,667,081	4%
Vanguard Dividend Growth Fund	Large Cap Equity	7,060,819			7,060,819	18%
Vanguard Short Term Bond Fund	Fixed Income	1,697,885			1,697,885	4%
Archipelago Holdings LTD	Hedged Equity			3,212,522	3,212,522	8%
CTF Micro Cap Equity	Small Cap Equity		1,386,844		1,386,844	3%
CTF Research Equity	Large Cap Equity		9,238,173		9,238,173	23%
		\$ 15,123,337	20,134,575	4,791,852	40,049,764	

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2014	Percent of Total
Archstone Absolute Return Strategies Fund	Absolute Return	\$		3,568,132	3,568,132	10%
CamCap Resources Offshore Fund	Hedged Equity		1,290,452		1,290,452	4%
Capital Group Emerging Markets Fund	International Equity	1,426,836			1,426,836	4%
Dodge & Cox International Stock Fund	International Equity	4,272,699			4,272,699	12%
Fortress Partners Offshore Fund	Absolute Return			490,733	490,733	1%
Longleaf Partners Small Cap Fund	Small Cap Equity	872,495			872,495	2%
Maverick Stable Fund LTD	Hedged Equity		2,055,920		2,055,920	6%
Newport Asia Institutional Fund	International Equity		1,290,991		1,290,991	4%
Pimco Short Term Bond Fund	Fixed Income	1,742,737			1,742,737	5%
Pimco Unconstrained Bond Fund	Fixed Income	1,687,755			1,687,755	5%
Vanguard Dividend Growth Fund	Large Cap Equity	6,649,457			6,649,457	19%
CTF Micro Cap Equity	Small Cap Equity		1,419,519		1,419,519	4%
CTF Research Equity	Large Cap Equity		8,358,769		8,358,769	24%
		\$ 16,651,979	14,415,652	4,058,865	35,126,495	

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

Investment income consisted of the following for the years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 464,319	377,506
Net unrealized gains	491,013	3,168,382
Net realized gains	350,331	2,235,567
Investment expenses	(107,663)	(104,316)
Total investment income	<u>\$ 1,198,000</u>	<u>5,677,139</u>

Changes in the fair value of Level 3 investments at June 30, 2015 and 2014 were comprised of the following.

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 4,058,865	4,911,833
Total gains (unrealized and realized)	150,941	311,085
Additions to level 3 investments	4,000,000	-
Transfer (to) from level 2 investments	(3,417,954)	(1,164,053)
Balance, end of year	<u>\$ 4,791,852</u>	<u>4,058,865</u>

The investments held that are valued at Net Asset Valuations had the following investment strategies per the Foundation's investment committee:

Hedge fund investments, including equity long/short are defined as private investment vehicles that utilize non-traditional investing techniques in pursuit of superior risk-adjusted returns. These are specialist investment managers with various strategies across the spectrum of event driven, opportunistic, or value driven styles. The funds may employ leverage and may employ short position in order to implement their strategy. The Fund may utilize direct investment into individual hedge funds or a fund of funds with a minimum of five different core hedge fund strategies.

Hedge funds are unregulated by the SEC, therefore, the Committee must rely on detailed third party preliminary and ongoing due diligence. Through Monticello Associates, the Committee ensures that due diligence will take place. Each fund is evaluated against peer groups and passive indices that best compare the investment manager's value added over those bench marks. Value added is defined as the fund's absolute performance, relative performance, standard deviation, and its correlation value to the total Fund portfolio.

