

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008**

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

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FINANCIAL STATEMENTS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

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

We have audited the accompanying statement of financial position of New Mexico Military Institute Foundation, Inc. (a not-for-profit organization) as of June 30, 2009, and the related statements of activities, and statement of cash flows for the year then ended. These financial statements are the responsibility of the New Mexico Military Institute Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative totals as of and for the year ended June 30, 2008, presented in the financial statements were audited by other accountants and are included for additional analysis only. Neither we nor the other accountants have performed any auditing procedures on this information since the date of their report.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Mexico Military Institute Foundation, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2009, on our consideration of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the New Mexico Military Institute Foundation, Inc.'s financial statements. The accompanying supplementary information such as the additional schedules listed as Other Supplemental Information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The Other Supplemental Information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Heinfeld, Meech & Co., P.C.

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

September 9, 2009

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	Unrestricted		Temporarily Restricted	
	2009	2008	2009	2008
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 20,402	\$ 58,306	\$ 263,369	\$ 458,785
Accounts receivable	37,747	50,531		500
Pledges receivable, net of allowance			52,543	88,403
Prepaid expenses	3,040	2,872		
Total current assets	61,189	111,709	315,912	547,688
Noncurrent assets:				
Investments	4,358,806	5,610,694	1,722,070	6,086,351
Land and buildings held for investment	6,732,221	902,440		
Pledges receivable, net of allowance			496,583	472,080
Furniture and equipment, net	481	1,006		
Surrender value of life insurance policies	550,512	463,655		
Beneficial interest in perpetual trust				
Other assets				
Total noncurrent assets	11,642,020	6,977,795	2,218,653	6,558,431
Total assets	\$ 11,703,209	\$ 7,089,504	\$ 2,534,565	\$ 7,106,119
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 1,228	\$ 7,324	\$ 8,611	\$ 1,894
Due to NMMI	71,047	69,298	84,895	63,138
Due to Alumni Association	2,571			
Accrued employee leave	15,993	13,493		
Deferred support		2,250	305,069	404,373
Total current liabilities	90,839	92,365	398,575	469,405
Total liabilities	90,839	92,365	398,575	469,405
Net assets:				
Unrestricted	11,612,370	6,997,139		
Temporarily restricted			2,135,990	6,636,714
Permanently restricted				
Total net assets	11,612,370	6,997,139	2,135,990	6,636,714
Total liabilities and net assets	\$ 11,703,209	\$ 7,089,504	\$ 2,534,565	\$ 7,106,119

