

**NEW MEXICO  
MILITARY INSTITUTE  
Roswell, New Mexico**

**Financial Statements  
With Independent Auditor's Report Thereon  
June 30, 2008**

**NEW MEXICO MILITARY INSTITUTE**

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**June 30, 2008**

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**NEW MEXICO MILITARY INSTITUTE**

**Official Roster**

**June 30, 2008**

**Board of Regents**

**Ex Officio Members:**

The Honorable Bill Richardson  
Dr. Reed Dasenbrock

Governor of the State of New Mexico  
Secretary of Higher Education

**Appointed Members:**

Jesus A. Salazar  
Phillip C. Ingram  
John M. Henderson III  
William Himes  
Bill B. Armstrong Jr.

President  
Vice President  
Secretary/Treasurer  
Member  
Member

**Principal Administrative Officials**

RADM David Ellison  
BG Richard Geraci  
BG Douglas Murray  
COL Judy A. Collins  
COL Gregory South  
LTC George Brick  
LTC Judy Scharmer  
MAJ David W. Gray  
LTC Jeffrey Savage  
LTC Jeffrey E. Cunningham  
MAJ Sonya F. Rodriguez  
Mr. Robert Einhorn

President/Superintendent  
Commandant  
Academic Dean  
Executive Vice President  
Vice President for Health, Physical Ed. & Recreation  
Associate Dean  
Vice President of Finance & Business Processes  
Comptroller  
Vice President for Enrollment  
Professor of Military Science  
Director of Financial Assistance  
VP of Technology/CIO

MILLER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION

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AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
TELEPHONE 575-622-4667  
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**INDEPENDENT AUDITOR'S REPORT**

Hector H. Balderas  
New Mexico State Auditor and  
Board of Regents  
New Mexico Military Institute  
Roswell, New Mexico

We have audited the accompanying financial statements of the business-type activities of the New Mexico Military Institute (the "Institute") and the discretely presented component unit (New Mexico Military Institute Foundation) as of and for the year ended June 30, 2008, as listed in the table of contents. We have also audited the unrestricted and restricted current funds budget comparisons presented as supplemental information as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Institute's management. Our responsibility is to express opinions 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 includes examining on a test basis, evidence supporting the amounts and disclosures 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 opinions.

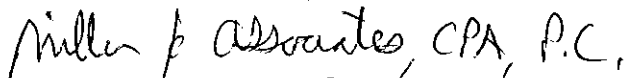
As discussed in Note 1, the financial statements of the Institute are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the financial reporting entity of the business type activities information of the State of New Mexico that is attributable to the transactions of the Institute. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2008, and the changes in financial position and its cash flows, where applicable, for the year then ended in accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Institute and of its discretely presented component unit as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparisons referred to above present fairly in all material respects, the budget comparisons of the Institute as of June 30, 2008 and 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 7, 2008 on our consideration of the Institute'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 Audit Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budget comparisons of the Institute. The Schedule of Pledged Collateral, Schedule of Individual Deposits, and Schedule of Investments are presented for the purposes of additional analysis and are not required parts of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Not-for-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

  
Miller & Associates, CPA, P.C.  
November 7, 2008

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

The following discussion and analysis provides an overview of the financial position and activities of the New Mexico Military Institute as of and for the years ended June 30, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the basic financial statements, notes and this discussion are the responsibility of the Institute's management.

**Using the Basic Financial Statements**

The Statement of Net Assets presents the assets, liabilities and net assets of the Institute as of the end of the fiscal year. The Statement of Net Assets is a point-in-time financial statement, the purpose of which is to give the readers of the financial statements a fiscal snapshot of the Institute. The statement presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenue, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenue received by the Institute, both operating and non-operating, and any other revenue, expenses, gains and losses received or incurred by the Institute.

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents the inflows and outflows of cash, summarized by operating, capital, financing and investing activities. The statement is prepared using the direct method of cash flows, and as such, presents gross, rather than net amounts for the year's activities.

**Reporting Entity**

For financial reporting purposes, New Mexico Military Institute (Institute) is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**NET ASSETS AND REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

**New Mexico Military Institute**  
**Condensed Summary of Net Assets**  
**June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Current assets	\$ 12,347,950	\$ 10,277,101
Capital assets, net	56,724,414	56,499,861
Non-current assets	<u>374,211,385</u>	<u>387,867,256</u>
<b>Total assets</b>	<u>\$ 443,283,749</u>	<u>\$ 454,644,218</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 4,301,894	\$ 3,799,599
Non-current liabilities	<u>4,806,419</u>	<u>5,994,130</u>
<b>Total liabilities</b>	<u>\$ 9,108,313</u>	<u>\$ 9,793,729</u>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	\$ 50,874,226	\$ 49,527,581
Restricted	371,152,521	387,459,773
Unrestricted	<u>12,148,688</u>	<u>7,863,135</u>
<b>Total net assets</b>	<u>\$ 434,175,436</u>	<u>\$ 444,850,489</u>

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year. The most significant current asset of the Institute at June 30, 2008 and 2007 are cash, cash equivalents and short term investments totaling \$9,553,336 and \$8,048,140, respectively.

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

Current liabilities are generally defined as amounts due within one year, and include accounts payable, payroll accruals, accrued compensated absences and deferred revenue. Bonds payable is the largest liability of the Institute, totaling \$5,685,000 and \$6,675,000 at June 30, 2008 and 2007, respectively.

	2008	2007
Bonds payable, current	\$ 1,020,000	990,000
Bonds payable, long-term	4,665,000	5,685,000
<b>Total Bonds Payable</b>	<u>\$ 5,685,000</u>	<u>6,675,000</u>

At June 30, 2008, the Institute's current ratio, the amount of current assets (\$12,347,950) available to cover current liabilities (\$4,301,894) was 2.87 to 1.

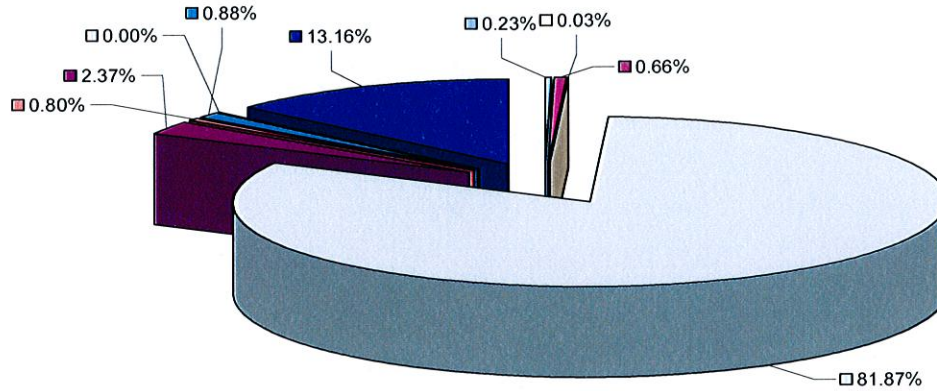
At June 30, 2007, the Institute's current ratio, the amount of current assets (\$10,277,101) available to cover current liabilities (\$3,799,599) was 2.70 to 1.

The largest category of non-current assets is the Institute's undivided interest in the State Land Grant Permanent Fund (SLGPF) of \$352,788,033 and \$369,756,738 at June 30, 2008 and 2007, respectively.



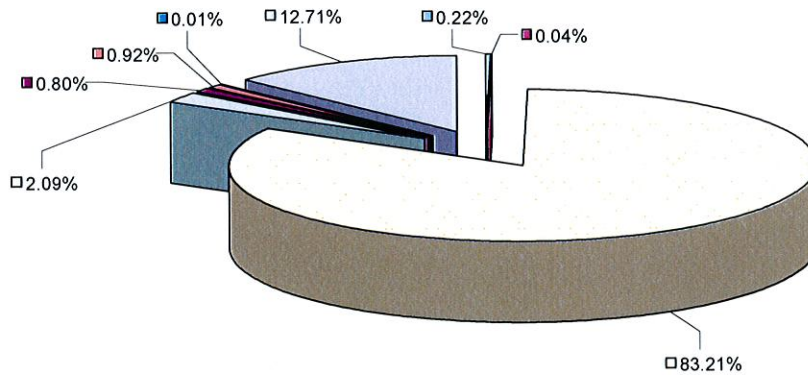
**NEW MEXICO MILITARY INSTITUTE  
Management's Discussion and Analysis  
June 30, 2008**

**2008 Non-current Assets**



Restricted cash	Long Term Investments	Deferred cost of bond defeasance
Restricted endowment investments-LGPF	Endowment investments-scholarships	Endowment investments-capital projects
Endowment investments-building maintenance	Prepaid Expenses	Capital assets, net

**2007 Non-current Assets**



Restricted cash	Deferred cost of bond defeasance	Restricted endowment investments-LGPF
Endowment investments-scholarships	Endowment investments-capital projects	Endowment investments-building maintenance
Prepaid Expenses	Capital assets, net	

