



**New Mexico State University Foundation, Inc.
and Subsidiaries**

Financial Statements

**For the Years Ended
June 30, 2012 and 2011**

Together with Report of Independent Auditors



New Mexico State University Foundation, Inc. and Subsidiaries

TABLE OF CONTENTS

Official Roster	2
Report of Independent Auditors	3
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statements of Cash Flow	7
Notes to Consolidated Financial Statements	8
OTHER INFORMATION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	30
Schedule of Findings and Responses	32
Exit Conference	33

New Mexico State University Foundation, Inc. and Subsidiaries

OFFICIAL ROSTER

NMSU Foundation, Inc.

Executive Officers

Dr. Mike Johnson
Chairman
Ms. Lee Ellen Banks
Treasurer

Dr. Jo Raabe-Asprey
Vice Chairman

Mrs. MaryLou Davis
Secretary
Dr. Dennis Prescott
President

Members

Mr. Herman Baca
Mr. Dino Camunez
Mr. Brian Charlton
Mr. Timothy Clifford
Mr. Jack Cooper
Mr. John Cordova
Mrs. Jackie Mitchell Edwards
Mr. Del Esparza
Mr. Nick Franklin
Mr. Jake Hill
Mr. Terry Johnson
Mr. Pat Lamb

Mr. John Long
Dr. Patty Lopez
Mrs. Tana Lucy
Mr. E. Larry Lujan, Jr.
Mr. Tom Mobley, Jr.
Dr. Reynaldo Ortiz
Dr. John Papen, III
Ms. Brenda Porter
Mrs. Libby Pruett
Mr. Paul Queen
Dr. Bobby Rankin
Mrs. Sandra Ricci

Mr. Ben Salopek
Mr. Scott Smith
Mr. Dan Socolofsky
Mr. Lonnie Terry
Mr. Charles Tharp
Mrs. Maya Theus
Dr. Smoky Torgerson
Mr. Ralph Torres
Mr. Jose Uranga
Dr. Danny Villanueva
Mr. Scott Williams
Mr. Browning Yelvington
Mrs. Sandy Zane

NMSU Sports Enterprises, Inc.

Executive Officers

Dr. John Papen, III
President
Mr. Gary Lenzo
Treasurer

Mr. Henry Cook
Vice President

Ms. Brenda Porter
Secretary
Mr. Steve Macy
Executive Director

Members

Mr. Kit Johnson

Mr. John Cordova

Mr. Nick Franklin

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
 New Mexico State University Foundation, Inc. and Subsidiaries and
 Mr. Hector Balderas
 New Mexico State Auditor

We have audited the accompanying consolidated statements of financial position of New Mexico State University Foundation, Inc. and Subsidiaries (the "Foundation") (a component unit of New Mexico State University) as of June 30, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to previously present fairly, in all material respects, the consolidated financial position of the Foundation as of June 30, 2012 and 2011, and the consolidated changes in its net assets and its cash flows for the years 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 October 22, 2012 on our consideration of the Foundation's internal control over financial reporting and on 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 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.

Moss Adams LLP

Albuquerque, New Mexico
 October 22, 2012

New Mexico State University Foundation, Inc. and Subsidiaries
Consolidated Statements of Financial Position
As of June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 6,792,824	\$ 3,240,401
Short-term investments (Note 3)	2,256,120	6,130,644
Contributions receivable, net (Note 2)	4,353,648	4,974,166
Property and equipment, net (Note 4)	424,771	184,175
Assets held in trust under split interest agreements	649,908	623,467
Assets held in trust for New Mexico State University (Note 5)	39,374,961	39,685,438
Assets held for long-term investment:		
Cash and cash equivalents	1,525,130	3,615,514
Securities (Note 6)	90,289,367	92,599,514
Accrued interest income	86,063	100,736
Land and building	718,142	843,131
Other assets	<u>2,117,432</u>	<u>1,193,426</u>
Total assets	<u>\$ 148,588,366</u>	<u>\$ 153,190,612</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Split interest agreements payable	\$ 219,534	\$ 220,114
Gift annuities payable	3,099,186	2,648,838
Other liabilities	904,088	1,066,998
Due to New Mexico State University (Note 5)	2,877,459	1,992,843
Assets held in trust for New Mexico State University (Note 5)	<u>39,374,961</u>	<u>39,685,438</u>
Total liabilities	<u>46,475,228</u>	<u>45,614,231</u>
Net assets:		
Unrestricted	777,604	4,270,916
Temporarily restricted (Note 7)	31,978,148	37,748,707
Permanently restricted (Note 8)	<u>69,357,386</u>	<u>65,556,758</u>
Total net assets	<u>102,113,138</u>	<u>107,576,381</u>
Total liabilities and net assets	<u>\$ 148,588,366</u>	<u>\$ 153,190,612</u>

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

New Mexico State University Foundation, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2012

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
REVENUES, GAINS AND OTHER SUPPORT:				
Private gifts	\$ 271,505	\$ 5,246,963	\$ 3,668,035	\$ 9,186,503
Net investment income (loss) (Note 9)	1,606,449	(6,939,874)	-	(5,333,425)
Management fees paid by New Mexico State University (Note 5)	596,876	-	-	596,876
Change in donor restrictions	(1,546,521)	1,827,319	(280,798)	-
Promotion and other income	1,381,610	1,262,643	67,103	2,711,356
Change in value of split interest agreements and gift annuities payable	-	(493,260)	346,288	(146,972)
NET ASSETS RELEASED FROM RESTRICTION AND OTHER TRANSFERS:				
Net assets released from donor restrictions (Note 10)	8,791,342	(8,791,342)	-	-
Other transfers (Note 14)	(2,116,992)	2,116,992	-	-
Total revenues, gains and other support	<u>8,984,269</u>	<u>(5,770,559)</u>	<u>3,800,628</u>	<u>7,014,338</u>
EXPENSES (Note 11):				
Program	9,382,831	-	-	9,382,831
Fund raising	1,798,875	-	-	1,798,875
Administration	1,295,875	-	-	1,295,875
Total expenses	<u>12,477,581</u>	<u>-</u>	<u>-</u>	<u>12,477,581</u>
CHANGE IN NET ASSETS	(3,493,312)	(5,770,559)	3,800,628	(5,463,243)
NET ASSETS, beginning of year	<u>4,270,916</u>	<u>37,748,707</u>	<u>65,556,758</u>	<u>107,576,381</u>
NET ASSETS, end of year	<u>\$ 777,604</u>	<u>\$ 31,978,148</u>	<u>\$ 69,357,386</u>	<u>\$ 102,113,138</u>

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

New Mexico State University Foundation, Inc. and Subsidiaries
Consolidated Statement of Activities
For the Year Ended June 30, 2011

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
REVENUES, GAINS AND OTHER SUPPORT:				
Private gifts	\$ 264,130	\$ 5,255,812	\$ 4,145,359	\$ 9,665,301
Net investment income (Note 9)	1,796,465	15,809,082	-	17,605,547
Management fees paid by New Mexico State University (Note 5)	532,401	-	-	532,401
Change in donor restrictions	(476,385)	4,845,769	(4,369,384)	-
Promotion and other income	1,393,442	1,123,878	2,114	2,519,434
Change in value of split interest agreements and gift annuities payable	-	(235,028)	104,824	(130,204)
NET ASSETS RELEASED FROM RESTRICTION AND OTHER TRANSFERS:				
Net assets released from donor restrictions (Note 10)	10,211,031	(10,211,031)	-	-
Other transfers (Note 14)	(898,942)	898,942	-	-
Total revenues, gains and other support	<u>12,822,142</u>	<u>17,487,424</u>	<u>(117,087)</u>	<u>30,192,479</u>
EXPENSES (Note 11):				
Program	10,977,713	-	-	10,977,713
Fund raising	1,926,382	-	-	1,926,382
Administration	<u>1,367,176</u>	<u>-</u>	<u>-</u>	<u>1,367,176</u>
Total expenses	<u>14,271,271</u>	<u>-</u>	<u>-</u>	<u>14,271,271</u>
CHANGE IN NET ASSETS	(1,449,129)	17,487,424	(117,087)	15,921,208
NET ASSETS, beginning of year	<u>5,720,045</u>	<u>20,261,283</u>	<u>65,673,845</u>	<u>91,655,173</u>
NET ASSETS, end of year	<u>\$ 4,270,916</u>	<u>\$ 37,748,707</u>	<u>\$ 65,556,758</u>	<u>\$ 107,576,381</u>

