

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BOARD OF TRUSTEES
JUNE 30, 2012

Executive Committee		Term Expires
Steve Elliott	Chairman	2012
James A. Solomon	Vice-Chairman	2013
Bill Armstrong, Jr.	Secretary	2013
Dick Waggoner	Treasurer	2014
Trustees		
Lance Benham	Member	2014
T. Blair Bouchier	Alumni Representative	N/A
Jesse F. Eckel	Member	2018
Stephen P. Paternoster	Member	2018
Phillip C. Ingram	Member	N/A
S.P. "Buzz" Johnson, III	Member	2013
Harris Kerr	Member	2012
Sean E. Schooley	Alumni Representative	N/A
Jesus Salazar	Member	2014
David R. Vandiver	Member	2012
Ex-Officio Member		
MG Jerry W. Grizzle	Superintendent	
President and Chief Executive Officer		
Jimmy L. Barnes, CPA		

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

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

We have audited the accompanying statement of financial position of New Mexico Military Institute Foundation, Inc. (a not-for-profit organization and a component unit of the New Mexico Military Institute) as of June 30, 2012, and the related statements of activities, and statement of cash flows for the year then ended. We have also audited the budgetary comparison presented as supplementary information as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the New Mexico Military Institute Foundation, Inc.'s management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from New Mexico Military Institute Foundation, Inc.'s 2011 financial statements and, in our report dated September 14, 2011, we expressed an unqualified opinion on those financial statements.

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 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 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, 2012, and the changes in its net assets and its cash flows and the respective budgetary comparison 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 November 3, 2012, on our consideration of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

November 3, 2012

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	
	2012	2011	2012	2011
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 37,979	\$ 39,297	\$ 570,960	\$ 178,747
Accounts receivable	16,747	34,403		6,136
Pledges receivable, net of allowance			61,673	63,727
Other receivable			4,241	
Prepaid expenses	3,379	3,315		
Total current assets	<u>58,105</u>	<u>77,015</u>	<u>636,874</u>	<u>248,610</u>
Noncurrent assets:				
Investments	7,156,594	7,437,008	4,882,423	6,346,730
Land and buildings held for investment	6,487,684	6,647,636		
Pledges receivable, net of allowance			444,874	477,365
Furniture and equipment, net	2,044	2,684		
Surrender value of life insurance policies	683,393	589,716		
Beneficial interest in perpetual trust				
Other assets				
Total noncurrent assets	<u>14,329,715</u>	<u>14,677,044</u>	<u>5,327,297</u>	<u>6,824,095</u>
Total assets	<u>\$ 14,387,820</u>	<u>\$ 14,754,059</u>	<u>\$ 5,964,171</u>	<u>\$ 7,072,705</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 3,650	\$ 161	\$	\$ 619
Due to NMMI	79,348	94,875	117,797	171,383
Accrued employee leave	19,210	16,865		
Other payables	4,241			
Deferred support	28,658	13,573	343,907	362,615
Total current liabilities	<u>135,107</u>	<u>125,474</u>	<u>461,704</u>	<u>534,617</u>
Total liabilities	<u>135,107</u>	<u>125,474</u>	<u>461,704</u>	<u>534,617</u>
Net assets:				
Unrestricted	14,252,713	14,628,585		
Temporarily restricted			5,502,467	6,538,088
Permanently restricted				
Total net assets	<u>14,252,713</u>	<u>14,628,585</u>	<u>5,502,467</u>	<u>6,538,088</u>
Total liabilities and net assets	<u>\$ 14,387,820</u>	<u>\$ 14,754,059</u>	<u>\$ 5,964,171</u>	<u>\$ 7,072,705</u>

See accompanying notes to financial statements.

