

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013**

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**NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

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

Report on Financial Statements

We have audited the accompanying financial statements of New Mexico Military Institute Foundation, Inc. (Foundation) (a not-for-profit organization and a component unit of the New Mexico Military Institute) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Financial Statements

We have previously audited the Foundation's 2013 financial statements, and our report dated October 2, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative financial statements presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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* in considering New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

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

October 31, 2014

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NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	
	2014	2013	2014	2013
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 32,797	\$ 86,635	\$ 1,286,407	\$ 655,711
Accounts receivable	11,655	18,988	6,426	
Pledges receivable, net of allowance			46,578	48,756
Investment sales receivable	942,186		918,891	
Other receivable	32,810	37,210		
Prepaid expenses	3,232	4,462	1,000	
Total current assets	<u>1,022,680</u>	<u>147,295</u>	<u>2,259,302</u>	<u>704,467</u>
Noncurrent assets:				
Investments	9,506,364	8,188,871	9,271,319	7,444,827
Land and buildings held for investment	6,466,909	6,434,584		
Pledges receivable, net of allowance			398,255	422,514
Furniture and equipment, net	665	1,354		
Surrender value of life insurance policies	676,448	625,005		
Beneficial interest in perpetual trust				
Other assets				
Total noncurrent assets	<u>16,650,386</u>	<u>15,249,814</u>	<u>9,669,574</u>	<u>7,867,341</u>
Total assets	<u>\$ 17,673,066</u>	<u>\$ 15,397,109</u>	<u>\$ 11,928,876</u>	<u>\$ 8,571,808</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable	\$ 6,546	\$ 3,042	\$ 4,140	\$
Due to NMMI	85,414	74,214	115,913	63,016
Accrued employee leave	21,347	22,456		
Other payables			32,810	37,210
Unearned revenues	21,888	21,646	8,785	5,200
Annuity obligations			406,368	368,756
Total current liabilities	<u>135,195</u>	<u>121,358</u>	<u>568,016</u>	<u>474,182</u>
Total liabilities	<u>135,195</u>	<u>121,358</u>	<u>568,016</u>	<u>474,182</u>
Net assets:				
Unrestricted	17,537,871	15,275,751		
Temporarily restricted			11,360,860	8,097,626
Permanently restricted				
Total net assets	<u>17,537,871</u>	<u>15,275,751</u>	<u>11,360,860</u>	<u>8,097,626</u>
Total liabilities and net assets	<u>\$ 17,673,066</u>	<u>\$ 15,397,109</u>	<u>\$ 11,928,876</u>	<u>\$ 8,571,808</u>