Permanently Restricted		Totals	
2009	2008	2009	2008
\$	\$	\$ 283,771	\$ 517,091
		37,747	51,031
		52,543	88,403
		3,040	2,872
		<u>377,101</u>	<u>659,397</u>
16,734,646	16,519,165	22,815,522	28,216,210
		6,732,221	902,440
	33,919	496,583	505,999
		481	1,006
		550,512	463,655
668,058	934,360	668,058	934,360
50,000	50,000	50,000	50,000
<u>17,452,704</u>	<u>17,537,444</u>	<u>31,313,377</u>	<u>31,073,670</u>
\$ <u>17,452,704</u>	\$ <u>17,537,444</u>	\$ <u>31,690,478</u>	\$ <u>31,733,067</u>
\$	\$	\$ 9,839	\$ 9,218
		155,942	132,436
		2,571	
		15,993	13,493
		305,069	406,623
		<u>489,414</u>	<u>561,770</u>
		<u>489,414</u>	<u>561,770</u>
		11,612,370	6,997,139
		2,135,990	6,636,714
<u>17,452,704</u>	<u>17,537,444</u>	<u>17,452,704</u>	<u>17,537,444</u>
<u>17,452,704</u>	<u>17,537,444</u>	<u>31,201,064</u>	<u>31,171,297</u>
\$ <u>17,452,704</u>	\$ <u>17,537,444</u>	\$ <u>31,690,478</u>	\$ <u>31,733,067</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	
	2009	2008	2009	2008
Support and revenue:				
Contributions	\$ 10,781	\$ 3,675	\$ 267,365	\$ 58,473
In-kind donations	4,000	4,000		
Rental income	306,535	308,621		
Investment income (loss)	(1,421,659)	(365,254)	(4,038,815)	(1,435,657)
Change in cash value of life insurance	86,857	31,045		
Gain on sale of real estate	65,448			
Fundraising support	113,881	85,514		
Miscellaneous	3,059	3,040		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total support and revenue before net assets released from restriction	(831,098)	70,641	(3,771,450)	(1,377,184)
Net assets released from restriction	729,274	950,317	(729,274)	(950,317)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total support and revenue	(101,824)	1,020,958	(4,500,724)	(2,327,501)
Expenses:				
Program services -				
NMMI support	157,756	163,499		
Alumni support	11,463	25,455		
Scholarships	401,121	446,618		
Activities and projects	374,545	490,014		
Professorships and awards	60,282	59,634		
Total program expenses	<u>1,005,167</u>	<u>1,185,220</u>		
Support services -				
Management and general	226,094	218,587		
Real estate	39,911	41,561		
Total supporting services	<u>266,005</u>	<u>260,148</u>		
Fundraising	<u>116,599</u>	<u>83,722</u>		
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	1,387,771	1,529,090		
Change in net assets	(1,489,595)	(508,132)	(4,500,724)	(2,327,501)
Net assets, beginning of year (as restated)	<u>13,101,965</u>	<u>7,505,271</u>	<u>6,636,714</u>	<u>8,964,215</u>
Net assets, end of year	<u>\$ 11,612,370</u>	<u>\$ 6,997,139</u>	<u>\$ 2,135,990</u>	<u>\$ 6,636,714</u>

Permanently Restricted		Totals	
<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
\$ 181,561	\$ 170,463	\$ 459,707	\$ 232,611
		4,000	4,000
		306,535	308,621
(266,301)	(44,609)	(5,726,775)	(1,845,520)
		86,857	31,045
		65,448	
		113,881	85,514
		3,059	3,040
<u>(84,740)</u>	<u>125,854</u>	<u>(4,687,288)</u>	<u>(1,180,689)</u>
<u>(84,740)</u>	<u>125,854</u>	<u>(4,687,288)</u>	<u>(1,180,689)</u>
		157,756	163,499
		11,463	25,455
		401,121	446,618
		374,545	490,014
		60,282	59,634
		<u>1,005,167</u>	<u>1,185,220</u>
		226,094	218,587
		39,911	41,561
		<u>266,005</u>	<u>260,148</u>
		116,599	83,722
		<u>1,387,771</u>	<u>1,529,090</u>
(84,740)	125,854	(6,075,059)	(2,709,779)
<u>17,537,444</u>	<u>17,411,590</u>	<u>37,276,123</u>	<u>33,881,076</u>
<u>\$ 17,452,704</u>	<u>\$ 17,537,444</u>	<u>\$ 31,201,064</u>	<u>\$ 31,171,297</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (6,075,059)	\$ (2,709,779)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	525	525
Realized gain on sale of investments	(77,265)	(349,615)
Unrealized loss on investments	6,155,499	2,674,782
Gain on sale of real estate	(65,448)	
Property transferred to NMMI		89,232
Change in cash value of life insurance policies	(86,857)	(31,046)
Changes in operating assets:		
(Increase) decrease in accounts receivable	13,284	(24,837)
(Increase) decrease in pledges receivable	45,276	329,813
(Increase) in prepaid assets	(168)	
Changes in operating liabilities:		
Increase (decrease) in payables	26,698	(39,557)
Increase (decrease) in accrued employee leave	2,500	(4,124)
Increase (decrease) in deferred support	(101,554)	(50,744)
	<u>(162,569)</u>	<u>(115,350)</u>
Net cash provided by (used for) operating activities		
Cash flows from investing activities:		
Net proceeds from sale of real estate	402,091	
Purchase of real estate	(158,426)	(111,706)
Purchases of investments	(3,647,776)	(1,591,061)
Proceeds from sale of investments	3,333,360	439,341
	<u>(70,751)</u>	<u>(1,263,426)</u>
Net cash used for investing activities		
Net decrease in cash and cash equivalents	(233,320)	(1,378,776)
Cash and cash equivalents, beginning of year	<u>517,091</u>	<u>1,895,867</u>
Cash and cash equivalents, end of year	<u>\$ 283,771</u>	<u>\$ 517,091</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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, 2009 and 2008, the Foundation received \$448,926 and \$228,936, respectively, in restricted contributions. For the years ended June 30, 2009 and 2008, the Foundation received \$306,535 and \$308,621, respectively, in rental income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Basis of Presentation

