



**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**Financial Statements**  
**With Independent Auditor's**  
**Report Thereon**  
**For the Year Ended June 30, 2012**





**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**INTRODUCTORY SECTION**





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### June 30, 2012

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**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**Official Roster**  
**June 30, 2012**

Board of Regents

Ex Officio Members:

The Honorable Susana Martinez  
Dr. Jose Z. Garcia

Governor of the State of New Mexico  
Secretary of Higher Education

Appointed Members:

Stephen D. Paternoster  
Jesse F. Eckel  
John M. Henderson, III  
Fermin Rubio

President  
Secretary/Treasurer  
Member  
Member

Principal Administrative Officials

MG Jerry W. Grizzle  
BG Richard Geraci  
COL David West  
BG Douglas Murray  
COL George Brick  
COL Judy Scharmer  
LTC Charles C. Hendrickson  
LTC Jeffrey Savage  
Mr. Kent Taylor  
LTC Jonathan Graff  
LTC Sonya Rodriguez  
Mr. Duane Elms

President/Superintendent  
Commandant  
Chief of Staff  
Academic Dean  
Vice Dean/High School Principal  
Chief Financial Officer  
Assistant Chief Financial Officer  
Vice President for Enrollment  
Director of Facilities  
Professor of Military Science  
Director of Admissions and Financial Aid  
Director of Information Services





**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**FINANCIAL SECTION**



## 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, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012 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 8, 2012, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Heinfeld, Meech & Co., P.C.*

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

November 8, 2012



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2012**



The following discussion and analysis provides an overview of the financial position and activities of the New Mexico Military Institute (NMMI) as of and for the year ended June 30, 2012 with selective comparative information for the year ending June 30, 2011. Comments relate only to NMMI and do not pertain to the NMMI Foundation unless specifically designated otherwise. 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 NMMI's management.

### **Using the Basic Financial Statements**

The Institute's financial report includes three financial statements:

Statement of Net Assets  
Statement of Revenues, Expenses and Changes in Net Assets  
Statement of Cash Flows

The Statement of Net Assets presents the assets, liabilities and net assets of the New Mexico Military Institute (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. This statement begins with a presentation of the *operating* revenues received by the institution. Operating revenues are defined by Governmental Accounting Standards Board (GASB) as revenues arising from an exchange (earned) transaction. In a public educational institution, such as NMMI, income from the Land Grant Permanent Funds, although not earned, are heavily relied upon to pay operating expenses for almost all instruction and general programs. **However, GASB defines state appropriation income as non-operating revenue, causing the presentation of a large operating loss on the first page of the Statement of Revenues, Expenses, and Changes in Net Assets. The operating loss is offset by non-operating revenues in the next section of this statement, Non-operating Revenues (Expenses).**

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

### **Reporting Entity**

For financial reporting purposes, 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.





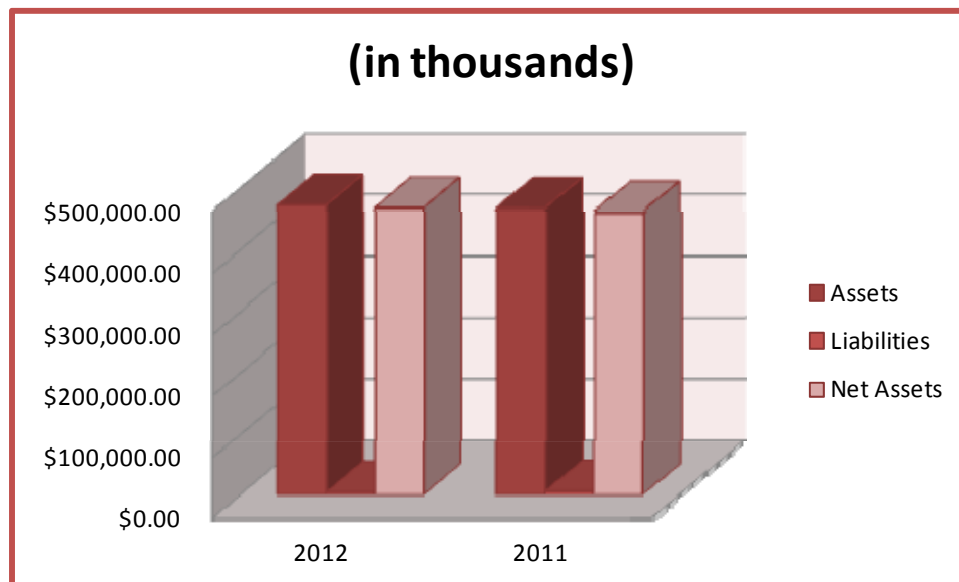
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**SUMMARY STATEMENT OF NET ASSETS**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets	\$ 18,944,210	\$ 13,557,753
Capital assets, net	61,734,578	63,601,052
Non-current assets	<u>390,220,405</u>	<u>388,737,731</u>
<b>Total assets</b>	<b><u>\$ 470,899,193</u></b>	<b><u>\$ 465,896,536</u></b>
<b>LIABILITIES</b>		
Current liabilities	\$ 4,148,341	\$ 4,634,191
Non-current liabilities	<u>-</u>	<u>1,297,849</u>
<b>Total liabilities</b>	<b><u>\$ 4,148,341</u></b>	<b><u>\$ 5,932,040</u></b>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	\$ 60,465,480	\$ 61,116,639
Restricted	383,666,413	383,458,120
Unrestricted	<u>22,618,959</u>	<u>15,389,737</u>
<b>Total net assets</b>	<b><u>\$ 466,750,852</u></b>	<b><u>\$ 459,964,496</u></b>

**ASSETS, LIABILITIES AND NET ASSETS**





**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2012**



**Statement of Net Assets Highlights:**

**Assets**

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year. The most significant unrestricted current assets of the Institute at June 30, 2012 and 2011 are cash, cash equivalents and short term investments totaling \$16,565,650 and \$10,850,577, respectively.

Over the last five years, NMMI's net increase to the investment in capital assets before depreciation totaled \$18.5 million. NMMI is committed to continuing the quality of NMMI's mission through the development and maintenance of its property, plant and equipment.

NMMI completed the \$7.14 million renovation of Pearson Hall July 2011. Pearson Hall serves as the performing arts center for NMMI as well as for the community. It is a 22,565 GSF auditorium boasting a little over 1,000 seats. It was originally built in 1941 which required many improvements to update all of the electrical, plumbing and mechanical systems as well as updating the infrastructure necessary to support a quality performing arts center.



(Photo: Pearson Auditorium Historic Renovation, submitted by Van H. Gilbert)



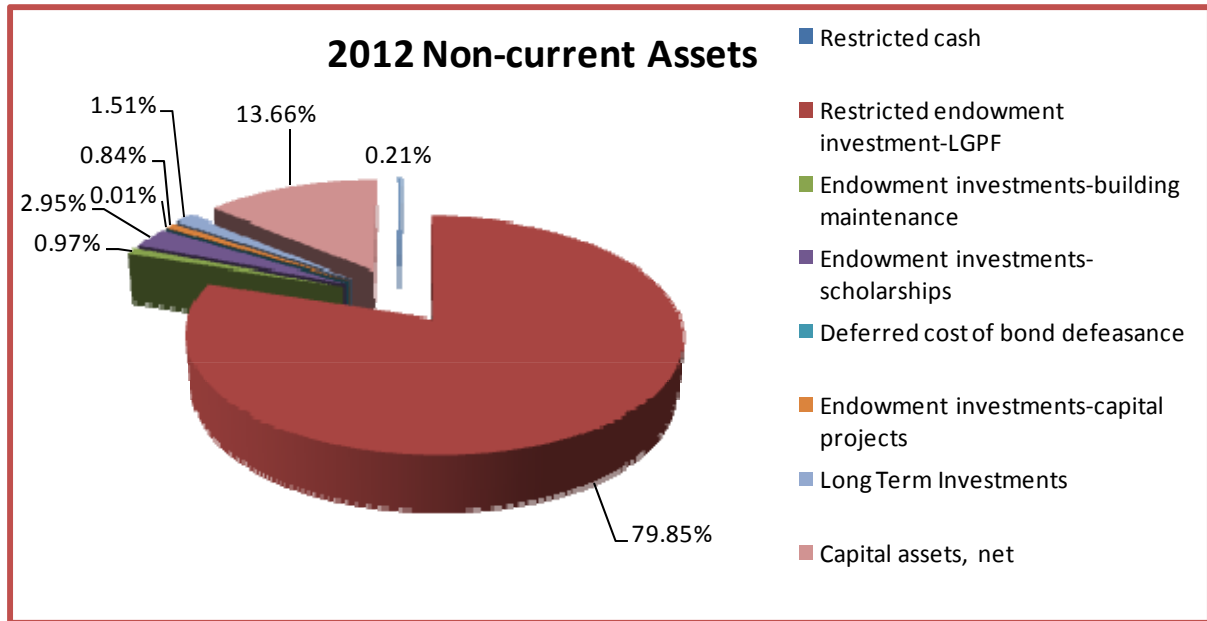
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The major capital projects in design and construction at June 30, 2012:

- Potable Water Supply - \$2.2 million project rehabilitating approximately 7,600 linear feet of water lines. NMMI was approved for \$2.2 million from the State Severance Tax Bonds in April 2009.