Permanently Restricted		Totals	
<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
\$	\$	\$ 608,939	\$ 218,044
		16,747	40,539
		61,673	63,727
		4,241	
		3,379	3,315
		<u>694,979</u>	<u>325,625</u>
17,125,322	17,097,479	29,164,339	30,881,217
		6,487,684	6,647,636
		444,874	477,365
		2,044	2,684
		683,393	589,716
668,770	729,510	668,770	729,510
50,000	50,000	50,000	50,000
<u>17,844,092</u>	<u>17,876,989</u>	<u>37,501,104</u>	<u>39,378,128</u>
<u>\$ 17,844,092</u>	<u>\$ 17,876,989</u>	<u>\$ 38,196,083</u>	<u>\$ 39,703,753</u>
\$	\$	\$ 3,650	\$ 780
		197,145	266,258
		19,210	16,865
		4,241	
		372,565	376,188
		<u>596,811</u>	<u>660,091</u>
		<u>596,811</u>	<u>660,091</u>
		14,252,713	14,628,585
		5,502,467	6,538,088
17,844,092	17,876,989	17,844,092	17,876,989
<u>17,844,092</u>	<u>17,876,989</u>	<u>37,599,272</u>	<u>39,043,662</u>
<u>\$ 17,844,092</u>	<u>\$ 17,876,989</u>	<u>\$ 38,196,083</u>	<u>\$ 39,703,753</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Unrestricted		Temporarily Restricted	
	2012	2011	2012	2011
Support and revenue:				
Contributions	\$	\$ 1,350	\$ 455,976	\$ 410,468
In-kind donations	4,383	4,000		
Rental income	331,140	330,852		
Investment income (loss)	(56,914)	1,264,574	(165,691)	3,849,788
Change in cash value of life insurance	93,678	40,965		
Gain (loss) on sale of real estate		31,786		
Fundraising support	49,883	54,854		
Miscellaneous	5,210	6,310	7,219	
	<u>427,380</u>	<u>1,734,691</u>	<u>297,504</u>	<u>4,260,256</u>
Total support and revenue before net assets reclassifications				
Net assets released from restrictions	<u>1,333,125</u>	<u>1,214,069</u>	<u>(1,333,125)</u>	<u>(1,214,069)</u>
Permanent restrictions imposed on net assets				
Total support and revenue	<u>1,760,505</u>	<u>2,948,760</u>	<u>(1,035,621)</u>	<u>3,046,187</u>
Expenses:				
Program services -				
NMMI support	282,272	107,463		
Alumni support	67,305	67,551		
Scholarships	669,924	642,488		
Activities and projects	655,080	538,832		
Professorships and awards	57,000	44,900		
Total program expenses	<u>1,731,581</u>	<u>1,401,234</u>		
Support services -				
Management and general	233,630	242,443		
Real estate	38,553	42,798		
Total supporting services	<u>272,183</u>	<u>285,241</u>		
Fundraising	<u>132,613</u>	<u>137,689</u>		
Total expenses	<u>2,136,377</u>	<u>1,824,164</u>		
Change in net assets	<u>(375,872)</u>	<u>1,124,596</u>	<u>(1,035,621)</u>	<u>3,046,187</u>
Net assets, beginning of year	<u>14,628,585</u>	<u>13,503,989</u>	<u>6,538,088</u>	<u>3,491,901</u>
Net assets, end of year	<u>\$ 14,252,713</u>	<u>\$ 14,628,585</u>	<u>\$ 5,502,467</u>	<u>\$ 6,538,088</u>

Permanently Restricted		Totals	
2012	2011	2012	2011
\$ 27,842	\$ 76,068	\$ 483,818	\$ 487,886
		4,383	4,000
		331,140	330,852
(60,739)	95,680	(283,344)	5,210,042
		93,678	40,965
			31,786
		49,883	54,854
		12,429	6,310
(32,897)	171,748	691,987	6,166,695
(32,897)	171,748	691,987	6,166,695
		282,272	107,463
		67,305	67,551
		669,924	642,488
		655,080	538,832
		57,000	44,900
		1,731,581	1,401,234
		233,630	242,443
		38,553	42,798
		272,183	285,241
		132,613	137,689
		2,136,377	1,824,164
(32,897)	171,748	(1,444,390)	4,342,531
17,876,989	17,705,241	39,043,662	34,701,131
<u>\$ 17,844,092</u>	<u>\$ 17,876,989</u>	<u>\$ 37,599,272</u>	<u>\$ 39,043,662</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (1,444,390)	\$ 4,342,531
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	640	640
Realized gain on sale of investments	(675,127)	(550,077)
Unrealized (gain) loss on investments	1,285,063	(4,325,483)
Gain on sale of real estate		(31,786)
Change in cash value of life insurance policies	(93,678)	(40,965)
Changes in operating assets:		
(Increase) decrease in accounts receivable	23,792	(34,499)
Decrease in pledges receivable	2,054	18,285
Increase in prepaid assets	(64)	(275)
Changes in operating liabilities:		
Increase (decrease) in payables	(66,243)	47,579
Increase in accrued employee leave	2,345	1,090
Increase (decrease) in deferred support	(3,623)	52,820
	(969,231)	(520,140)
Net cash used for operating activities		
Cash flows from investing activities:		
Net proceeds from sale of real estate		149,006
Acquisition of capital assets		(984)
Purchases of investments	(2,975,773)	(3,734,546)
Proceeds from sale of investments	4,335,899	3,960,606
	1,360,126	374,082
Net cash provided by investing activities		
Net increase (decrease) in cash and cash equivalents	390,895	(146,058)
Cash and cash equivalents, beginning of year	218,044	364,102
Cash and cash equivalents, end of year	\$ 608,939	\$ 218,044