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

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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.

Revenue Recognition

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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

Additionally, for the years ended June 30, 2009 and 2008, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$12,611 and \$22,615, respectively. For the years ended June 30, 2009 and 2008, the Foundation did not pay any income tax or interest expense.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Contributions and Pledges

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

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

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.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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

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, 2009 and 2008. Increases in cash value during the year are recognized as earned revenue.

Implementation of FSP FAS 117-1 and FASB Statement No. 157

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The State of New Mexico enacted UPMIFA effective for periods beginning July 1, 2009. The Foundation has elected to early adopt FSP FAS 117-1 for the year ended June 30, 2009.

Annual Leave

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

Furniture and Equipment

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

Budget

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

Subsequent Events

Subsequent events have been evaluated through September 9, 2009, which is the date the financial statements were available to be issued.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3 – CASH AND INVESTMENTS

At June 30, 2009, the Foundation's deposits were \$283,771, and the bank balance was \$292,694. The balances were insured by the Federal Deposit Insurance Corporation.

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value. Fair value for investments are determined by reference to quoted market prices or other relevant information generated by market transactions which represent level 1 inputs. Investments at June 30, 2009 and 2008 were comprised of the following.

<u>Managed Funds/Bonds</u>	<u>2009</u>	<u>2008</u>
Dodge & Cox	\$ 3,326,328	\$ 4,754,959
Newport Asia Fund	402,498	445,162
Pine Grove	2,748,933	3,156,597
Pimco Short Term Bond Fund	1,733,767	4,485,199
Pimco Total Return Fund	2,073,442	
Private Advisors Fund	2,460,244	3,255,016
Longleaf Partners Fund	672,795	948,097
Wellington Micro Cap	1,178,705	1,569,734
Wellington Trust Company	5,884,957	8,109,974
Fortress Partners Fund	1,279,993	1,491,472
Vanguard Inflation-Protected Securities	1,053,860	
	<u>22,815,522</u>	<u>28,216,210</u>
Less:		
Deferred support	(305,069)	(406,623)
Foundation Investments	<u>\$22,510,453</u>	<u>\$27,809,587</u>

Investment income (loss) consisted of the following for the years ended June 30, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 425,004	\$ 574,119
Net unrealized gains (losses)	(6,155,499)	(2,674,782)
Net realized gains (losses)	77,265	349,615
Investment expenses	(73,545)	(94,472)
Total investment income (loss)	<u>\$ (5,726,775)</u>	<u>\$ (1,845,520)</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 – ENDOWMENTS

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

A. Interpretation of Relevant Law

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

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 – ENDOWMENTS (Cont'd)

Endowment Net Asset Composition by Type of Fund as of June 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 2,135,990	\$ 17,452,704	\$ 19,588,694
Total funds	<u>\$ 2,135,990</u>	<u>\$ 17,452,704</u>	<u>\$ 19,588,694</u>