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

New Mexico State University Foundation, Inc. and Subsidiaries
Consolidated Statements of Cash Flow
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (5,463,243)	\$ 15,921,208
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Loss (gain) on marketable securities, net	5,338,165	(16,142,971)
Amortization of marketable securities, net of accretion	(67,997)	(76,392)
Depreciation	52,531	49,980
Unrealized losses on other assets	141,261	12,056
Unrealized losses on land and building held for long-term investment	124,989	174,097
Contributions held for long-term investment	(4,070,946)	(4,145,870)
Dividends and interest held for long-term investment	(2,630,998)	(1,962,254)
Actuarial (gain) loss on obligations under split interest agreements	(580)	6,684
Actuarial loss on gift annuities payable	450,348	245,350
Net changes in assets and liabilities:		
Contributions receivable	620,518	1,677,123
Assets held in trust under split interest agreements	(20,058)	5,174
Accrued interest held for long-term investment	14,673	(630)
Other assets	(1,065,267)	(270,267)
Other liabilities	(162,910)	137,457
Due to New Mexico State University	884,617	761,987
Net cash flows used by operating activities	<u>(5,854,897)</u>	<u>(3,607,268)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(293,128)	(112,871)
Change in cash and cash equivalents held for long-term investment	2,269,737	238,556
Sales, maturities and principal payments received of marketable securities	50,424,742	49,709,526
Purchases of marketable securities	(49,516,622)	(50,019,015)
Proceeds from sale of land	-	266,475
Net cash flows provided by investing activities	<u>2,884,729</u>	<u>82,671</u>
Cash flows from financing activities:		
Contributions held for long-term investment	4,070,946	4,145,870
Dividends and interest held for long-term investment	2,630,998	1,962,254
Payments of gift annuity obligations	(179,353)	(193,656)
Net cash flows provided by financing activities	<u>6,522,591</u>	<u>5,914,468</u>
Net increase in cash and cash equivalents	3,552,423	2,389,871
Cash and cash equivalents, beginning of year	<u>3,240,401</u>	<u>850,530</u>
Cash and cash equivalents, end of year	<u>\$ 6,792,824</u>	<u>\$ 3,240,401</u>

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

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 1 - Organization and Activities

New Mexico State University Foundation, Inc. and its Subsidiaries (Foundation) is a nonprofit corporation established to acquire and manage charitable gifts, including endowed funds, to be used solely for the benefit of New Mexico State University (University). The Foundation is exempt from Federal income taxes under Internal Revenue Code section 501(c)(3). The Foundation is reported in the University's financial statements as a discretely presented component unit.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation. The Consolidated Financial Statements of the New Mexico State University Foundation, Inc. and operating affiliates and associates have been consolidated and all significant intercompany amounts and transactions have been eliminated. The operating affiliates and associates consist of the Foundation, NMSU Sports Enterprises, Inc. and NMSU Space Development Foundation.

In the accompanying Consolidated Financial Statements, net assets that have similar characteristics have been combined into similar categories as follows:

- Permanently restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Such assets include primarily the Foundation's permanent endowment funds. Generally, the donors of these assets permit the Foundation's use of all or part of the investment return on these assets.
- *Temporarily restricted* – Net assets whose use by the Foundation is subject to donor imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire with the passage of time.
- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes, such as quasi-endowments, by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Unless otherwise designated, unrestricted net assets are used for the support of University programs.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. Cash and cash equivalents include cash and short-term investments with original maturities to the Foundation of three months or less. The Foundation does not require that excess cash be collateralized by securities. These assets are not restricted for long-term investment as endowments.

Investments. Securities purchased are originally recorded at cost; securities received by gift are recorded at estimated fair value at the date of donation. The aggregate annual amounts of these gifts are disclosed in the Consolidated Statements of Cash Flows. Third-party investment managers administer substantially all marketable securities of the Foundation. Gains and losses resulting from securities transactions are recorded in net investment income in the accompanying financial statements.

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.

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions Receivable. Contributions receivable include unconditional promises to give that have not yet been collected, including amounts to be received at the termination of several charitable remainder trusts for which the Foundation is not the trustee. Contributions expected to be collected in future years are reported at an amount determined using the discounted present value of future contributions, including an allowance for uncollectible contributions estimated by management. The applicable IRS discount rates for June 2012 and 2011 were 1.2% and 2.8%, respectively. Contributions receivable determined uncollectible during the fiscal year are written off when considered uncollectible. A total of \$ 52,850 and \$2,051,010 was written off during 2012 and 2011, respectively. Contributions receivable for the fiscal years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Within one year	\$ 348,641	\$ 600,170
From one to five years	1,138,751	1,544,519
More than five years	<u>3,047,092</u>	<u>2,969,669</u>
	4,534,484	5,114,358
Reserve	(170,828)	(90,483)
Present Value Discount	<u>(10,008)</u>	<u>(49,709)</u>
Total Net Contributions Receivable	<u>\$ 4,353,648</u>	<u>\$ 4,974,166</u>

Property and Equipment. Property and equipment is stated at cost. Additions and major improvements are capitalized in the appropriate asset accounts and the capitalization threshold is \$500. Repairs and maintenance are charged to expense as incurred. Straight-line depreciation is recorded over the following periods approximating the useful lives of each class of asset: computer equipment and software, 5 years; furniture and equipment, 7 years; and automobiles, 5 years.

Split Interest Agreements. The Foundation holds several irrevocable charitable remainder trusts. These are reflected in the accompanying Consolidated Financial Statements as split interest agreements.

The charitable remainder trusts designate the Foundation as both trustee and remainder beneficiary. The Foundation is required to pay to the donor (or another donor-designated income beneficiary) either a fixed amount or the lesser of a fixed percentage of the fair market value of the trust's assets or the trust's income during the beneficiary's life. Trust assets are measured at fair value when received, and are carried by the Foundation at fair value. A corresponding trust liability is measured at the present value of expected future cash flows to be paid to the beneficiary computed using the applicable IRS discount rates, which for June 2012 and 2011 were 1.2% and 2.8%, respectively. Upon death of the income beneficiary, substantially all of the principal balances pass to the Foundation to be used in accordance with the donor's wishes.

Assets Held for Long-Term Investment. The Foundation manages a pool of assets invested to produce income to support programs of the University. These assets consist of cash and cash equivalents, marketable securities and related amounts of interest income receivable and a building held for investment. A portion of these assets belongs to the University; these are held in trust and managed by the Foundation (see Note 5). The Foundation owns the remainder, including endowments and gift annuities. In the accompanying Consolidated Financial Statements, assets held in trust for New Mexico State University include the portion of the pool owned by the University; assets held for long-term investment include the portion of the pool owned by the Foundation.

Also reported under this caption is donated property held for investment or held for sale with the proceeds to be invested long-term for income production. The properties are recorded at their fair value as of June 30, 2012 and 2011.

Other Assets. Other assets consist primarily of works of art that the Foundation intends to hold indefinitely, reproductions of works of art held for resale, note receivable, the cash surrender value of life insurance policies, and other receivables. The works of art and note receivable are recorded at fair value as of June 30, 2012 and 2011. The reproductions of works of art are recorded at fair value on the date of donation.

