

NEW MEXICO MILITARY INSTITUTE
Roswell, New Mexico

Financial Statements
For the Year Ended June 30, 2009

NEW MEXICO MILITARY INSTITUTE
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June 30, 2009

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NEW MEXICO MILITARY INSTITUTE

Official Roster

June 30, 2009

Board of Regents

Ex Officio Members:

The Honorable Bill Richardson

Dr. Peter White

Governor of the State of New Mexico

Secretary of Higher Education

Appointed Members:

Phillip C. Ingram

John M. Henderson, III

J. William Himes

Stephen D. Paternoster

John F. Russell, II

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

LTC Jeffrey Savage

Mr. Robert Einhorn

LTC Franz Conway

MAJ David W. Gray

MAJ Sonya Rodriguez

President/Superintendent

Commandant

Academic Dean

Executive Vice President

Vice President for Health, Physical Ed. & Recreation

Associate Dean

Vice President of Finance & Business Processes

Vice President for Enrollment

Vice President of Technology/CIO

Professor of Military Science

Comptroller

Director of Admissions and Financial Assistance



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

10120 N. Oracle Road
Tucson, Arizona 85704
Tel (520) 742-2611
Fax (520) 742-2718

INDEPENDENT AUDITORS' REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (New Mexico Military Institute Foundation) of the New Mexico Military Institute (Institute), as of and for the year ended June 30, 2009, which collectively comprise the Institute's basic financial statements as listed in the table of contents. We have also audited the unrestricted and restricted funds budget comparisons presented as Supplemental Information as of and for the year ended June 30, 2009, 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 in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2009, 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 New Mexico Military Institute and the discretely presented component unit, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof 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 New Mexico Military Institute for the year ended June 30, 2009 in conformity with the budgetary basis of accounting prescribed by the New Mexico Administrative Code, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2009, on our consideration of the New Mexico Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6 through 15 is not a required 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 financial statements and budget comparisons of the New Mexico Military Institute. The accompanying Schedule of Pledged Collateral, Schedule of Individual Deposits, and Schedule of Investments, listed as Other Supplemental Information in the table of contents, are presented for the purposes of additional analysis and are not required parts of the basic financial statements. In addition, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. 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. The Other Supplemental Information and Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Heinfeld, Meech & Co., P.C.

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

November 11, 2009

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

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, 2009 and 2008. 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.

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

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.

NET ASSETS AND REVENUE, EXPENSES AND CHANGES IN NET ASSETS

New Mexico Military Institute
Condensed Summary of Net Assets
June 30, 2009 and 2008

| | 2009 | 2008 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets | \$ 16,643,152 | \$ 12,347,950 |
| Capital assets, net | 59,115,043 | 56,724,414 |
| Non-current assets | <u>283,983,781</u> | 374,211,385 |
| Total assets | <u>\$ 359,741,976</u> | <u>\$ 443,283,749</u> |
| LIABILITIES | | |
| Current liabilities | \$ 4,273,673 | \$ 4,301,894 |
| Non-current liabilities | <u>3,657,518</u> | 4,806,419 |
| Total liabilities | <u>\$ 7,931,191</u> | <u>\$ 9,108,313</u> |
| NET ASSETS | | |
| Invested in capital assets net of related debt | \$ 54,423,625 | \$ 50,874,226 |
| Restricted | 283,459,775 | 371,152,522 |
| Unrestricted | <u>13,927,385</u> | 12,148,688 |
| Total net assets | <u>\$ 351,810,785</u> | <u>\$ 434,175,436</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, 2009 and 2008 are cash, cash equivalents and short term investments totaling \$13,533,532 and \$9,553,336, respectively.

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

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 \$4,665,000 and \$5,685,000 at June 30, 2009 and 2008, respectively.

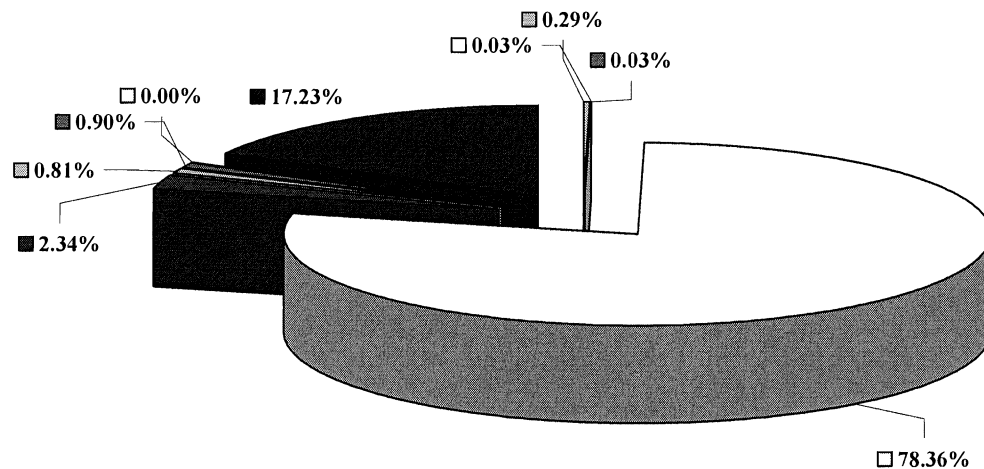
| | 2009 | 2008 |
|----------------------------|----------------------------|-------------------------|
| Bonds payable, current | \$ 1,065,000 | 1,020,000 |
| Bonds payable, long-term | <u>3,600,000</u> | <u>4,665,000</u> |
| Total Bonds Payable | <u>\$ 4,665,000</u> | <u>5,685,000</u> |

At June 30, 2009, the Institute's current ratio, the amount of current assets (\$16,643,152) available to cover current liabilities (\$4,273,673) was 3.89 to 1.

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.

The largest category of non-current assets is the Institute's undivided interest in the State Land Grant Permanent Fund (SLGPF) of \$268,859,666 and \$352,788,033 at June 30, 2009 and 2008, respectively.

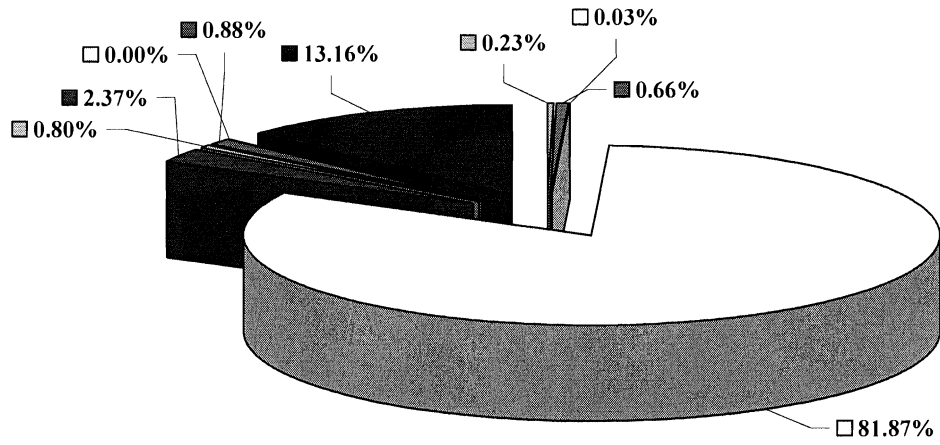
2009 Non-current Assets



| | | |
|--|--------------------------------------|--|
| ■ 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 |

**NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009**

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 |

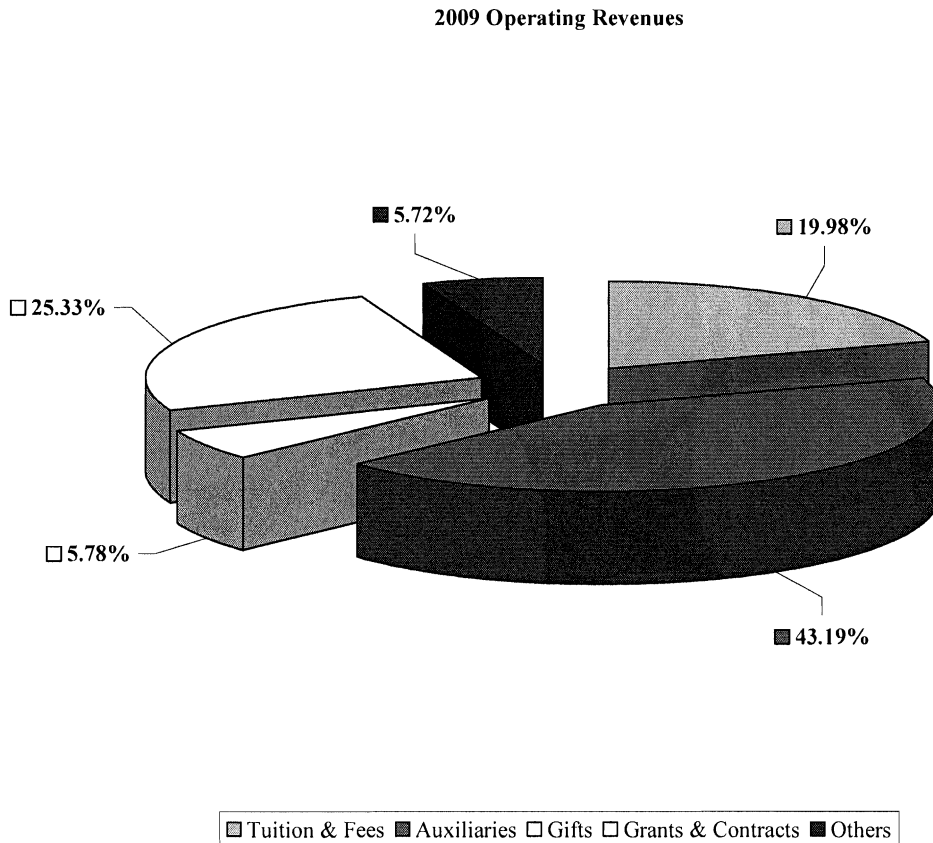
NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

| | 2009 | 2008 |
|---|------------------------|------------------------|
| Operating Revenue by Major Source | | |
| Tuition | \$ 2,178,566 | \$ 2,122,158 |
| Auxiliaries | 4,710,236 | 4,631,024 |
| Gifts | 630,078 | 499,276 |
| Grants and contracts | 2,762,429 | 3,684,139 |
| Intercollegiate athletics and other sponsored activities | 438,990 | 439,486 |
| Other | 184,963 | 113,261 |
| | <u>\$ 10,905,262</u> | <u>\$ 11,489,344</u> |
| Operating Expense by Major Function | | |
| Instruction | \$ 8,912,586 | \$ 8,472,751 |
| Academic support | 908,808 | 920,423 |
| Student services | 1,223,781 | 1,151,383 |
| Institutional support | 3,163,028 | 2,936,083 |
| Operations and maintenance support | 3,052,951 | 3,093,984 |
| Auxiliaries | 4,291,138 | 4,113,163 |
| Student aid | 1,205,521 | 911,025 |
| Intercollegiate athletics and other sponsored activities | 1,866,443 | 1,847,206 |
| Other | 3,022,584 | 3,096,879 |
| | <u>\$ 27,646,840</u> | <u>\$ 26,542,897</u> |
| Non-operating Revenue (Expense) | | |
| Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund | \$ (68,540,272) | \$ 2,746,550 |
| Other | (276,909) | (227,771) |
| | <u>\$ (68,817,181)</u> | <u>\$ 2,518,779</u> |
| Income (loss) before other revenue, expense, gains and losses | \$ (85,558,759) | \$ (12,534,774) |
| Capital grants | 3,194,108 | 1,859,721 |
| Total increase (decrease) in net assets | <u>\$ (82,364,651)</u> | <u>\$ (10,675,053)</u> |
| Net assets, beginning of year | <u>434,175,436</u> | <u>\$ 444,850,489</u> |
| Net assets, end of year | <u>\$ 351,810,785</u> | <u>\$ 434,175,436</u> |

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

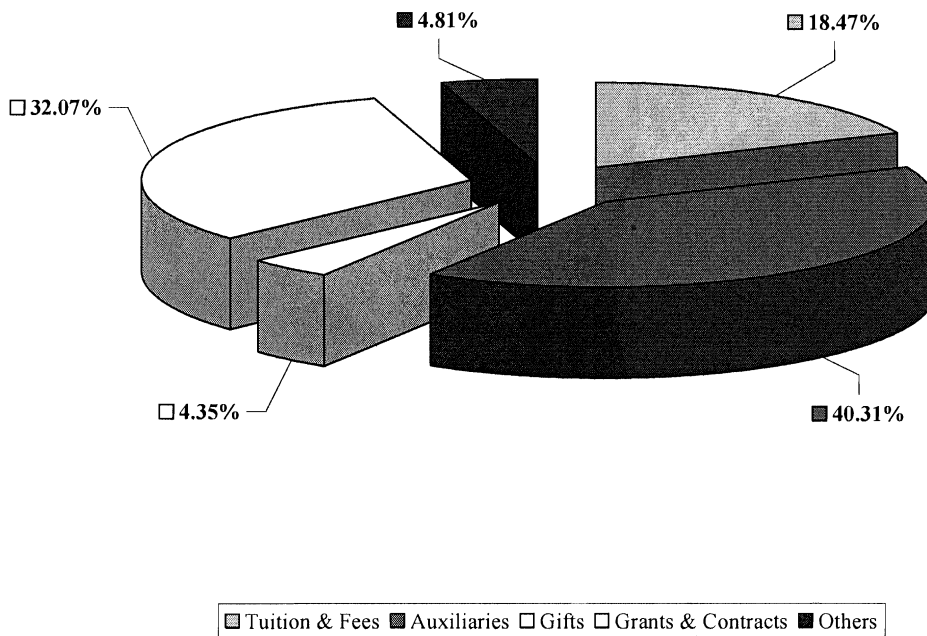
Revenues in the reporting model are shown by source of funding. Operating revenues are generally defined as exchange transactions produced in conducting the primary business operations of the Institute, including instruction, auxiliaries, federal and state grants and contracts, and intercollegiate athletics 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, 2009**

2008 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.

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

Non-operating revenue contributed noteworthy resources to the Institute. During the years ending June 30, 2009 and 2008, gifts from donors totaled \$630,078 and \$499,276, respectively.

During the year ended June 30, 2009, actual investment loss subtracted from the corpus of the State Land Grant Permanent Fund was \$(66,138,559). 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 \$1,021,848 and \$17,789,808, respectively. Capital appropriations from the State of New Mexico severance tax bonds and general obligation bonds equaled \$3,067,030. Capital appropriations from the State of New Mexico general fund were \$215,000.

During the year ended June 30, 2008, actual investment income subtracted from the corpus of the State Land Grant Permanent Fund was \$(745,703). 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.

The Institute's total change in net assets showed a net decrease for 2009 and 2008. Both years' results are primarily the result of investment loss and income 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 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 was substantially completed in June 2009. The building was put back in service in July 2009. \$500,000 was received in state appropriations to begin the design phase of the renovation of Pearson Auditorium in FY2008. \$5,000,000 in General Obligation Bonds was approved in the November 2008 election for the Pearson renovation project.

Budgetary Highlights

Management continues to take a conservative approach to the budgetary process due to the current global, national and state wide economic climate.

Overall revenues were \$342,688 lower than budgeted. The negative variance is primarily due to lower revenues in the auxiliary enterprise and state grants and contracts classifications. The lower revenues are more than offset by the positive variance in expenditures when compared to the budget. The actual expenditures were \$4,295,845 lower than budgeted. \$3,134,000 of this positive budget variance is reserved for future scholarships, capital outlay and repairs, debt service, auxiliary expenses and athletics.

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

Factors Impacting Future Periods

Legal issues

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, 10th 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 10th Circuit Appeals Court. The 10th Circuit Appeals court ruled in favor of NMMI on all claims. The plaintiff's attorney has elected to petition United States Supreme Court to hear the case. NMMI believes the U.S. Supreme Court will deny the plaintiff's appeal. 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. The bigger claim would be a requirement for NMMI to adopt Special Ed requirements at the high school and junior college level. NMMI continues to believe that any unfavorable outcome is unlikely, however, any litigation contains an element of uncertainty. NMMI continues to vigorously defend the positions taken previously.