Permanently Restricted		Totals	
<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
\$	\$	\$ 1,319,204	\$ 742,346
		18,081	18,988
		46,578	48,756
1,620,348		3,481,425	
		32,810	37,210
		4,232	4,462
<u>1,620,348</u>		<u>4,902,330</u>	<u>851,762</u>
16,348,812	17,318,942	35,126,495	32,952,640
		6,466,909	6,434,584
		398,255	422,514
		665	1,354
		676,448	625,005
740,643	684,559	740,643	684,559
50,000	50,000	50,000	50,000
<u>17,139,455</u>	<u>18,053,501</u>	<u>43,459,415</u>	<u>41,170,656</u>
<u>\$ 18,759,803</u>	<u>\$ 18,053,501</u>	<u>\$ 48,361,745</u>	<u>\$ 42,022,418</u>
\$	\$	\$ 10,686	\$ 3,042
		201,327	137,230
		21,347	22,456
		32,810	37,210
		30,673	26,846
		406,368	368,756
		<u>703,211</u>	<u>595,540</u>
		703,211	595,540
		17,537,871	15,275,751
		11,360,860	8,097,626
18,759,803	18,053,501	18,759,803	18,053,501
<u>18,759,803</u>	<u>18,053,501</u>	<u>47,658,534</u>	<u>41,426,878</u>
<u>\$ 18,759,803</u>	<u>\$ 18,053,501</u>	<u>\$ 48,361,745</u>	<u>\$ 42,022,418</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	Unrestricted		Temporarily Restricted	
	2014	2013	2014	2013
Support and revenue:				
Contributions	\$ 1,001,500	\$ 98,805	\$ 415,583	\$ 439,205
In-kind donations	4,623	4,000		
Rental income	352,536	333,043		
Investment income	1,425,817	1,062,409	4,195,238	3,343,032
Change in cash value of life insurance	51,443	(58,389)		
Gain (loss) on sale of real estate	(955)	23,266		
Fundraising support	62,500	58,121	7,147	44,011
Miscellaneous	7,073	9,171		
	<u>2,904,537</u>	<u>1,530,426</u>	<u>4,617,968</u>	<u>3,826,248</u>
Total support and revenue before net assets reclassifications				
Net assets released from restrictions	<u>1,345,734</u>	<u>1,231,089</u>	<u>(1,345,734)</u>	<u>(1,231,089)</u>
Restrictions imposed on net assets			<u>(9,000)</u>	
Total support and revenue	<u>4,250,271</u>	<u>2,761,515</u>	<u>3,263,234</u>	<u>2,595,159</u>
Expenses:				
Program services -				
NMMI support	193,910	74,831		
Alumni support	2,857	65,208		
Scholarships	626,830	561,221		
Activities and projects	589,160	541,289		
Professorships and awards	49,441	45,396		
Total program services	<u>1,462,198</u>	<u>1,287,945</u>		
Support services -				
Management and general	249,942	246,332		
Real estate	37,224	32,998		
Total supporting services	<u>287,166</u>	<u>279,330</u>		
Fundraising	<u>238,787</u>	<u>171,202</u>		
Total expenses	<u>1,988,151</u>	<u>1,738,477</u>		
Change in net assets	2,262,120	1,023,038	3,263,234	2,595,159
Net assets, beginning of year	<u>15,275,751</u>	<u>14,252,713</u>	<u>8,097,626</u>	<u>5,502,467</u>
Net assets, end of year	<u>\$ 17,537,871</u>	<u>\$ 15,275,751</u>	<u>\$ 11,360,860</u>	<u>\$ 8,097,626</u>

Permanently Restricted		Totals	
2014	2013	2014	2013
\$ 641,218	\$ 193,620	\$ 2,058,301	\$ 731,630
		4,623	4,000
		352,536	333,043
56,084	15,789	5,677,139	4,421,230
		51,443	(58,389)
		(955)	23,266
		69,647	102,132
		7,073	9,171
<u>697,302</u>	<u>209,409</u>	<u>8,219,807</u>	<u>5,566,083</u>
9,000			
<u>706,302</u>	<u>209,409</u>	<u>8,219,807</u>	<u>5,566,083</u>
		193,910	74,831
		2,857	65,208
		626,830	561,221
		589,160	541,289
		49,441	45,396
		<u>1,462,198</u>	<u>1,287,945</u>
		249,942	246,332
		37,224	32,998
		<u>287,166</u>	<u>279,330</u>
		238,787	171,202
		<u>1,988,151</u>	<u>1,738,477</u>
706,302	209,409	6,231,656	3,827,606
<u>18,053,501</u>	<u>17,844,092</u>	<u>41,426,878</u>	<u>37,599,272</u>
<u>\$ 18,759,803</u>	<u>\$ 18,053,501</u>	<u>\$ 47,658,534</u>	<u>\$ 41,426,878</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 6,231,656	\$ 3,827,606
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	689	690
Realized gain on sale of investments	(2,235,567)	(1,929,251)
Unrealized gain on investments	(3,168,382)	(2,128,468)
Change in cash value of life insurance policies	(51,443)	58,389
Change in cash value of perpetual trust	(56,084)	
(Gain) loss on sale of real estate	955	(23,266)
Property transferred to NMMI	50,193	
Changes in operating assets:		
(Increase) decrease in accounts and other receivables	5,307	(35,210)
Decrease in pledges receivable	26,437	35,277
(Increase) decrease in prepaid assets	230	(1,083)
Changes in operating liabilities:		
Increase (decrease) in payables	67,341	(27,554)
Increase (decrease) in accrued employee leave	(1,109)	3,246
Increase (decrease) in deferred support	3,827	(6,812)
Increase in annuity obligations	37,612	29,849
	911,662	(196,587)
Net cash provided by (used for) operating activities		
Cash flows from investing activities:		
Net proceeds from sale of real estate	1,800	76,366
Purchase of real estate	(85,273)	
Purchases of investments	(2,479,215)	(6,972,032)
Proceeds from sale of investments	2,227,884	7,225,660
	(334,804)	329,994
Net cash provided by (used for) investing activities		
Net increase in cash and cash equivalents	576,858	133,407
Cash and cash equivalents, beginning of year	742,346	608,939
Cash and cash equivalents, end of year	\$ 1,319,204	\$ 742,346