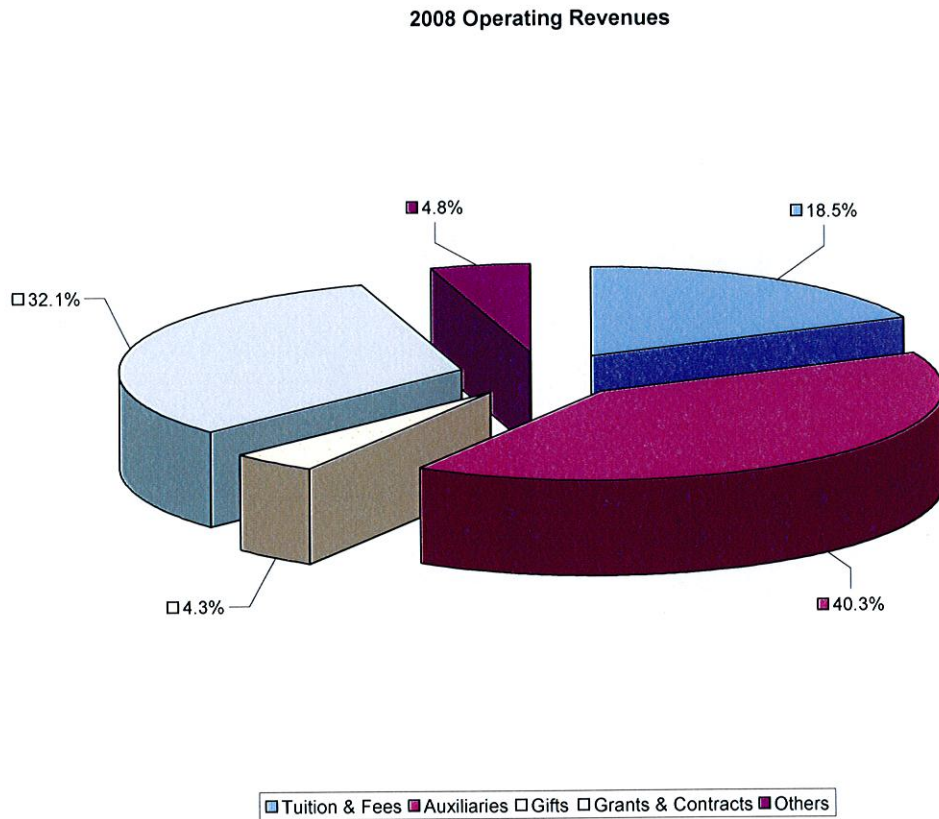
**NEW MEXICO MILITARY INSTITUTE**  
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**June 30, 2008**

	2008	2007
<b>Operating Revenue by Major Source</b>		
Tuition	\$ 2,122,158	\$ 2,151,935
Auxiliaries	4,631,024	4,537,245
Gifts	499,276	426,227
Grants and contracts	3,684,139	2,031,077
Intercollegiate athletics and other sponsored activities	439,486	391,294
Other	113,261	243,057
	<u>\$ 11,489,344</u>	<u>9,780,835</u>
 <b>Operating Expense by Major Function</b>		
Instruction	\$ 8,472,751	\$ 7,979,156
Academic support	920,423	867,872
Student services	1,151,383	892,534
Institutional support	2,936,083	2,716,180
Operations and maintenance support	3,093,984	3,099,556
Auxiliaries	4,113,163	3,996,016
Student aid	911,025	939,998
Intercollegiate athletics and other sponsored activities	1,847,206	1,463,548
Other	3,096,879	2,947,709
	<u>\$ 26,542,897</u>	<u>\$ 24,902,569</u>
 <b>Non-operating Revenue (Expense)</b>		
Investment income including income received		
From the State Land Office and State Land Grant		
Permanent Fund	\$ 2,746,550	\$ 71,012,957
Other	(227,771)	(278,861)
	<u>\$ 2,518,779</u>	<u>\$ 70,734,096</u>
 Income (loss) before other revenue, expense, gains and losses	\$ (12,534,774)	\$ 55,612,362
Capital grants	1,859,721	8,487,477
<b>Total increase (decrease) in net assets</b>	<u>\$ (10,675,053)</u>	<u>\$ 64,099,839</u>
 Net assets, beginning of year	<u>444,850,489</u>	<u>\$ 380,750,650</u>
 Net assets, end of year	<u>\$ 434,175,436</u>	<u>\$ 444,850,489</u>

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

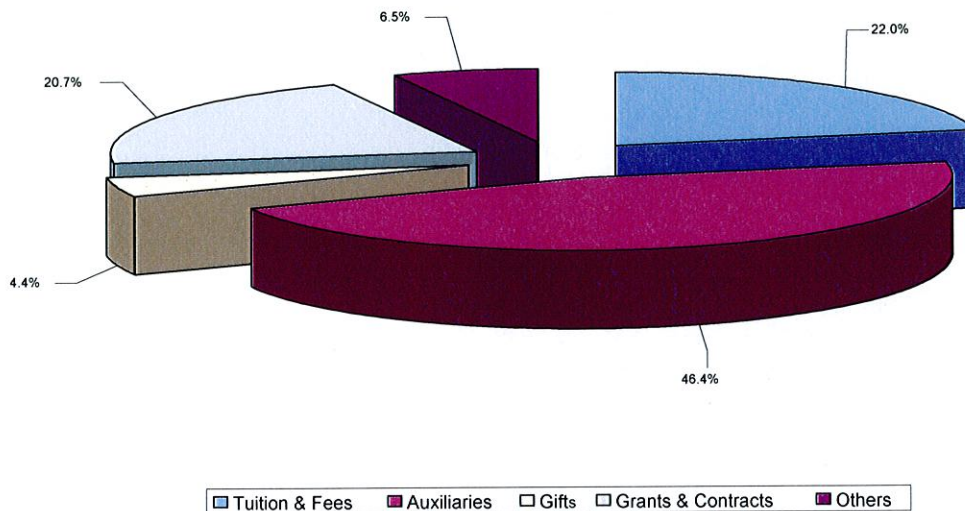
Revenues in the reporting model are shown by source of funding. Operating revenues are generally defined as exchange transactions produced in conducting the primary business operations of the Institute, including instruction, auxiliaries, federal and state grants and contracts, and intercollegiate athletics and other sponsored activities. Non-operating revenues are generally defined as non-exchange transactions, and include appropriations, gifts and investment income.

The following chart depicts operating revenues by source (some categories have been combined).



**NEW MEXICO MILITARY INSTITUTE  
Management's Discussion and Analysis  
June 30, 2008**

**2007 Operating Revenues**



The GASB reporting model allows public universities and colleges to present operating expenses in either a functional or natural format. The Institute chose to present expenses on the Statement of Revenue, Expenses and Changes in Net Assets (SRECNA) by the major functions of the Institute.

Non-operating revenue contributed noteworthy resources to the Institute. During the years ending June 30, 2008 and 2007, gifts from donors totaled \$499,276 and \$426,227, respectively.

During the year ended June 30, 2008, actual investment loss reducing the corpus of the State Land Grant Permanent Fund was \$(745,703). The Land Grant Permanent Funds are held for investment by the State Investment Council. The amount distributed is determined by the New Mexico Legislature. Income received from the State Land Office and the state Land Grant Permanent Fund were \$4,201,505 and \$16,223,003, respectively. Capital appropriations from the State of New Mexico severance tax bonds and general obligation bonds equaled \$415,330. Capital appropriations from the State of New Mexico general fund were \$3,128,824.

During the year ended June 30, 2007, actual investment income added to the corpus of the State Land Grant Permanent Fund was \$67,418,465. Income received from the State Land Office and the State Land Grant Permanent Fund were \$1,412,474 and \$15,278,702, respectively. Capital appropriations from the State of New Mexico severance tax bonds and general obligation bonds equaled \$408,221. Capital appropriations from the State of New Mexico general fund were \$1,430,956.

The Institute's total change in net assets showed a net decrease for 2008 and a net increase for 2007. Both years' results are primarily the result of investment income or loss from the State Land Grant Permanent Fund.

Total net assets (assets minus liabilities) are classified by the Institute's ability to use these assets to meet operating needs. Net assets that are restricted as to their use by sponsoring agencies, donor or other non-Institute entities are classified as "nonexpendable", such as permanent endowments, and "expendable", such as contract or

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

grant net assets. The restricted net assets are further classified in general terms as to the function for which they must be used. Unrestricted net assets may be used to meet all operating needs of the Institute.

**Capital Assets**

The renovation of Dow Hall is in the construction/renovation stage. \$3,400,000 in 2006 General Obligation Bond funds will be used for the project. \$500,000 was received from state appropriations to begin the design phase of the renovation of Pearson Auditorium. \$5,000,000 is on the ballot for the upcoming General Obligation Bond Issue to be voted on in November 2008.

**Budgetary Highlights**

The budget for Land and Permanent Fund income was increased by \$2,700,000 to reflect higher than expected revenues from the State Land Office. Actual revenues were higher than the revised budget by \$527,816.

Other income received was higher than expected by \$865,859. The majority of the income was plant fund revenue, \$394,585 and investment income, \$133,576 not included in the budget.

Auxiliary Services expenses were lower than expected by \$738,433. The Dining Hall expense was lower by \$411,445, Laundry Services was lower by \$162,860, and Barracks expense was lower by \$127,371.

**Factors Impacting Future Periods**

In July 2003, the Institute rejected an application for enrollment of a high school applicant. The family appealed the decision of NMMI and requested a Due Process Hearing with the New Mexico Public Education Department (formerly the State Department of Education-SDE), contending that NMMI's refusal to admit their student was in violation of IDEA (Individuals with Disabilities Education Act) and RA (Rehabilitation Act). After a briefing and evidentiary hearing, the Due Process Hearing Officer (DPHO) rejected the propositions NMMI proposed contesting jurisdiction and taking the position that the provisions of IDEA and RA do not apply to NMMI. An evidentiary hearing was held, the DPHO granted judgment as a matter of law in favor of NMMI. Both sides appealed elements of the decision, specifically, NMMI appealed the jurisdictional decision. An Administrative Appeals Officer (AAO) was appointed and heard the appeal, ruling in favor of NMMI, i.e., that the DPHO should not have heard the parents claim for lack of jurisdiction, or in the alternative, for failure to state a claim upon which release can be granted. The family appealed the decision to the Federal District Court in New Mexico, asking the court to determine that NMMI is obligated by federal law to provide special education in accordance with IDEA. The Federal District Court on 7 February 2005, determined that no relief shall be granted to the plaintiff (parents) on their IDEA claim, all claims were dismissed with prejudice and judgment was entered in favor of New Mexico Military Institute.