The largest category of non-current assets is the Institute's undivided interest in the State Land Grant Permanent Fund (SLGPF) of \$360,877,437 and \$361,273,359 at June 30, 2012 and 2011, respectively.



**Liabilities**

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 \$1,260,000 and \$2,460,000 at June 30, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Bonds payable, current	\$ 1,260,000	\$ 1,200,000
Bonds payable, long-term	-	1,260,000
<b>Total Bonds Payable</b>	<b><u>\$ 1,260,000</u></b>	<b><u>\$ 2,460,000</u></b>



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At June 30, 2012, the Institute's current ratio, the amount of current assets (\$18,944,210) available to cover current liabilities (\$4,148,341) was 4.57 to 1.

At June 30, 2011, the Institute's current ratio, the amount of current assets (\$13,557,753) available to cover current liabilities (\$4,634,191) was 2.93 to 1.

**Net Assets**

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, net of depreciation and related debt represent the Institute's non-depreciable and depreciable assets which was \$60,465,480 as of June 30, 2012.

Restricted nonexpendable net assets represent the Institute's permanently invested endowment funds. The primary component is NMMI's undivided interest in the State Land Grant Permanent Fund of \$360,877,437, which is under the governance and management of the New Mexico State Investment Council. The Land Grant Permanent Fund is New Mexico's largest endowment and permanent fund and was established primarily for the purpose of funding education. The New Mexico Military Institute is one of 21 other identified state institutions that are beneficiaries of the Land Grant Permanent Fund.

Restricted expendable net assets are subject to externally imposed provisions governing their use. This category of net assets mainly includes restricted endowments of \$8,072,656 as of June 30, 2012.

Unrestricted net assets increased from 2011 by \$7,229,222. The Institute has been strategically managing the operating revenues and expenditures to adequately maintain its unrestricted net assets to meet the operating needs of the Institute.





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**Summary Statement of Revenues, Expense and Changes in Net Assets**

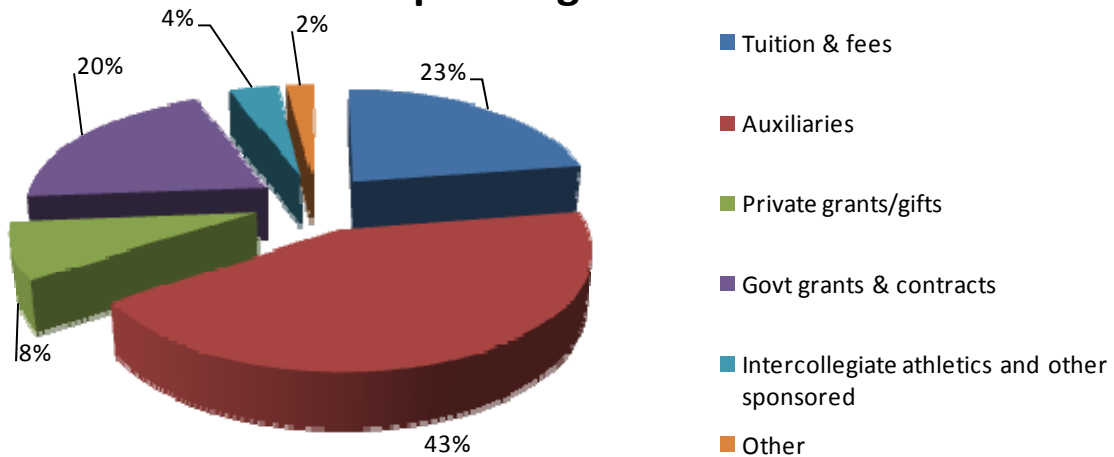
	<u>2012</u>	<u>2011</u>
<b>Operating Revenue by Major Source</b>		
Tuition	\$ 3,148,551	\$ 2,786,806
Auxiliaries	6,079,896	5,252,196
Private grants/gifts	1,094,209	773,331
Governmental grants and contracts	2,860,099	2,957,132
Intercollegiate athletics and other sponsored activities	537,998	474,260
Other	286,860	148,134
	<u>\$ 14,007,613</u>	<u>\$ 12,391,859</u>
<b>Operating Expense by Major Function</b>		
Instruction	\$ 9,379,414	\$ 9,228,189
Academic support	1,083,237	1,021,186
Student services	1,532,602	1,366,021
Institutional support	2,680,736	2,796,405
Operations and maintenance support	3,066,228	3,023,727
Auxiliaries	4,839,575	4,766,122
Student aid	1,986,290	1,899,653
Intercollegiate athletics and other sponsored activities	2,331,714	2,093,771
Other	3,300,359	3,272,254
	<u>\$ 30,200,155</u>	<u>\$ 29,467,328</u>
<b>Non-operating Revenue (Expense)</b>		
Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund	\$ 22,970,623	\$ 86,183,538
Other	13,572	(180,000)
	<u>\$ 22,984,195</u>	<u>\$ 86,003,538</u>
Income (loss) before other revenue, expense, gains and losses	\$ 6,791,653	\$ 68,928,069
Capital grants	(5,297)	6,130,360
<b>Total increase (decrease) in net assets</b>	<u>\$ 6,786,356</u>	<u>\$ 75,058,429</u>
Net assets, beginning of year	<u>\$ 459,964,496</u>	<u>\$ 384,906,067</u>
<b>Net assets, end of year</b>	<u>\$ 466,750,852</u>	<u>\$ 459,964,496</u>



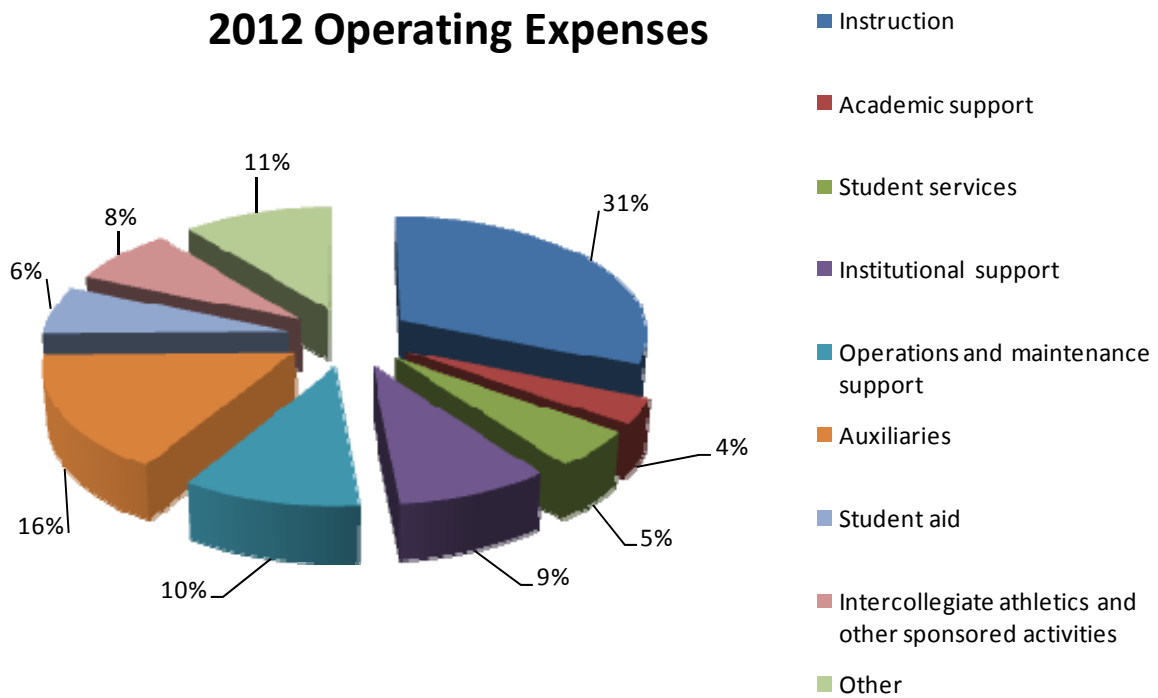
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### 2012 Operating Revenues