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 and 2011, the Foundation received \$483,818 and \$486,536, respectively, in restricted contributions. For the years ended June 30, 2012 and 2011, the Foundation received \$331,138 and \$330,852, respectively, in rental income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Basis of Presentation

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

- *Unrestricted net assets* – net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes, such as quasi-endowments, by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unless otherwise designated, unrestricted net assets are used for the support of NMMI programs.
- *Temporarily restricted net assets* – net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* – net assets subject to donor-imposed restrictions that must be maintained permanently by the Foundation.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

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

Restricted and Unrestricted Revenue

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

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

Expense Allocation

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

Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Additionally, for the years ended June 30, 2012 and 2011, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$11,708 and \$11,600, respectively. For the years ended June 30, 2012 and 2011, the Foundation did not pay any income tax or interest expense.

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

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

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. |

Investment Pools

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Income Tax Status

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

Contributions and Pledges

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

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

Donated Services and Facilities

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

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

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

Life Insurance

The Foundation is the owner and beneficiary of numerous life insurance policies gifted to it by donors. The policies are presented at their aggregate cash value at June 30, 2012 and 2011. Increases in cash value during the year are recognized as earned revenue.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Annual Leave

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

Furniture and Equipment

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

Budget

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

Subsequent Events

Subsequent events have been evaluated through November 3, 2012, which is the date the financial statements were available to be issued.

NOTE 3 – CASH AND INVESTMENTS

At year end, the Foundation's deposits were \$608,939, and the bank balance was \$650,397. The balances were insured by the Federal Deposit Insurance Corporation.

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

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

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

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 MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 – CASH AND INVESTMENTS (Cont'd)

The Foundation places no limit on the amount the Foundation may invest in any one issuer. The investments as a percentage of the Foundation's total investments are noted in the tables below. Investments at June 30, 2012 and 2011 were comprised of the following.

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2011	Percent of Total
Cambrian Capital Resources Offshore	Hedged Equity	\$	\$ 816,143	\$	\$ 816,143	3%
Capital Guardian Emergency Markets	International Equity	1,334,060			1,334,060	4%
Dodge & Cox International Stock	International Equity	4,421,029			4,421,029	14%
Fortress Partners Offshore Fund	Absolute Return			1,645,384	1,645,384	5%
Longleaf Partners Fund	Small Cap Equity	556,312			556,312	2%
Newport Asia Institutional	International Equity		554,814		554,814	2%
Pine Grove Offshore	Absolute Return		3,287,149		3,287,149	11%
Pimco Short Term Bond Fund	Fixed Income	1,328,129			1,328,129	4%
Pimco Total Return Fund	Fixed Income	2,175,716			2,175,716	7%
Private Advisors Hedged Equity	Hedged Equity		2,962,992		2,962,992	10%
Vanguard Dividend Growth Fund	Large Cap Equity	2,570,810			2,570,810	8%
Vanguard Inflation-Protected Securities	Fixed Income	1,239,543			1,239,543	4%
Wellington Management Micro Cap Equity	Small Cap Equity		1,418,856		1,418,856	5%
Wellington Research Equity	Large Cap Equity		6,570,280		6,570,280	21%
		<u>\$ 13,625,599</u>	<u>\$ 15,610,234</u>	<u>\$ 1,645,384</u>	<u>30,881,217</u>	