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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, 2014 and 2013, the Foundation received \$1,056,801 and \$632,825, respectively, in restricted contributions. For the years ended June 30, 2014 and 2013, the Foundation received \$352,536 and \$333,043, 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, 2014 AND 2013

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

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

Restricted and Unrestricted Revenue

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

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

Expense Allocation

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

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Additionally, for the years ended June 30, 2014 and 2013, the Foundation had non-cash investing activities relating to the contributions of stock in the amount of \$13,926 and \$23,168, respectively. For the years ended June 30, 2014 and 2013, the Foundation did not pay any income tax or interest expense.

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

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

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

Investment Pools

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

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
JUNE 30, 2014 AND 2013

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, 2014 and 2013. Increases in cash value during the year are recognized as earned revenue.

Annual Leave

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

Furniture and Equipment

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

Budget

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

Subsequent Events

Subsequent events have been evaluated through October 31, 2014, 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 \$1,319,204, and the bank balance was \$1,326,223.

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, 2014 AND 2013

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, 2014 AND 2013

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, 2014 and 2013 were comprised of the following.

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2014	Percent of Total
Archstone Absolute Return Strategies Fund	Absolute Return	\$	\$	\$ 3,568,132	\$ 3,568,132	10%
CamCap Resources Offshore Fund	Hedged Equity		1,290,452		1,290,452	4%
Capital Group Emerging Markets Fund	International Equity	1,426,836			1,426,836	4%
Dodge & Cox International Stock Fund	International Equity	4,272,699			4,272,699	12%
Fortress Partners Offshore Fund	Absolute Return			490,733	490,733	1%
Longleaf Partners Small Cap Fund	Small Cap Equity	872,495			872,495	2%
Maverick Stable Fund LTD	Hedged Equity		2,055,920		2,055,920	6%
Newport Asia Institutional Fund	International Equity		1,290,991		1,290,991	4%
Pimco Short Term Bond Fund	Fixed Income	1,742,737			1,742,737	5%
Pimco Unconstrained Bond Fund	Fixed Income	1,687,755			1,687,755	5%
Vanguard Dividend Growth Fund	Large Cap Equity	6,649,457			6,649,457	19%
CTF Micro Cap Equity	Small Cap Equity		1,419,519		1,419,519	4%
CTF Research Equity	Large Cap Equity		8,358,769		8,358,769	24%
		<u>\$ 16,651,978</u>	<u>\$ 14,415,652</u>	<u>\$ 4,058,865</u>	<u>\$ 35,126,495</u>	