### 2012 Operating Expenses



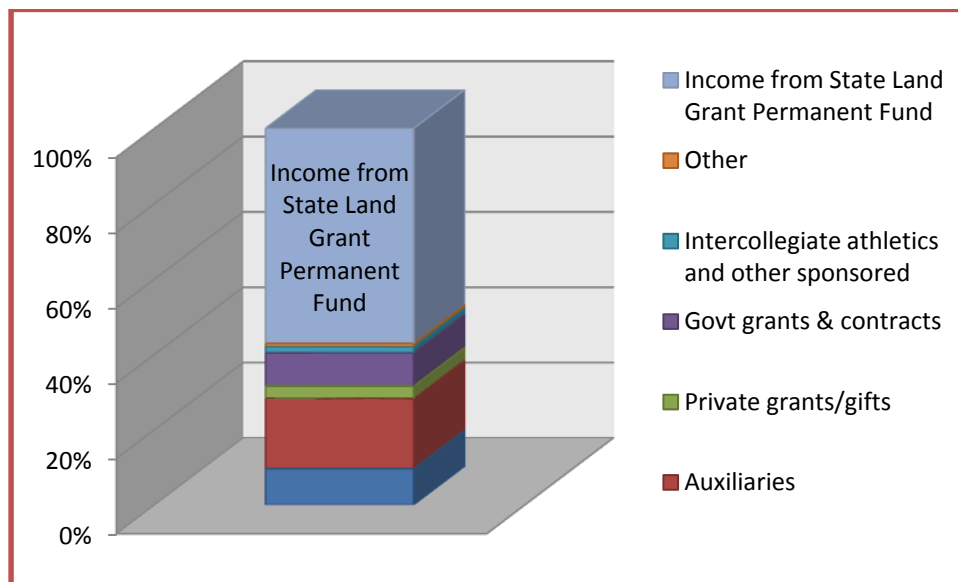


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**Statement of Revenues, Expenses and Changes in Net Assets Highlights:**

Revenues in the reporting model are shown by source of funding. Operating revenues are generally defined by GASB 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. This presentation of revenues requires that we exclude state appropriation income, including the income from the Land Grant Permanent Funds, when calculating the financial results of operations. This presentation method results in an "operating loss". The operating loss is offset by "non-operating revenues (expenses)" to arrive at the "Changes in Net Assets". Although GASB considers income from the Land Grant Permanent Funds as non-operating revenues, NMMI uses these funds to support instruction and general programs. If the income from the Permanent Funds were included in operating revenues, they would comprise of 57% of total operating revenues for 2012. The following chart depicts the portion of Permanent Funds to total operating revenue, if it had been included in the financial statements.



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.

**Operating**

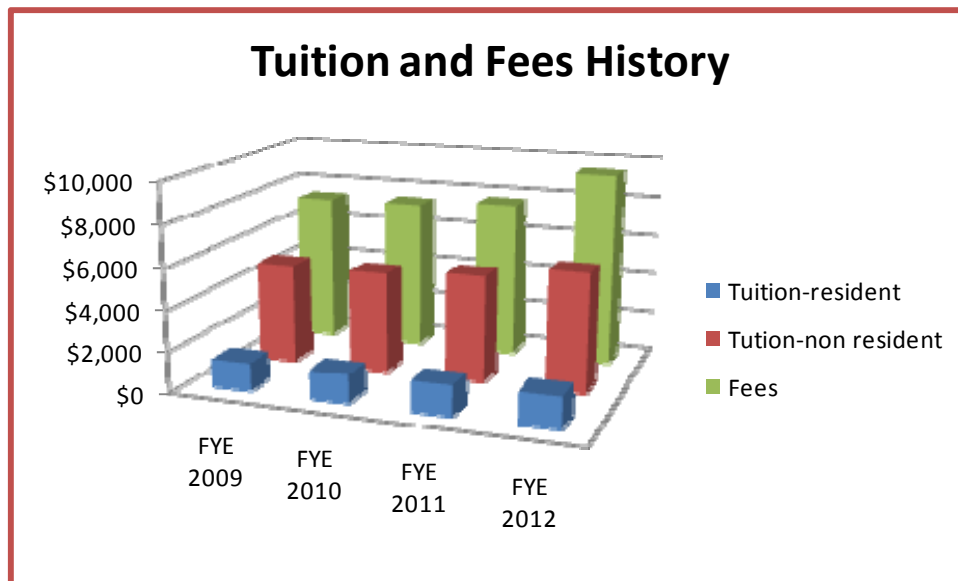
Operating revenues for the Institute increased 13.04% for 2012 over 2011. The two primary factors for the increase in operating revenues were the tuition rate increase and the increase to boarding meals and a new student fee (recruit-at-training). The non-resident tuition rate increased 11.22% and NMMI added an International component to the tuition. Additionally, as a result of a nutrition study performed on NMMI's food offerings in relation to the rigorous physical activity of NMMI cadets, it was determined that many of the cadets required a "4<sup>th</sup> meal" offering in the evenings, thus the increase to the fees associated with board as well as a strategic



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initiative to increase the overall quality of the dining hall meals. The increase to the boarding fee is reflected in the auxiliary services.



Operating expenses increased \$732,827. The increase in 2012 was mainly attributable to an increase to intercollegiate athletics grants-in-aid which was a direct result of increasing student tuition and fees. Additionally, NMMI's enrollment services expenditures increased resulting from a meticulous marketing strategy to include international recruiting efforts.

### Non-Operating Revenues

The primary source of revenue for the New Mexico Military Institute is the distributions from the Land Grant Permanent Funds, which are held for investment by the State Investment Council. Permanent Fund distributions for 2012 increased slightly from 2011 in the amount of \$574,562. Land Income increased \$2,621,479 due to record amounts of revenue from drilling leases which are managed by the State Land Office and passed on to the beneficiaries. Income received from the State Land Office and the Land Grant Permanent Fund was \$4,455,862 and \$18,638,576, respectively. All trust land beneficiaries receive a fixed distribution of 5.8 percent of the five-year average market value of the Land Grant Permanent Fund at December 31 annually. The distribution percentage is determined through the NM Constitution. The constitutionally determined distribution will decline to 5.5% beginning FY13.

### Change in Net Assets

The Institute's total change in net assets showed a net increase for both 2012 and 2011. Both years' results are primarily the result of volatile fluctuations in the market value of investments held in trust for the State Land Grant Permanent Fund as noted above.





**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2012**



**Statement of Cash Flows Highlights**

The Statement of Cash Flows provides additional information about the Institute's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Net cash used by operating activities	\$ (13,572,977)	\$ (13,526,163)
Net cash provided by noncapital financing activities	129,391	125,177
Net cash provided by investing activities	23,128,192	17,887,294
Net cash used by capital and related financing activities	<u>(2,271,896)</u>	<u>(4,213,971)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 7,412,710</u>	<u>\$ 272,337</u>

GASB Statement 35 requires that the Land Grant and Permanent Fund distributions, although primarily used for operating expenses at NMMI, be reported as non-operating revenue in the cash provided by investing activities.