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (Continued)

Gift Annuities Payable. The Foundation sponsors a charitable gift annuity program. To participate in the program, donors make gifts to the Foundation of assets, normally cash or marketable securities. In return, the donor and/or another designated beneficiary receive, from the Foundation, periodic payments for the life of the beneficiary. Upon death of the income beneficiary, the remaining amount from the original gift and its earnings are used in accordance with the donor's wishes. Gift annuities payable in the accompanying Consolidated Statements of Financial Position represent the net present value of periodic annuity payments over the estimated remaining lives of the income beneficiaries computed using the applicable IRS discount rates, which for June 2012 and 2011 were 1.2% and 2.8%, respectively.

Support. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (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.

The Foundation reports gifts of land, property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Change in Donor Restrictions. During the years ended June 30, 2012 and 2011, the Foundation was contacted by some of its donors who wished to restrict permanently previous temporarily restricted donations or to release assets from previously imposed restrictions. In response to the requests, the Foundation transferred the requested amounts to the appropriate net asset class.

Fair Value of Assets and Liabilities. Effective July 1, 2008, the Foundation 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.

These are:

- 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.

Reclassifications. Certain reclassifications have been made to the 2011 Consolidated Financial Statements to conform to the classifications used in 2012.

Note 3 - Short-Term Investments

The Foundation invests cash in excess of daily requirements in certificates of deposit and short-term marketable securities. In the accompanying Consolidated Financial Statements, short-term investments in marketable securities also represent a portion of these investments that do not qualify as cash equivalents. Short-term investments in marketable securities consisted entirely of domestic corporate stocks and bonds at June 30, 2012 and 2011.

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 3 - Short-Term Investments (Continued)

Returns from certificates of deposit and short-term investments in marketable securities are included in unrestricted net assets in the accompanying Consolidated Statements of Activities. The following table summarizes the short-term investments and related activity for the years ended June 30, 2012 and 2011.

	2012	2011
Certificates of deposit	\$ 2,030,200	\$ 5,817,495
Marketable securities	<u>225,920</u>	<u>313,149</u>
	<u>\$ 2,256,120</u>	<u>\$ 6,130,644</u>
	2012	2011
Unrealized (loss) gain, net	\$ (87,863)	\$ 35,084
Dividends and interest	<u>31,887</u>	<u>31,384</u>
	<u>\$ (55,976)</u>	<u>\$ 66,468</u>

Note 4 - Property and Equipment

Depreciation expense for the fiscal years ended June 30, 2012 and 2011, was \$52,531 and \$49,980, respectively, and is included in administration expense on the accompanying Consolidated Statements of Activities. Major classifications of property and equipment at June 30, 2012 and 2011 are summarized below:

	2012	2011
Computer equipment and software	\$ 517,770	\$ 235,207
Furniture and equipment	159,744	149,180
Automobiles	<u>102,458</u>	<u>102,458</u>
	779,972	486,845
Less: Accumulated depreciation	<u>(355,201)</u>	<u>(302,670)</u>
	<u>\$ 424,771</u>	<u>\$ 184,175</u>

Note 5 - Affiliated Entity

During 1991, the Foundation entered into an agreement to manage, invest and distribute earnings from substantially all of the University's endowment funds, as directed by the Board of Regents of the University. The Foundation is authorized to hold in its name all assets received from the University. This agreement is for an indefinite period, but may be terminated by either party with 90 days notice. University endowment funds are pooled with Foundation endowment funds and gift annuity assets for investment. Under this agreement, the Foundation earned \$596,876 and \$532,401 in administration fees from the University during the fiscal years ended June 30, 2012 and 2011, respectively. Assets and liabilities for the amounts received by the Foundation under this agreement, as well as earnings and net appreciation from the investment of those assets, are included in assets held in trust for New Mexico State University in the accompanying Consolidated Statements of Financial Position. Assets held in trust for New Mexico State University totaled \$39,374,961 and \$39,685,438 at June 30, 2012 and 2011, respectively. Of these assets, \$35,771,845 and \$37,712,615, as of June 30, 2012 and 2011, respectively, represent assets measured at fair value (see Note 13). The remaining assets included in assets held in trust for New Mexico State University represent cash amounts that are not subject to fair value measurements.

The University, in exchange for the Foundation's fund raising activities that directly benefit the University, provides certain facilities and services to the Foundation. The University provides the premises occupied by the Foundation and certain of the furniture, fixtures and equipment used by the Foundation. The Foundation recorded \$203,749 and \$203,749 during the fiscal years ended June 30, 2012 and 2011, respectively, for the estimated fair rental value of the premises, furniture, fixtures and equipment owned by the University. The property is not recorded in the accompanying Consolidated Financial Statements. In addition, employees of the University perform all administrative services for the Foundation. A portion of the salaries for these employees (\$1,606,525 and \$1,647,722 for the years ended June 30, 2012 and 2011, respectively) was reimbursed to the University by the Foundation.

New Mexico State University Foundation, inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 5 - Affiliated Entity (Continued)

Amounts due to New Mexico State University in the accompanying Consolidated Statements of Financial Position includes salary expenses to be reimbursed to the University, as well as current use gifts and endowment earnings amounts for which the University has satisfied donor restrictions.

Note 6 - Assets Held for Long-Term Investment- Securities

The aggregate carrying amounts of assets held for long-term investment in securities by major types at June 30, 2012 and 2011, are shown in the table below:

	2012	2011
Domestic corporate stocks and bonds	\$ 31,208,668	\$ 34,809,237
Alternative investments	19,556,604	17,810,748
Foreign equities and mutual funds	17,730,765	17,871,094
Mortgage-backed securities	13,084,381	13,631,200
U.S. Government securities	8,708,949	8,477,235
	<u>\$ 90,289,367</u>	<u>\$ 92,599,514</u>

The following schedule summarizes the total return on long-term investments and its classification in the accompanying Consolidated Statement of Activities for the year ended June 30, 2012 (see Note 9):

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ -	\$ 2,698,995	\$ -	\$ 2,698,995
Realized gains (losses), net	1,679,913	(2,385,678)	-	(705,765)
Unrealized losses, net	-	(6,785,945)	-	(6,785,945)
Investment expenses	-	(500,801)	-	(500,801)
	<u>\$ 1,679,913</u>	<u>\$ (6,973,429)</u>	<u>\$ -</u>	<u>\$ (5,293,516)</u>

The following schedule summarizes the total return on assets held for long-term investment and its classification in the accompanying Consolidated Statement of Activities for the year ended June 30, 2011 (see Note 9):

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ -	\$ 1,876,572	\$ -	\$ 1,876,572
Realized gains, net	1,729,997	3,153,155	-	4,883,152
Unrealized gains, net	-	11,282,639	-	11,282,639
Investment expenses	-	(556,340)	-	(556,340)
	<u>\$ 1,729,997</u>	<u>\$ 15,756,026</u>	<u>\$ -</u>	<u>\$ 17,486,023</u>

Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are available for the following purposes:

	2012	2011
Student aid	\$ 12,574,407	\$ 16,587,743
General, departments or colleges & buildings, etc.	10,094,958	11,345,178
Faculty and staff compensation	5,511,975	6,380,091
Research	2,429,265	3,209,639
Other	1,367,543	226,056
	<u>\$ 31,978,148</u>	<u>\$ 37,748,707</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 8 - Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity to produce income for specified purposes. The table below shows the amounts of permanently restricted net assets at June 30, 2012 and 2011, by the purpose to which the use of income is restricted:

	2012	2011
Student aid	\$ 32,763,514	\$ 30,866,034
Faculty and staff compensation	17,135,573	16,286,678
General use for departments or colleges	16,572,694	15,903,661
Research	2,129,803	1,800,385
Buildings, grounds, equipment and facilities	503,225	448,675
Other	252,577	251,325
	<u>\$ 69,357,386</u>	<u>\$ 65,556,758</u>

Note 9 - Net Investment Income (Loss)

The following table summarizes the components of net investment income (loss) for the year ended June 30, 2012:

2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest on cash and cash equivalents	\$ 14,399	\$ 26,920	\$ -	\$ 41,319
Loss from short-term investments	(87,863)	-	-	(87,863)
Interest on cash and cash equivalents held for long-term investment	-	6,635	-	6,635
Loss from marketable securities long-term investment (Note 6)	<u>1,679,913</u>	<u>(6,973,429)</u>	<u>-</u>	<u>(5,293,516)</u>
	<u>\$ 1,606,449</u>	<u>\$ (6,939,874)</u>	<u>\$ -</u>	<u>\$ (5,333,425)</u>

The following table summarizes the components of net investment income for the year ended June 30, 2011:

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest on cash and cash equivalents	\$ 31,384	\$ 33,584	\$ -	\$ 64,968
Gain from short-term investments	35,084	-	-	35,084
Interest on cash and cash equivalents held for long-term investment	-	19,472	-	19,472
Income from marketable securities long-term investment (Note 6)	<u>1,729,997</u>	<u>15,756,026</u>	<u>-</u>	<u>17,486,023</u>
	<u>\$ 1,796,465</u>	<u>\$ 15,809,082</u>	<u>\$ -</u>	<u>\$ 17,605,547</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 10 - Net Assets Released from Donor Restrictions

Net assets released from donor restrictions after incurring expenses that satisfied the restricted purposes or after the occurrence of other events specified by donors during the fiscal years ended June 30, 2012 and 2011, were as follows:

	<i>2012</i>	<i>2011</i>
Purpose restrictions accomplished:		
General use for departments or colleges	\$ 5,455,889	\$ 4,411,563
Student aid	2,057,457	2,064,873
Faculty and staff compensation	740,038	628,428
Buildings, grounds, equipment and facilities	331,081	2,697,306
Research	187,215	366,068
Other	19,662	42,793
	<u>\$ 8,791,342</u>	<u>\$ 10,211,031</u>

Note 11 - Expenses

Expenses of the Foundation reported by natural classification for the fiscal years ended June 30, 2012 and 2011 were as follows:

	<i>2012</i>	<i>2011</i>
Program expenses and grants	\$ 9,382,832	\$ 10,977,713
Salaries	1,606,525	1,647,722
Supplies and services	952,067	1,251,752
Professional fees	305,633	230,498
Travel	172,163	108,593
Depreciation	52,531	49,980
Utilities	5,830	5,013
	<u>\$ 12,477,581</u>	<u>\$ 14,271,271</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 12 - Deposit Accounts and Investments as of June 30, 2012

<i>Account</i>	<i>Type of Account</i>	<i>Bank Balance</i>	<i>Reconciling Items</i>	<i>Book Balance</i>
Cash - Wells Fargo Bank of New Mexico:				
Operations	Checking	\$ 139,332	\$ (14,396)	\$ 124,936
Program	ACH	25,615	-	25,615
Program	Checking	314,503	33,270	347,773
Program	Transfer	36,795	-	36,795
Operations – NMSU Sports Enterprises, Inc.	Checking	55,636	(12,224)	43,412
Citizens Bank of Las Cruces:				
Program	Checking	3,072	-	3,072
Program	Money Market	3,842	-	3,842
Merrill Lynch:				
Operations	Checking	1,250	-	1,250
Operations	Money Market	28,851	(32,914)	(4,063)
Program	Checking	3	-	3
Program	Money Market	6,239,710	(82,420)	6,157,290
Program-Cash Gift Annuity	Checking & Money Market	28,952	(11,044)	17,908
Program-Private Equity	Checking & Money Market	34,991	-	34,991
Investment Cash - Merrill Lynch:				
Due from Endowment Pool	Money Market	(258,926)	-	(258,926)
Due from CGA Pool	Money Market	(126,304)	-	(126,304)
Managers:				
Hedge Access	Money Market	1,138,183	-	1,138,183
Eagle	Money Market	277,625	-	277,625
McDonnell	Money Market	519,807	-	519,807
Global Templeton	Money Market	1,527	-	1,527
Earnest	Money Market	108,766	-	108,766
NWQ	Money Market	84,840	-	84,840
Fred Alger	Money Market	148,363	-	148,363
Oppenheimer	Money Market	7,964	-	7,964
Managed Futures	Money Market	507,220	-	507,220
Invesco REITS	Money Market	165,449	-	165,449
Aletheia (Large Cap Value)	Money Market	5,081	-	5,081
Short Term Investment Fund	Money Market	1,243,718	-	1,243,718
NFJ International	Money Market	182,326	-	182,326
UMA Eagle	Money Market	155,488	-	155,488
WHV International	Money Market	336,448	-	336,448
SPAR	Money Market	39	-	39
Winslow	Money Market	177,801	-	177,801
London	Money Market	233,633	-	233,633
NMSU Business College	Money Market	3,533	-	3,533
Less Cash Allocated to NMSU for AHIT	Held in Trust	(3,387,451)	-	(3,387,451)
Total Cash		\$ 8,437,682	\$ (119,728)	\$ 8,317,954
Investments - Merrill Lynch:				
Corporate Stocks and Bonds	Investment	\$ 46,156,027	\$ -	\$ 46,156,027
U.S. Government and Agency Securities	Investment	8,708,949	-	8,708,949
Mortgage-backed Securities	Investment	13,084,381	-	13,084,381
Limited Partnerships - Alternative	Investment	19,556,604	-	19,556,604
Mutual Funds	Investment	2,783,406	-	2,783,406
Total Investments - Merrill Lynch		90,289,367	-	90,289,367
Real Estate Holdings	Investment	718,142	-	718,142
Short-term Investments	Investment	2,256,120	-	2,256,120
Accrued Investment Interest	Investment	86,063	-	86,063
Total Other Investments		3,060,325	-	3,060,325
Total Investments		\$ 93,349,692	\$ -	\$ 93,349,692

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 12 - Deposit Accounts and Investments as of June 30, 2011

<i>Account</i>	<i>Type of Account</i>	<i>Bank Balance</i>	<i>Reconciling Items</i>	<i>Book Balance</i>
Cash - Wells Fargo Bank of New Mexico:				
Operations	Checking	\$ 186,081	\$ (27,500)	\$ 158,581
Program	ACH	91,835	-	91,835
Program	Checking	712,590	(22,864)	689,726
Program	Transfer	313,099	42,373	355,472
Operations – NMSU Sports Enterprises, Inc.	Checking	133,388	-	133,388
Citizens Bank of Las Cruces:				
Program	Checking	31,779	(436)	31,343
Program	Money Market	3,339	-	3,339
Merrill Lynch:				
Operations	Checking	1	(264,483)	(264,482)
Operations	Money Market	25,109	-	25,109
Program	Checking	620,024	(96,327)	523,697
Program	Money Market	2,974,971	-	2,974,971
Bank of America-CD Matured 6/30/11	CD	2,016,089	-	2,016,089
Merrill Lynch (Designated) cleared with interfund due to/from entries	Money Market	-	(3,498,669)	(3,498,669)
Investment Cash - Merrill Lynch:				
Due to Endowment Pool	Money Market	3,313,442	-	3,313,442
Managers:				
Hedge Access	Money Market	1,525	-	1,525
Eagle	Money Market	44,642	-	44,642
McDonnell	Money Market	1,788	-	1,788
Global Templeton	Money Market	7,766	-	7,766
Tradewinds NWQ	Money Market	340,048	-	340,048
Earnest	Money Market	49,012	-	49,012
NWQ	Money Market	20,720	-	20,720
Insight	Money Market	61,461	-	61,461
Fred Alger	Money Market	114,751	-	114,751
Oppenheimer	Money Market	8,089	-	8,089
Venture Capital	Money Market	45,538	-	45,538
Alliance Bernstein	Money Market	91,488	-	91,488
Managed Futures	Money Market	3,263	-	3,263
Invesco REITS	Money Market	155,145	-	155,145
Aletheia (Large Cap Value)	Money Market	68,526	-	68,526
Short Term Investment Fund	Money Market	17,378	-	17,378
UMA Atlanta	Money Market	389,143	-	389,143
Schafer Cullen (Large Cap Growth)	Money Market	352,057	-	352,057
NMSU Business College	Money Market	1,559	-	1,559
Less Cash Allocated to NMSU for AHIT	Held in Trust	(1,471,825)	-	(1,471,825)
Total Cash		\$ 10,723,821	\$ (3,867,906)	\$ 6,855,915
Investments - Merrill Lynch:				
Corporate Stocks and Bonds	Investment	\$ 52,680,331	\$ -	\$ 52,680,331
U.S. Government and Agency Securities	Investment	17,238,689	-	17,238,689
Mortgage-backed Securities	Investment	4,869,746	-	4,869,746
Limited Partnerships - Alternative	Investment	17,810,748	-	17,810,748
Total Investments - Merrill Lynch		92,599,514	-	92,599,514
Real Estate Holdings	Investment	843,131	-	843,131
Short-term Investments	Investment	6,130,644	-	6,130,644
Accrued Investment Interest	Investment	100,736	-	100,736
Total Other Investments		7,074,511	-	7,074,511
Total Investments		\$ 99,674,025	\$ -	\$ 99,674,025