Managed Funds/Bonds	Category	Level 1	Level 2	Level 3	Balance as of June 30, 2013	Percent of Total
Archstone Absolute Return Strategies Fund	Absolute Return	\$	\$	\$ 3,304,733	\$ 3,304,733	10%
CamCap Resources Offshore Fund	Hedged Equity		1,035,034		1,035,034	3%
Capital Group Emerging Markets Fund	International Equity	1,291,508			1,291,508	4%
Dodge & Cox International Stock Fund	International Equity	3,304,193			3,304,193	10%
Fortress Partners Offshore Fund	Absolute Return			1,607,100	1,607,100	5%
Longleaf Partners Small Cap Fund	Small Cap Equity	703,624			703,624	2%
Newport Asia Institutional Fund	International Equity		1,125,202		1,125,202	3%
Pine Grove Offshore Fund	Absolute Return		162,450		162,450	<1%
Pimco Short Term Bond Fund	Fixed Income	1,730,360			1,730,360	5%
Pimco Total Return Fund	Fixed Income	1,683,743			1,683,743	5%
Private Advisors Hedged Equity Fund	Hedged Equity		3,174,407		3,174,407	10%
Vanguard Dividend Growth Fund	Large Cap Equity	5,569,335			5,569,335	17%
CTF Micro Cap Equity	Small Cap Equity		1,700,784		1,700,784	5%
CTF Research Equity	Large Cap Equity		6,560,167		6,560,167	20%
		<u>\$ 14,282,763</u>	<u>\$ 13,758,044</u>	<u>\$ 4,911,833</u>	<u>\$ 32,952,640</u>	

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 – CASH AND INVESTMENTS (Concl'd)

Investment income consisted of the following for the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 377,506	\$ 432,577
Net unrealized gains	3,168,382	2,128,468
Net realized gains	2,235,567	1,929,251
Investment expenses	<u>(104,316)</u>	<u>(69,066)</u>
Total investment income	<u>\$ 5,677,139</u>	<u>\$ 4,421,230</u>

Changes in the fair value of Level 3 investments at June 30, 2014 and 2013 were comprised of the following.

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 4,911,833	\$ 1,545,802
Total gains (unrealized and realized)	311,085	366,031
Transfer (to) from level 2 investments	<u>(1,164,053)</u>	<u>3,000,000</u>
Balance, end of year	<u>\$ 4,058,865</u>	<u>\$ 4,911,833</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, 2014 AND 2013

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:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 11,360,860	\$ 18,759,803	\$ 30,120,663
Total funds	<u>\$ 11,360,860</u>	<u>\$ 18,759,803</u>	<u>\$ 30,120,663</u>

Changes in Endowment Net Assets for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 8,097,626	\$ 18,053,501	\$ 26,151,127
Contributions	415,583	641,218	1,056,801
Investment earnings	1,865,823	56,084	1,921,907
Net appreciation (depreciation)	2,329,415		2,329,415
Fundraising support	7,147		7,147
Amounts appropriated for expenditure	(1,345,734)		(1,345,734)
Restrictions imposed on net assets	(9,000)	9,000	
Endowment net assets, end of year	<u>\$ 11,360,860</u>	<u>\$ 18,759,803</u>	<u>\$ 30,120,663</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 4 – ENDOWMENTS (Concl'd)

B. Investment Return Objectives, Risk Parameters, and Strategies

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

C. Spending Policy

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at year end totaled \$589,389, excluding a present value discount of \$144,556 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.

	2014	2013
Receivable in less than one year	\$ 46,578	\$ 48,756
Receivable in one to five years	254,144	246,916
Receivable in more than five years	288,667	342,472
Total pledges receivable	589,389	638,144
Less discounts to net present value	(144,556)	(166,874)
Net pledges receivable at year end	\$ 444,833	\$ 471,270

NOTE 6 – LAND AND BUILDINGS HELD FOR INVESTMENTS

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

NOTE 7 – ANNUITY OBLIGATIONS

The principal amount of life gifts, charitable remainder unitrusts and accumulated earnings, which are temporarily restricted, are included in investments in the Statements of Financial Position and will be reflected as support in the Statements of Activities when the term of the life income gifts have been met and the income is no longer restricted. At June 30, 2014 and 2013 the Ralph R. Connor charitable remainder unitrusts was recorded as annuity obligations in the amount of \$406,368 and \$368,756, respectively.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 8 – LEASE AGREEMENTS

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

Minimum future rental income on leases as of year end:

Year End:	2015	\$	298,849
	2016		294,648
	2017		294,648
	2018		294,648
	2019		275,148
	Later Years		<u>5,180,158</u>
Total		\$	<u>6,638,099</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the years ended June 30, 2014 and 2013, \$4,623 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, 2014 and 2013, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2014 and 2013, \$201,327 and \$137,230, respectively, were due to the NMMI for operating expenses and support. For the years ended June 30, 2014 and 2013, the Foundation provided \$1,462,198 and \$1,287,945, respectively, in scholarships and awards for the benefit of institute cadets and faculty and alumni support.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 – PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the Foundation's full-time employees participate in an educational 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, other employees of state public school districts, colleges and universities, and some state agency employees) 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. The report is also available on ERB's website at www.nmerb.org.