**Budgetary Highlights**

The overarching focus of the budget process is in the collaboration of NMMI's strategic plans relating to optimizing and allocating resources in support of its educational programs and for maintaining and strengthening their quality in the future. NMMI's annual budget development is an extension of NMMI's planning process to support the mission while ensuring consistent standards of accountability and fiscal control within the limits of available revenue.

Overall revenues were \$653,410 higher than budgeted. The overall actual expenditures were \$6,508,453 lower than budgeted of which \$3,076,702 is attributable to capital and replacement expenditures conservatively over estimated to enable the Institute to have the appropriate level of spending authority to maintain budgetary flexibility to address unforeseen construction contingencies. Additionally, the age and condition of the heating and cooling systems at NMMI require adequate contingency reserves. This positive budget variance of \$7,161,863 is strategically reserved for future scholarships, capital outlay and repairs, debt service, auxiliary expenses and athletics. NMMI's budget process is forward looking in its fiscal policies to ensure adequate reserves are available to address the 2020 Strategic Plan which includes a \$60.9 million capital projects plan over the next ten years.



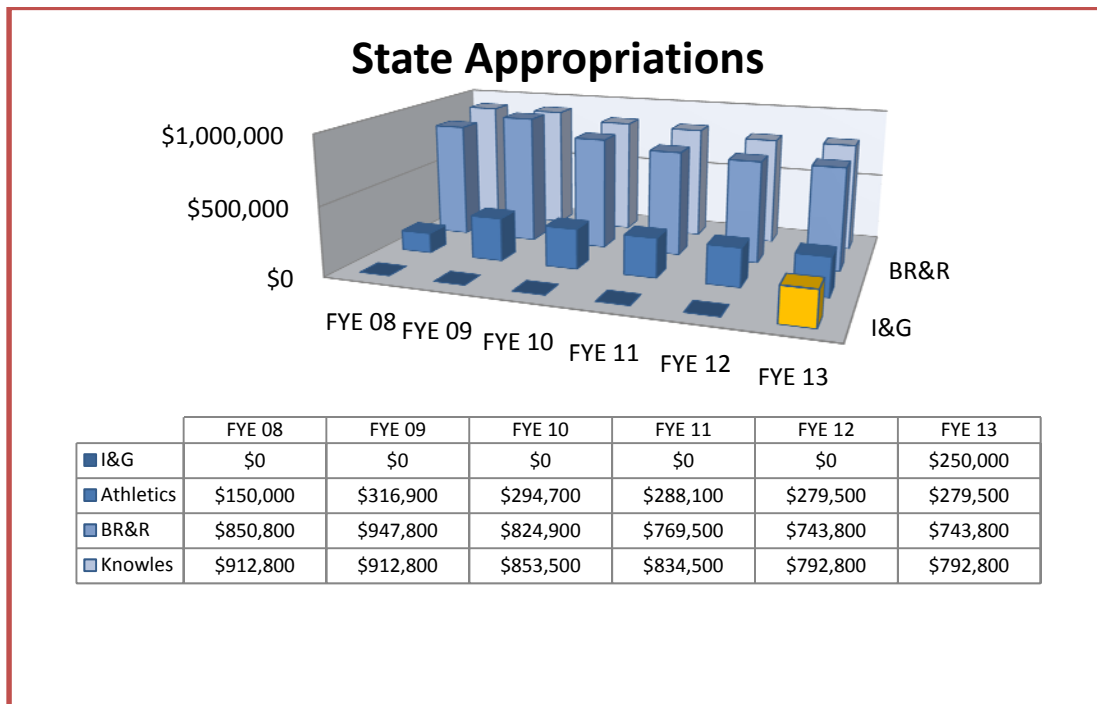
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**Economic Factors Impacting Future Periods**

As of June 30, 2012, NMMI continues to maintain its strong financial position. NMMI's Moody Rating is Aa2. Moody's Investment Service reported "The Institute's high level of support from the LGPF coupled with having the largest single share of the LGPF [after the public schools], signifies NMMI's importance as a state supported military school to the State of New Mexico."

As noted previously, Land Grant Permanent Fund distribution percentage of 5.8 percent will scale down to 5.5 percent in 2013 in accordance with the 2003 New Mexico Constitutional Amendment 2. This change to the distribution percentage negatively impacts NMMI's revenue stream. However, NMMI is actively pursuing an increase to the annual State Appropriations in order to supplement the loss. For FY13, the Legislators approved **\$250,000** to supplement the estimated loss of \$750,000 in LGPF distribution leaving a net impact of \$500,000 to NMMI. The other FY13 state appropriations of \$1,816,100 remained equal to the amount received in FY12.



Going forward, NMMI is cautiously optimistic anticipating the negative impact not to exceed \$500,000 based on the State's August 2012 General Fund Revenue Estimates forecast for FY14 estimating "new money" of \$272 million barring any significant market decline or significant reduction in Oil & Gas revenue contributions to the LGPF Endowment.

NMMI's 2001 System Revenue Bonds will be fully retired at the end of FY 13, thus NMMI will be poised to issue additional Revenue Bonds for the renovations of existing facilities and buildings, however, issuing new debt is incumbent upon the availability of additional funds to be leveraged with NMMI's debt capacity in order to meet



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2012**



the total estimated costs of the prioritized capital projects. The renewal of the Institute's infrastructure and facilities are critical factors in continuing the quality of NMMI's mission.

One of NMMI's current prioritized capital needs is the renovation of Lusk Hall which is the primary administration building for NMMI. It was originally built in 1941 and currently houses the offices of the Superintendent, Dean, Business Office and various other support departments such as registrar, student counseling, etc. The estimated project cost is \$9 million of which \$5 million is included on the State's General Obligation Bond C on the November 6, 2012 general election ballot.

NMMI is committed to continuing its strategic vision while continuing to monitor and proactively address financial and other challenges by operating with prudent budgeting and careful decision making.

**Other Factors Impacting Future Periods**

In the United States, colleges and universities voluntarily seek accreditation from nongovernmental bodies. There are two types of educational accreditation: institutional and specialized. The Higher Learning Commission conducts institutional accreditation. An institutional accrediting agency evaluates an entire educational organization in terms of its mission and the agency's standards or criteria.

On June 24, 2011 the Higher Learning Commission notified the New Mexico Military Institute's Junior College Division that it has been once again approved for a ten year accreditation, the maximum term granted.

NMMI, first accredited in 1917 by the North Central Association of Colleges and Schools, has retained its accreditation for almost 100 years. The college was last awarded accreditation in 2001 for a ten year period.

The Higher Learning Commission publishes an overview booklet that provides brief general information about the accreditation of higher learning organizations by the Higher Learning Commission which can be located at <http://ncahlc.org>.

**CONTACTING THE NEW MEXICO MILITARY 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 Chief Financial Officer at:

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



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**June 30, 2012**



**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****June 30, 2012**

	<u>Primary Government</u>	<u>Component Unit</u> NMMI <u>Foundation</u>
<b>ASSETS</b>	<u>NMMI</u>	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 11,349,949	\$ 608,939
Restricted cash and cash equivalents	1,670,022	-
Short-term investments	3,545,679	-
Prepaid expenses	-	3,379
Pledges receivable, net of allowance	-	61,673
Student accounts receivable, net of allowance for doubtful receivables of \$1,025,000	149,389	-
Receivable from NMMI Foundation	197,145	-
Other accounts receivable	1,949,225	16,747
Inventories	<u>82,801</u>	<u>-</u>
Total current assets	<u>18,944,210</u>	<u>690,738</u>
<b>Non-current Assets:</b>		
Restricted cash and cash equivalents	943,868	-
Deferred cost of bond defeasance	28,750	-
Land and buildings held for investment	-	6,487,684
Pledges receivable, net of allowance	-	444,874
Surrender value of life insurance policies	-	683,393
Endowment investments, Land Grant Permanent Fund	360,877,437	-
Endowment investments, scholarships	13,350,145	-
Endowment investments, capital projects	3,808,053	-
Endowment investments, building maintenance	4,385,012	-
Long-term investments	6,827,140	29,164,339
Beneficial interest in perpetual trust	-	668,770
Other assets	-	50,000
Capital assets, net of accumulated depreciation	<u>61,734,578</u>	<u>2,044</u>
Total non-current assets	<u>451,954,983</u>	<u>37,501,104</u>
<b>Total Assets</b>	<b><u>\$ 470,899,193</u></b>	<b><u>\$38,191,842</u></b>