Changes in Endowment Net Assets for the year ended June 30, 2009:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 6,636,714	\$ 17,537,444	\$ 24,174,158
Investment earnings	384,813		384,813
Net depreciation, realized and unrealized	<u>(4,423,628)</u>	<u>(266,301)</u>	<u>(4,689,929)</u>
Total investment return	(4,038,815)	(266,301)	(4,305,116)
Contributions	267,365	181,561	448,926
Appropriation of endowment assets for expenditure	<u>(729,274)</u>		<u>(729,274)</u>
Endowment net assets, end of year	<u>\$ 2,135,990</u>	<u>\$ 17,452,704</u>	<u>\$ 19,588,694</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 4 – ENDOWMENTS (Concl'd)

B. Funds with Deficiencies

From time to time, the fair values of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$372,635 at June 30, 2009.

C. Return Objectives and Risk Parameters

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

D. Strategies Employed for Achieving Objectives

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

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

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at June 30, 2009 totaled \$812,404, excluding a present value discount of \$263,278 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.

	2009	2008
Receivable in less than one year	\$ 52,543	\$ 88,403
Receivable in one to five years	224,051	217,816
Receivable in more than five years	535,810	581,188
Total pledges receivable	812,404	887,407
Less discounts to net present value	(263,278)	(293,005)
Net pledges receivable at year-end	<u>\$ 549,126</u>	<u>\$ 594,402</u>

NOTE 6 – LAND HELD FOR INVESTMENT

Land held for investment consists of various developed and undeveloped lots, primarily in the area of Roswell, New Mexico. All land held for investment is reported at market value using recent comparative sales, inquiries of appraisers, and actual appraisals to estimate the fair market value which represent level 3 inputs. Land is sold at the direction of the Board of Trustees. During the year ended June 30, 2009, the Foundation sold land on 19th Street for \$408,309, incurring selling expenses of approximately \$10,840 and realized gain of \$63,451 and land in Orogrande, New Mexico for \$5,000, incurring selling expenses of approximately \$378 and realized gain of \$1,997.

NOTE 7 – DEFERRED SUPPORT

The principal amount of life gifts, charitable remainder unitrusts and accumulated earnings, which are temporarily restricted, are included in investments in the Statements of Financial Position and will be reflected as support in the Statements of Activities when the term of the life income gifts have been met and the income is no longer restricted. At June 30, 2009 and 2008 the following amounts for charitable remainder unitrusts are recorded as deferred support.

	2009	2008
Ralph R. Conner	<u>\$ 305,069</u>	<u>\$ 406,623</u>
Total Deferred Support	<u>\$ 305,069</u>	<u>\$ 406,623</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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 June 30, 2009:

2010	\$ 264,418
2011	264,418
2012	264,418
2013	268,417
2014	274,417
Thereafter	<u>6,365,111</u>
Total minimum lease payments	<u>\$ 7,701,199</u>

NOTE 9 – RELATED PARTY TRANSACTION

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the years ended June 30, 2009 and 2008, \$4,000 was recorded each year as a contribution for the use of office space with a corresponding amount recorded as rent expense.

For the years ended June 30, 2009 and 2008, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2009 and 2008, \$155,942 and \$132,436, respectively, were due to the Institute for operating expenses and support. For the years ended June 30, 2009 and 2008, the Foundation provided \$1,005,167 and \$1,185,220, respectively, in scholarships and awards for the benefit of institute cadets and faculty.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 10 – RETIREMENT PLAN

Plan Description – The Foundation’s full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (ERA) (Chapter 22, Article 11, NMSA 1978). The Education Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, and cost of living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERA, P.O. Box 26219, Santa Fe, New Mexico 87502.

Funding Policy – Plan members are required to contribute 7.9% of their gross salary. The Foundation is required to contribute 11.65% for all plan members. The contribution requirements of the plan members and the Foundation are established in Chapter 22, Article 11, NMSA 1978. The Foundation’s contributions to PERA for the years ended 2009 and 2008 were \$23,432 and \$19,687, respectively, which were equal to the amount of the required contributions for each year.

NOTE 11 – POSTEMPLOYMENT BENEFITS

The Foundation provides certain health care benefits for retired employees. Substantially all of the Foundation’s employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the Foundation.