Less:		
Deferred support		(376,188)
Foundation Investments		<u>\$ 30,505,029</u>

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2012	Percent of Total
Cambrian Capital Resources Offshore	Hedged Equity	\$	\$ 585,526	\$	\$ 585,526	2%
Capital Guardian Emergency Markets	International Equity	1,252,751			1,252,751	4%
Dodge & Cox International Stock	International Equity	3,219,994			3,219,994	11%
Fortress Partners Offshore Fund	Absolute Return			1,545,802	1,545,802	5%
Longleaf Partners Fund	Small Cap Equity	563,434			563,434	2%
Newport Asia Institutional	International Equity		1,040,796		1,040,796	4%
Pine Grove Offshore	Absolute Return		3,246,505		3,246,505	11%
Pimco Short Term Bond Fund	Fixed Income	438,056			438,056	2%
Pimco Total Return Fund	Fixed Income	1,726,815			1,726,815	6%
Private Advisors Hedged Equity	Hedged Equity		3,017,483		3,017,483	10%
Vanguard Dividend Growth Fund	Large Cap Equity	5,228,898			5,228,898	18%
Wellington Management Micro Cap Equity	Small Cap Equity		1,418,685		1,418,685	5%
Wellington Research Equity	Large Cap Equity		5,879,594		5,879,594	20%
		<u>\$ 12,429,948</u>	<u>\$ 15,188,589</u>	<u>\$ 1,545,802</u>	<u>29,164,339</u>	

Less:		
Deferred support		(372,565)
Foundation Investments		<u>\$ 28,791,774</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

Investment income (loss) consisted of the following for the years ended June 30, 2012 and 2011.

	2012	2011
Interest and dividends	\$ 418,795	\$ 439,399
Net unrealized gains (losses)	(1,285,063)	4,325,483
Net realized gains	675,127	550,077
Investment expenses	(92,203)	(104,917)
Total investment income (loss)	<u>\$ (283,344)</u>	<u>\$ 5,210,042</u>

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

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

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

NOTE 4 – ENDOWMENTS

The Foundation's endowment consists of approximately 140 individual funds established for a variety of purposes. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 – ENDOWMENTS (Cont'd)

A. Interpretation of Relevant Law

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

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

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

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 5,502,467</u>	<u>\$ 17,844,092</u>	<u>\$ 23,346,559</u>
Total funds	<u>\$ 5,502,467</u>	<u>\$ 17,844,092</u>	<u>\$ 23,346,559</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 – ENDOWMENTS (Cont'd)

Changes in Endowment Net Assets for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 6,538,088	\$ 17,876,989	\$ 24,415,077
Net asset reclassification based on change in donor stipulations			
Contributions	455,976	27,842	483,818
Investment earnings	763,685		763,685
Net appreciation (depreciation)	(929,376)	(60,739)	(990,115)
Amounts appropriated	(1,333,125)		(1,333,125)
Endowment net assets, end of year	<u>\$ 5,495,248</u>	<u>\$ 17,844,092</u>	<u>\$ 23,339,340</u>

B. Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 4 – ENDOWMENTS (Concl'd)

C. Spending Policy

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

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at year end totaled \$696,817, excluding a present value discount of \$190,270 measured at a discount rate approximately 4 percent. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness which represent level 3 inputs.

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 61,673	\$ 63,727
Receivable in one to five years	240,399	247,087
Receivable in more than five years	<u>394,745</u>	<u>445,330</u>
Total pledges receivable	696,817	756,144
Less discounts to net present value	<u>(190,270)</u>	<u>(215,052)</u>
Net pledges receivable at year end	<u><u>\$ 506,547</u></u>	<u><u>\$ 541,092</u></u>

NOTE 6 – LAND AND BUILDINGS HELD FOR INVESTMENTS

Land held for investment consists of various developed and undeveloped lots, primarily in the area of Roswell, New Mexico. All land held for investment is reported at market value using recent comparative sales, inquiries of appraisers, and actual appraisals to estimate the fair market value which represent level 3 inputs. Land is sold at the direction of the Board of Trustees.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 and 2011 the following amounts for charitable remainder unitrusts are recorded as deferred support.

	2012	2011
Ralph R. Conner	\$ 372,565	\$ 362,615
Total Deferred Support	\$ 372,565	\$ 362,615

NOTE 8 – LEASE AGREEMENTS

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

Minimum future rental income on leases as of year end:

2013	\$ 293,348
2014	276,848
2015	249,948
2016	245,747
2017	245,747
Later Years	5,564,778
Total minimum lease payments	\$ 6,876,416

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 9 – RELATED PARTY TRANSACTIONS

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the years ended June 30, 2012 and 2011, \$4,383 and \$4,000, respectively, 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, 2012 and 2011, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2012 and 2011, \$197,145 and \$266,258, respectively, were due to the Institute for operating expenses and support. For the years ended June 30, 2012 and 2011, the Foundation provided \$1,731,579 and \$1,401,234, respectively, in scholarships and awards for the benefit of institute cadets and faculty and alumni support.