Financial issues

Institute management believes there is the potential for a reduction of the general fund appropriations received from the state of New Mexico. This belief is based upon the poor financial condition of the state and the potential solutions currently being suggested. The total appropriation for the Knowles

NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2009

scholarship program, Building Renewal and Replacement and the Athletics program is \$2,069,700. The amount of any potential reduction is unknown at this time.

A large portion of the Institute's non operating revenues comes from distributions from the undivided interest in the state's Land Grant Permanent Fund. Distributions are based upon a five year average of the total return of the Fund. With the recent volatility in the equity and fixed income markets, there is a potential reduction in the Institute's revenues. The amount of reduction is unknown at this time.

CONTACTING THE INSTITUTE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Institute's finances and to demonstrate the Institute's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Vice President of Finance and Business Processes at:

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

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, 2009

| | Primary Government | Component Unit |
|--|-----------------------|--------------------|
| | NMMI | NMMI Foundation |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 4,740,651 | \$ 283,771 |
| Restricted cash and cash equivalents | 994,040 | - |
| Short-term investments | 8,792,881 | - |
| Prepaid expenses | - | 3,040 |
| Contract and grant receivables | - | - |
| Pledges receivable, net of allowance | - | 52,543 |
| Student accounts receivable, net of allowance for doubtful receivables of \$755,000 | 213,279 | - |
| Receivable from NMMI Foundation | 155,942 | - |
| Other accounts receivable | 1,660,619 | 37,747 |
| Inventories | 79,069 | - |
| Other assets | 6,671 | - |
| Total current assets | 16,643,152 | 377,101 |
| Non-current Assets: | | |
| Restricted cash and cash equivalents | 982,562 | - |
| Long-term investments | 102,683 | - |
| Deferred cost of bond defeasance | 115,000 | - |
| Land and buildings held for investment | - | 6,732,221 |
| Pledges receivable, net of allowance | - | 496,583 |
| Surrender value of life insurance policies | - | 550,512 |
| Endowment investments, Land Grant Permanent Fund | 268,859,666 | - |
| Endowment investments, scholarships | 8,045,193 | - |
| Endowment investments, capital projects | 2,787,143 | - |
| Endowment investments, building maintenance | 3,091,534 | - |
| Investments | - | 22,815,522 |
| Beneficial interest in perpetual trust | - | 668,058 |
| Other assets | - | 50,000 |
| Capital assets, net of accumulated depreciation | 59,115,043 | 481 |
| Total non-current assets | 343,098,824 | 31,313,377 |
| Total Assets | \$ 359,741,976 | \$ 31,690,478 |

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

NEW MEXICO MILITARY INSTITUTE
Statement of Net Assets (Continued)
For the Year Ended June 30, 2009

| | <u>Primary Government</u> | <u>Component Unit</u> |
|---|-------------------------------|----------------------------|
| | <u>NMMI</u> | <u>NMMI Foundation</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,405,242 | \$ 9,839 |
| Accrued compensated absences | 414,713 | 15,993 |
| Payable to NMMI | - | 155,942 |
| Payable to Alumni Association | - | 2,571 |
| Deferred support | - | 305,069 |
| Other credits | 795,290 | - |
| Funds held for others | 509,527 | - |
| Capital lease payable-current portion | 83,901 | - |
| Bonds payable-current portion | <u>1,065,000</u> | <u>-</u> |
| Total current liabilities | <u>4,273,673</u> | <u>489,414</u> |
| Non-current Liabilities: | | |
| Capital lease payable-long term portion | 57,518 | - |
| Bonds payable-long term portion | <u>3,600,000</u> | <u>-</u> |
| Total non-current liabilities | <u>3,657,518</u> | <u>-</u> |
| Total Liabilities | <u>7,931,191</u> | <u>489,414</u> |
| NET ASSETS | | |
| Invested in capital assets, net of debt | 54,423,625 | - |
| Restricted for | | |
| Nonexpendable: | | |
| Restricted, Land Grant Permanent Fund at State Investment Council | 268,859,666 | - |
| Restricted, Scholarships at State Investment Council | 5,968,890 | - |
| Restricted, Building Maintenance | 3,091,534 | - |
| Restricted, Capital Projects | 2,000,000 | - |
| Permanently Restricted, NMMI Foundation | - | 17,452,704 |
| Expendable: | | |
| Term endowments, scholarships | 2,441,481 | - |
| Capital Projects | 791,858 | - |
| Debt Service | 306,346 | - |
| Temporarily Restricted, NMMI Foundation | - | 2,135,990 |
| Unrestricted | <u>13,927,385</u> | <u>11,612,370</u> |
| Total net assets | <u>351,810,785</u> | <u>31,201,064</u> |
| Total Liabilities and Net Assets | <u>\$ 359,741,976</u> | <u>\$ 31,690,478</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
For the Year Ended June 30, 2009

| | Primary Government | Component Unit |
|--|------------------------|---------------------|
| | NMMI | NMMI Foundation |
| Operating revenues: | | |
| Tuition and fees | \$ 2,178,566 | \$ - |
| Contributions | - | 577,588 |
| | 2,178,566 | 577,588 |
| Federal grants and contracts | 580,312 | - |
| State grants and contracts | 2,182,117 | - |
| Private grants and contracts | 630,078 | - |
| Other sponsored activities | 346,580 | - |
| Auxiliary enterprises | 4,710,236 | - |
| Intercollegiate athletics | 92,410 | - |
| Other | 184,963 | 3,059 |
| Rental income | - | 306,535 |
| Total operating revenues | 10,905,262 | 887,182 |
| Expenses: | | |
| Instruction and general: | | |
| Instruction | 8,912,586 | - |
| Academic support | 908,808 | - |
| Student services | 1,223,781 | - |
| Institutional support | 3,163,028 | - |
| Operations and maintenance support | 3,052,951 | - |
| Total instruction and general expenses | 17,261,154 | - |
| Other sponsored activities | 323,971 | - |
| Student aid grants and stipends | 1,205,521 | - |
| Auxiliary enterprises | 4,291,138 | - |
| Intercollegiate athletics | 1,542,472 | - |
| Internal service department | (3,631) | - |
| Supporting services | - | 342,693 |
| Minor capital outlay operations | 62,081 | - |
| Program services | - | 1,005,167 |
| Real estate expenses | - | 39,911 |
| Depreciation | 2,964,134 | - |
| Total expenses | 27,646,840 | 1,387,771 |
| Operating income (loss) | \$ (16,741,578) | \$ (500,589) |

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, 2009

| | Primary Government | Component Unit |
|--|-----------------------|----------------------------|
| | <u>NMMI</u> | <u>NMMI Foundation</u> |
| Non-operating revenues (expenses): | | |
| Investment income (loss) | \$ (87,555,272) | \$ (5,726,775) |
| Increase in cash value of life insurance | - | 86,857 |
| Income from State Land Office | 1,021,848 | - |
| Income from State Land Grant Permanent Fund | 17,789,808 | - |
| Endowment contributions | 27,916 | - |
| Other income | 204,178 | 65,448 |
| Interest on capital asset related to debt | (276,909) | - |
| Bond defeasance amortization | (28,750) | - |
| Non operating revenues (expenses) | <u>(68,817,181)</u> | <u>(5,574,470)</u> |
| Income (loss) before other revenues, expenses, gains and losses | <u>(85,558,759)</u> | <u>(6,075,059)</u> |
| Other: | | |
| Capital grants, net | <u>3,194,108</u> | - |
| Net other revenues (expenses) | <u>3,194,108</u> | - |
| Change in net assets | (82,364,651) | (6,075,059) |
| Net assets, beginning of year | <u>434,175,436</u> | <u>37,276,123</u> |
| Net assets, end of year | <u>\$ 351,810,785</u> | <u>\$ 31,201,064</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, 2009