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities

Assets

Level 1 Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities.

Level 2 If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include governmental and corporate bonds, foreign obligations, and collateralized mortgage backed securities.

Level 3 These investments include partnerships and hedge funds whose values are determined based on financial data provided by the individual funds and partnerships. Investments classified within Level 3 have significant unobservable inputs. The valuation of these funds is determined by unobservable inputs such as recent purchases and sales, underlying fund holdings, and information provided by fund managers and general partners including: audited financials, unaudited financial statements, and net asset valuations.

Transfers of investments between different levels of the fair value hierarchy, if any, are recorded as of the beginning of the reporting period. There were no transfers in 2012 and 2011.

In certain cases, both observable and unobservable inputs may be used to determine the fair value of investments and, in such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The degree of judgment exercised in determining fair value is greatest for investments in Level 3. Because of the inherent uncertainty of valuation, those estimated value may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

The Foundation's Investment Committee (the Committee) oversees the endowment pool of investments, Foundation's Pooled Endowment Fund (the Fund). The Committee has engaged the professional investment management consultant Merrill Lynch Wealth Management (Merrill Lynch) to assist them in strategic planning for the Fund. Merrill Lynch acts as a liaison between the investment managers and the Committee and will interpret performance results of the Fund.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011.

Government Securities and Corporate Stocks and Bonds are valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within Level 1 of the valuation hierarchy. If quoted prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows and other observable inputs. Such securities would be classified within Level 2 of the valuation hierarchy.

Equity Securities are valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds are valued at market rates such as quoted prices for similar assets or liabilities. They may also be valued by quoted prices in markets that are not active.

Hedge Fund and Venture Capital Investments, which are not readily marketable, are carried at estimated fair values. Fair value is based upon information provided by the management of each Fund, including audited financial statements and any other relevant factors. Because of the absence of a readily determinable fair value and the inherent uncertainty of valuation, the estimated fair value may differ significantly from the value that would have been used had a ready market for the investment existed, and the difference could be material. These investments are not immediately redeemable at the reporting date. These investments have significant unobservable inputs and are classified within Level 3 of the valuation hierarchy.

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

The following table presents the fair value measurements of Foundation assets recognized in the accompanying Consolidated Statements of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012:

<i>2012</i>	<i>Quoted Prices in Active Markets For Identical Assets Level 1</i>	<i>Significant Other Observable Inputs Level 2</i>	<i>Significant Unobservable Inputs Level 3</i>	<i>Balance as of June 30, 2012</i>
Equity securities:				
Large Cap Growth	\$ 5,345,634	\$ -	\$ -	\$ 5,345,634
Large Cap Value	6,384,614	-	-	6,384,614
Small Cap Growth	5,337,554	-	-	5,337,554
Large Cap Dividend	6,252,361	-	-	6,252,361
Small Cap Value	5,105,099	-	-	5,105,099
Mutual Funds	<u>2,783,406</u>	<u>-</u>	<u>-</u>	<u>2,783,406</u>
Total equity securities	<u>31,208,668</u>	<u>-</u>	<u>-</u>	<u>31,208,668</u>
Foreign equities and mutual funds:				
Foreign Developed Markets	9,606,886	-	-	9,606,886
Foreign Emerging Markets	5,544,645	-	-	5,544,645
Private Equity Off Shore	<u>2,579,234</u>	<u>-</u>	<u>-</u>	<u>2,579,234</u>
Total foreign equities and mutual funds	<u>17,730,765</u>	<u>-</u>	<u>-</u>	<u>17,730,765</u>
U.S. Government Securities:				
Residential Mortgage Backed Securities	7,071,055	-	-	7,071,055
Commercial Mortgage Backed Securities	1,475,035	-	-	1,475,035
Corporate Bonds	<u>4,590,047</u>	<u>4,118,902</u>	<u>-</u>	<u>8,708,949</u>
Total U.S. Government Securities	<u>13,136,137</u>	<u>4,118,902</u>	<u>-</u>	<u>17,255,039</u>
REITs-Mortgage Backed Securities	<u>4,538,291</u>	<u>-</u>	<u>-</u>	<u>4,538,291</u>
	<u>66,613,861</u>	<u>4,118,902</u>	<u>-</u>	<u>70,732,763</u>
Nonredeemable securities				
Hedge Fund Investments:				
Equity long/short	-	-	5,977,125	5,977,125
Global opportunities	-	-	8,931,467	8,931,467
Derivative	<u>-</u>	<u>-</u>	<u>924,026</u>	<u>924,026</u>
Total Hedge Fund Investments	<u>-</u>	<u>-</u>	<u>15,832,618</u>	<u>15,832,618</u>
Domestic Venture Capital Investments	<u>-</u>	<u>-</u>	<u>3,723,986</u>	<u>3,723,986</u>
Total Nonredeemable Securities	<u>-</u>	<u>-</u>	<u>19,556,604</u>	<u>19,556,604</u>
Total	<u>\$ 66,613,861</u>	<u>\$ 4,118,902</u>	<u>\$ 19,556,604</u>	<u>\$ 90,289,367</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

The following table presents the fair value measurements of Foundation assets recognized in the accompanying Consolidated Statements of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011:

<i>2011</i>	<i>Quoted Prices in Active Markets For Identical Assets Level 1</i>	<i>Significant Other Observable Inputs Level 2</i>	<i>Significant Unobservable Inputs Level 3</i>	<i>Balance as of June 30, 2011</i>
Equity securities:				
Large Cap Growth	\$ 5,221,715	\$ -	\$ -	\$ 5,221,715
Large Cap Value	9,101,500	-	-	9,101,500
Small Cap Growth	12,378,048	-	-	12,378,048
Small Cap Value	3,330,910	-	-	3,330,910
Mutual Funds	<u>4,777,064</u>	<u>-</u>	<u>-</u>	<u>4,777,064</u>
Total equity securities	<u>34,809,237</u>	<u>-</u>	<u>-</u>	<u>34,809,237</u>
Foreign equities and mutual funds:				
Foreign Developed Markets	8,649,066	-	-	8,649,066
Foreign Emerging Markets	6,532,165	-	-	6,532,165
Private Equity Off Shore	<u>2,689,863</u>	<u>-</u>	<u>-</u>	<u>2,689,863</u>
Total foreign equities and mutual funds	<u>17,871,094</u>	<u>-</u>	<u>-</u>	<u>17,871,094</u>
U.S. Government Securities:				
Residential Mortgage Backed Securities	6,549,773	-	-	6,549,773
Commercial Mortgage Backed Securities	2,211,681	-	-	2,211,681
Corporate Bonds	<u>4,125,052</u>	<u>4,352,183</u>	<u>-</u>	<u>8,477,235</u>
Total U.S. Government Securities	<u>12,886,506</u>	<u>4,352,183</u>	<u>-</u>	<u>17,238,689</u>
REITs-Mortgage Backed Securities	<u>4,869,746</u>	<u>-</u>	<u>-</u>	<u>4,869,746</u>
	<u>70,436,583</u>	<u>4,352,183</u>	<u>-</u>	<u>74,788,766</u>
Nonredeemable securities				
Hedge Fund Investments:				
Equity long/short	-	-	5,027,665	5,027,665
Global opportunities	<u>-</u>	<u>-</u>	<u>9,200,792</u>	<u>9,200,792</u>
Total Hedge Fund Investments	<u>-</u>	<u>-</u>	<u>14,228,457</u>	<u>14,228,457</u>
Domestic Venture Capital Investments	<u>-</u>	<u>-</u>	<u>3,582,291</u>	<u>3,582,291</u>
Total Nonredeemable Securities	<u>-</u>	<u>-</u>	<u>17,810,748</u>	<u>17,810,748</u>
Total	<u>\$ 70,436,583</u>	<u>\$ 4,352,183</u>	<u>\$ 17,810,748</u>	<u>\$ 92,599,514</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