NOTE 10 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the Foundation's full-time employees participate in a public employee retirement system authorized under the Education Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, and other employees of State public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502-0129. The report is also available on ERB's website at www.nmerb.org.

Funding Policy. Effective July 1, 2009 through June 30, 2011, plan members were required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually were required to contribute 9.4% of their gross salary. The Foundation was required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 10.9% of the gross covered salary of employees earning more than \$20,000 annually. Effective July 1, 2011 plan members are required by statute to contribute 7.9% of their gross salary if they earned \$20,000 or less annually, and plan members earning more than \$20,000 annually are required to contribute 11.15% of their gross salary. The Foundation is required to contribute 12.4% of the gross covered salary for employees earning \$20,000 or less, and 9.15% of the gross covered salary of employees earning more than \$20,000 annually. The contribution requirements of plan members and the Foundation are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Foundation's contributions to the ERB for the years ended June 30, 2012, 2011 and 2010 were \$18,881, \$22,142 and \$14,294, respectively, which equal the required contributions for each year.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 11 – POSTEMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute 0.917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
2013	2.000%	1.000%

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

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

The Foundation's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$3,784, \$3,384, and \$2,522, respectively, which equal the required contributions for each year.

NOTE 12 – 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 U.S. market. It is expected that this volatility will continue to impact the value of investments reported in the statement of financial position in the subsequent fiscal year.

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SUPPLEMENTARY INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS OF 2011 ACTUAL)

	<u>Original and Final Budget</u>	<u>2012 Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Revenues:				
Rents:				
1900 North Main/ Dairy Queen	\$ 27,732	\$ 31,262	\$ (3,530)	\$ 30,912
2200 North Main/ Denny's	33,990	35,535	(1,545)	36,004
2000 North Main/ Sally Port Inn	129,876	129,879	(3)	129,879
2110 North Main/ Whataburger	33,000	65,715	(32,715)	65,308
College and Main/ F&H Investments	50,148	50,149	(1)	50,149
401 West College/ Roswell Regional Hospital	18,600	18,600		18,600
Total rents	<u>293,346</u>	<u>331,140</u>	<u>(37,794)</u>	<u>330,852</u>
Other revenues:				
Contributions				1,350
Earnings from unrestricted investments	364,000	238,034	125,966	209,450
Gain on sale of assets				31,786
Change in cash value of life insurance policies		93,678	(93,678)	40,965
In-kind revenue	4,000	4,383	(383)	4,000
Fundraising support	62,500	49,883	12,617	54,854
Other income or fund transfers	6,000	5,210	790	6,310
Unrealized gain (loss) on investments		(294,948)	294,948	1,055,124
Total other revenues	<u>436,500</u>	<u>96,240</u>	<u>340,260</u>	<u>1,403,839</u>
 Total rents and other revenues	 <u>\$ 729,846</u>	 <u>\$ 427,380</u>	 <u>\$ 302,466</u>	 <u>\$ 1,734,691</u>
 Expenses:				
Foundation expenses:				
Accounting and auditing	\$ 16,600	\$ 14,697	\$ 1,903	\$ 14,029
Auto allowance/travel	600	255	345	236
Computer hardware and software	3,400	3,316	84	16,993
Depreciation		640	(640)	640
Executive committee contingency	3,500	1,822	1,678	667
Executive director professional development	2,000	1,235	765	1,718
Director's insurance	10,000	9,542	458	9,277
Legal service	10,000	9,381	619	1,183
Miscellaneous	2,000	112	1,888	5,356
Office supplies	12,000	11,708	292	12,217
Rent expense	4,000	4,000		4,000
Salaries, taxes and benefits	176,000	176,833	(833)	175,592
Travel	1,500	89	1,411	535
Total Foundation expenses	<u>\$ 241,600</u>	<u>\$ 233,630</u>	<u>\$ 7,970</u>	<u>\$ 242,443</u>