The Retiree Health Care Act (Act) (Chapter 10, Article 7C NMSA 1978) provides comprehensive core group health insurance for persons who have retired from certain public service in New Mexico. The Retiree Health Care Authority is the administrator of the plan. The purpose is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees.

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers consist of institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act, or the Magistrate Retirement Act. The Foundation remitted \$2,615 and \$2,348 in employer contributions in the fiscal years ended June 30, 2009 and 2008, respectively.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 11 – POSTEMPLOYMENT BENEFITS (Concl'd)

The Retiree Health Care Authority issues a separate, publicly available audited financial report that includes post employment benefit expenditures of premiums and claims paid, participant contributions (employer, employee, and retiree), and net expenditures for the fiscal year. The report also includes the approximate number of retirees participating in the plan. That report may be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd NE, Suite 104, Albuquerque, New Mexico 87107.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The July 1, 2008, unrestricted net assets do not agree to the prior year financial statements due to a change in accounting for land held for investment from historical cost to current estimated market value.

	Statement of Activities
Net Assets, June 30, 2008, as previously reported	\$ 31,171,297
Change in valuation for land held for investment	6,104,826
Net Assets, July 1, 2008, as restated	\$ 37,276,123

OTHER SUPPLEMENTAL INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
JUNE 30, 2009 AND 2008

	<u>Unaudited Budget</u>	<u>2009 Actual</u>	<u>Variance</u>	<u>2008 Actual</u>
Revenues:				
Rents:				
1900 North Main/ Dairy Queen	\$ 21,400	\$ 31,640	\$ (10,240)	\$ 21,400
2200 North Main/ Denny's	29,991	35,189	(5,198)	34,432
2000 North Main/ Sally Port Inn	129,876	129,879	(3)	129,879
2110 North Main/ Whataburger	27,000	62,752	(35,752)	78,910
College and Main/ F&H Investments	44,000	47,074	(3,074)	44,000
Total rents	<u>252,267</u>	<u>306,534</u>	<u>(54,267)</u>	<u>308,621</u>
Other revenues:				
Contributions		10,781	(10,781)	3,675
Earnings from unrestricted investments		84,635	(84,635)	158,286
Gain on sale of assets		65,448	(65,448)	
Change in cash value of life insurance policies		86,857	(86,857)	31,045
In-kind revenue	4,000	4,000		4,000
Fundraising support	125,000	113,881	11,119	85,514
Other income or fund transfers	3,000	3,059	(59)	3,040
Unrealized gain (loss) on investments		(1,506,293)	1,506,293	(523,540)
Total other revenues	<u>132,000</u>	<u>(1,137,632)</u>	<u>1,269,632</u>	<u>(237,980)</u>
Total rents and other revenues	<u>\$ 384,267</u>	<u>\$ (831,098)</u>	<u>\$ 1,215,365</u>	<u>\$ 70,641</u>
Expenditures:				
Foundation expenditures:				
Accounting and auditing	16,000	12,178	3,822	14,970
Auto allowance/travel	600	325	275	315
Computer hardware and software	3,000	2,872	128	2,872
Depreciation		525	(525)	525
Executive committee contingency	3,500	3,337	163	494
Executive director professional development	2,000	1,060	940	1,271
Director's insurance	11,000	9,277	1,723	9,806
Legal service	10,000	5,639	4,361	1,952
Miscellaneous	18,600	6,455	12,145	734
Office supplies	17,500	20,378	(2,878)	19,398
Rent expense	4,000	4,000		4,000
Salaries, taxes and benefits	272,400	274,598	(2,198)	241,562
Travel	7,500	2,049	5,451	4,410
Total foundation expenditures	<u>366,100</u>	<u>342,693</u>	<u>23,407</u>	<u>302,309</u>