As mentioned in Note 5, the Foundation holds investments on behalf of the University. The following table presents the fair value measurements of assets held in trust for New Mexico State University, excluding cash, recognized in the accompanying Consolidated Statements of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012:

<i>2012</i>	<i>Quoted Prices in Active Markets For Identical Assets Level 1</i>	<i>Significant Other Observable Inputs Level 2</i>	<i>Significant Unobservable Inputs Level 3</i>	<i>Balance as of June 30, 2012</i>
Equity securities:				
Large Cap Growth	\$ 2,192,984	\$ -	\$ -	\$ 2,192,984
Large Cap Value	2,492,759	-	-	2,492,759
Small Cap Growth	2,189,669	-	-	2,189,669
Large Cap Dividend	2,564,958	-	-	2,564,958
Small Cap Value	<u>2,094,307</u>	<u>-</u>	<u>-</u>	<u>2,094,307</u>
Total equity securities	11,534,677	-	-	11,534,677
Foreign equities and mutual funds:				
Foreign Developed Markets	3,941,113	-	-	3,941,113
Foreign Emerging Markets	2,274,626	-	-	2,274,626
Private Equity Off Shore	<u>1,058,101</u>	<u>-</u>	<u>-</u>	<u>1,058,101</u>
Total foreign equities and mutual funds	<u>7,273,840</u>	<u>-</u>	<u>-</u>	<u>7,273,840</u>
U.S. Government Securities:				
Residential Mortgage Backed Securities	2,900,818	-	-	2,900,818
Commercial Mortgage Backed Securities	605,116	-	-	605,116
Corporate Bonds	<u>1,883,013</u>	<u>1,689,731</u>	<u>-</u>	<u>3,572,744</u>
Total U.S. Government Securities	<u>5,388,947</u>	<u>1,689,731</u>	<u>-</u>	<u>7,078,678</u>
REITs-Mortgage Backed Securities	<u>1,861,781</u>	<u>-</u>	<u>-</u>	<u>1,861,781</u>
	<u>26,059,245</u>	<u>1,689,731</u>	<u>-</u>	<u>27,748,976</u>
Nonredeemable securities				
Hedge Fund Investments:				
Equity long/short	-	-	2,452,046	2,452,046
Global opportunities	-	-	3,664,030	3,664,030
Derivative	<u>-</u>	<u>-</u>	<u>379,071</u>	<u>379,071</u>
Total Hedge Fund Investments	<u>-</u>	<u>-</u>	<u>6,495,147</u>	<u>6,495,147</u>
Domestic Venture Capital Investments	<u>-</u>	<u>-</u>	<u>1,527,722</u>	<u>1,527,722</u>
Total Nonredeemable Securities	<u>-</u>	<u>-</u>	<u>8,022,869</u>	<u>8,022,869</u>
Total	<u>\$ 26,059,245</u>	<u>\$ 1,689,731</u>	<u>\$ 8,022,869</u>	<u>\$ 35,771,845</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

As mentioned in Note 5, the Foundation holds investments on behalf of the University. The following table presents the fair value measurements of assets held in trust for New Mexico State University, excluding cash, recognized in the accompanying Consolidated Statements of Financial Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011:

<i>2011</i>	<i>Quoted Prices in Active Markets For Identical Assets Level 1</i>	<i>Significant Other Observable Inputs Level 2</i>	<i>Significant Unobservable Inputs Level 3</i>	<i>Balance as of June 30, 2011</i>
Equity securities:				
Large Cap Growth	\$ 2,126,603	\$ -	\$ -	\$ 2,126,603
Large Cap Value	3,706,691	-	-	3,706,691
Small Cap Growth	5,041,102	-	-	5,041,102
Small Cap Value	1,356,551	-	-	1,356,551
Mutual Funds	<u>1,945,514</u>	-	-	<u>1,945,514</u>
Total equity securities	<u>14,176,461</u>	-	-	<u>14,176,461</u>
Foreign equities and mutual funds:				
Foreign Developed Markets	3,522,834	-	-	3,522,834
Foreign Emerging Markets	2,660,299	-	-	2,660,299
Private Equity Off Shore	<u>1,095,477</u>	-	-	<u>1,095,477</u>
Total foreign equities and mutual funds	<u>7,278,610</u>	-	-	<u>7,278,610</u>
U.S. Government Securities:				
Residential Mortgage Backed Securities	2,667,849	-	-	2,667,849
Commercial Mortgage Backed Securities	900,585	-	-	900,585
Corporate Bonds	<u>1,679,743</u>	<u>1,772,477</u>	-	<u>3,452,220</u>
Total U.S. Government Securities	<u>5,248,177</u>	<u>1,772,477</u>	-	<u>7,020,654</u>
REITs-Mortgage Backed Securities	<u>1,983,260</u>	-	-	<u>1,983,260</u>
	<u>28,686,508</u>	<u>1,772,477</u>	-	<u>30,458,985</u>
Nonredeemable securities				
Hedge Fund Investments:				
Equity long/short	-	-	2,048,053	2,048,053
Global opportunities	<u>-</u>	<u>-</u>	<u>3,746,648</u>	<u>3,746,648</u>
Total Hedge Fund Investments	<u>-</u>	<u>-</u>	<u>5,794,701</u>	<u>5,794,701</u>
Domestic Venture Capital Investments	<u>-</u>	<u>-</u>	<u>1,458,929</u>	<u>1,458,929</u>
Total Nonredeemable Securities	<u>-</u>	<u>-</u>	<u>7,253,630</u>	<u>7,253,630</u>
Total	<u>\$ 28,686,508</u>	<u>\$ 1,772,477</u>	<u>\$ 7,253,630</u>	<u>\$ 37,712,615</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

The Foundation's interest in limited partnerships represents 22% of the total investments held by the Foundation at June 30, 2012. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying Consolidated Statements of Financial Position using significant unobservable (Level 3) inputs:

2012	<u>Hedge Fund Investments</u>			Domestic Venture Capital Investment	Total
	Equity Long/Short	Global Opportunities	Derivatives		
Beginning Balance at July 1, 2011	\$ 5,027,665	\$ 9,200,792	\$ -	\$ 3,582,291	\$ 17,810,748
Total Realized Gains (Losses)	30,940	(30,343)	-	-	597
Total Unrealized Gains (Losses)	918,520	(2,458,357)	(126,211)	(151,946)	(1,817,994)
Purchases	-	2,709,920	1,050,237	351,360	4,111,517
Sales	-	(490,545)	-	(57,719)	(548,264)
Ending Balance at June 30, 2012	<u>\$ 5,977,125</u>	<u>\$ 8,931,467</u>	<u>\$ 924,026</u>	<u>\$ 3,723,986</u>	<u>\$ 19,556,604</u>

Net realized gains and unrealized losses on investments of \$597 and \$(1,817,994), respectively, all related to assets still held at June 30, 2012, are included in the lines "Net investment income" in the Consolidated Statement of Activities for the year ended June 30, 2012.