| | Primary Government |
|---|-----------------------|
| | NMMI |
| Cash flows from operating activities: | |
| Tuition and fees | \$ 2,140,931 |
| Grants and contracts | 3,389,097 |
| Sales and services of educational activities | 4,754,742 |
| Other operating receipts | 438,495 |
| Payments to employees for salaries and benefits | (15,344,416) |
| Payments to suppliers | (8,376,354) |
| Grants issued to students | (687,119) |
| Net cash used by operating activities | (13,684,624) |
| Cash flows from noncapital financing activities: | |
| Agency receipts | 1,173,811 |
| Agency payments | (1,192,123) |
| Net cash used by noncapital financing activities | (18,312) |
| Cash flows from investment activities: | |
| Cash distribution from State Land Grant Permanent Fund | 17,661,835 |
| Cash distribution from State Land Office | 1,021,848 |
| Cash distribution from investments | 244,000 |
| Cash received from scholarship gifts | 27,916 |
| Other investment income | 62,740 |
| Cash payment of trust expenses | (162,084) |
| Net cash provided (used) by investing activities | 18,856,255 |
| Cash flows from capital and related financing activities: | |
| Cash paid for capital assets | (5,362,144) |
| Cash received on capital grants | 3,069,777 |
| Cash paid for renewal and replacement of assets | (363,387) |
| Other receipts/payments | 204,178 |
| Repayments of capital debt | (1,182,281) |
| Interest paid on capital debt | (281,219) |
| Net cash used by capital and related financing activities | (3,915,076) |
| Net increase (decrease) in cash and cash equivalents | 1,238,243 |
| Cash and cash equivalents, beginning of year | 5,479,011 |
| Cash and cash equivalents, end of year | \$ 6,717,254 |

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

NEW MEXICO MILITARY INSTITUTE
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2009

| | Primary Government |
|--|-----------------------|
| | NMMI |
| Reconciliation of Operating Loss to Net Cash Used by Operating Activities | |
| Operating loss | \$ (16,741,578) |
| Adjustments to reconcile operating loss to net cash Used by operating activities: | |
| Depreciation expense | 2,964,134 |
| Changes in assets and liabilities: | |
| Short term investments | (181,636) |
| Accounts receivable | 1,043,606 |
| Inventories | 4,308 |
| Other current assets | 17,685 |
| Accounts payable and accrued expenses | (876,963) |
| Deferred income | 2,345 |
| Accrued benefits | 83,475 |
| Net cash used by operating activities | \$ (13,684,624) |

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

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

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 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, 2009

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 President/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, 2009

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 Institute. 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 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.

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 in each of these items of budgetary control may not exceed the amount shown in the approved budget - A. Unrestricted and restricted expenditures; B. Instruction and general; C. Each budget function in current funds other than instruction and general; and D. Within the plant funds budget: major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

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 6 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*. Changes 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 2009 is \$755,000.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current 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 non-current assets, are classified as non-current assets in the Statement of Net Assets.

Accrued Liabilities

Accrued liabilities consist of amounts for payroll withholding liabilities.

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 capitalized but not depreciated 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 to 30 years for infrastructure, 20 to 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. 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).

Non-current Liabilities

Non-current 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 non-current assets.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the principal.

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 \$(1,882,283). This amount is reported in expendable scholarships, building maintenance and capital projects 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 depreciation of the Foundation’s donor-restricted endowments that are available for expenditures by the governing board is \$(4,423,628). 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 student, 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.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues

The Institute has classified its revenues as either operating or non-operating 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, (2) most Federal, state and local grants and contracts and Federal appropriations, and (3) interest on institutional student loans.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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.

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 shall not report to the general fund." The Institute did not revert any funds for the year ended June 30, 2009.

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, 2009, 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:

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

| | Wells Fargo | Wells Fargo (Repurchase) |
|---|----------------|--------------------------------|
| Total Deposits in Bank | \$ 4,537,542 | \$ 2,262,439 |
| Less: FDIC Insurance | (3,624,384) | - |
| Uninsured Public Funds | 913,158 | 2,262,439 |
| Collateral Requirement 50% | 456,579 | - |
| Collateral Requirement 102% | - | 2,307,688 |
| Pledged Collateral Held by the Pledging Bank's trust department not in the agency's name | 850,253 | 2,308,199 |
| Uninsured & Uncollateralized | \$ - | \$ - |

Custodial Credit Risk - Deposits

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, 2009, \$3,158,452 of the Institute's bank balance of \$6,799,981 was exposed to custodial credit risk as follows:

| | |
|--|--------------|
| Uninsured and uncollateralized | \$ - |
| Collateral held by Wells Fargo's trust department not in the Institute's name | 3,158,452 |
| Total | \$ 3,158,452 |

Investments

The Institute invests some unrestricted operating funds with Wells Fargo Bank's Brokerage Services. The short-term investments of \$8,792,881 include investments in cash, money market funds, and brokered certificates of deposit maturing within one year. The long-term investment of \$102,683 is a brokered certificate of deposit with a maturity date longer than one year. All the certificates of deposit are 100% insured by the FDIC.

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 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.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Pooled investments of the Institute consist of the following at June 30, 2009:

| <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 | \$ 224 | | 0.00% | 0.00% |
| Large Cap Index | 4,969,586 | | 35.69% | 38.00% |
| Mid-Small | 1,257,100 | | 9.03% | 11.00% |
| Non U.S. Developed Equity | 1,335,311 | | 9.59% | 12.00% |
| Non U.S. Emerging Markets | <u>353,418</u> | | <u>2.54%</u> | <u>3.00%</u> |
| Total Equity | \$ 7,915,639 | | 56.85% | 64.00% |
| Core Bonds | <u>6,008,231</u> | 1-5 years | <u>43.15%</u> | <u>36.00%</u> |
| Total Investment Pool | <u>\$13,923,870</u> | | <u>100.00%</u> | <u>100.00%</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 Institute's 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 certificates of deposit.

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, 2009

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.

Custodial Credit Risk – Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Institute will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Institute does not currently have an investment policy for custodial credit risk. The Institute is not considered to be subject to custodial credit risk for exposure as all of the investments held by the Institute's brokerage firm are registered in the name of the Institute.

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, 2009 the fair value of such interest was \$268,859,666. These investments are not categorized by custodial risk.

Investment Income (Loss)

Investment income (loss) consists of the following for the year ended June 30, 2009:

| | Retirement of Debt | Land Grant Permanent Fund | Daniels Leadership Center Bldg Maintenance | Patterson Construction Endowment | Scholarship Trust Funds | Total |
|--------------------------|-----------------------|------------------------------|---|--|----------------------------|------------------------|
| Investment (loss) income | \$ 2,678 | \$ 371,405 | \$ 5,368 | \$ 20 | \$ 869 | \$ 380,340 |
| Realized gains (losses) | - | 533,594 | (199,468) | 105,186 | 287,312 | 726,624 |
| Unrealized gain (loss) | - | (84,833,366) | (836,842) | (754,318) | (2,226,447) | (88,650,973) |
| | <u>\$ 2,678</u> | <u>\$ (83,928,367)</u> | <u>\$ (1,030,942)</u> | <u>\$ (649,112)</u> | <u>\$ (1,938,266)</u> | <u>\$ (87,544,009)</u> |

During the year ended June 30, 2009, \$17,789,808 in cash was distributed to NMMI from the State Land Grant Permanent Fund. During the year ended June 30, 2009, \$244,000 was distributed from the Scholarship Trust Funds at the State Investment Council. The \$244,000 was invested in certificates of deposit at Wells Fargo Bank.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 3: CAPITAL ASSETS