The family appealed the district court's decision to the Federal Appeals Court, 10<sup>th</sup> Circuit and the decision was to Reverse and Dismiss the IDEA complaint and Reverse and Remand the ADA and Section 504 claims to the District Court. The plaintiff, no longer being a minor, has elected to proceed with the suit. The plaintiff filed an amended complaint on July 27, 2007 for Damages and Declaratory Relief Based on Disability Discrimination. The Federal District Court ruled in favor of NMMI on both the ADA and Section 504 claims. The plaintiff elected to appeal to the 10<sup>th</sup> Circuit Appeals Court. NMMI continues to believe that any unfavorable outcome is unlikely, however, any litigation contains an element of uncertainty. At this time a request for damages in the amount of \$50,000 has been made in addition to attorney's fees for the plaintiff. NMMI continues to vigorously defend the positions taken previously.

**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2008**

**DISCRETELY PRESENTED COMPONENT UNIT**

The New Mexico Military Institute Foundation's primary purpose is for the benefit of the Institute, however, this does not imply that NMMI has control over that organization or its resources, but rather the Institute is entitled to receive resources due to donor restrictions on those resources. The New Mexico Military Institute Foundation has been discretely presented in the financial statements. A complete financial statement can be obtained from:

New Mexico Military Institute Foundation  
101 West College Boulevard  
Roswell, New Mexico 88201

**NEW MEXICO MILITARY INSTITUTE**

**Statement of Net Assets**

**For the Year Ended June 30, 2008**

	<u>Primary Government</u>	<u>Component Unit</u>
	NMMI	NMMI Foundation
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,695,902	\$ 517,091
Restricted cash and cash equivalents	802,156	-
Short term investments	5,857,434	-
Prepaid assets	-	2,872
Contract and grant receivables	8,768	-
Pledges receivable	-	594,402
Student accounts receivable, net of allowance for doubtful receivables of \$680,000	243,082	-
Receivable from NMMI Foundation	132,436	-
Other accounts receivable	1,500,102	51,031
Inventories	83,377	-
Other assets	24,693	-
Total current assets	<u>12,347,950</u>	<u>1,165,396</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	980,953	-
Long-term investments	2,837,164	-
Deferred cost of bond defeasance	143,750	902,440
Land held for investment	-	463,655
Surrender value of life insurance policies	-	-
Endowment investments, Land Grant Permanent Fund	352,788,033	-
Endowment investments, scholarships	10,207,243	17,537,444
Endowment investments, capital projects	3,436,274	-
Endowment investments, building maintenance	3,811,720	-
Prepaid expenses	6,248	-
Investments	-	10,678,766
Beneficial interest in perpetual trust	-	934,360
Other assets	-	50,000
Capital assets, net of accumulated depreciation	56,724,414	1,006
Total noncurrent assets	<u>430,935,799</u>	<u>30,567,671</u>
Total Assets	<u>\$ 443,283,749</u>	<u>\$ 31,733,067</u>

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

**NEW MEXICO MILITARY INSTITUTE**  
**Statement of Net Assets**  
**For the Year Ended June 30, 2008**

	<b>Primary Government</b>	<b>Component Unit</b>
	NMMI	NMMI Foundation
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,688,401	\$ 9,218
Accrued compensated absences	331,239	13,493
Payable to NMMI	-	132,436
Payable to NMMI on funds held for others	-	-
Deferred revenue	748,422	406,623
Funds held for others	346,314	-
Capital lease payable-current portion	167,518	-
Bonds payable-current portion	1,020,000	-
Total current liabilities	4,301,894	561,770
Noncurrent liabilities:		
Capital lease payable-long-term portion	141,419	-
Bonds payable long-term-portion	4,665,000	-
Total noncurrent liabilities	4,806,419	-
<b>Total Liabilities</b>	<b>9,108,313</b>	<b>561,770</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of debt	50,874,226	-
Restricted for		
Nonexpendable:		
Restricted, Land Grant Permanent Fund at State Investment Council	352,788,033	-
Restricted, Scholarships at State Investment Council	6,775,912	-
Restricted, Building Maintenance	3,700,000	-
Restricted, Capital Projects	2,500,000	-
Restricted, Scholarships at NMMI Foundation	-	17,537,444
Expendable:		
Scholarships	-	-
Term Endowments	3,572,725	-
Capital Projects	940,970	6,636,714
Debt Service	452,408	-
Building Maintenance	422,474	-
Unrestricted	12,148,688	6,997,139
Total net assets	434,175,436	31,171,297
<b>Total Liabilities and Net Assets</b>	<b>\$ 443,283,749</b>	<b>\$ 31,733,067</b>

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



**NEW MEXICO MILITARY INSTITUTE**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**For the Year Ended June 30, 2008**

	<u>Primary Government</u>	<u>Component Unit</u>
	NMMI	NMMI Foundation
<b>Operating revenues:</b>		
Tuition and fees	\$ 2,122,158	\$ -
Contributions	-	322,125
	<u>2,122,158</u>	<u>322,125</u>
Federal grants and contracts	473,612	-
State and local grants and contracts	3,210,527	-
Private grants and contracts	499,276	-
Other sponsored activities	340,205	-
Auxiliary enterprises	4,631,024	-
Intercollegiate athletics	99,281	-
Other	113,261	3,040
Rental income	-	308,621
Total operating revenues	<u>11,489,344</u>	<u>633,786</u>
<b>Expenses:</b>		
Instruction and general:		
Instruction	8,472,751	-
Academic support	920,423	-
Student services	1,151,383	-
Institutional support	2,936,083	-
Operations and maintenance support	3,093,984	-
Total instruction and general expenses	<u>16,574,624</u>	-
Other sponsored activities	296,477	-
Student aid grants and stipends	911,025	-
Auxiliary enterprises	4,113,163	-
Intercollegiate athletics	1,550,729	-
Internal service department	(19,521)	-
Supporting services	-	302,309
Minor capital outlay operations	209,416	-
Program services	-	1,185,220
Real estate expenses	-	41,561
Depreciation	2,906,984	-
Total expenses	<u>26,542,897</u>	<u>1,529,090</u>
Operating (loss)	<u>\$ (15,053,553)</u>	<u>\$ (895,304)</u>

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

**NEW MEXICO MILITARY INSTITUTE**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets (Continued)**  
**For the Year Ended June 30, 2008**

	<b>Primary Government</b>	<b>Component Unit</b>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>Non operating revenues (expenses):</b>		
Investment income (loss)	\$ (17,677,956)	\$ (1,845,520)
Increase in cash value of life insurance	-	31,045
Income from State Land Office	4,201,505	-
Income from State Land Grant Permanent Fund	16,223,001	-
Endowment contributions	126,257	-
Other income	-	-
Interest on capital asset related to debt	(325,278)	-
Bond defeasance amortization	(28,750)	-
Net non operating revenues	<u>2,518,779</u>	<u>(1,814,475)</u>
Income (loss) before other revenues, expenses, gains and losses	<u>(12,534,774)</u>	<u>(2,709,779)</u>
Other:		
Capital grants, net	<u>1,859,721</u>	-
Net other revenues (expenses)	<u>1,859,721</u>	-
Change in net assets	(10,675,053)	(2,709,779)
Net assets, beginning of year	<u>444,850,489</u>	<u>33,881,076</u>
Net assets, end of year	<u>\$ 434,175,436</u>	<u>\$ 31,171,297</u>

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

**NEW MEXICO MILITARY INSTITUTE**

**Statement of Cash Flows**

**For the Year Ended June 30, 2008**

	<b>Primary Government</b>	<b>Component Unit</b>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>Cash Flows From Operating Activities:</b>		
Tuition and fees	\$ 2,156,262	\$ -
Contributions	-	576,357
Grants and contracts	4,315,928	-
Sales and services of educational activities	4,595,455	-
Other operating receipts	594,453	311,661
Payments to employees for salaries and benefits	(14,502,425)	(306,433)
Payments to suppliers	(8,143,534)	(1,174,145)
Grants issued to students	(911,024)	-
Net cash used by operating activities	<u>(11,894,885)</u>	<u>(592,560)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Agency receipts	1,888,005	-
Agency payments	(1,830,542)	-
Net cash provided by noncapital financing activities	<u>57,463</u>	<u>-</u>
<b>Cash Flows From Investment Activities:</b>		
Proceeds from sale of real estate	-	(6,000)
Purchase of real estate	-	(111,706)
Cash distribution from State Land Grant Permanent Fund	16,144,842	-
Cash distribution from State Land Office	4,213,710	-
Cash distribution from investment	826,000	-
Cash received from scholarship gifts	126,257	-
Other investment income	39,316	524,256
Payment of trust expenses	(397,408)	-
Proceeds from sale of investments	-	(439,341)
Purchase of investments	(7,150,157)	(753,425)
Net cash provided (used) by investing activities	<u>13,802,560</u>	<u>(786,216)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Cash paid for capital assets	(1,898,052)	-
Cash received on capital grants	2,126,256	-
Proceeds from debt issuance	-	-
Proceeds from other financing activities	-	-
Repayments of capital debt	(2,563,563)	-
Interest paid on capital debt	(325,534)	-
Other receipts/payments	394,585	-
Net cash used by capital and related financing activities	<u>(2,266,308)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(301,170)	(1,378,776)
Cash and Cash Equivalents, Beginning of Year	<u>5,780,181</u>	<u>1,895,867</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,479,011</u>	<u>\$ 517,091</u>

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

**NEW MEXICO MILITARY INSTITUTE**  
**Statement of Cash Flows (Continued)**  
**For the Year Ended June 30, 2008**

	<u>Primary Government</u>	<u>Component Unit</u>
	NMMI	NMMI Foundation
Reconciliation of Operating Loss to Net Cash Used By Operating Activities		
Operating loss	\$ (15,053,553)	\$ (895,304)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,906,984	525
Changes in assets and liabilities:		
Accounts receivable	158,433	304,976
Donated property	-	89,232
Short term investments	-	-
Other current assets	4,553	-
Inventories	(6,742)	-
Accounts payable and accrued expenses	85,355	(37,121)
Accrued annual leave	8,835	(4,124)
Deferred revenue	1,250	(50,744)
Net cash used by operating activities	<u>\$ (11,894,885)</u>	<u>\$ (592,560)</u>

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

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The New Mexico Military Institute (Institute) is declared to be and is confirmed as a state educational institution by Section 11 of Article XII of the Constitution of the State of New Mexico, as amended. The Institute was founded in 1891 under the New Mexico Territorial Laws of 1889.