The following are the commitment and redemption provisions for Foundation assets held:

2012	Fair Value at June 30, 2012	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Fund Investments:				
Equity Long/Short	\$ 5,977,125	\$ -	Quarterly	45 Days
Global Opportunities	8,931,467	-	Quarterly	45 Days
Derivatives	924,026	-		
Total Hedge fund investments	<u>15,832,618</u>	<u>-</u>		
Domestic Venture Capital Investments:				
Managed Futures	1,491,919	-	Monthly	30 Days
Venture Capital	2,232,067	2,666,220	None	None
Total Domestic Venture Capital Investments:	<u>3,723,986</u>	<u>2,666,220</u>		
Ending Balance at June 30, 2012	<u>\$ 19,556,604</u>	<u>\$ 2,666,220</u>		

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 13 - Fair Value of Assets and Liabilities (Continued)

The Foundation's interest in limited partnerships represents 19% of the total investments held by the Foundation at June 30, 2011. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying Consolidated Statements of Financial Position using significant unobservable (Level 3) inputs:

2011	Hedge Fund Investments		Domestic	Total
	Equity Long/Short	Global Opportunities	Venture Capital Investment	
Beginning Balance at July 1, 2010	\$ 3,286,897	\$ 6,415,664	\$ 6,319,301	\$ 16,021,862
Total Realized Gains	-	858,136	1,391,338	2,249,474
Total Unrealized Gains (Losses)	1,740,768	5,097,037	(4,837,829)	1,999,976
Purchases	-	3,339,052	1,357,308	4,696,360
Sales	-	(6,509,097)	(647,827)	(7,156,924)
Ending Balance at June 30, 2011	\$ 5,027,665	\$ 9,200,792	\$ 3,582,291	\$ 17,810,748

Net realized and unrealized gains on investments of \$2,249,474 and \$1,999,976, respectively, all related to assets still held at June 30, 2011, are included in the lines "Net investment income" in the Consolidated Statement of Activities for the year ended June 30, 2011.

The following are the commitment and redemption provisions for Foundation assets held:

2011	Fair Value at June 30, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Fund Investments:				
Equity Long/Short	\$ 5,027,665	\$ -	Quarterly	45 Days
Global Opportunities	9,200,792	-	Quarterly	45 Days
Total Hedge fund investments	14,228,457	-		
Domestic Venture Capital Investments:				
Managed Futures	1,495,183	-	Monthly	30 Days
Venture Capital	2,087,108	2,968,750	None	None
Total Domestic Venture Capital Investments:	3,582,291	2,968,750		
Ending Balance at June 30, 2011	\$ 17,810,748	\$ 2,968,750		

Note 13 - Fair Value of Assets and Liabilities (Continued)

The University's interest in limited partnerships represents 22% of the total investments held by the Foundation on behalf of the University (See Note 5), at June 30, 2012. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying Consolidated Statements of Financial Position using significant unobservable (Level 3) inputs:

<i>2012</i>	<i>Hedge Fund Investments</i>			<i>Domestic</i>	<i>Total</i>
	<i>Equity Long/Short</i>	<i>Global Opportunities</i>	<i>Derivatives</i>	<i>Venture Capital Investment</i>	
Beginning Balance at July 1, 2011	\$ 2,048,053	\$ 3,746,648	\$ -	\$ 1,458,929	\$ 7,253,630
Total Realized Gains (Losses)	9,000	(8,827)	-	-	173
Total Unrealized Gains (Losses)	328,113	(775,993)	(51,776)	(51,670)	(551,326)
Purchases	66,880	788,316	430,847	144,141	1,430,184
Sales	-	(86,114)	-	(23,678)	(109,792)
Ending Balance at June 30, 2012	\$ 2,452,046	\$ 3,664,030	\$ 379,071	\$ 1,527,722	\$ 8,022,869

Net realized gains and unrealized losses on the University investments of \$173 and \$(551,326), respectively, all related to assets still held at June 30, 2012, are included in the lines "Net investment income" in the statement of activities for the year ended June 30, 2012.

The following are the commitment and redemption provisions for University assets held:

<i>2012</i>	<i>Fair Value At June 30, 2012</i>	<i>Unfunded Commitments</i>	<i>Redemption Frequency</i>	<i>Redemption Notice Period</i>
Hedge Fund Investments:				
Equity Long/Short	\$ 2,452,046	\$ -	Quarterly	45 Days
Global Opportunities	3,664,030	-	Quarterly	45 Days
Derivatives	<u>379,071</u>	-	Quarterly	45 Days
Total Hedge fund investments	6,495,147	-		
Domestic Venture Capital Investments:				
Managed Futures	612,042	-	Monthly	30 Days
Venture Capital	<u>915,680</u>	<u>1,093,785</u>	None	None
Total Domestic Venture Capital Investments:	<u>1,527,722</u>	<u>1,093,785</u>		
Ending Balance at June 30, 2012	<u>\$ 8,022,869</u>	<u>\$ 1,093,785</u>		

Note 13 - Fair Value of Assets and Liabilities (Continued)

The University's interest in limited partnerships represents 19% of the total investments held by the Foundation on behalf of the University (See Note 5), at June 30, 2011. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition.

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying Consolidated Statements of Financial Position using significant unobservable (Level 3) inputs:

2011	Hedge Fund Investments		Domestic	Total
	Equity Long/Short	Global Opportunities	Venture Capital Investment	
Beginning Balance at July 1, 2010	\$ 1,338,626	\$ 2,612,853	\$ 2,573,608	\$ 6,525,087
Total Realized Gains	-	349,486	566,638	916,124
Total Unrealized Gains (Losses)	709,427	2,075,346	(1,970,261)	814,512
Purchases	-	1,359,867	552,779	1,912,646
Sales	-	(2,650,904)	(263,835)	(2,914,739)
Ending Balance at June 30, 2011	\$ 2,048,053	\$ 3,746,648	\$ 1,458,929	\$ 7,253,630

Net realized and unrealized gains on the University investments of \$916,124 and \$814,512, respectively, all related to assets still held at June 30, 2011, are included in the lines "Net investment income" in the Consolidated Statement of Activities for the year ended June 30, 2011.

The following are the commitment and redemption provisions for University assets held:

2011	Fair Value At June 30, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Fund Investments:				
Equity Long/Short	\$ 2,048,053	\$ -	Quarterly	45 Days
Global Opportunities	<u>3,746,648</u>	<u>-</u>	Quarterly	45 Days
Total Hedge fund investments	5,794,701	-		
Domestic Venture Capital Investments:				
Managed Futures	608,930	-	Monthly	30 Days
Venture Capital	<u>849,999</u>	<u>1,209,057</u>	None	None
Total Domestic Venture Capital Investments:	<u>1,458,929</u>	<u>1,209,057</u>		
Ending Balance at June 30, 2011	\$ 7,253,630	\$ 1,209,057		

Note 13 - Fair Value of Assets and Liabilities (Continued)

The investments held that are valued at Net Asset Valuations had the following investment strategies per the Foundations 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 Merrill Lynch, 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 benchmarks. Value added is defined as the funds absolute performance, relative performance, standard deviation and its correlation value to the total Fund portfolio.

Domestic venture capital investments (VC) is financial capital provided to early-stage, high-potential, high risk, growth startup companies. The venture capital fund makes money by owning equity in the companies it invests in, which usually have a novel technology or business model in high technology industries. The typical venture capital investment occurs after the seed funding round as growth funding round (also referred as Series A round) in the interest of generating a return through an eventual realization event, such as an IPO or trade sale of the company.

Note 14 - Endowment

New Mexico State University Foundation's endowment consists of approximately 1,331 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by internal sources to function as endowments. As required by GAAP, net assets associated with endowments funds are classified and reported based on the existence or absence of donor-imposed restrictions. At the beginning of fiscal year 2010, an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) became effective for the State to whose law this Foundation is subject.