NOTE 4 – ENDOWMENTS

The Foundation's endowment consists of approximately 140 individual funds established for a variety of purposes. 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 fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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NOTE 4 – ENDOWMENTS (Cont'd)

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 purpose of 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

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

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 11,253,067	19,520,530	30,773,597
Total funds	<u>\$ 11,253,067</u>	<u>19,520,530</u>	<u>30,773,597</u>

Changes in Endowment Net Assets for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 11,360,860	18,759,803	30,120,663
Contributions	385,877	784,928	1,170,805
Investment earnings	527,577	(24,794)	502,783
Net appreciation (depreciation)	381,274	-	381,274
Amounts appropriated for expenditure	(1,401,928)	-	(1,401,928)
Restrictions imposed on net assets	(593)	593	-
Endowment net assets, end of year	<u>\$ 11,253,067</u>	<u>19,520,530</u>	<u>30,773,597</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 – ENDOWMENTS (Cont'd)

B. Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

C. Spending Policy

The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 4% annually.

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at year end totaled \$542,910, excluding a present value discount of \$123,367 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.

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 47,839	46,578
Receivable in one to five years	260,488	254,144
Receivable in more than five years	<u>234,583</u>	<u>288,667</u>
Total pledges receivable	542,910	589,389
Less discounts to net present value	<u>(123,367)</u>	<u>(144,556)</u>
Net pledges receivable at year end	<u>\$ 419,543</u>	<u>444,833</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 – ANNUITY OBLIGATIONS

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, 2015 and 2014 the Ralph R. Connor charitable remainder unitrusts was recorded as annuity obligations in the amount of \$394,518 and \$406,368, respectively.

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:

Year End:

2016	\$	294,648
2017		294,648
2018		294,648
2019		275,148
2020		236,654
Later Years		4,911,843
Total	\$	<u>6,307,589</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

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, 2015 and 2014, \$4,000 and \$4,623, respectively, was recorded each year as a contribution for the use of office space with a corresponding amount recorded as rent expense.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 9 – RELATED PARTY TRANSACTIONS (Cont'd)

For the years ended June 30, 2015 and 2014, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2015 and 2014, \$381,498 and \$201,327, respectively, were due to the NMMI for operating expenses and support. For the years ended June 30, 2015 and 2014, the Foundation provided \$1,795,377 and \$1,462,198, respectively, in scholarships and awards for the benefit of institute cadets and faculty and alumni relations support.

NOTE 10 – INVESTMENT VOLATILITY

The investment markets experienced fluctuations as changes in the global economy affect the U.S. market. It is expected that this volatility will continue to impact the value of investments reported in the statement of financial position in the subsequent fiscal year.

SUPPLEMENTARY INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS OF 2014 ACTUAL)

	Original and Final Budget	2015 Actual	Variance	2014 Actual
Revenues				
Rents:				
1900 North Main / Dairy Queen	\$ 31,637	36,037	(4,400)	35,026
2200 North Main / Denny's	35,988	36,905	(917)	34,578
College and Main / F&H Investments	54,694	54,694	-	52,421
2000 North Main / Sally Port Inn	131,328	131,329	(1)	130,360
401 West College / Lovelace	6,200	7,750	(1,550)	18,600
2110 North Main / Whataburger	39,000	102,171	(63,171)	81,551
Total Rents	<u>298,847</u>	<u>368,886</u>	<u>(70,039)</u>	<u>352,536</u>
Other revenues:				
Contributions	-	-	-	1,001,500
In-kind revenues	4,000	4,000	-	4,623
Earnings from unrestricted investments	374,000	179,410	194,590	642,934
Unrealized gain on investments	-	134,534	(134,534)	782,883
Change in cash value of life insurance	-	(13,101)	13,101	51,443
Gain (loss) on sale of real estate	-	(7,373)	7,373	(955)
Fundraising support	3,200	4,371	(1,171)	62,500
Other income or fund transfers	2,000	8,332	(6,332)	7,073
Total other revenues	<u>383,200</u>	<u>310,173</u>	<u>73,027</u>	<u>2,552,001</u>
Total rents and other revenues	<u>682,047</u>	<u>679,059</u>	<u>2,988</u>	<u>2,904,537</u>
Expenses:				
Foundation expenses				
Accounting and auditing	15,100	15,289	(189)	14,471
Auto allowance	600	239	361	245
Columbarium expense	1,000	1,055	(55)	259
Computer hardware and software	3,500	3,232	268	3,968
Depreciation	-	566	(566)	689
Executive committee contingency	3,500	884	2,616	2,190
Executive director professional development	2,000	1,863	137	1,727
Director's insurance	9,300	10,675	(1,375)	9,222
Legal service	10,000	265	9,735	4,628
Miscellaneous	2,000	-	2,000	-
Office supplies	13,500	10,534	2,966	11,790
Rent Expense	4,600	4,595	5	4,515
Salaries, taxes and benefits	215,500	205,092	10,408	196,238
Travel	1,500	-	1,500	-
Total Foundation expenses	<u>\$ 282,100</u>	<u>254,289</u>	<u>27,811</u>	<u>249,942</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS OF 2014 ACTUAL)