According to the Constitution of the State of New Mexico, the legislature shall provide for the control and management by a Board of Regents consisting of five members appointed by the Governor and confirmed by the State Senate for overlapping terms of six years. Section 21-11-4 of the New Mexico Statutes Annotated, 1978 Compilation (NMSA 1978), also vests this control and management in the Board of Regents.

The Institute provides a four-year college preparatory high school program and a two-year junior college program to students interested in obtaining an education in a military type environment.

The New Mexico State Auditor has determined the New Mexico Military Institute is included as part of the primary government of the State of New Mexico.

**Basis of Accounting**

For financial reporting purposes, the Institute is considered a special-purpose government engaged only in business-type activities. Accordingly, the Institute's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Institute has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Institute has elected to not apply FASB pronouncements issued after the applicable date.

**Reporting Entity**

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, requires an evaluation of the reporting entity and certain related parties, defined as potential component units. Depending on the results of the GASB 39 evaluation, financial information of related parties determined to be component units could be required to be included in the financial statements of the reporting entity.

In evaluating how to define the Institute for financial reporting purposes, management has evaluated the Institute's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is responsibility to include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the Institute.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Institute is able to exercise oversight responsibilities. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Institute's reporting entity.

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the Institute. The New Mexico State Auditor through Rule 2 of the NMAC 2.2 12E (5), requires the inclusion of this component unit in the reporting entity. Audit materiality for component units is at the component unit level. The decision to include a potential component unit in the Institute's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component unit is included in these financial statements:

**New Mexico Military Institute Foundation, Inc. (Foundation)**

The New Mexico Military Institute Foundation, Inc. (Foundation) is a legally separate, tax exempt entity. The Foundation acts primarily to create and administer assets for the benefit of the Institute in support of its programs. The Institute does not control the timing or amount of receipts from the Foundation; however, the majority of resources, or income thereon, that the Foundation holds are restricted to the activities of the Institute by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Institute, the Foundation is considered a component unit of the Institute and is discretely presented in the Institute's financial statements. A complete financial statement can be obtained from:

New Mexico Military Institute Foundation  
101 West College Blvd  
Roswell, New Mexico 88201

The purpose of the Foundation is to create, maintain and administer assets for the benefit of the New Mexico Military Institute (Institute), 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.

For the year ended June 30, 2004, the Foundation was selected for inclusion as a component unit based on criteria as set forth in GASB 39. Previous year's financial statements did not include the Foundation as GASB 39 was not effective until July 1, 2003. The Board of Regents are members of the Board of Trustees of the Foundation and supervise all Foundation activities. Beginning in July 2005, the by laws of the Foundation were amended to provide that three continuing members be appointed by the Board of Regents with no more than two of such Regents appointed be currently serving on the Board of Regents. The Institute's Superintendent serves as an ex-officio member of the Board of Trustees of the Foundation.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Other Affiliated Organization - New Mexico Military Institute Alumni Association**

This affiliated organization has a separately elected board and provides support to the Institution. This organization is excluded from the reporting entity as a component unit because the Institute does not have the ability to exercise influence over its daily operations, approve budgets or provide funding. A separate audited financial statement is prepared for this entity.

**Other Affiliated Organization - New Mexico Military Institute Parents' Club, Inc.**

This affiliated organization has a separately elected board and provides support to the Institute. This organization is excluded from the reporting entity because the Institute does not have the ability to exercise influence over its daily operations, approve budgets or provide funding. A separate audited financial statement is prepared for this entity

**Estimates**

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

**Budget**

The Institute follows the requirements established by the New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through the HED's policy that, when the appropriation has been made to the Institute, its Board of Regents can, in general, adopt an operating budget within the limits of available income on the modified accrual basis, including capital outlay and retirement of indebtedness.

**Procedures for Approval of Operating Budgets**

1. The institution will submit an original typed copy that has been approved by the institution's regents to the HED's office by May 1st.
2. The HED meets in June and acts on approval of the budgets.
3. The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for appropriation by the Institute in subsequent years.

**Budgetary Control**

Total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary control are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; and (4) within the plant funds budget, the items of budgetary control are major projects, minor capital outlay, renewals and replacements, and debt service.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Budget revisions must be approved by the HED and then by the Budget Division of the Department of Finance and Administration.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, cash and cash equivalents include demand, savings, and money market accounts with an original maturity of 3 months or less.

**Investments**

Certain investments such as debt and equity securities and pooled investment funds are recorded at market value in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* change in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets. The carrying value of investments is based on quoted market prices.

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Regents.

**Inventory**

Inventories of supplies and materials held for sale or use are stated substantially at the lower of cost (first-in, first-out) or market value.

**Income Taxes**

The Institute, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the Institute are deductible by donors as provided under Section 170 of the Internal Revenue Code, and consistent with the provisions under Section 501(c)(3) of the Internal Revenue Code.

**Student Accounts Receivable**

The Institute records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institute's grants and contracts. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses. The provision for uncollectible student accounts for fiscal year 2008 is \$680,000.

**Noncurrent Cash and Investments**

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the Statement of Net Assets.

**Accrued Liabilities**

Accrued liabilities consist of amounts for payroll withholding liabilities.



**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Institute's capitalization policy includes all items with a unit cost of \$500 or more, and an estimated useful life of greater than one year. Artwork is not capitalized because management believes it is an inexhaustible capital asset. Software is included in furniture, fixtures and equipment for capitalization and depreciation purposes. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest expense incurred during the construction period of self-constructed assets is capitalized. To account for its infrastructure assets, the Institute elected to use the depreciation method. This method requires the Institute to allocate the cost of infrastructure assets over their useful lives as depreciation expense. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 25-30 years for infrastructure, 20-25 years for land improvements, 10 years for library books, 5 years for vehicles and golf carts, and 3 to 12 years for equipment.

**Compensated Absences**

The Institute accounts for the accumulated vacation leave on the accrual basis in accordance with GASB 16. Accrued vacation up to 20 days or 160 hours is recorded at 100% of the employee's daily or hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA).

**Noncurrent Liabilities**

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

**Net Assets** - The Institute's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt**

This represents the Institute's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Restricted Net Assets – Nonexpendable**

Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted Net Assets – Expendable**

Restricted expendable net assets are resources that the Institute is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

**Donor-restricted Endowments**

Net depreciation of the Institute's donor-restricted endowments that are available for expenditures by the governing board is \$(332,698). This amount is reported in expendable scholarships in the net assets of the primary government. New Mexico state law allows the governing body to spend the net appreciation. The Institute uses the total-return policy for authorizing and spending investment income.

Net appreciation of the Foundation's donor-restricted endowments that are available for expenditures by the governing board is \$125,854. This amount is reported in restricted scholarships at NMMI Foundation in the net assets of the component unit. New Mexico state law allows the governing body to spend net appreciation. The Foundation uses the total-return policy for authorizing and spending investment income.

**Unrestricted Net Assets**

Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Institute's policy is to first apply the expense towards unrestricted, and then toward restricted resources.

**Classification of Revenues**

The Institute has classified its revenues as either operating or nonoperating revenues according to the following criteria:

**Operating Revenues**

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

**Nonoperating Revenues**

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No.9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reversions**

The General Appropriation Act of 2003, Chapter 76, Laws of 2003, states in part of Section J, Higher Education, "Except as otherwise provided, any unexpended or unencumbered balance remaining at the end of fiscal year 2007 shall not report to the general fund." The Institute did not revert any funds for the year ended June 30, 2008.

**NOTE 2: CASH AND INVESTMENTS**

**Cash**

The Institute is required to comply with Section 6-10-16 and 6-10-17 NMSA 1978, which requires that 50% of the uninsured balance of public deposits be secured by pledges of qualifying securities of the depository.