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



**NEW MEXICO MILITARY INSTITUTE**

**Statement of Net Assets**

**June 30, 2012**



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,057,637	\$ 3,650
Accrued compensated absences	486,504	19,210
Payable to NMMI	-	197,145
Deferred support	-	372,565
Other credits	581,682	-
Funds held for others	724,669	-
Capital lease payable-current portion	37,849	-
Bonds payable-current portion	<u>1,260,000</u>	<u>-</u>
Total current liabilities	<u>4,148,341</u>	<u>592,570</u>
 Total Liabilities	 <u>4,148,341</u>	 <u>592,570</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	60,465,480	-
Restricted for		
Nonexpendable:		
Restricted, Land Grant Permanent Fund at State Investment Council	360,877,437	-
Restricted, Scholarships at State Investment Council	9,016,320	-
Restricted, Building Maintenance	3,700,000	-
Restricted, Capital Projects	2,000,000	-
Permanently Restricted, NMMI Foundation	-	17,844,092
Expendable:		
Term endowments, scholarships	5,125,429	-
Capital Projects	1,812,781	-
Building Maintenance	685,012	-
Debt Service	449,434	-
Temporarily Restricted, NMMI Foundation	-	5,502,467
Unrestricted	<u>22,618,959</u>	<u>14,252,713</u>
 Total net assets	 <u>466,750,852</u>	 <u>37,599,272</u>
 <b>Total Liabilities and Net Assets</b>	 <b><u>\$ 470,899,193</u></b>	 <b><u>\$38,191,842</u></b>

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



**NEW MEXICO MILITARY INSTITUTE**  
**Statement of Revenues, Expenses and**  
**Changes in Net Assets**  
**For Year Ended June 30, 2012**



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>Operating revenues:</b>		
Tuition and fees	\$ 3,148,551	\$ -
Contributions	<u>-</u>	<u>538,084</u>
	3,148,551	
Federal grants and contracts	996,415	-
State grants and contracts	1,863,684	-
Private grants and contracts	1,094,209	-
Other sponsored activities	467,559	-
Auxiliary enterprises	6,079,896	-
Intercollegiate athletics	70,439	-
Internal service department	174,170	-
Other	112,690	12,429
Rental income	<u>-</u>	<u>331,138</u>
Total operating revenues	<u>14,007,613</u>	<u>881,651</u>
<b>Expenses:</b>		
Instruction and general:		
Instruction	9,379,414	-
Academic support	1,083,237	-
Student services	1,532,602	-
Institutional support	2,680,736	-
Operations and maintenance support	<u>3,066,228</u>	<u>-</u>
Total instruction and general expenses	17,742,217	-
Other sponsored activities	356,248	-
Student aid grants and stipends	1,986,290	-
Auxiliary enterprises	4,839,575	-
Intercollegiate athletics	1,975,466	-
Internal service department	27,678	-
Supporting services	-	366,243
Program services	-	1,731,579
Real estate expenses	-	38,553
Depreciation	<u>3,272,681</u>	<u>-</u>
Total expenses	<u>30,200,155</u>	<u>2,136,375</u>
<b>Operating income (loss)</b>	<u>\$ (16,192,542)</u>	<u>\$ (1,254,724)</u>

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

(Continued)



**NEW MEXICO MILITARY INSTITUTE**

**Statement of Revenues, Expenses and  
Changes in Net Assets  
For Year Ended June 30, 2012**



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>Non-operating revenues (expenses):</b>		
Investment income (loss)	\$ (124,343)	\$ (283,344)
Decrease in cash value of life insurance	-	93,678
Income from State Land Office	4,455,862	-
Income from State Land Grant Permanent Fund	18,638,576	-
Other income (loss)	165,850	-
Interest on capital asset related to debt	(123,000)	-
Bond defeasance amortization	<u>(28,750)</u>	<u>-</u>
Net non operating revenues (expenses)	<u>22,984,195</u>	<u>(189,666)</u>
<b>Income before other revenues, expenses, gains and losses</b>	<u>6,791,653</u>	<u>(1,444,390)</u>
Other:		
Capital grants, net	<u>(5,297)</u>	<u>-</u>
Net other revenues (expenses)	<u>(5,297)</u>	<u>-</u>
Change in net assets	6,786,356	(1,444,390)
Net assets, beginning of year	<u>459,964,496</u>	<u>39,043,662</u>
<b>Net assets, end of year</b>	<u>\$ 466,750,852</u>	<u>\$37,599,272</u>

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





**NEW MEXICO MILITARY INSTITUTE**

**Statement of Cash Flows  
For Year Ended June 30, 2012**



	<u>Primary Government</u>	<u>NMMI</u>
Cash flows from operating activities:		
Tuition and fees	\$ 3,164,253	
Grants and contracts	2,792,951	
Sales and services of educational activities	6,083,446	
Other operating receipts	867,932	
Payments to employees for salaries and benefits	(15,428,356)	
Payments to suppliers	(10,011,663)	
Grants issued to students	(1,041,540)	
Net cash used by operating activities	<u>(13,572,977)</u>	
Cash flows from noncapital financing activities:		
Agency receipts	3,517,011	
Agency payments	<u>(3,387,620)</u>	
Net cash provided by noncapital financing activities	<u>129,391</u>	
Cash flows from investment activities:		
Cash distribution from State Land Grant Permanent Fund	18,563,182	
Cash distribution from State Land Office	4,455,862	
Other investment income (loss)	(9,722)	
Cash transferred from investment accounts	237,000	
Cash payment of trust expenses	<u>(118,130)</u>	
Net cash provided by investing activities	<u>23,128,192</u>	
Cash flows from capital and related financing activities:		
Cash paid for capital assets	(1,444,561)	
Cash received on capital grants	719,859	
Cash paid for renewal and replacement of assets	(386,894)	
Other receipts (payments)	211,727	
Repayments of capital debt	(1,249,027)	
Interest paid on capital debt	<u>(123,000)</u>	
Net cash used by capital and related financing activities	<u>(2,271,896)</u>	
Net increase in cash and cash equivalents	7,412,710	
Cash and cash equivalents, beginning of year	<u>6,551,129</u>	
Cash and cash equivalents, end of year	<u>\$ 13,963,839</u>	

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



**NEW MEXICO MILITARY INSTITUTE**

**Statement of Cash Flows  
For Year Ended June 30, 2012**



(Continued)

	<u>Primary Government</u>	<u>NMMI</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (16,192,542)	
Adjustments to reconcile operating loss to net cash Used by operating activities:		
Depreciation expense		3,272,681
Changes in assets and liabilities:		
Short term investments		(76,238)
Accounts receivable		101,814
Inventories		(9,666)
Accounts payable and accrued expenses		(633,514)
Deferred income		(69,747)
Accrued benefits		34,235
Net cash used by operating activities		<u>\$ (13,572,977)</u>

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



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



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

##### **Organization**

The New Mexico Military 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. The State of New Mexico Constitution, Article XII, Section 13, 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, 2012**



#### **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 2.2.2 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.**

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, 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 bylaws 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.

For financial reporting purposes, the Foundation follows Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



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

made to the Foundation's financial information included in the Institute's financial report. Accordingly, those financial statements have been reported on separately from the respective counterpart financial statements of the Institute. For financial reporting purposes, only the Foundation's statements of financial position and activities are included in the Institute's financial statements as required by generally accepted accounting principles for public colleges and universities. The Foundation has a June 30 year-end.

#### **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 1<sup>st</sup>.
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.





## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



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

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

##### **Budgetary Control**

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

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



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



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

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 2012 is \$1,025,000.

#### **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 primarily 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. The Institute's equipment inventory includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year in compliance with Section 12-6-10 NMSA 1978. 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, 2012



#### **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**

Expendable restricted 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 appreciation of the Institute’s donor-restricted endowments that are available for expenditures by the governing board is \$230,938. 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 \$(1,035,621). 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, 2012



#### **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**

In accordance with the General Appropriation Act of 2009, the Institute did not revert any funds for the year ended June 30, 2012.