The following are the changes in capital assets:

| | Beginning Balance | Additions | Retirement | Transfers | Ending Balance |
|--|----------------------|---------------------|--------------------|-----------------------|----------------------|
| Capital Assets Not Being Depreciated: | | | | | |
| Land | \$ 696,537 | \$ 14,000 | \$ - | \$ - | \$ 710,537 |
| Construction in progress | 1,632,238 | 3,960,512 | - | (5,169,208) | 423,542 |
| Artwork | 808,296 | - | - | - | 808,296 |
| Total Capital Assets Not Being Depreciated | <u>3,137,071</u> | <u>3,974,512</u> | <u>-</u> | <u>(5,169,208)</u> | <u>1,942,375</u> |
| Capital Assets Being Depreciated: | | | | | |
| Buildings | 77,359,398 | 5,762,814 | (105,994) | - | 83,016,218 |
| Furniture, fixtures and equipment | 8,687,206 | 665,621 | (148,046) | - | 9,204,781 |
| Leased equipment | 309,263 | - | - | - | 309,263 |
| Library books | 550,655 | 39,681 | - | - | 590,336 |
| Infrastructure | 2,944,293 | - | - | - | 2,944,293 |
| Land improvements | 1,323,344 | 23,875 | - | - | 1,347,219 |
| Vehicles and golf carts | 816,497 | 57,280 | (95,922) | - | 777,855 |
| Total at Historical Cost | <u>91,990,656</u> | <u>6,549,271</u> | <u>(349,962)</u> | <u>-</u> | <u>98,189,965</u> |
| Less Accumulated Depreciation: | | | | | |
| Buildings | 30,025,657 | 1,946,715 | (62,901) | - | 31,909,471 |
| Furniture, fixtures and equipment | 6,175,699 | 799,338 | (136,661) | - | 6,838,376 |
| Leased equipment | 245,085 | (1,688) | - | - | 243,397 |
| Library books | 374,663 | 31,382 | - | - | 406,046 |
| Infrastructure | 595,780 | 73,908 | - | - | 669,688 |
| Land improvements | 317,678 | 4,266 | - | - | 321,944 |
| Vehicles and golf carts | 668,750 | 55,548 | (95,922) | - | 628,375 |
| Total Accumulated Depreciation | <u>38,403,312</u> | <u>2,909,469</u> | <u>(295,484)</u> | <u>-</u> | <u>41,017,297</u> |
| Total Capital Assets, Net | <u>\$ 56,724,415</u> | <u>\$ 7,614,314</u> | <u>\$ (54,478)</u> | <u>\$ (5,169,208)</u> | <u>\$ 59,115,043</u> |

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES

The Institute is committed under various operating leases which expire through 2012. These leases are primarily for copy machines. Rental expense under these leases amounted to \$19,700 in 2009.

Minimum future lease payments under operating leases as of June 30, 2009 for each of the next five years and in the aggregate are:

| | | |
|------|--|------------------|
| 2010 | | \$ 7,964 |
| 2011 | | 2,526 |
| 2012 | | <u>631</u> |
| | | <u>\$ 11,121</u> |

The Institute is committed under various capital leases which expire in fiscal year 2011. Equipment under these capital leases is valued at \$630,360. 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, 2009 for each of the remaining years are:

| | | |
|---|--|-------------------|
| 2010 | | \$ 90,336 |
| 2011 | | <u>60,692</u> |
| Total minimum lease payments | | 151,028 |
| Amount representing interest | | <u>(9,609)</u> |
| Present Value of minimum lease payments | | <u>\$ 141,419</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 year ended June 30, 2009 are subject to audits by federal and state agencies. It is the opinion of Institute 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 institution defined in the New Mexico Tort Claims Act is insured through 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, 2009

NOTE 5: BONDS PAYABLE

Long-term bonds payable of the Institute at June 30, 2009, 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% \$4,665,000

The scheduled maturities of the revenue bonds are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|--------------------|------------------|--------------------|
| 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 | <u>1,260,000</u> | <u>63,000</u> | <u>1,323,000</u> |
| Totals | <u>\$4,665,000</u> | <u>\$591,263</u> | <u>\$5,256,263</u> |

Interest expense incurred during June 30, 2009 was \$267,338 and is recorded as interest on capital asset related to debt.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 6: LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 is as follows:

| | <u>Beginning</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending</u> |
|---|---------------------|--------------------|---------------------|---------------------|
| Long term bond payable | \$ 4,665,000 | \$ - | \$ 1,065,000 | \$ 3,600,000 |
| Current portion of bonds payable | <u>1,020,000</u> | <u>1,065,000</u> | <u>1,020,000</u> | <u>1,065,000</u> |
| | <u>\$ 5,685,000</u> | <u>\$1,065,000</u> | <u>\$ 2,085,000</u> | <u>\$ 4,665,000</u> |
| Long term lease payable | \$ 141,419 | \$ - | \$ 83,901 | \$ 57,518 |
| Current portion of lease payment | <u>167,518</u> | <u>83,901</u> | <u>167,518</u> | <u>83,901</u> |
| | <u>\$ 308,937</u> | <u>\$ 83,901</u> | <u>\$ 251,419</u> | <u>\$ 141,419</u> |
| Current portion of compensated absences | <u>\$ 331,239</u> | <u>\$ 410,084</u> | <u>\$ 326,610</u> | <u>\$ 414,713</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 requirement may be amended by acts of the legislature. For the year ending June 30, 2009, plan members were required to contribute 7.9% of their gross salary. The Institute was required to contribute 11.65% of the gross covered salary. For the 2010 and 2011 fiscal years, the New Mexico Legislature amended Chapter 22, Article 11 NMSA 1978. Effective July 1, 2009, the employee contribution rate for employees with a gross salary of \$20,000 or more will be increased to 9.4%. The employer contribution will be decreased to 10.9%. The contribution rates and effective dates are:

| | <u>Retirement Contributions</u> | |
|--|---------------------------------|-----------------|
| | <u>Employee</u> | <u>Employer</u> |
| For employees earning less than \$20,000 gross annual salary | | |
| 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% |

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

For employees earning \$20,000 or more
gross annual salary

| | | |
|-----------|------|--------|
| 2009-2010 | 9.4% | 10.9% |
| 2010-2011 | 9.4% | 11.65% |
| 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, 2009, 2008 and 2007 were \$1,338,576, \$1,211,149 and \$1,059,052, respectively, equal to the amount of the required contributions for each year.

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 county 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% of each participating employee's annual salary. Each employee contributes to the fund an employee contribution equal to 0.65% 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 (\$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. The New Mexico legislature passed HB-351 which increases revenue flows into the Retiree Health Care Fund by raising employer and employer contribution rates over a three-year period beginning on July 1, 2010. Employer contributions would increase from 1.3% to 2.0% by July 2012. Employee contributions would increase from 0.65% to 1.0% over the same period.

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.

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

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, 2009, 2008 and 2007, the Institute remitted \$148,126, \$144,307 and \$135,626 in employer contributions and \$74,061, \$72,155 and \$67,812 in employee contributions, respectively, to the Retiree Health Care Authority. At June 30, 2009, there were 191 employees eligible to receive post employment benefits.

NOTE 9: INSURANCE COVERAGE

New Mexico Statutes (Section 15-7-2 NMSA 1978) require the 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, 2008 to June 30, 2009.

NOTE 10: RECONCILIATION OF BUDGETARY BASIS TO GAAP

| | |
|--|------------------------|
| Budget comparisons revenues | \$ 33,332,661 |
| Investment loss | (87,152,995) |
| Contributions to endowments | 27,916 |
| Change in Federal Programs | <u>10,401</u> |
| SRECNA Total Revenues | <u>(53,782,017)</u> |
| | |
| Budget comparisons expenditures | 31,710,427 |
| Capital expenditures | (6,542,283) |
| Current year depreciation and amortization | 2,992,884 |
| Trust expenses | <u>421,606</u> |
| SRECNA Total Expenditures | <u>28,582,634</u> |
| | |
| Change in Net Assets | <u>\$ (82,364,651)</u> |

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 11: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS

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

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

| <u>Managed Funds/Bonds</u> | <u>2009</u> |
|---|---------------------|
| Dodge & Cox | \$ 3,326,328 |
| Newport Asia Fund | 402,498 |
| Pine Grove | 2,748,933 |
| Pimco Short Term Bond Fund | 1,733,767 |
| Pimco Total Return Fund | 2,073,442 |
| Private Advisors Fund | 2,460,244 |
| Longleaf Partners Fund | 672,795 |
| Wellington Micro Cap | 1,178,705 |
| Wellington Trust Company | 5,884,957 |
| Fortress Partners Fund | 1,279,993 |
| Vanguard Inflation-Protected Securities | <u>1,053,860</u> |
| | 22,815,522 |
| Less: | |
| Deferred support | <u>(305,069)</u> |
| Foundation Investments | <u>\$22,510,453</u> |

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

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

| | |
|--------------------------------|----------------|
| | 2009 |
| Interest and dividends | \$ 425,004 |
| Net unrealized gains (losses) | (6,155,499) |
| Net realized gains (losses) | 77,265 |
| Investment expenses | (73,545) |
| Total investment income (loss) | \$ (5,726,775) |

NOTE 12: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LAND HELD FOR INVESTMENT

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

NOTE 13: 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, 2009 is as follows:

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

NOTE 14: RELATED PARTY TRANSACTION

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

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

NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2009

NOTE 15: 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 the 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: | \$0 of new funds |
| Audit Responsibility: | N/A |
| Fiscal Agent: | New Mexico State Treasurer |
| Agency Where the Entity Reports: | N/A |

NOTE 16: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2009, the Institute had an uncompleted construction contract for Dow Hall. The remaining commitment on this construction contract was approximately \$291,626.