At June 30, 2008, the Institute's cash deposits (which differ from recorded balances due to reconciling items) and short-term investments with financial institutions as classified by "credit risk" were as follows:

	Wells Fargo	Wells Fargo (Repurchase)
Total Deposits in Bank	\$ 1,083,378	\$ 4,660,165
Less: FDIC Insurance	(200,000)	-
Uninsured Public Funds	883,378	4,660,165
Collateral Requirement 50%	441,689	-
Collateral Requirement 102%	-	4,753,368
Pledged Collateral Held by the Pledging Bank's trust Department not in the agency's name	963,952	4,752,568
Uninsured & Uncollateralized	\$ -	\$ 800

**Custodial Credit Risk**

Custodial Credit Risk is the risk that in the event of a bank failure, the Institute's deposits may not be returned to it. The Institute has a policy to invest operating funds in financial instruments that are relatively safe based on the level of collateralization provided by the financial institutions and have the highest rating from the national rating agencies. As of June 30, 2008, \$5,717,320 of the Institute's bank balance of \$5,743,543 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 800
Collateral held by Wells Fargo's trust department not in the Institute's name	5,716,520
Total	\$ 5,717,320

**Investments**

The Institute participates under a joint powers agreement in an External Investment Pool (Pool) with the New Mexico State Investment Council (Council). Monies of Institute funds are pooled and invested by the Council in various debt and equity securities. The Pool is recorded as investments on the Institute's balance sheets at market

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

value. Since the Institute's investments are recorded at market value, there is a potential risk that due to the volatility of quoted market values the Institute's recorded investments in the Pool could be significantly affected.

Pooled investments of the Institute consist of the following at June 30, 2008:

<u>Description</u>	<u>Market Value</u>	<u>Maturities</u>	<u>Percentage</u>	<u>NMMI Investment Policy %</u>
Investment Pool with the State Investment Council:				
Large Cap Active	\$ 294		0.00%	0.00%
Large Cap Index	6,642,557		38.05%	38.00%
Mid-Small Cap	1,893,624		10.85%	11.00%
Non U.S. Developed Equity	1,992,658		11.42%	12.00%
Non U.S. Emerging	516,269		2.96%	3.00%
Total Equity	<u>11,045,402</u>		<u>63.28%</u>	<u>64.00%</u>
Core Bonds	6,409,837	1-5 Years	36.72%	36.00%
High Yield Bonds	-	1-5 Years	0.00%	0.00%
Total Investment Pool	<u>\$ 17,455,239</u>		<u>100%</u>	<u>100%</u>

**Interest Rate Risk**

The Institute has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Institutes policy is to ensure that NMMI has sufficient liquidity to pay all obligations as they become due without the requirement for unplanned liquidation of securities or certificate of deposits.

**Credit Risk**

State law limits the State Investment Council for investments in excess of one year be invested in:

1. Bonds, notes or other obligations of the United States government, its agencies, government-sponsored enterprises, corporations or instrumentalities.
2. Bonds, notes, debentures and other obligations issued by the State of New Mexico or a municipality or other political subdivision of the state that are secured by an investment grade bond rating from a national rating service, pledged revenue or other collateral or insurance necessary to satisfy the standard of prudence set forth in Section 6-8-10 NMSA 1978.
3. Bonds, notes debentures, instruments, conditional sales agreements, securities or other evidences of indebtedness of any corporation, partnership or trust organized and operating within the United States rated not less than Baa or BBB or the equivalent by a national rating service.
4. Bonds, notes, debentures, instruments, conditional sales agreements, securities or other evidences of indebtedness rated not less than BB or B or the national association of insurance commissioners' equivalent by a national rating service.
5. Notes or obligations securing loans or participation in loans to business concerns or other organizations that are obligated to use the loan proceeds within New Mexico, to the extent that loans are secured by first mortgages on real estate located in New Mexico.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

The Institute has an investment policy that states that investments shall be made in accordance with New Mexico constitutional and statutory laws as defined in NMSA 1978, Sections 6-8 and 6-10, and that the investments may only be invested in money market funds, U.S. Treasuries, U.S. government agency securities, certificates of deposit or repurchase agreements. The Core Bonds Pool uses the Lehman Aggregate Index as its benchmark. The Core Pool is unrated. The High Yield Bond Pool invests in corporate bonds rated single B or better by a national rating service. The Pool benchmark is the Lehman U.S. HY BB-B Index. The High Yield Bond Pool is not rated.

**State Investment Council Assets**

The Institute has an undivided interest in assets of the State of New Mexico Land Grant Permanent Fund. At June 30, 2008 the fair value of such interest was \$352,788,033. These investments are not categorized by custodial risk.

**Investment Income**

Investment income consists of the following for the year ended June 30, 2008:

	Retirement of Debt	Land Grant Permanent Fund	Daniels Leadership Center Bldg Maintenance	Patterson Construction Endowment	Scholarship Trust Funds	Total
Investment (loss) income	\$ 25,375	\$ 1,294,028	\$ 8,194	\$ 22	\$ 366	\$ 1,327,985
Realized gains	-	39,089,441	136,287	118,734	330,436	39,674,898
Unrealized loss	-	(41,129,172)	(260,075)	(230,181)	(663,500)	(42,282,928)
	<u>\$ 25,375</u>	<u>\$ (745,703)</u>	<u>\$ (115,594)</u>	<u>\$ (111,425)</u>	<u>\$ (332,698)</u>	<u>\$ (1,280,045)</u>

During the year ended June 30, 2008, \$16,223,001 in cash was distributed to NMMI from the State Land Grant Permanent Fund. During the year ended June 30, 2008, \$481,425 was distributed from the Scholarship Trust Funds.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 3: CAPITAL ASSETS**

The following are the changes in capital assets:

	Beginning Balance	Additions	Retirement	Adjustments	Ending Balance
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 461,571	\$ 268,360	\$ (33,394)	\$ -	\$ 696,537
Construction in progress	498,231	1,134,005	-	-	1,632,236
Artwork	870,296	-	-	(62,000)	808,296
<b>Total Capital Assets Not Being Depreciated</b>	<b>1,830,098</b>	<b>1,402,365</b>	<b>(33,394)</b>	<b>(62,000)</b>	<b>3,137,069</b>
<b>Capital Assets Being Depreciated:</b>					
Buildings	76,985,110	525,296	-	(151,009)	77,359,397
Furniture, fixtures and equipment	7,692,682	1,070,578	(21,897)	(54,159)	8,687,204
Leased equipment	309,263	-	-	-	309,263
Library books	521,288	29,365	-	-	550,653
Infrastructure	2,678,916	265,378	-	-	2,944,294
Land improvements	1,256,681	66,664	-	-	1,323,345
Vehicles and golf carts	884,411	46,981	(114,895)	-	816,497
<b>Total at Historical Cost</b>	<b>90,328,351</b>	<b>2,004,262</b>	<b>(136,792)</b>	<b>(205,168)</b>	<b>91,990,653</b>
<b>Less Accumulated Depreciation:</b>					
Buildings	28,111,325	1,914,329	-	-	30,025,654
Furniture, fixtures and equipment	5,513,583	687,749	(21,806)	(3,827)	6,175,699
Leased equipment	115,579	129,505	-	-	245,084
Library books	344,277	30,386	-	-	374,663
Infrastructure	531,855	63,925	-	-	595,780
Land improvements	313,412	4,266	-	-	317,678
Vehicles and golf carts	728,557	47,436	(108,126)	883	668,750
<b>Total Accumulated Depreciation</b>	<b>35,658,588</b>	<b>2,877,596</b>	<b>(129,932)</b>	<b>(2,944)</b>	<b>38,403,308</b>
<b>Total Capital Assets, Net</b>	<b>\$ 56,499,861</b>	<b>\$ 529,031</b>	<b>\$ (40,254)</b>	<b>\$ (264,224)</b>	<b>\$ 56,724,414</b>

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES**

The Institute is committed under various operating leases which expire through 2012. These leases are primarily for automotive equipment and copy machines. Rental expense under these leases amounted to \$26,283 in 2008.

Minimum futures lease payments under operating leases as of June 30, 2008 for each of the next five years and in the aggregate are:

2009	\$	27,999
2010		7,964
2011		2,526
2012		631
	<u>\$</u>	<u>39,120</u>

The Institute is committed under various capital leases which expire in fiscal year 2011. Equipment under these capital leases is valued at \$684,450. Ownership of the equipment transfers to the Institute at the end of the lease. Minimum future lease payments under the capital leases as of June 30, 2008 for each of the remaining years are:

2009	\$	165,923
2010		83,176
2011		57,726
Total minimum lease payments		306,825
Amount representing interest		<u>(27,416)</u>
Present Value of minimum lease payments	<u>\$</u>	<u>279,409</u>

**Contingencies**

Reimbursements for amounts expended by the Institute under the terms of federal and state grants and contracts are subject to audit and possible adjustments by the granting agency. Grants and contracts for the years ended June 30, 2008 and 2007 are subject to audits by federal and state agencies. It is the opinion of Institute's management that adjustments, if any, will not have a material effect on the Institute's financial position or results of operations.

**State Risk Management Pool**

The Institute as a state Institute defined in the New Mexico Tort Claims Act is insured through the Risk Management for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the Institute.
2. Coverage to protect the Institute's property and assets.

The Institute is a defendant in legal actions arising from normal business activities. Management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Institute's financial position or results of operations.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 5: BONDS PAYABLE**

Long-term bonds payable of the Institute at June 30, 2008, is comprised of the following individual issues:

2001 System Revenue Bonds

\$9,550,000, 2001 System Revenue Bonds due in semi-annual interest payments and annual principal installments through June 1, 2013, interest from 3.25% to 5.0% \$ 5,685,000

The scheduled maturities of the revenue bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2009	1,020,000	267,338	1,287,338
2010	1,065,000	225,263	1,290,263
2011	1,140,000	180,000	1,320,000
2012	1,200,000	123,000	1,323,000
2013	1,260,000	63,000	1,323,000
Totals	\$ 5,685,000	\$ 858,601	\$ 6,543,601

Interest expense incurred during June 30, 2008 was \$325,278 and is recorded as interest on capital asset related to debt.