Funding Policy.

Member Contributions

Plan members whose annual salary is \$20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over \$20,000 are required to make the following contributions to the Plan: 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter.

Employer Contributions

The Foundation contributed 13.15% of gross covered salary in fiscal year 2014. In fiscal year 2015 the Foundation will contribute 13.9% of gross covered salary.

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 ERB for the fiscal years ending June 30, 2014, 2013, and 2012, were \$30,487, \$24,666, and \$18,881, respectively, which equal the amount of the required contributions for each fiscal year.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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 employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plan 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2014, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Foundation's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$4,637, \$4,526, and \$3,784, respectively, which equal the required contributions for each year.

NOTE 12 – INVESTMENT VOLATILITY

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

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SUPPLEMENTARY INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
BUDGET COMPARISON - UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS OF 2013 ACTUAL)

	<u>Original and Final Budget</u>	<u>2014 Actual</u>	<u>Variance</u>	<u>2013 Actual</u>
Revenues:				
Rents:				
1900 North Main / Dairy Queen	\$ 27,732	\$ 35,026	\$ (7,294)	\$ 30,575
2200 North Main / Denny's	33,990	34,578	(588)	34,680
College and Main / F&H Investments	52,422	52,421	1	50,148
2000 North Main / Sally Port Inn	130,602	130,360	242	129,876
401 West College / Lovelace	18,600	18,600		18,600
2110 North Main / Whataburger	36,000	81,551	(45,551)	69,164
Total rents	<u>299,346</u>	<u>352,536</u>	<u>(53,190)</u>	<u>333,043</u>
Other revenues:				
Contributions		1,001,500	(1,001,500)	98,805
In-kind revenue	4,000	4,623	(623)	4,000
Earnings from unrestricted investments	348,000	642,934	(294,934)	551,774
Unrealized gain on investments		782,883	(782,883)	510,635
Change in cash value of life insurance		51,443	(51,443)	(58,389)
Gain (loss) on sale of real estate		(955)	955	23,266
Fundraising support	62,500	62,500		58,121
Other income or fund transfers	5,100	7,073	(1,973)	9,171
Total other revenues	<u>419,600</u>	<u>2,552,001</u>	<u>(2,132,401)</u>	<u>1,197,383</u>
 Total rents and other revenues	 <u>\$ 718,946</u>	 <u>\$ 2,904,537</u>	 <u>\$ (2,185,591)</u>	 <u>\$ 1,530,426</u>
 Expenses:				
Foundation expenses:				
Accounting and auditing	\$ 15,000	\$ 14,471	\$ 529	\$ 13,650
Auto allowance	600	245	355	275
Columbarium expense	1,000	259	741	1,303
Computer hardware and software	3,400	3,968	(568)	3,709
Depreciation		689	(689)	690
Executive committee contingency	3,500	2,190	1,310	702
Executive director professional development	2,000	1,727	273	1,800
Director's insurance	9,200	9,222	(22)	7,193
Legal service	10,000	4,628	5,372	1,511
Miscellaneous	2,000		2,000	619
Office supplies	12,000	11,790	210	13,529
Rent expense	4,600	4,515	85	4,225
Salaries, taxes and benefits	209,000	196,238	12,762	197,126
Travel	1,500		1,500	
Total Foundation expenses	<u>\$ 273,800</u>	<u>\$ 249,942</u>	<u>\$ 23,858</u>	<u>\$ 246,332</u>