NEW MEXICO MILITARY INSTITUTE
Budget Comparison
Unrestricted and Restricted – All Operations
Schedule 1
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Actual Positive (Negative) <u>Budget</u> |
|--|----------------------------|-------------------------|----------------------|--|
| Beginning Fund Balance | \$ 8,542,277 | \$ 12,569,092 | \$ 12,583,464 | \$ 14,372 |
| Unrestricted and Restricted Revenues: | | | | |
| State General Fund Appropriations | 2,240,700 | 2,185,500 | 2,182,117 | (3,383) |
| Federal Revenue Sources | 601,600 | 601,600 | 569,911 | (31,689) |
| Tuition and Fees | 2,237,102 | 2,202,975 | 2,178,566 | (24,409) |
| Land and Permanent Fund | 18,355,532 | 18,700,000 | 18,811,657 | 111,657 |
| Endowment and Private Gifts | 690,662 | 690,662 | 630,078 | (60,584) |
| Other | <u>9,224,108</u> | <u>9,294,612</u> | <u>8,960,332</u> | <u>(334,280)</u> |
| Total Unrestricted & Restricted Revenues | <u>33,349,704</u> | <u>33,675,349</u> | <u>33,332,661</u> | <u>(342,688)</u> |
| Unrestricted and Restricted Expenditures: | | | | |
| Instruction | 9,428,563 | 9,327,463 | 8,912,587 | 414,876 |
| Academic Support | 1,070,699 | 1,046,584 | 908,808 | 137,776 |
| Student Services | 1,478,154 | 1,440,154 | 1,223,781 | 216,373 |
| Institutional Support | 3,224,789 | 3,285,789 | 3,163,028 | 122,761 |
| Operation and Maintenance of Plant | 3,573,355 | 3,328,280 | 3,052,951 | 275,329 |
| Student Social and Cultural Activities | 350,936 | 452,860 | 323,971 | 128,889 |
| Research | - | - | - | - |
| Public Service | - | - | - | - |
| Internal Services | 49,496 | 190,111 | 116,975 | 73,136 |
| Student Aid, Grants and Stipends | 2,234,330 | 1,972,695 | 1,205,520 | 767,175 |
| Auxiliary Services | 4,466,684 | 4,996,984 | 4,291,138 | 705,846 |
| Intercollegiate Athletics | 1,637,959 | 1,675,787 | 1,542,472 | 133,315 |
| Independent Operations | - | - | - | - |
| Capital Outlay | 4,715,000 | 5,566,895 | 5,046,512 | 520,383 |
| Renewal and Replacement | 1,076,173 | 1,236,181 | 457,247 | 778,934 |
| Retirement of Indebtedness | <u>1,535,609</u> | <u>1,486,489</u> | <u>1,465,437</u> | <u>21,052</u> |
| Total Unrestricted & Restricted Expenditures | <u>34,841,747</u> | <u>36,006,272</u> | <u>31,710,427</u> | <u>4,295,845</u> |
| Net transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balance (Budgetary Basis) | (1,492,043) | (2,330,923) | 1,622,234 | <u>\$ 3,967,529</u> |
| Ending Fund Balance | <u>\$ 7,050,234</u> | <u>\$ 10,238,169</u> | <u>\$ 14,205,698</u> | |

NEW MEXICO MILITARY INSTITUTE
Budget Comparison
Unrestricted – Non Instruction & General
Schedule 2
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Actual Positive (Negative) <u>Budget</u> |
|--|----------------------------|-------------------------|--------------------|--|
| Beginning Fund Balance | \$ 5,359,759 | \$ 7,609,810 | \$7,609,811 | \$ 1 |
| Unrestricted Revenues: | - | - | - | - |
| Tuition | - | - | - | - |
| Miscellaneous Fees | - | - | - | - |
| Federal Government Appropriations | - | - | - | - |
| State Government Appropriation | - | - | 2,030 | 2,030 |
| Local Government Appropriations | - | - | - | - |
| Federal Government Contracts/Grants | - | - | - | - |
| State Government Contracts/Grants | 3,615,000 | 3,615,000 | 3,282,030 | (332,970) |
| Local Government Contracts/Grants | - | - | - | - |
| Private Contracts/Gifts | - | - | - | - |
| Endowments | - | - | - | - |
| Land & Permanent Fund | - | - | - | - |
| Private Gifts | - | - | - | - |
| Sales and Services | 5,220,062 | 5,290,566 | 5,031,544 | (259,022) |
| Other | <u>302,196</u> | <u>302,196</u> | <u>482,264</u> | <u>180,068</u> |
| Total Unrestricted Revenues | <u>9,137,258</u> | <u>9,207,762</u> | <u>8,797,868</u> | <u>(409,894)</u> |
| Unrestricted Expenditures: | | | | |
| Student Social & Cultural Activities | 350,887 | 452,811 | 323,971 | 128,840 |
| Research | - | - | - | - |
| Public Service | - | - | - | - |
| Internal Services | 49,496 | 190,111 | 116,975 | 73,136 |
| Student Aid, Grants & Stipends | 1,727,730 | 1,466,095 | 687,118 | 778,977 |
| Auxiliary Services | 4,460,777 | 4,991,077 | 4,291,138 | 699,939 |
| Intercollegiate Athletics | 1,637,383 | 1,675,211 | 1,542,472 | 132,739 |
| Independent Operations | - | - | - | - |
| Capital Outlay | 4,715,000 | 5,566,895 | 5,046,512 | 520,383 |
| Renewal & Replacement | 1,076,173 | 1,236,181 | 457,247 | 778,934 |
| Retirement of Indebtedness | <u>1,535,609</u> | <u>1,486,489</u> | <u>1,465,437</u> | <u>21,052</u> |
| Total Unrestricted Expenditures | <u>15,553,055</u> | <u>17,064,870</u> | <u>13,930,870</u> | <u>3,134,000</u> |
| Net Transfers | <u>5,454,639</u> | <u>6,095,366</u> | <u>6,095,366</u> | - |
| Change in Fund Balance (Budgetary Basis) | (961,158) | (1,761,742) | 962,364 | <u>\$ 2,724,106</u> |
| Ending Fund Balance | <u>\$ 4,398,601</u> | <u>\$ 5,848,068</u> | <u>\$8,572,175</u> | |

NEW MEXICO MILITARY INSTITUTE
Budget Comparison
Restricted – Non Instruction & General
Schedule 3
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Actual Positive (Negative) Budget</u> |
|--|----------------------------|-------------------------|------------------|--|
| Beginning Fund Balance | \$ - | \$ - | \$ 61,961 | \$ 61,961 |
| Restricted Revenues: | | | | |
| Tuition | - | - | - | - |
| Miscellaneous Fees | - | - | - | - |
| Federal Government Appropriations | 478,600 | 478,600 | 484,550 | 5,950 |
| State Government Appropriations | 28,000 | 28,000 | 25,387 | (2,613) |
| 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 | - | - | - | - |
| Other | - | - | - | - |
| Total Restricted Revenues | <u>506,600</u> | <u>506,600</u> | <u>509,937</u> | <u>3,337</u> |
| Restricted Expenditures | | | | |
| Student Social & Cultural Activities | 49 | 49 | - | 49 |
| Research | - | - | - | - |
| Public Service | - | - | - | - |
| Internal Services | - | - | - | - |
| Student Aid, Grants & Stipends | 506,600 | 506,600 | 518,402 | (11,802) |
| Auxiliary Services | 5,907 | 5,907 | - | 5,907 |
| Intercollegiate Athletics | 576 | 576 | - | 576 |
| Independent Operations | - | - | - | - |
| Capital Outlay | - | - | - | - |
| Renewal & Replacements | - | - | - | - |
| Retirement of Indebtedness | - | - | - | - |
| Total Restricted Expenditures | <u>513,132</u> | <u>513,132</u> | <u>518,402</u> | <u>(5,270)</u> |
| Net Transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balance (Budgetary Basis) | (6,532) | (6,532) | (8,465) | <u>\$ (1,933)</u> |
| Ending Fund Balance | <u>\$ (6,532)</u> | <u>\$ (6,532)</u> | <u>\$ 53,496</u> | |