##### **Subsequent Events**

Subsequent events have been evaluated through November 8, 2012, which is the date the financial statements were available to be issued.



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**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, 2012, 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:

	<u>Wells Fargo</u>	<u>Wells Fargo (Repurchase)</u>
Interest Bearing Deposits	\$ 1,112,559	\$ 9,933,897
Non-interest Bearing Deposits	<u>3,428,914</u>	-
Total Deposits in Bank	<u>4,541,473</u>	<u>9,933,897</u>
Less: FDIC Insurance on Interest Bearing Accounts	(250,000)	-
FDIC Insurance on Non- Interest Bearing Accounts	<u>(3,428,914)</u>	-
Uninsured Public Funds	862,559	9,933,897
Collateral Requirement 50%	431,279	-
Collateral Requirement 102%	-	10,132,575
Pledged Collateral Held by the Pledging Bank’s Trust Department Not in the Agency’s Name	<u>784,085</u>	<u>10,133,513</u>
Uninsured & Uncollateralized	<u>\$ -</u>	<u>\$ -</u>

**Custodial Credit Risk**

Custodial Credit Risk is the risk that in the event of a bank failure, the Institute’s deposits may not be returned to it. The Institute has a policy to invest operating funds in financial instruments that are relatively safe based on the level of collateralization provided by the financial institutions and have the highest rating from the national rating agencies. As of June 30, 2012, \$10,796,456 of the Institute’s bank balance of \$14,475,370 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	<u>10,796,456</u>
Total	<u>\$ 10,796,456</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



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

**Investments**

The Institute invests some unrestricted operating funds with Wells Fargo Bank's Brokerage Services as well as with the State Investment Council. The short-term investments of \$3,545,679 include investments in cash, money market funds, and brokered certificates of deposit maturing within one year. The long-term investments of \$6,827,140 include investments in brokered certificates of deposit with maturity dates of over one year as well as funds deposited with the New Mexico State Investment Council intended for capital construction consisting of equity and fixed income investments which are to be held for a period of over one year. All the certificates of deposit are 100% insured by the FDIC and are recorded at their current market value. Par value of each of these certificates of deposit does not exceed \$250,000. The following is a detailed listing of the short-term and long-term investments:

Short-term:

Brokered certificates of deposit

World Financial Capital	\$	250,019
Foster Bank		250,026
First Priority Bank		250,372
Bank of China, NY		250,180
First American BK Elk Grove Village		245,696
Wright Express Finl Svcs Corp		250,723
Everbank Jacksonville FL		250,731
Sovereign Bank		249,520
GE Money Bank		<u>250,860</u>
Total		2,248,127

Money market account		<u>1,297,552</u>
Total short-term investments	\$	<u><u>3,545,679</u></u>

Long-term:

Brokered certificates of deposit

Bank Hapoalim	\$	249,755
Discover Bank Delaware		250,786
First Bank NC		253,201
American Express		251,626
BMW Bank		250,979
Alma Bank NY		251,752
Banco Bilbao		249,757
Ally Bank		251,047
Bank of Galesville		246,372
Huntington National Bank		250,792
Apple Bank		250,747
Safra National Bank		250,746
Enerbank USA		249,907





**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



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

Republic Bank of Chicago	252,630
GE Capital Financial	251,555
Goldman Sachs	252,645
Tristate Capital Bank PA	252,597
Georgia Bank & Trust	248,951
GE Capital Bank	250,000
GE Capital Retail Bank	250,000
Alma Bank, NY	251,695
State Bank of India, NY	<u>251,735</u>
Total	5,519,275
NM State Investment Council Investments	<u>1,307,865</u>
Total long-term investments	<u>\$ 6,827,140</u>

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.

Pooled investments of the Institute consist of the following at June 30, 2012:

<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 Index	\$ 9,009,581		39.43%	38.00%
Mid-Small	2,406,890		10.53%	11.00%
Non U.S. Developed Equity	2,405,458		10.53%	12.00%
Emerging Markets	<u>553,311</u>		<u>2.42%</u>	<u>3.00%</u>
Total Equity	\$14,375,240		62.91%	64.00%
Core Bonds	<u>8,475,835</u>	1-5 years	<u>37.09%</u>	<u>36.00%</u>
Total Investment Pool	<u>\$22,851,075</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:



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



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

1. Bonds, notes or other obligations of the United States government, its agencies, and 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.

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.

**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, 2012 the fair value of such interest was \$360,877,437. These investments are not categorized by custodial risk.

**Investment Income (Loss)**

Investment income (loss) consists of the following for the year ended June 30, 2012:

	Daniels						
	Land Grant Permanent Fund	Leadership Center Bldg Maintenance	Patterson Construction Endowment	Scholarship Trust Fund	Capital Project Fund	Unrestricted Funds	Total
Investment Income (loss)	\$ 1,106,058	\$ -	\$ -	\$ 286	\$ -	\$ -	\$ 1,106,344
Realized gains (losses)	32,103,783	97,179	83,882	168,694	28,823	-	32,482,361
Unrealized gains (losses)	(33,605,763)	(10,890)	(22,698)	(95,291)	(7,368)	28,962	(33,713,048)
	<u>\$ (395,922)</u>	<u>\$ 86,289</u>	<u>\$ 61,184</u>	<u>\$ 73,689</u>	<u>\$ 21,455</u>	<u>\$ 28,962</u>	<u>\$ (124,343)</u>



# NEW MEXICO MILITARY INSTITUTE

## Notes to the Financial Statements

June 30, 2012



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

During the year ended June 30, 2012, \$18,638,576 in cash was distributed to NMMI from the State Land Grant Permanent Fund and \$237,000 in cash was distributed to NMMI from the Trust Scholarship Endowment for payment of scholarship awards and related endowment expenditures. During the year ended June 30, 2012, \$645,784 was transferred to the Scholarship Trust Funds.

### NOTE 3: CAPITAL ASSETS

The following are the changes in capital assets:

	Beginning					Ending
	Balance	Additions	Retirements	Transfers		Balance
Capital Assets Not Being Depreciated:						
Land	\$ 710,537	\$ 16,000	\$ -	\$ -		\$ 726,537
Construction in progress	8,773,614	768,921	(66,340)	(7,140,098)		2,336,097
Artwork	810,291	-	-	-		810,291
<b>Total Capital Assets Not Being Depreciated</b>	<b>10,294,442</b>	<b>784,921</b>	<b>(66,340)</b>	<b>(7,140,098)</b>		<b>3,872,925</b>
Capital Assets Being Depreciated:						
Buildings	83,370,395	29,631	-	7,169,806		90,569,832
Furniture, fixtures and equipment	9,844,206	634,018	(98,115)	(29,708)		10,350,401
Leased equipment	170,040	-	-	-		170,040
Library books	602,323	25,732	-	-		628,055
Infrastructure	3,206,576	-	-	-		3,206,576
Land improvements	1,379,709	-	-	-		1,379,709
Vehicles and golf carts	546,802	23,387	(29,627)	-		540,562
<b>Total at Historical Cost</b>	<b>99,120,051</b>	<b>712,768</b>	<b>(127,742)</b>	<b>7,140,098</b>		<b>106,845,175</b>
Less Accumulated Depreciation:						
Buildings	35,965,912	2,197,299	-	3,074		38,166,285
Furniture, fixtures and equipment	7,652,976	886,494	(73,402)	(3,074)		8,462,994
Leased equipment	63,765	42,510	-	-		106,275
Library books	466,149	25,602	-	-		491,751
Infrastructure	839,360	87,022	-	-		926,382
Land improvements	334,906	6,828	-	-		341,734
Vehicles and golf carts	490,373	26,926	(29,198)	-		488,101
<b>Total Accumulated Depreciation</b>	<b>45,813,441</b>	<b>3,272,681</b>	<b>(102,600)</b>	<b>-</b>		<b>48,983,522</b>
<b>Total Capital Assets, Net</b>	<b>\$ 63,601,052</b>	<b>\$ (1,774,992)</b>	<b>\$ (91,482)</b>	<b>\$ -</b>		<b>\$ 61,734,578</b>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES**

The Institute is committed under various operating leases which expire through 2015. These leases are primarily for copy machines and golf carts. Rental expense under these leases amounted to \$57,215 in 2012.