	<u>Unaudited Budget</u>	<u>2009 Actual</u>	<u>Variance</u>	<u>2008 Actual</u>
Expenditures:				
NMMI support:				
VP of Enrollment	\$	\$	\$	\$ 176
AFI Reception				5,018
Athletic Director	1,884	1,884		452
Cadet activities	20,000	20,000		29,000
Dean of Academics	648	1,125	(477)	4,577
Executive VP				2,153
Commandant of Cadets	23	23		1,349
MS IV Development				782
Miscellaneous	126,273	128,396	(2,123)	98,461
VP of Facilities	305	306	(1)	1,090
Professor of Military Science				290
Scholarships	124,339	106,674	17,665	45,950
Senior Army Instructor				163
Superintendent	3,728	5,823	(2,095)	18,081
VP Finance	199	199		
Superintendent's travel				1,908
Total NMMI support	<u>277,399</u>	<u>264,430</u>	<u>12,969</u>	<u>209,450</u>
Alumni support:				
Alumni Association support	<u>15,000</u>	<u>11,463</u>	<u>3,537</u>	<u>25,455</u>
Real estate:				
Grounds maintenance	3,000	1,905	1,095	2,121
Miscellaneous real estate expense	4,000	1,776	2,224	77
Property insurance	7,500	6,247	1,253	6,268
Property tax	31,000	28,191	2,809	29,589
Remediation expenses		1,792	(1,792)	3,506
Total real estate	<u>45,500</u>	<u>39,911</u>	<u>5,589</u>	<u>41,561</u>
Total expenditures	<u>\$ 703,999</u>	<u>\$ 658,497</u>	<u>\$ 45,502</u>	<u>\$ 578,775</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION INC.
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2009 AND 2008

Institution	Account Name	Account Type	Book Balance	Bank Balance
Cash and equivalents:				
Wells Fargo	Operating	Checking	\$ 20,402	\$ 21,314
Wells Fargo	Restricted	Checking	38,273	46,284
Wells Fargo	Wells Fargo Treasury Fund	Money Market	225,096	225,096
			<u>\$ 283,771</u>	<u>\$ 292,694</u>
Investments:				
Dodge & Cox	D&C International Stock Fund	Investment	\$ 3,326,328	\$ 3,326,328
Fortress Investment Group	Fortress Partners Fund	Investment	1,279,993	1,279,993
Longleaf Partners	Longleaf Partners Fund	Investment	672,795	672,795
Newport Asia	Newport Asia Institutional Fund	Investment	402,498	402,498
Pine Grove	Pine Grove Offshore Fund	Investment	2,748,933	2,748,933
Pimco	Pimco Short Term Fund	Investment	1,733,767	1,733,767
Pimco	Pimco Total Return Fund	Investment	2,073,442	2,073,442
Private Advisors	Private Advisors Hedged Equity Fund	Investment	2,460,244	2,460,244
Wellington	Wellington Micro Cap	Investment	1,178,705	1,178,705
Wellington	Wellington Management CTF	Investment	5,884,957	5,884,957
Vanguard	Vanguard Inflation-Protected Securities Fund	Investment	1,053,860	1,053,860
			<u>\$ 22,815,522</u>	<u>\$ 22,815,522</u>

COMPLIANCE SECTION

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

Mr. Hector H. Balderas
New Mexico State Auditor

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

We have audited the financial statements of New Mexico Military Institute Foundation, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated September 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the New Mexico Military Institute Foundation, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the New Mexico Military Institute Foundation, Inc.'s internal control.

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

Compliance and Other Matters

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

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

Heinfeld, Meech & Co., P.C.

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

September 9, 2009

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None

FINANCIAL STATEMENT PREPARATION

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

EXIT CONFERENCE

An exit conference was held on September 17, 2009 to discuss the financial statements and auditors' reports. Mike Hoerig, Manager; and Jim Rebenar, Senior Auditor; represented Heinfeld, Meech & Co. Jimmy Barnes, President & CEO; and Jesse Eckel, Treasurer, represented the New Mexico Military Institute Foundation.

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