NEW MEXICO MILITARY INSTITUTE
Budget Comparison
Unrestricted – Instruction & General
Schedule 4
For the Year Ended June 30, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Actual Positive (Negative) Budget</u> |
|--|----------------------------|-------------------------|---------------------|--|
| Beginning Fund Balance | \$ 3,182,518 | \$ 4,959,282 | \$ 4,959,282 | \$ - |
| Unrestricted Revenues: | | | | |
| Tuition | 2,190,102 | 2,155,975 | 2,121,431 | (34,544) |
| Miscellaneous Fees | 47,000 | 47,000 | 57,135 | 10,135 |
| Federal Government Appropriations | - | - | - | - |
| State Government Appropriations | 2,209,900 | 2,154,700 | 2,154,700 | - |
| Local Government Appropriations | - | - | - | - |
| Federal Government Contracts/Grants | - | - | - | - |
| State Government Contracts/Grants | - | - | - | - |
| Local Government Contracts/.Grants | - | - | - | - |
| Private Contracts/Grants | - | - | - | - |
| Endowments | - | - | - | - |
| Land & Permanent Fund | 18,355,532 | 18,700,000 | 18,811,657 | 111,657 |
| Private Gifts | - | - | - | - |
| Sales and Services | - | - | - | - |
| Other | <u>86,850</u> | <u>86,850</u> | <u>164,494</u> | <u>77,644</u> |
| Total Unrestricted Revenues | <u>22,889,384</u> | <u>23,144,525</u> | <u>23,309,417</u> | <u>164,892</u> |
| Unrestricted Expenditures: | | | | |
| Instruction | 9,012,940 | 8,911,840 | 8,553,304 | 358,536 |
| Academic Support | 1,069,254 | 1,045,139 | 908,808 | 136,331 |
| Student Services | 1,477,954 | 1,439,954 | 1,223,781 | 216,173 |
| Institutional Support | 2,832,127 | 2,893,127 | 2,806,863 | 86,264 |
| Operations & Maintenance of Plant | <u>3,573,355</u> | <u>3,328,280</u> | <u>3,052,951</u> | <u>275,329</u> |
| Total Unrestricted Expenditures | <u>17,965,630</u> | <u>17,618,340</u> | <u>16,545,707</u> | <u>1,072,633</u> |
| Net Transfers | <u>(5,454,639)</u> | <u>(6,095,366)</u> | <u>(6,095,366)</u> | <u>-</u> |
| Change in Fund Balance (Budgetary Basis) | (530,885) | (569,181) | 668,344 | <u>\$ 1,237,525</u> |
| Ending Fund Balance | <u>\$ 2,651,633</u> | <u>\$ 4,390,101</u> | <u>\$ 5,627,626</u> | |

NEW MEXICO MILITARY INSTITUTE
Budget Comparison
Restricted – Instruction & General
Schedule 5
For the Year Ended June 30, 2009

| | Original Budget | Final Budget | Actual | Actual Positive (Negative) Budget |
|--|------------------------|------------------------|---------------------------|---|
| Beginning Fund Balance | \$ - | \$ - | \$ (47,590) | \$ (47,590) |
| Restricted Revenues: | | | | |
| Tuition | - | - | - | - |
| Miscellaneous Fees | - | - | - | - |
| Federal Government Appropriations | 123,000 | 123,000 | 85,361 | (37,639) |
| State Government Appropriations | 2,800 | 2,800 | - | (2,800) |
| Local Government Appropriations | - | - | - | - |
| Federal Government Contracts/Grants | - | - | - | - |
| State Government Contracts/Grants | - | - | - | - |
| Local Government Contracts/.Grants | - | - | - | - |
| Private Contracts/Grants | 690,662 | 690,662 | 630,078 | (60,584) |
| Endowments | - | - | - | - |
| Land & Permanent Fund | - | - | - | - |
| Private Gifts | - | - | - | - |
| Sales and Services | - | - | - | - |
| Other | - | - | - | - |
| Total Restricted Revenues | <u>816,462</u> | <u>816,462</u> | <u>715,439</u> | <u>(101,023)</u> |
| Restricted Expenditures: | | | | |
| Instruction | 415,623 | 415,623 | 359,283 | 56,340 |
| Academic Support | 1,445 | 1,445 | - | 1,445 |
| Student Services | 200 | 200 | - | 200 |
| Institutional Support | 392,662 | 392,662 | 356,165 | 36,497 |
| Operations & Maintenance of Plant | - | - | - | - |
| Total Restricted Expenditures | <u>809,930</u> | <u>809,930</u> | <u>715,448</u> | <u>94,482</u> |
| Net Transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Fund Balance (Budgetary Basis) | 6,532 | 6,532 | (9) | <u><u>\$ (6,541)</u></u> |
| Ending Fund Balance | <u><u>\$ 6,532</u></u> | <u><u>\$ 6,532</u></u> | <u><u>\$ (47,599)</u></u> | |

NEW MEXICO MILITARY INSTITUTE
Schedule of Pledged Collateral
June 30, 2009

| | Wells Fargo (Roswell) | Wells Fargo (Roswell) | Total |
|--|--------------------------|--------------------------|--------------|
| Bank Accounts | | | |
| Demand deposit accounts | \$ 3,484,292 | \$ - | \$ 3,484,292 |
| Savings accounts | - | - | - |
| Certificates of deposit | 1,053,250 | - | 1,053,250 |
| Repurchase agreements | - | 2,262,439 | 2,262,439 |
| | | | |
| Total amount of deposits (bank balances) | \$ 4,537,542 | \$ 2,262,439 | \$ 6,799,981 |
| FDIC coverage on non interest bearing demand deposits | (3,374,384) | - | (3,374,384) |
| FDIC coverage on interest bearing Accounts | (250,000) | - | (250,000) |
| Total uninsured public funds | 913,158 | 2,262,439 | 3,175,597 |
| | | | |
| Collateral requirement @ 50% | 456,579 | - | 456,579 |
| | | | |
| Collateral requirement @ 102% | - | 2,307,688 | 2,307,688 |
| | | | |
| Pledges and securities | | | |
| FGI, matures June 1, 2037 | | | |
| Held at Wells Fargo, California | | | |
| CUSIP 3128MS7G9 | | | |
| Current Face, \$52,967 | 54,547 | - | 54,547 |
| FNCL, matures June 1, 2036 | | | |
| Held at Wells Fargo, California | | | |
| CUSIP 31410CS29 | | | |
| Current Face, \$759,610 | 795,706 | - | 795,706 |
| FNION, matures March 1, 2036 | | | |
| Held at Wells Fargo, California | | | |
| CUSIP 31409GA48 | | | |
| Current Face, \$777,273 | - | 816,024 | 816,024 |
| FNCL, matures January 1, 2036 | | | |
| Held at Wells Fargo, California | | | |
| CUSIP 31407HPC4 | | | |
| Current Face, \$1,414,125 | - | 1,492,175 | 1,492,175 |
| Over/(under) secured | \$ 393,674 | \$ 511 | \$ 394,185 |