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

2013	\$ 57,223
2014	57,223
2015	<u>45,268</u>
	<u>\$ 159,714</u>

The Institute is committed under various capital leases which expire in fiscal year 2013. Equipment under these capital leases, primarily computer related, is valued at \$170,040. Minimum future lease payments under the capital leases as of June 30, for the remaining year is:

	2013	\$ <u>47,883</u>
Total minimum lease payments		47,883
Amount representing interest and taxes		<u>(10,004)</u>
Present value of minimum lease payments		<u>\$ 37,849</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, 2012 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, 2012**



**NOTE 5: BONDS PAYABLE**

Long-term bonds payable of the Institute at June 30, 2012, 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 at 5.0%	\$1,260,000
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The scheduled maturities of the revenue bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,260,000	\$ 63,000	\$1,323,000
Totals	<u>\$1,260,000</u>	<u>\$ 63,000</u>	<u>\$1,323,000</u>

Interest expense incurred during the year ended June 30, 2012 was \$123,000 and is recorded as interest on capital assets related to debt.

**NOTE 6: LONG TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2012 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Long term bond payable	\$ 1,260,000	\$ -	\$ 1,260,000	\$ -
Current portion of bonds payable	<u>1,200,000</u>	<u>1,260,000</u>	<u>1,200,000</u>	<u>1,260,000</u>
	<u>\$ 2,460,000</u>	<u>\$ 1,260,000</u>	<u>\$ 2,460,000</u>	<u>\$ 1,260,000</u>
Long term lease payable	\$ 37,849	\$ -	\$ 37,849	\$ -
Current portion of lease payment	<u>44,064</u>	<u>37,849</u>	<u>44,064</u>	<u>37,849</u>
	<u>\$ 81,913</u>	<u>\$ 37,849</u>	<u>\$ 81,913</u>	<u>\$ 37,849</u>
Current portion of compensated absences	<u>\$ 452,267</u>	<u>\$ 367,272</u>	<u>\$ 333,035</u>	<u>\$ 486,504</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD**

*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. The report is also available on ERB’s website at [www.nmerb.org](http://www.nmerb.org).

*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, 2012, plan members with gross earnings less than \$20,000 annually were required to contribute 7.90% of their gross salary. The Institute was required to contribute 12.40% of the gross covered salary. The employee contribution rate for employees with a gross salary of \$20,000 or more was 11.15% while the employer contribution was 9.15%. The contribution rates and effective dates are:

Retirement Contributions

	<u>Employee</u>	<u>Employer</u>
For employees earning less than \$20,000 gross annual salary		
2012-2013	7.90%	12.40%
2013-2014	7.90%	13.15%
Future	7.90%	13.90%

Retirement Contributions

	<u>Employee</u>	<u>Employer</u>
For employees earning \$20,000 or more gross annual salary		
2012-2013	9.40%	10.90%
2013-2014	7.90%	13.15%
Future	7.90%	13.90%

For the year ending June 30, 2012 the Institute opted to pick up 1.75% of the employee portion for those employees earning \$20,000 or more, thus in effect increasing the employer percentage to 10.90% and decreasing the employee percentage to 9.40% for this year only. The Institute’s contributions to the plan for the years ending June 30, 2012, 2011 and 2010 were \$1,282,403, \$1,288,832 and \$1,385,250 respectively, equal to the amount of the required contributions for each year.





## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



#### **NOTE 8: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

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

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

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

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

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee is required to contribute 0.917% of their salary. In the fiscal years ending June 30, 2013 and beyond the contribution rates for employees will rise to 1.00% and the employer's rate will rise to 2.00%.



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**NOTE 8: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN  
(CONTINUED)**

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

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

The Institute's contributions to the RHCA for the years ended June 30, 2012, 2011 and 2010 were \$216,111, \$193,911 and \$150,500 in employer contributions, and \$107,372, \$96,917 and \$75,228 in employee contributions, respectively.

**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, 2011 to June 30, 2012. Total premiums paid by the Institute for the 2012 year were \$285,721.

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

Budget comparisons revenues	\$ 37,722,409
Net investment gain (loss)	(174,760)
Plant fund revenue (netted against expenses on SRECNA)	<u>(404,091)</u>
SRECNA Total Revenues	<u>37,143,558</u>
Budget comparisons expenditures	30,776,741
Capital expenditures	(2,671,095)
Current year depreciation and amortization	3,301,431
Plant fund revenue (netted against expenses on SRECNA)	(404,091)
Endowment fund transfers	<u>(645,784)</u>
SRECNA Total Expenditures	<u>30,357,202</u>
Change in Net Assets	<u>\$ 6,786,356</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**NOTE 11: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS**

At June 30, 2012, the Foundation’s deposits were \$608,939, and the bank balance was \$650,397. 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. The Foundation places no limits on the amount the Foundation may invest in any one issuer. Investments at June 30, 2012 were comprised of the following:

<u>Managed Funds/Bonds</u>	<u>2012</u>
Cambrian Capital Resources Offshore	\$ 585,526
Capital Guardian Emerging Markets	1,252,751
Dodge & Cox International Stock	3,219,994
Fortress Partners Offshore Fund	1,545,802
Longleaf Partners Fund	563,434
Newport Asia Institutional	1,040,796
Pine Grove Offshore	3,246,505
Pimco Short Term Bond Fund	438,056
Pimco Total Return Fund	1,726,815
Private Advisors Hedged Equity	3,017,483
Vanguard Dividend Growth Fund	5,228,898
Wellington Management Micro Cap Equity	1,418,685
Wellington Management Research Equity	<u>5,879,594</u>
	29,164,339
Less:	
Deferred support	<u>(372,565)</u>
Foundation Investments	<u>\$28,791,774</u>

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

	<u>2012</u>
Interest and dividend	\$ 418,795
Net unrealized gains	(1,285,063)
Net realized gains	675,127
Investment expenses	<u>(92,203)</u>
Total investment income	<u>\$ (283,344)</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements**

**June 30, 2012**



**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 represents level 3 inputs. Land is sold at the direction of the Board of Trustees.

**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, are as follows:

2013	\$	293,348
2014		276,848
2015		249,948
2016		245,747
2017		245,747
Thereafter		<u>5,564,778</u>
Total minimum lease payments	\$	<u><u>6,876,416</u></u>

**NOTE 14: NEW MEXICO MILITARY FOUNDATION - 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 year ended June 30, 2012, \$4,383 was recorded as a contribution for the use of office space with a corresponding amount recorded as rent expense.

For the year ended June 30, 2012, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2012, \$197,145 was due to the Institute for operating expenses and support. For the year ended June 30, 2012, the Foundation provided \$1,731,579 in scholarships and awards for the benefit of institute cadets and faculty.



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements

June 30, 2012



#### 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, Capital Outlay Funds, 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
Effective Date:	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, 2012, the Institute had an uncompleted construction contract pertaining to the rehabilitation of potable water lines on campus. This project is fully funded by \$2,200,000 of State of New Mexico Severance Tax Bonds which were issued in 2009. The reversion date for these funds is June 30, 2013, and as of June 30, 2012, \$2,151,772 of these funds had been expended. The remaining commitment on this construction contract was approximately \$48,228.