**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 6: LONG-TERM LIABILITIES**

Long-term liability activity for the year ended is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Long-term bond payable	\$ 5,685,000	\$ -	\$ 1,020,000	\$ 4,665,000
Current portion of bonds payable	990,000	1,020,000	990,000	1,020,000
	<u>\$ 6,675,000</u>	<u>\$ 1,020,000</u>	<u>\$ 2,010,000</u>	<u>\$ 5,685,000</u>
Long-term lease payable	\$ 309,130	\$ -	\$ 167,711	\$ 141,419
Current portion of lease payment	160,650	167,518	160,650	167,518
	<u>\$ 469,780</u>	<u>\$ 167,518</u>	<u>\$ 328,361</u>	<u>\$ 308,937</u>
Current portion of compensated absences	\$ 322,403	\$ 330,623	\$ 321,787	\$ 331,239
	<u>\$ 322,403</u>	<u>\$ 330,623</u>	<u>\$ 321,787</u>	<u>\$ 331,239</u>

**NOTE 7: ERA PENSION PLAN**

*Plan Description* Substantially all of the Institute's full-time employees participate in a public employee retirement system authorized under the Educational 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, disability benefits and cost-of-living adjustments to plan members and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to ERB, PO Box 26129, Santa Fe, New Mexico 87502-0129.

*Funding Policy* The contribution requirements of plan members and the Institute are established in Chapter 22, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. For the year ending June 30, 2008, plan members were required to contribute 7.750% of their gross salary. The Institute was required to contribute 10.15% of the gross covered salary. In 2005, the legislature passed Senate Bill 181 which increased the contribution rates for both employees and employer. The contribution rates and effective dates are:

	<u>Retirement Contributions</u>	
	<u>Employee</u>	<u>Employer</u>
2008-2009	7.9%	11.65%
2009-2010	7.9%	12.4%
2010-2011	7.9%	13.15%
2011-2012	7.9%	13.9%
2012-2013	7.9%	13.9%
Future	7.9%	13.9%

The Institute's contributions to the plan for the years ending June 30, 2008, 2007, and 2006 were \$1,211,149, \$1,059,052, and \$937,100, respectively, equal to the amount of the required contributions for each year.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 8: POST-EMPLOYMENT BENEFITS**

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

Monies flow to the Retiree Health Care Fund on a pay-as-you-go basis from eligible employers and eligible retirees. Eligible employers are institutions of higher education, school districts, or other entities participating in the public school insurance authority and state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Educational Retirement Act, Public Employees Retirement Act, Volunteer Firefighters Retirement Act, Judicial Retirement Act or Magistrate Retirement Act. 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 Retirement Health Care Act on the person's behalf, unless that person retires before the employer's NMRHCA 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; or (2) retirees defined by the act who retired prior to July 1, 1990; and former legislators who served at least two years.

Each participating employer makes contributions to the fund in the amount of 1.3 percent of each participating employee's annual salary. Each employee contributes to the fund an employee contribution equal to .65 percent of the employee's salary. Each participating retiree pays a monthly premium for the medical plus basic life plan and an additional participation fee of five dollars (\$5.00) if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator. Participants may also enroll in optional plans of coverage.

Contributions from participating employers and participating employees become the property of the Retiree Health Care Fund and are not refundable under any circumstances, including termination of employment or termination of the participating employer's operation or participation in the Retiree Health Care Act. The employer, employee, and retiree contributions are required to be remitted to the Retiree Health Care Authority on a monthly basis.

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

For the fiscal years ended June 30, 2008 and 2007, the Institute remitted \$144,307 and \$135,626 in employer contributions and \$72,155 and \$67,812 in employee contributions, respectively, to the Retiree Health Care Authority. At June 30, 2008, there were 196 employees eligible to receive post employment benefits.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 9: INSURANCE COVERAGE**

New Mexico Statutes (Section 15-7-2 NMSA 1978) require Risk Management Division (RMD) to be responsible "for the acquisition and administration of all insurance purchased by the State." Various statutes allow RMD to insure, self-insure and use a combination of both for all risks administered by it. RMD operates under the supervision of the Secretary of New Mexico, General Services Department.

The Institute is exposed to various risks of loss related to: general, automobile and aircraft liabilities, including those relating to civil rights (torts); theft of, damage to and destruction of state property assets; errors and omissions; injuries to employees; group insurance; and natural disasters, all of which are insured against by participation in the public entity risk pool described above subject to limits of coverage set by Risk Management Division, General Services Department of the State of New Mexico. All employees of the Institute are covered by a blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2007 to June 30, 2008.

**NOTE 10: RECONCILIATION OF BUDGETARY BASIS TO GAAP**

Budget comparisons revenues	\$	34,529,546
Investment loss		(17,489,608)
Contributions to endowments		126,257
Budget revenue due to financing activities		(59,500)
Change in Federal Programs		(34,437)
SRECNA Total revenues		17,072,258
Budget comparisons expenditures		30,184,732
Capital expenditures		(3,312,203)
Current year depreciation and amortization		2,906,984
Current year bond and capital lease principal payments		(1,150,842)
Transfers to Knowles scholarship endowment		(1,412,700)
Trust expenses		321,925
Minor capital outlay operation		209,416
SRECNA Total expenditures		27,747,312
Change in Net Assets	\$	(10,675,054)

**NOTE 11: SCHEDULE OF FEDERAL EXPENDITURES**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the New Mexico Military Institute. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on this schedule. The accompanying Schedule of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1.

**NOTE 12: STUDENT FINANCIAL ASSISTANCE**

The Institute administers the Perkins Loan Program. Total outstanding loans under this US Department of Education program at June 30, 2008, were \$85,881. Total loan expenditures and disbursements, including administrative expenses, for the fiscal year ended June 30, 2008, were \$0. The schedule of Federal Expenditures of Federal Awards only includes an amount which represents administrative costs and additional advances, including the Institute's matching requirement expended for the year ended June 30, 2008.

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 12: STUDENT FINANCIAL ASSISTANCE (CONTINUED)**

During the fiscal year ended June 30, 2008, the Institute processed \$139,020 of new loans under the Guaranteed Student Loan Program, which includes Stafford Loans, Parents' Loans for Undergraduate Students, and Supplemental Loans for Students.

**NOTE 13: NEW MEXICO MILITARY INSTITUTE FOUNDATION INVESTMENTS**

The Foundation maintains pooled investment accounts for its unrestricted, temporarily restricted and permanently restricted assets. Realized gains and losses and earnings on investments are allocated monthly to the net assets based on the relationship of the cost of the respective net asset and accumulated earnings to the total cost and accumulated earnings of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Net investment income consists of interest, dividends, realized and unrealized gains and losses less management fees and foreign income taxes paid.

The cost and market value of investments at June 30, 2008 are as follows:

Managed Funds/Bonds	2008	
	Market	Cost
Dodge & Cox	\$ 4,754,959	\$ 3,733,774
Newport Asia Fund	445,162	500,000
Pine Grove	3,156,597	2,150,000
Pimco Funds	4,485,199	4,566,105
Private Advisors Fund	3,255,016	2,150,000
Longleaf Partners Fund	948,097	1,236,671
Wellington Micro Cap	1,569,734	1,184,601
Wellington Trust Company	8,109,974	5,984,886
Fortress Partners Fund	1,491,472	1,500,000
Investment Sub-Total	28,216,210	23,006,037
Less:		
Funds held for others	-	-
Payable to NMMI in funds held for others	-	-
Deferred support	(404,373)	(404,373)
Foundation Investments	\$ 27,811,837	\$ 22,601,664

The following summarizes the investment return for the year ended June 30, 2008:

Interest and dividend income	\$ 574,119
Net realized gains	349,615
Net unrealized loss	(2,674,782)
Investment expenses	(94,472)
Investment income, net	\$ (1,845,520)

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 14: NEW MEXICO MILITARY INSTITUTE FOUNDATION - LAND HELD FOR INVESTMENT**

All land held for investment is capitalized at historical cost. It is the Foundation's policy not to adjust to the current market value. Land is sold at the direction of the trustees. During the year ended June 30, 2008, the Foundation did not sell any land. During the year ended June 30, 2007, the Foundation sold land in the Parkwood Subdivision on North Main Street for \$217,200, incurred selling expenses of approximate \$3,559 and realized a gain of \$211,413.

**NOTE 15: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LEASES**

Lease agreements between the Foundation and tenants of its property are for terms up to sixty years and generally include 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 non-cancelable leases as of June 30, 2008 is as follows:

2009	\$	252,270
2010		252,270
2011		258,270
2012		262,269
2013		262,269
Thereafter		6,666,380
	<u>\$</u>	<u>7,953,728</u>

**NOTE 16: JOINT POWERS AGREEMENT**

The New Mexico Military Institute entered into a Joint Powers Agreement with the State Investment Council dated May 14, 1997, and amended, August 15, 1997, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement the State Investment Office invests the Trust Scholarship Endowment, LTG Richard T. Knowles Legislative Scholarship Trust Endowment, Patterson Construction Endowment and the Daniels Leadership Center Building Maintenance Endowment in accordance with guidelines established in New Mexico Military Institute's investment policy.

Participants:	New Mexico Military Institute and State Investment Council
Party Responsible for Operations:	State Investment Office
Description:	Investment of endowment funds.
Beginning and Ending Dates:	May 14, 1997 -
Total Estimated Cost:	N/A
Amount Contributed in the Current Year:	\$1,647,691 of new funds
Audit Responsibility:	N/A
Fiscal Agent:	New Mexico State Treasurer
Agency Where the Entity Reports:	N/A

**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2008**

**NOTE 17: ACCOUNTING STANDARDS**

In June 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement provides needed guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. The requirements Statement 51 are effective for financial statements for periods beginning after June 15, 2009. The Institute believes it will have no significant effect on the financial statements for the upcoming year.