NEW MEXICO MILITARY INSTITUTE
Schedule of Individual Deposits
June 30, 2009

| Depository | Account Name | Account Type | Unreconciled Bank Balance | Reconciled Balance |
|--------------------------------------|---|--------------|---------------------------|---------------------|
| Wells Fargo Bank New Mexico, N.A. | | | | |
| | NMMI Federal Funds | Checking | \$ 87,637 | \$ 87,637 |
| | NMMI Combined Accounts Control Account | Checking | - | 4,854,865 |
| | Money Market | | 2,800,724 | - |
| | Total combined | | <u>5,081,578</u> | <u>4,854,865</u> |
| | NMMI Investment Trust | Checking | 109,908 | 109,833 |
| | NMMI Bond Sinking Fund | Checking | 455,329 | 455,329 |
| | NMMI Cadet Activities | Checking | <u>118,331</u> | <u>118,331</u> |
| | Total Wells Fargo Bank | | 5,852,783 | 5,625,995 |
| | Cash on Hand | | - | 38,118 |
| | Total | | <u>\$ 5,852,783</u> | <u>\$ 5,664,113</u> |

NEW MEXICO MILITARY INSTITUTE
Schedule of Investments
June 30, 2009

| Scholarship Trust | <u>At Market Value</u> |
|--|------------------------|
| American Legion | \$ 4,802 |
| Berger | 160,404 |
| Bondurant | 1,254,609 |
| Boyd | 40,285 |
| Camp | 58,128 |
| JG Cannon | 112,128 |
| Colfax | 165,389 |
| Carter | 56,053 |
| Coppinger | 13,649 |
| Crosby | 290,391 |
| Decker | 76,215 |
| Ellis | 53,705 |
| Evans | 265,899 |
| Fisher | 60,370 |
| General | 74,629 |
| Kelley | 11,677 |
| Lawrence | 12,150 |
| Lusk | 52,919 |
| Mechem | 83,154 |
| Morey | 70,321 |
| Patton | 56,578 |
| Rapp | 371,490 |
| Runnels | 14,748 |
| Ruppert | 7,186 |
| San Miguel & Mora | 84,968 |
| San Miguel & Mora (FEM) | 129,832 |
| Scherotter | 6,085 |
| Schmitt | 44,399 |
| Total | <u>\$ 3,632,163</u> |
| Breakdown of Investments: | |
| Cash-Wells Fargo Account | \$ 38,501 |
| Certificates of Deposit Wells Fargo Bank | 244,616 |
| State Investment Council | 3,349,046 |
| Total | <u>\$ 3,632,163</u> |

NEW MEXICO MILITARY INSTITUTE
Schedule of Investments
June 30, 2009

| General Richard T. Knowles Legislative Scholarship Trust | <u>At Market Value</u> |
|---|------------------------|
| Birnie | \$ 3,442 |
| Carter | 1,913 |
| Clark | 28,275 |
| Dickason | 40,310 |
| Domzalski | 5,098 |
| Duson | 7,141 |
| Featherstone | 4,418 |
| Gibson | 15,219 |
| Green | 57,897 |
| Hazard | 1,153 |
| Huston | 140,234 |
| Legis (General) | 4,125,548 |
| Marmaduke | 11,294 |
| Ostenberg | 283,291 |
| Robertson | 12,911 |
| Schillingburg | 9,373 |
| Sparkman | 3,572 |
| Stevens | 878 |
| Wyles | 26,240 |
| Total | <u>\$ 4,778,207</u> |
| | |
| Breakdown of Investments | |
| Cash – Wells Fargo Bank | \$ 7,060 |
| Cash – Wells Fargo Bank Operating Account | 75,000 |
| State Investment Council | 4,696,147 |
| Total | <u>\$ 4,778,207</u> |
| | |
| Patterson Endowment | |
| Cash – Wells Fargo Bank | \$ 4,715 |
| State Investment Council | 2,787,143 |
| Total | <u>\$ 2,791,858</u> |
| | |
| Daniels Leadership Center Building Maintenance Endowment | |
| State Investment Council | \$ 3,091,534 |
| Total | <u>\$ 3,091,534</u> |
| | |
| Summary of Endowments | |
| Scholarship Trust | \$ 3,632,163 |
| General Richard T. Knowles-Legislative Scholarship Trust | 4,778,207 |
| Patterson Account | 2,791,858 |
| Daniels Leadership Center-Building Maintenance Account | 3,091,534 |
| Total | <u>\$ 14,293,762</u> |
| | |
| Cash, restricted | \$ 125,276 |
| Certificates of Deposit-Wells Fargo Bank | 244,616 |
| Investments at State Investment Council | 13,923,870 |
| Total | <u>\$ 14,293,762</u> |

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

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

We have audited the financial statements of the business-type activities and the discretely presented component unit (New Mexico Military Institute Foundation) of the New Mexico Military Institute (Institute), as of and for the year ended June 30, 2009, which collectively comprise the Institute's basic financial statements as listed in the table of contents. We have also audited the unrestricted and restricted funds budget comparisons presented as Supplemental Information as of and for the year ended June 30, 2009, as listed in the table of contents and have issued our report thereon dated November 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Mexico Military Institute's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the New Mexico Military Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the New Mexico Military 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 Institute'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 Institute's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Mexico Military Institute'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, others within the Institute, the Board of Regents, the Office of the State Auditor, and 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.

Heinfeld, Meech & Co., P.C.

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

November 11, 2009



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

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

Compliance

We have audited the compliance of New Mexico Military 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, 2009. New Mexico Military Institute's major federal programs are identified in the summary of auditors' 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 New Mexico Military Institute's management. Our responsibility is to express an opinion on New Mexico Military 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 New Mexico Military 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 of New Mexico Military 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 to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of New Mexico Military Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered New Mexico Military Institute's internal control over compliance with the 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 New Mexico Military 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 entity's internal control.

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

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

This report is intended solely for the information and use of management, others within the Institute, the Board of Regents, the Office of the State Auditor, and 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.

Heinfeld, Meech & Co. P.C.

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

November 11, 2009

NEW MEXICO MILITARY INSTITUTE
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

| <u>Federal Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Grantor Number</u> | <u>Expenditures</u> |
|--|------------------------|---------------------------|------------------------------|
| <u>U.S. Department of Education</u> | | | |
| Direct programs: | | | |
| Student Financial Assistance Cluster: | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | N/A | \$ 78,512 |
| Federal Pell Grant Program | 84.063 | N/A | 350,668 |
| Academic Competitiveness Grants | 84.375 | N/A | 29,200 |
| Total Student Financial Assistance Cluster | | | <u>458,380</u> |
| Total U.S. Department of Education | | | <u>458,380</u> |
| <u>U.S. Department of Army</u> | | | |
| Direct programs: | | | |
| ROTC | 12.Unknown | DAFK 57-92-H-0422 | 49,610 |
| JROTC | 12.Unknown | DAFK 57-91-H-0422 | 85,361 |
| Total U.S. Department of the Army | | | <u>134,971</u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 593,351</u></u> |

See accompanying notes to the schedule.

NEW MEXICO MILITARY INSTITUTE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2009

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of New Mexico Military Institute and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2009 *Catalog of Federal Domestic Assistance*.

NEW MEXICO MILITARY INSTITUTE
Schedule of Findings and Questioned Costs
June 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified that are not considered to be a material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|---|
| 84.007, 84.063, 84.375 | Student Financial Assistance Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

NEW MEXICO MILITARY INSTITUTE
Schedule of Findings and Questioned Costs
June 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

We noted no significant deficiencies, material weaknesses or instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We noted no significant deficiencies, material weaknesses or instances of noncompliance related to the audit of major federal programs as required to be reported by OMB Circular A-133.

NEW MEXICO MILITARY INSTITUTE
Summary Schedule of Prior Audit Findings
June 30, 2009

Status of Federal Award Findings and Questioned Costs

The Institute had no findings or questioned costs related to federal awards noted in prior audits that require a status.

NEW MEXICO MILITARY INSTITUTE
Exit Conference
June 30, 2009

The contents of this report were discussed at an exit conference held on November 10, 2009. The following individuals were in attendance.

Board of Regents

J. William Himes, Secretary/Treasurer
Stephen D. Paternoster, Member

New Mexico Military Institute

COL Judy A. Collins, Executive Vice President
LTC Judy Sharmer, Vice President of Finance and Business Processes
MAJ David W. Gray, Comptroller
MAJ Charles Hendrickson, Internal Auditor
CAPT Lois Rork, Accountant

Heinfeld, Meech & Co., P.C.

Corey Arvizu, Partner

The financial statements were prepared from the original books and records by New Mexico Military Institute staff.