	<u>Original and Final Budget</u>	<u>2014 Actual</u>	<u>Variance</u>	<u>2013 Actual</u>
Expenses:				
NMMI support:				
Cadet activities	\$ 20,000	\$ 20,000	\$	\$ 20,000
Miscellaneous	25,000	64,336	(39,336)	2,457
Scholarships	100,000	64,798	35,202	
Superintendent	<u>25,000</u>	<u>35,276</u>	<u>(10,276)</u>	<u>23,022</u>
Total NMMI support	<u>170,000</u>	<u>184,410</u>	<u>(14,410)</u>	<u>45,479</u>
Alumni support:				
Alumni Association support	<u>0</u>	<u>2,857</u>	<u>(2,857)</u>	<u>65,208</u>
Real estate:				
Grounds maintenance	4,000	6,411	(2,411)	1,124
Miscellaneous real estate expense	1,500	396	1,104	359
Property insurance	5,500	5,754	(254)	6,792
Property tax	<u>25,000</u>	<u>24,663</u>	<u>337</u>	<u>24,723</u>
Total real estate	<u>36,000</u>	<u>37,224</u>	<u>(1,224)</u>	<u>32,998</u>
Fundraising:				
Salary & Benefits	107,000	103,407	3,593	97,472
Operations	<u>23,000</u>	<u>64,577</u>	<u>(41,577)</u>	<u>19,899</u>
Total fundraising	<u>130,000</u>	<u>167,984</u>	<u>(37,984)</u>	<u>117,371</u>
Total expenses	<u>\$ 609,800</u>	<u>\$ 642,417</u>	<u>\$ (32,617)</u>	<u>\$ 507,388</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
JUNE 30, 2014

<u>Institution</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash and equivalents:				
Wells Fargo	Operating	Checking - noninterest	\$ 32,797	\$ 36,396
Wells Fargo	Restricted	Checking - noninterest	73,703	77,123
Wells Fargo	Wells Fargo Treasury Fund	Money Market - interest	1,212,704	1,212,704
			<u>\$ 1,319,204</u>	<u>\$ 1,326,223</u>
Investments:				
SS&C Fund Services	Archstone Absolute Return Strategies Fund	Investment	\$ 3,568,132	\$ 3,568,132
Citi	CamCap Resources Offshore Fund	Investment	1,290,452	1,290,452
Capital Group	Capital Group Emerging Markets Fund	Investment	1,426,836	1,426,836
Dodge & Cox	Dodge & Cox International Stock Fund	Investment	4,272,699	4,272,699
Fortress Investment Group	Fortress Partners Offshore Fund	Investment	490,733	490,733
Longleaf Partners	Longleaf Partners Small Cap Fund	Investment	872,495	872,495
Citco	Marverick Stable Fund LTD	Investment	2,055,920	2,055,920
Newport Asia	Newport Asia Institutional Fund	Investment	1,290,991	1,290,991
Pimco	Pimco Short Term Bond Fund	Investment	1,742,737	1,741,307
Pimco	Pimco Unconstrained Bond Fund	Investment	1,687,755	1,686,784
Vanguard	Vanguard Dividend Growth Fund	Investment	6,649,457	6,649,457
Wellington Management	CTF Micro Cap Equity	Investment	1,419,519	1,419,519
Wellington Management	CTF Research Equity	Investment	8,358,769	8,358,769
			<u>\$ 35,126,495</u>	<u>\$ 35,124,094</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***

Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor

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

We have audited, in accordance with the 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, the financial statements of the New Mexico Military Institute Foundation, Inc., (a not-for-profit organization and a component unit of the New Mexico Military Institute) as of and for the year ended June 30, 2014, and the related statement of activities and cash flows, and notes to the financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Military Institute Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of New Mexico Military Institute Foundation, Inc.'s internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Military Institute Foundation, Inc.'s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

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

October 31, 2014

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

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 November 3, 2014, to discuss the financial statements and auditor's reports. Corey Arvizu, CPA, Partner, represented Heinfeld, Meech & Co. Jimmy Barnes, President & CEO and Dick Waggoner, Secretary represented the New Mexico Military Institute Foundation, Inc.

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