In December 2006, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 49, *Pollution Remedial Obligations*. This statement is effective for financial statements for the periods beginning after December 15, 2007. This statement establishes accounting standards for the recognition and reporting of liabilities related to environmental clean-up efforts. The Institute believes it will have no significant effect on the financial statements for the upcoming year.

In June 2008, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. The Institute is analyzing the effect that this standard will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In November 2007, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. Reporting those investments at fair value provides more decision-useful information about their composition, current value, and recent changes in value. GASB Statement No. 52 is effective for financial statements for periods beginning after June 15, 2008. The Institute is analyzing the effect this standard will have on its financial statements, and is planning on obtaining an appraisal of real estate held by the Foundation at the end of the next fiscal year.

**NOTE 18: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

At June 30, 2008, the Institute had a uncompleted construction contract for Dow Hall. The remaining commitment on this construction contract was approximately \$3,555,610.

**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Unrestricted and Restricted - All Operations**  
**Schedule I**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ 7,239,490	\$ 8,236,944	\$ 8,238,650	\$ 1,706
<b>Unrestricted and Restricted Revenues:</b>				
State General Fund Appropriations	3,173,024	3,173,024	3,210,527	37,503
Federal Revenue Sources	601,600	601,600	473,613	(127,987)
Tuition and Fees	2,268,602	2,111,986	2,122,158	10,172
Land and Permanent Fund	17,196,690	19,896,690	20,424,506	527,816
Endowments and Private Gifts	714,226	714,226	808,426	94,200
Other	6,724,457	6,624,457	7,490,316	865,859
Total Unrestricted & Restricted Revenues	<u>30,678,599</u>	<u>33,121,983</u>	<u>34,529,546</u>	<u>1,407,563</u>
<b>Unrestricted and Restricted Expenditures:</b>				
Instruction	9,120,920	8,907,114	8,472,748	434,366
Academic Support	1,055,646	1,055,645	920,423	135,222
Student Services	1,267,276	1,242,275	1,151,383	90,892
Institutional Support	3,165,677	3,165,676	2,936,083	229,593
Operation and Maintenance of Plant	3,388,749	3,388,748	3,093,984	294,764
Student Social & Cultural Activities	344,951	403,150	296,477	106,673
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	-	170,588	100,213	70,375
Student Aid, Grants & Stipends	2,234,330	2,634,678	2,323,725	310,953
Auxiliary Services	4,429,225	4,851,596	4,113,163	738,433
Intercollegiate Athletics	1,616,281	1,679,943	1,550,729	129,214
Independent Operations	-	-	-	-
Capital Outlay	1,480,117	1,858,653	2,421,364	(562,711)
Renewal & Replacement	2,294,880	1,916,344	1,042,304	874,040
Retirement of Indebtedness	1,542,239	1,542,239	1,762,136	(219,897)
Total Unrestricted & Restricted Expenditures	<u>31,940,291</u>	<u>32,816,649</u>	<u>30,184,732</u>	<u>2,631,917</u>
Net Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(1,261,692)	305,334	4,344,814	<u>\$ (4,039,480)</u>
Ending Fund Balance	<u>\$ 5,977,798</u>	<u>\$ 8,542,278</u>	<u>\$ 12,583,464</u>	

**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Unrestricted - Non Instruction & General**  
**Schedule 2**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ 3,482,595	\$ 3,182,748	\$ 3,182,748	\$ -
<b>Unrestricted Revenues:</b>				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	-	-	-	-
State Government Appropriations	-	-	27,736	27,736
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	1,145,000	1,145,000	1,564,711	419,711
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	309,150	309,150
Sales and Services	5,197,393	5,097,393	4,953,003	(144,390)
Other	295,214	295,214	671,598	376,384
<b>Total Unrestricted Revenues</b>	<u>6,637,607</u>	<u>6,537,607</u>	<u>7,526,198</u>	<u>988,591</u>
<b>Unrestricted Expenditures:</b>				
Student Social & Cultural Activities	344,902	403,101	296,477	106,624
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	-	170,588	100,213	70,375
Student Aid, Grants & Stipends	1,727,730	2,128,078	1,889,713	238,365
Auxiliary Services	4,423,318	4,845,689	4,113,163	732,526
Intercollegiate Athletics	1,615,705	1,679,367	1,550,204	129,163
Independent Operations	-	-	-	-
Capital Outlay	1,480,117	1,858,653	2,421,364	(562,711)
Renewal & Replacement	2,294,880	1,916,344	1,042,304	874,040
Retirement of Indebtedness	1,542,239	1,542,239	1,762,136	(219,897)
<b>Total Unrestricted Expenditures</b>	<u>13,428,891</u>	<u>14,544,059</u>	<u>13,175,574</u>	<u>1,368,485</u>
Net Transfers	<u>6,463,463</u>	<u>10,183,463</u>	<u>10,076,173</u>	<u>107,290</u>
Change in Fund Balance (Budgetary Basis)	(327,821)	2,177,011	4,426,797	<u>\$ (2,249,786)</u>
Ending Fund Balance	<u>\$ 3,154,774</u>	<u>\$ 5,359,759</u>	<u>\$ 7,609,545</u>	



**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Restricted -Non Instruction & General**  
**Schedule 3**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ (6,532)	\$ (6,532)	\$ (9,157)	\$ (2,625)
<b>Restricted Revenues:</b>				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	478,600	478,600	394,037	(84,563)
State Government Appropriations	28,000	28,000	52,117	24,117
Federal Government Contracts/Grants	-	-	-	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	59,500	59,500
Other	-	-	-	-
Total Restricted Revenues	<u>506,600</u>	<u>506,600</u>	<u>505,654</u>	<u>(946)</u>
<b>Restricted Expenditures:</b>				
Student Social & Cultural Development	49	49	-	49
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	-	-	-	-
Student Aid, Grants and Stipends	506,600	506,600	434,012	72,588
Auxiliary Services	5,907	5,907	-	5,907
Intercollegiate Athletics	576	576	525	51
Independent Operations	-	-	-	-
Capital Outlay	-	-	-	-
Renewal & Replacement	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Total Restricted Expenditures	<u>513,132</u>	<u>513,132</u>	<u>434,537</u>	<u>78,595</u>
Net Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(6,532)	(6,532)	71,117	<u>\$ (77,649)</u>
Ending Fund Balance	<u>\$ (13,064)</u>	<u>\$ (13,064)</u>	<u>\$ 61,960</u>	

**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Unrestricted - Instruction & General**  
**Schedule 4**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ 3,756,895	\$ 5,054,196	\$ 5,054,196	\$ -
<b>Unrestricted Revenues:</b>				
Tuition	2,221,602	2,064,986	2,066,135	1,149
Miscellaneous Fees	47,000	47,000	56,023	9,023
Federal Government Appropriations	-	-	-	-
State Government Appropriations	3,142,224	3,142,224	3,128,824	(13,400)
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/grants	-	-	-	-
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	17,196,690	19,896,690	20,424,506	527,816
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	86,850	86,850	241,504	154,654
<b>Total Unrestricted Revenues</b>	<u>22,694,366</u>	<u>25,237,750</u>	<u>25,916,992</u>	<u>679,242</u>
<b>Unrestricted Expenditures:</b>				
Instruction	8,687,847	8,474,041	8,076,325	397,716
Academic Support	1,054,201	1,054,200	919,529	134,671
Student Services	1,267,076	1,242,075	1,151,082	90,993
Institutional Support	2,766,901	2,766,900	2,694,547	72,353
Operation & Maintenance of Plant	3,388,749	3,388,748	3,093,984	294,764
<b>Total Unrestricted Expenditures</b>	<u>17,164,774</u>	<u>16,925,964</u>	<u>15,935,467</u>	<u>990,497</u>
Net Transfers	<u>(6,463,463)</u>	<u>(10,183,463)</u>	<u>(10,076,173)</u>	<u>(107,290)</u>
Change in Fund Balance (Budgetary Basis)	(933,871)	(1,871,677)	(94,648)	<u>\$ (1,777,029)</u>
Ending Fund Balance	<u>\$ 2,823,024</u>	<u>\$ 3,182,519</u>	<u>\$ 4,959,548</u>	

**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Restricted - Instruction & General**  
**Schedule 5**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ 6,532	\$ 6,532	\$ 10,863	\$ 4,331
<b>Restricted Revenues:</b>				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	123,000	123,000	79,576	(43,424)
State Government Appropriations	2,800	2,800	1,850	(950)
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	714,226	714,226	499,276	(214,950)
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	<u>840,026</u>	<u>840,026</u>	<u>580,702</u>	<u>(259,324)</u>
<b>Restricted Expenditures:</b>				
Instruction	433,073	433,073	396,423	36,650
Academic Support	1,445	1,445	894	551
Student Services	200	200	301	(101)
Institutional Support	398,776	398,776	241,536	157,240
Operation & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	<u>833,494</u>	<u>833,494</u>	<u>639,154</u>	<u>194,340</u>
Net Transfers	-	-	-	-
Change in Fund Balance (Budgetary Basis)	6,532	6,532	(58,452)	<u>\$ 64,984</u>
Ending Fund Balance	<u>\$ 13,064</u>	<u>\$ 13,064</u>	<u>\$ (47,589)</u>	

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Pledged Collateral**  
**June 30, 2008**