	Original and Final Budget	2015 Actual	Variance	2014 Actual
Expenses				
NMMI Support				
Cadet activities	\$ 20,000	20,000	-	20,000
Miscellaneous	25,000	45,818	(20,818)	64,336
Scholarships	230,000	86,448	143,552	64,798
Superintendent	30,000	41,452	(11,452)	35,276
Total NMMI Support	<u>305,000</u>	<u>193,718</u>	<u>111,282</u>	<u>184,410</u>
Alumni Support:				
Alumni relations support	<u>65,000</u>	<u>64,730</u>	<u>270</u>	<u>2,857</u>
Real Estate:				
Grounds maintenance	4,000	5,929	(1,929)	6,411
Miscellaneous real estate expense	1,500	1,493	7	396
Property insurance	5,800	5,318	482	5,754
Property tax	25,000	27,494	(2,494)	24,663
Repairs and maintenance	-	4,641	(4,641)	-
Total real estate	<u>36,300</u>	<u>44,875</u>	<u>(8,575)</u>	<u>37,224</u>
Fundraising:				
Salary & benefits	132,500	86,308	46,192	103,407
Operations	35,000	65,000	(30,000)	64,577
Total fundraising	<u>167,500</u>	<u>151,308</u>	<u>16,192</u>	<u>167,984</u>
Total Expenses	<u>\$ 855,900</u>	<u>708,920</u>	<u>146,980</u>	<u>642,417</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2015

<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 - noninterest	\$ 54,549	142,525
Wells Fargo	Restricted	Checking - noninterest	165,111	185,891
Wells Fargo	Wells Fargo Treasury Fund	Money Market - interest	592,707	592,707
			<u>812,367</u>	<u>921,123</u>
Investments:				
SS&C Fund Services	Archstone Absolute Returns Strategies	Investment	3,417,954	3,417,954
Citi	CamCap Resources Offshore Fund	Investment	932,297	932,297
Capital Group	Capital Group Emerging Markets Fund	Investment	1,307,287	1,307,287
Dodge & Cox	Dodge & Cox International Stock Fund	Investment	4,117,271	4,117,271
Fortress Investment Group	Fortress Partners Offshore Fund	Investment	225,976	225,976
Longleaf Partners	Longleaf Partners Small Cap Fund	Investment	940,075	940,075
Citco	Maverick Stable Fund LTD	Investment	2,125,147	2,125,147
Newport Asia	Newport Asia International Fund	Investment	1,367,079	1,367,079
Rock Springs	Capital Fund LP	Investment	1,353,354	1,353,354
IR&M	Core Bond Fund II LLC	Investment	1,667,081	1,667,081
Vanguard	Vanguard Dividend Growth Fund	Investment	7,060,819	7,060,819
Vanguard	Vanguard Short Term Bond Fund	Investment	1,697,885	1,697,885
Wellington Management	Archipelago Holdings LTD	Investment	3,212,522	3,212,522
Wellington Management	CTF Micro Cap Equity	Investment	1,386,844	1,386,844
Wellington Management	CTF Research Equity	Investment	9,238,173	9,238,173
			<u>\$ 40,049,764</u>	<u>40,049,764</u>