	<u>Original and Final Budget</u>	<u>2012 Actual</u>	<u>Variance</u>	<u>2011 Actual</u>
Expenses:				
NMMI support:				
Cadet activities	\$ 20,000	\$ 56,366	\$ (36,366)	\$ 45,447
Miscellaneous	25,000	172,350	(147,350)	15,000
Scholarships	100,000	107,016	(7,016)	100,000
Superintendent	25,000	24,853	147	24,786
Total NMMI support	<u>170,000</u>	<u>360,585</u>	<u>(190,585)</u>	<u>185,233</u>
Alumni support:				
Alumni Association support	<u>87,000</u>	<u>67,305</u>	<u>19,695</u>	<u>26,405</u>
Real estate:				
Grounds maintenance	2,500	5,652	(3,152)	2,410
Miscellaneous real estate expense	1,500	415	1,085	6,882
Property insurance	7,000	6,863	137	6,786
Property tax	<u>28,000</u>	<u>25,623</u>	<u>2,377</u>	<u>26,720</u>
Total real estate	<u>39,000</u>	<u>38,553</u>	<u>447</u>	<u>42,798</u>
Fundraising:				
Salary & Benefits	97,000	93,072	3,928	89,772
Operations	<u>28,000</u>	<u>10,107</u>	<u>17,893</u>	<u>23,444</u>
Total fundraising	<u>125,000</u>	<u>103,179</u>	<u>21,821</u>	<u>113,216</u>
Total expenses	<u>\$ 662,600</u>	<u>\$ 803,252</u>	<u>\$ (140,652)</u>	<u>\$ 610,095</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2012

<u>Institution</u>	<u>Account Name</u>	<u>Interest Bearing</u>	<u>Account Type</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash and equivalents:					
Wells Fargo	Operating	Non	Checking	\$ 37,979	\$ 41,727
Wells Fargo	Restricted	Non	Checking	72,434	110,144
Wells Fargo	Wells Fargo Treasury Fund	Interest	Money Market	498,526	152,825
				<u>\$ 608,939</u>	<u>\$ 304,696</u>
Investments:					
Cambrian Capital	CamCap Resources Offshore Fund	Interest	Investment	\$ 585,526	\$ 585,526
Capital Guardian	Capital Guardian Emerging Markets Fund	Interest	Investment	1,252,751	1,252,751
Dodge & Cox	D&C International Stock Fund	Interest	Investment	3,219,994	3,219,994
Fortress Investment Group	Fortress Partners Offshore Fund	Interest	Investment	1,545,802	1,545,802
Longleaf Partners	Longleaf Partners Fund	Interest	Investment	563,434	563,434
Newport Asia	Newport Asia Institutional Fund	Interest	Investment	1,040,796	1,040,796
Pine Grove	Pine Grove Offshore Fund	Interest	Investment	3,246,505	3,246,505
Pimco	Pimco Short Term Bond Fund	Interest	Investment	438,056	437,684
Pimco	Pimco Total Return Fund	Interest	Investment	1,726,815	1,721,988
Private Advisors	Private Advisors Hedged Equity Fund	Interest	Investment	3,017,483	3,017,483
Vanguard	Vanguard Dividend Growth Fund	Interest	Investment	5,228,898	5,228,898
Wellington	Wellington Management Micro Cap Equity	Interest	Investment	1,418,685	1,418,685
Wellington	Wellington Management Research Equity	Interest	Investment	5,879,594	5,879,594
				<u>\$ 29,164,339</u>	<u>\$ 29,159,140</u>

COMPLIANCE SECTION

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

Mr. Hector H. Balderas
New Mexico State Auditor

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

We have audited the financial statements of the New Mexico Military Institute Foundation, Inc. and the related budgetary comparison presented as supplemental information as of and for the year ended June 30, 2012, and have issued our report thereon dated November 3, 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 New Mexico Military Institute Foundation, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting.

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

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

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, governmental agencies and pass-through entities 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.
CPAs and Business Consultants

November 3, 2012

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

CURRENT YEAR FINDINGS

None

PRIOR YEAR FINDINGS

None

FINANCIAL STATEMENT PREPARATION

Heinfeld, Meech & Co. assisted in the preparation of the financial statements presented in this report. The Foundation's management has reviewed and approved the financial statements and related notes, and they believe that their records adequately support the financial statements.

EXIT CONFERENCE

An exit conference was held on September 27, 2012, to discuss the financial statements and auditors' reports. Jim Rebenar, Audit Manager and George Seus, CPA, Audit Manager represented Heinfeld, Meech & Co. Jimmy Barnes, President & CEO and Dick Waggoner, Treasurer represented the New Mexico Military Institute Foundation, Inc.

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