	Wells Fargo (Roswell)	Wells Fargo (Roswell)	Total
<b>Bank Accounts</b>			
Demand deposit accounts	\$ 272,624	\$ -	\$ 272,624
Savings accounts	-	-	-
Certificates of deposit	810,754	-	810,754
Repurchase agreements	-	4,660,118	4,660,118
<b>Total amount of deposits (bank balances)</b>	<b>1,083,378</b>	<b>4,660,118</b>	<b>5,743,496</b>
FDIC coverage	(200,000)	-	(200,000)
Total uninsured public funds	883,378	4,660,118	5,543,496
Collateral requirement @ 50%	441,689	-	441,689
Collateral requirement @102%	-	4,753,321	4,753,320
<b>Pledges and securities</b>			
FGI, matures June 1, 2037			
Held at Wells Fargo, California			
CUSIP 3128MS7G9			
Current Face, \$61,821	60,459	-	60,459
FNCL, matures June 1, 2036			
Held at Wells Fargo, California			
CUSIP 31410CS29			
Current Face, \$693,234	903,493	-	903,493
FNCL, matures February 1, 2038			
Held at Wells Fargo, California			
CUSIP 31414KD72			
Current Face, \$4,450,473	-	4,287,114	4,287,114
FNCL, matures March 1, 2036			
Held at Wells Fargo, California			
CUSIP 31409EW72			
Current Face, \$353,890	-	359,427	359,427
FNCL, matures February 1, 2038			
Held at Wells Fargo, California			
CUSIP 31414QSH1			
Current Face, \$110,229	-	106,027	106,027
Over/(under) secured	<b>\$ 522,263</b>	<b>\$ (753)</b>	<b>\$ 521,511</b>

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Individual Deposits**  
**June 30, 2008**

Depository	Account Name	Account Type	Unreconciled Bank Balance	Reconciled Book Balance
<b>Wells Fargo Bank</b>				
<b>New Mexico, N.A.</b>				
	NMMI Federal Funds	Checking	\$ 82,465	\$ 82,465
	NMMI Combined Accounts	Checking	-	3,937,293
	Control Account		26,420	-
	Money Market		4,203,793	-
	Total combined		<u>4,230,213</u>	<u>3,937,293</u>
	NMMI Investment Trust	Checking	25,739	25,589
	NMMI Bond Sinking Fund	Checking	100,000	452,407
	Money Market		352,407	-
	Total Bond		<u>452,407</u>	<u>452,407</u>
	NMMI Cadet Activities	Checking	38,000	141,978
	Money Market		103,965	-
	Total Cadet Activities		<u>141,965</u>	<u>141,978</u>
	Total Wells Fargo Bank		<u>4,907,050</u>	<u>4,614,143</u>
	Cash on Hand		-	28,525
	<b>Total</b>		<u>\$ 4,932,789</u>	<u>\$ 4,668,257</u>

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Investments**  
**June 30, 2008**

<b>Scholarship Trust</b>	<u>At Market Value</u>
American Legion	\$ 5,867
Berger	201,290
Bondurant	1,523,984
Boyd	52,886
Camp	71,021
Cannon	105,630
Colfax	202,072
Carter	70,013
Coppinger	16,676
Crosby	372,515
Decker	96,235
Ellis	67,450
Evans	340,758
Fisher	77,122
General	95,029
Kelley	14,878
Lawrence	16,067
Lusk	68,322
Mechem	104,446
Morey	87,140
Patton	69,127
Rapp	457,551
Runnels	18,935
Ruppert	9,299
San Miguel & Mora	109,312
San Miguel/Mora (FEM)	158,628
Scherotter	8,046
Schmitt	54,858
Total	<u>\$ 4,475,157</u>
Breakdown of Investments:	
Cash – Wells Fargo Account	\$ 59,365
Receivable on Trust Royalties	-
State Investment Council	<u>4,415,792</u>
Total	<u>\$ 4,475,157</u>

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Investments**  
**June 30, 2008**

	<b>At Market Value</b>
<b>General Richard T. Knowles Legislative Scholarship Trust</b>	
Birnie	\$ 4,230
Clark	34,757
Dickason	49,550
Domzalski	6,267
Duson	8,778
Featherstone	5,431
Gibson	18,707
Green	71,169
Hazard	1,418
Huston	172,380
Carter	2,352
Ostenberg	348,230
Robertson	15,870
Marmaduke	13,883
Shillingburg	11,522
Sparkman	4,390
Legis	5,071,212
Stevens	1,079
Wyles	32,255
<b>Total</b>	<b>\$ 5,873,480</b>
<b>Breakdown of Investments</b>	
Cash - Wells Fargo Bank	\$ 7,029
Due from Operating Fund	75,000
State Investment Council	5,791,451
<b>Total</b>	<b>\$ 5,873,480</b>
<b>Patterson Endowment</b>	
Cash - Wells Fargo Bank	\$ 4,695
State Investment Council	3,436,275
<b>Total</b>	<b>\$ 3,440,970</b>
<b>Daniels Leadership Center Building Maintenance Endowment</b>	
State Investment Council	\$ 3,811,720
Wells Fargo Bank CD	310,754
<b>Total</b>	<b>\$ 4,122,474</b>
<b>Scholarship Trust</b>	
General Richard T. Knowles-Legislative Scholarship Trust	\$ 4,475,157
Patterson Account	5,873,480
Daniels Leadership Center - Building Maintenance Account	3,440,970
<b>Total</b>	<b>\$ 4,122,474</b>
<b>Total</b>	<b>\$ 17,912,081</b>

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Investments**  
**June 30, 2008**

Cash, restricted	\$	146,089
Wells Fargo Bank CD		310,754
Receivable on Trust Royalties		-
Investments at State Investment Council, restricted		<u>17,455,238</u>
Total	<u>\$</u>	<u>17,912,081</u>



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2008**

	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Federal Grantor/Pass-Through Grantor/Program Title			
U. S. Department of Education			
Student Financial Aid Cluster -			
Federal Supplemental Education			
Opportunity Grant (1)	84.007	N/A	\$ 69,470
Federal Work-Study Program (1)	84.033	N/A	1,850
Federal Pell Grant Program (1)	84.063	N/A	276,097
Federal Academic Competitiveness Grant Program	84.375	N/A	24,696
Total U.S. Department of Education Programs			372,113
U.S. Department of the Army			
ROTC	N/A	DAFK 57-92-H-0422	94,063
JROTC	N/A	DAFK 57-91-H-0422	72,093
Total U.S. Department of the Army Programs			166,156
Total			\$ 538,269

(1) Major Program

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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**

Hector H. Balderas  
New Mexico State Auditor and  
Board of Regents  
New Mexico Military Institute  
Roswell, New Mexico

We have audited the financial statements of the business-type activities of the New Mexico Military Institute (Institute) and the discretely presented component unit (New Mexico Military Institute Foundation), as of and for the year ended June 30, 2008, and have issued our report thereon dated November 7, 2008. We have also audited the unrestricted and restricted current funds budget comparisons presented as supplemental information as of and for the year ended June 30, 2008, and have issued our report dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

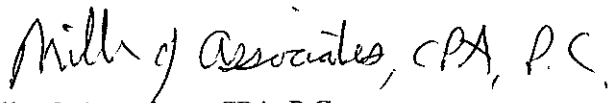
A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Institute's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the control deficiency described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Institute'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, New Mexico Military Institute, the State Auditor, the cognizant audit agency, the New Mexico State Legislature, the Department of Finance and Administration, and other federal audit agencies, and is not intended to be, and should not be used by anyone other than these specified parties.



Miller & Associates, CPA, P.C.  
November 7, 2008

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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Hector H. Balderas  
New Mexico State Auditor and  
Board of Regents  
New Mexico Military Institute  
Roswell, New Mexico

**Compliance**

We have audited the compliance of New Mexico Military Institute (the "Institute"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, New Mexico Military Institute complied, in all material respects, with the requirements referred to above that are applicable in each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of New Mexico Military Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of

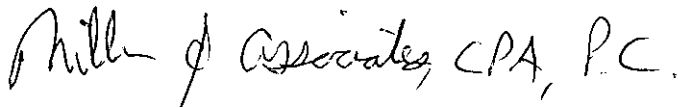
expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Institute's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Institute's internal control.

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Office of the State Auditor, the New Mexico State Legislature, the Department of Finance and Administration, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Miller & Associates, CPA, P.C.  
November 7, 2008

**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of New Mexico Military Institute.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Institution were disclosed during the audit.
4. There were no significant deficiencies noted during the audit of the major federal award programs of the Institution.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Institute.
7. There were no audit findings that were required to be reported in accordance with OMB Circular A-133, Section 510(a).
8. The programs tested as major programs include:

	<b>CFDA No.</b>
Student Financial Aid Cluster:	
Federal Supplemental Education Opportunity	
Grant Program	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063

9. The dollar threshold to determine between Type A and Type B programs of the Institute is \$300,000.
10. The Institute was determined to be a low risk auditee.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

None

**C. FINDINGS – FEDERAL AWARDS**

None

**D. FINDINGS – PRIOR YEAR AUDIT**

2007-1: Pledged Collateral – Resolved and not repeated

**NEW MEXICO MILITARY INSTITUTE**

**Exit Conference**

**June 30, 2008**

The contents of this report were discussed at an exit conference held on November 7, 2008. The following individuals were in attendance.

Institute Officials

Phillip Ingram, Vice President

J. William Himes, Member

RADM David Ellison, Ph.D., Superintendent

COL Judy A. Collins, Executive Vice President

LTC Judy Scharmer, Vice President for Finance and Business Processes

MAJ David W. Gray, Comptroller

MAJ Charles Hendrickson, Internal Auditor

CAPT Lois Rork, Accountant

Auditors

Ron Miller, Principal

The financial statements of New Mexico Military Institute were prepared from original books and records provided by the management of these entities by Miller and Associates, C.P.A., P.C.