Interpretation of Relevant Law

New Mexico State University Foundation, Inc. classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. This is in a manner consistent with the standard of prudence prescribed by New Mexico Uniform Prudent Management of Institutional Funds Act (NMUPMIFA) as requiring the preservation of the fair value of original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with NMUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

The composition of net assets by type of endowment fund at June 30, 2012 and 2011, were as shown on the following page.

New Mexico State University Foundation, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
For the Years ended June 30, 2012 and 2011

Note 14 - Endowment (Continued)

2012

**Endowment Net Asset Composition by Type of Fund
As of June 30, 2012**

<i>2012</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 21,263,013	\$ 69,357,386	\$ 90,620,399
Board-designated endowment funds	<u>489,533</u>	<u>-</u>	<u>-</u>	<u>489,533</u>
Total funds	<u>\$ 489,533</u>	<u>\$ 21,263,013</u>	<u>\$ 69,357,386</u>	<u>\$ 91,109,932</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2012**

<i>2012</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment Net Assets, beginning of the year	\$ 3,984,053	\$ 30,178,184	\$ 65,556,758	\$ 99,718,995
Designation of unrestricted - change in undesignated funds to cover deficiencies of perpetual endowments	<u>(2,116,992)</u>	<u>2,116,992</u>	<u>-</u>	<u>-</u>
Endowment Net Assets after reclassification	<u>1,867,061</u>	<u>32,295,176</u>	<u>65,556,758</u>	<u>99,718,995</u>
Investment Return: Investment Income	-	2,698,995	-	2,698,995
Net depreciation (realized and unrealized)	<u>-</u>	<u>(9,672,424)</u>	<u>-</u>	<u>(9,672,424)</u>
Total investment return	<u>-</u>	<u>(6,973,429)</u>	<u>-</u>	<u>(6,973,429)</u>
Contributions, Reversions and changes in Donor Restrictions	(1,377,528)	(451,631)	3,800,628	1,971,469
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(3,607,103)</u>	<u>-</u>	<u>(3,607,103)</u>
Endowment Net Assets, end of year	<u>\$ 489,533</u>	<u>\$ 21,263,013</u>	<u>\$ 69,357,386</u>	<u>\$ 91,109,932</u>

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 14 - Endowment (Continued)

2011

Endowment Net Asset Composition by Type of Fund

As of June 30, 2011

<i>2011</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor-restricted endowment funds	\$ -	\$ 30,178,184	\$ 65,556,758	\$ 95,734,942
Board-designated endowment funds	<u>3,984,053</u>	<u>-</u>	<u>-</u>	<u>3,984,053</u>
Total funds	<u>\$ 3,984,053</u>	<u>\$ 30,178,184</u>	<u>\$ 65,556,758</u>	<u>\$ 99,718,995</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2011**

<i>2011</i>	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Endowment Net Assets, beginning of the year	\$ 5,307,648	\$ 10,967,969	\$ 65,673,845	\$ 81,949,462
Designation of unrestricted - change in undesignated funds to cover deficiencies of perpetual endowments	<u>(898,942)</u>	<u>898,942</u>	<u>-</u>	<u>-</u>
Endowment Net Assets after reclassification	<u>4,408,706</u>	<u>11,866,911</u>	<u>65,673,845</u>	<u>81,949,462</u>
Investment Return: Investment Income	-	1,876,572	-	1,876,572
Net appreciation (realized and unrealized)	<u>-</u>	<u>13,879,454</u>	<u>-</u>	<u>13,879,454</u>
Total investment return	<u>-</u>	<u>15,756,026</u>	<u>-</u>	<u>15,756,026</u>
Contributions, Reversions and changes in Donor Restrictions	(424,653)	6,056,684	(117,087)	5,514,944
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(3,501,437)</u>	<u>-</u>	<u>(3,501,437)</u>
Endowment Net Assets, end of year	<u>\$ 3,984,053</u>	<u>\$ 30,178,184</u>	<u>\$ 65,556,758</u>	<u>\$ 99,718,995</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets are \$3,015,934 and \$898,942 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

New Mexico State University Foundation, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years ended June 30, 2012 and 2011

Note 14 - Endowment (Continued)

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 endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of investment vehicle specific benchmarks while assuming an appropriate level of risk. The Investment Policy calls for expectation of 5.5% plus the rate of the Consumer Price Index. Actual returns in any given year may vary.

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-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In accordance with the Foundation's Investment Policy approved by the Board of Directors, a distribution is calculated for the upcoming year as of March 31 of the prior year. The spending formula used is described in the Investment Policy and is composed of two factors: 80% of the distribution is based on the previous year's distribution amount adjusted for the Higher Education Price Index, and 20% of the distribution is based on the market value of the endowment at the end of each fiscal quarter. This amount is then distributed at June 30 of the next year. The distribution of the annual calculation is based on the unitized system ownership of each fund.

Note 15 - Subsequent Events

Subsequent events are events or transactions that occur after the Consolidated Statement of Financial Position date but before consolidated financial statements are available to be issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Foundation's Consolidated Financial Statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the consolidated statement of financial position date and before consolidated financial statements are available to be issued.

Subsequent to year end, the investment markets continued to experience significant fluctuations as changes in the global economy affect the US market. It is expected that this volatility will continue to impact the value of investments reported in the Consolidated Statement of Financial Position in the subsequent fiscal year.

**REPORT OF INDEPENDENT AUDITORS 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***

The Board of Directors
New Mexico State University Foundation, Inc. and Subsidiaries and
Mr. Hector Balderas
New Mexico State Auditor

We have audited the consolidated financial statements of the New Mexico State University Foundation, Inc. and Subsidiaries (the "Foundation") (a component unit of New Mexico State University) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. 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 Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 previously.

The Board of Directors
New Mexico State University Foundation, Inc. and Subsidiaries and
Mr. Hector Balderas
New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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 consolidated 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, Board of Directors, others within the entity, the New Mexico State Auditor, and applicable federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mess Adams LLP

Albuquerque, New Mexico
October 22, 2012

New Mexico State University Foundation, Inc. and Subsidiaries

Summary Schedule of Prior Year Audit Findings and

Schedule of Findings and Responses

For the Years ended June 30, 2012 and 2011

Status of Prior Year Audit Findings

None

New Mexico State University Foundation, Inc. and Subsidiaries

Exit Conference

For the Years ended June 30, 2012 and 2011

An Exit Conference was held at the Foundation on October 22, 2012, to discuss the current audit report and current and prior year auditor's comments. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

Representing the Board of Directors for New Mexico State University Foundation, Inc. and Subsidiaries:

Dan Socolofsky	Chair, Audit Committee; Member, Board of Directors
Sandra Ricci	Vice Chair, Audit Committee, Member, Board of Directors
Bobby Rankin	Member, Audit Committee, Member, Board of Directors
Tim Clifford	Member, Audit Committee, Member, Board of Directors
Tana Lucy	Member, Audit Committee, Member, Board of Directors

Representing New Mexico State University Foundation, Inc. and Subsidiaries:

Dennis Prescott	Vice President, University Advancement President, New Mexico State University Foundation, Inc. and Subsidiaries
Tina Byford	Associate Vice President, University Advancement Senior Vice President of Finance and Administration, New Mexico State University Foundation, Inc. and Subsidiaries
Randy Frye	Director, University Advancement Controller, New Mexico State University Foundation, Inc. and Subsidiaries

Representing Moss Adams LLP:

Lisa Todd, Engagement Reviewer

FINANCIAL STATEMENT PREPARATION

The Foundation's Consolidated Financial Statements were prepared by the Foundation's accountants.

Live, Learn and Thrive.™



New Mexico State University Foundation, Inc. and Subsidiaries

P.O. Box 3590

Las Cruces, N.M. 88003

foundation.nmsu.edu