**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**SUPPLEMENTAL INFORMATION**







**NEW MEXICO MILITARY INSTITUTE**  
**Budget Comparison**  
**Unrestricted And Restricted – All Operation**  
**Schedule 1**  
**For the Year Ended June 30, 2012**



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Actual Positive (Negative) <u>Budget</u>
Beginning Fund Balance	\$ 11,979,395	\$ 16,076,549	\$ 16,076,549	\$ -
Unrestricted and Restricted Revenues:				
State General Fund Appropriations	1,816,100	1,816,100	1,816,100	-
Federal Revenue Sources	1,098,000	1,293,000	996,415	(296,585)
State Revenue Sources	848,800	852,800	451,675	(401,125)
Tuition and Fees	2,858,373	3,144,048	3,148,551	4,503
Land and Permanent Fund	19,345,383	22,496,328	23,094,967	598,639
Endowment and Private Gifts	860,112	892,020	800,726	(91,294)
Sales and Services	5,928,149	5,928,149	6,336,242	408,093
Other	<u>646,554</u>	<u>646,554</u>	<u>1,077,733</u>	<u>431,179</u>
Total Unrestricted & Restricted Revenues	<u>33,401,471</u>	<u>37,068,999</u>	<u>37,722,409</u>	<u>653,410</u>
Unrestricted and Restricted Expenditures:				
Instruction	9,845,994	10,015,745	9,379,414	636,331
Academic Support	1,130,995	1,175,319	1,083,237	92,082
Student Services	1,578,979	1,597,400	1,532,602	64,798
Institutional Support	3,313,741	3,152,552	2,680,736	471,816
Operation and Maintenance of Plant	3,328,585	3,453,517	3,066,228	387,289
Student Social and Cultural Activities	386,824	551,933	356,248	195,685
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	164,958	183,451	27,678	155,773
Student Aid, Grants and Stipends	2,790,455	2,989,455	2,632,074	357,381
Auxiliary Services	4,823,900	5,475,819	4,839,575	636,244
Intercollegiate Athletics	1,904,655	2,210,574	1,975,466	235,108
Independent Operations	-	-	-	-
Capital Outlay	3,618,109	3,618,109	1,444,562	2,173,547
Renewal and Replacement	1,290,049	1,290,049	386,894	903,155
Retirement of Indebtedness	<u>1,571,271</u>	<u>1,571,271</u>	<u>1,372,027</u>	<u>199,244</u>
Total Unrestricted & Restricted Expenditures	<u>35,748,515</u>	<u>37,285,194</u>	<u>30,776,741</u>	<u>6,508,453</u>
Net transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(2,347,044)	(216,195)	6,945,668	<u>\$ 7,161,863</u>
Ending Fund Balance	<u>\$ 9,632,351</u>	<u>\$ 15,860,354</u>	<u>\$ 23,022,217</u>	



**NEW MEXICO MILITARY INSTITUTE**

**Budget Comparison  
Unrestricted – Instruction & General  
Schedule 2  
For the Year Ended June 30, 2012**



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Actual Positive (Negative) <u>Budget</u>
Beginning Fund Balance	\$ 4,411,975	\$ 6,557,947	\$ 6,557,947	\$ -
Unrestricted Revenues:				
Tuition	2,789,373	3,013,499	3,011,171	(2,328)
Miscellaneous Fees	69,000	130,549	137,380	6,831
Federal Government Appropriations	-	-	-	-
State Government Appropriations	743,800	743,800	743,800	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/.Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	19,345,383	22,496,328	23,094,967	598,639
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	<u>53,750</u>	<u>53,750</u>	<u>119,653</u>	<u>65,903</u>
Total Unrestricted Revenues	<u>23,001,306</u>	<u>26,437,926</u>	<u>27,106,971</u>	<u>669,045</u>
Unrestricted Expenditures:				
Instruction	9,226,861	9,376,101	8,751,519	624,582
Academic Support	1,129,550	1,173,874	1,083,237	90,637
Student Services	1,578,779	1,597,200	1,532,602	64,598
Institutional Support	2,948,607	2,776,021	2,408,656	367,365
Operations & Maintenance of Plant	<u>3,328,585</u>	<u>3,453,517</u>	<u>3,066,228</u>	<u>387,289</u>
Total Unrestricted Expenditures	<u>18,212,382</u>	<u>18,376,713</u>	<u>16,842,242</u>	<u>1,534,471</u>
Net Transfers	<u>(5,404,927)</u>	<u>(7,507,179)</u>	<u>(7,507,179)</u>	-
Change in Fund Balance (Budgetary Basis)	(616,003)	554,034	2,757,550	\$ <u>2,203,516</u>
Ending Fund Balance	<u>\$ 3,795,972</u>	<u>\$ 7,111,981</u>	<u>\$9,315,497</u>	



**NEW MEXICO MILITARY INSTITUTE**

**Budget Comparison  
Restricted – Instruction & General  
Schedule 3  
For the Year Ended June 30, 2012**



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Positive (Negative) Budget</u>
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -
Restricted Revenues:				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	123,000	123,000	99,249	(23,751)
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	860,112	892,020	800,726	(91,294)
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	<u>985,912</u>	<u>1,017,820</u>	<u>899,975</u>	<u>(117,845)</u>
Restricted Expenditures:				
Instruction	619,133	639,644	627,895	11,749
Academic Support	1,445	1,445	-	1,445
Student Services	200	200	-	200
Institutional Support	365,134	376,531	272,080	104,451
Operations & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	<u>985,912</u>	<u>1,017,820</u>	<u>899,975</u>	<u>117,845</u>
Net Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	-	-	-	\$ <u><u>-</u></u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	



**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



**OTHER SUPPLEMENTAL SCHEDULES**





**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Pledged Collateral**  
**June 30, 2012**



	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo (Roswell)</u>	<u>Total</u>
Bank Accounts			
Demand deposit accounts	\$ 3,742,607	\$ -	\$ 3,742,607
Certificates of deposit	798,866	-	798,866
Repurchase agreements	<u>-</u>	<u>9,933,897</u>	<u>9,933,897</u>
Total amount of deposits (bank balances)	\$ 4,541,473	\$ 9,933,897	\$ 14,475,370
FDIC coverage on non-interest Bearing accounts	(3,428,914)	-	(3,428,914)
FDIC coverage on interest bearing Accounts	<u>(250,000)</u>	<u>-</u>	<u>(250,000)</u>
Total uninsured public funds	<u>862,559</u>	<u>9,933,897</u>	<u>10,796,456</u>
Collateral requirement @ 50%	431,279	-	431,279
Collateral requirement @ 102%	-	10,132,575	10,132,575
Pledges and securities			
FG GO4535, matures 6/1/2038			
Held at Wells Fargo Bank, Northwest CUSIP 3128M6LQ9			
Current Face, \$10,047	10,840	-	10,840
FG GO4832, matures 10/01/2038			
Held at Wells Fargo Bank, Northwest CUSIP 3128M6VZ8			
Current Face, \$202,072	218,034	-	218,034
FN AH0032, matures 1/01/2041			
Held at Wells Fargo Bank, Northwest CUSIP 3138A1BA8			
Current Face, \$335,306	358,512	-	358,512
FN AH0043, matures 1/1/2041			
Held at Wells Fargo Bank, Northwest CUSIP 3138A1BM2			
Current Face, \$33,515	35,836	-	35,836
FN AH7532, matures 3/01/2026			
Held at Wells Fargo Bank, Northwest CUSIP 3138A9LN2			
Current Face: \$110,592	116,279	-	116,279



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Pledged Collateral**  
**June 30, 2012**



(Continued)

	<u>Wells Fargo</u> <u>(Roswell)</u>	<u>Wells Fargo</u> <u>(Roswell)</u>	<u>Total</u>
FN AH8121, matures 3/01/2026 Held at Wells Fargo Bank, Northwest CUSIP 3138AAAX9 Current Face: \$29,772	31,575	-	31,575
FN AJ3038, matures 10/01/2041 Held at Wells Fargo Bank, Northwest CUSIP 3138AULU9 Current Face: \$12,163	13,009	-	13,009
FHG-3 G04691, matures 6/1/2038 Held at Wells Fargo Bank, Northwest CUSIP 3128M6RL4 Current Face: \$9,680,605	-	<u>10,133,513</u>	<u>10,133,513</u>
Over (under) secured	<u>\$ 352,806</u>	<u>\$ 938</u>	<u>\$ 353,744</u>





**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Individual Deposits**  
**June 30, 2012**



<u>Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Unreconciled Bank Balance</u>	<u>Reconciled Balance</u>
Wells Fargo Bank New Mexico, N.A.				
	NMMI Federal Funds	Checking/I	\$ 66,213	\$ 66,262
	NMMI Combined Accounts	Checking/NI	-	12,193,777
	Control Account		2,800,000	-
	Investment Account		<u>9,933,897</u>	<u>-</u>
	Total combined		<u>12,733,897</u>	<u>12,193,777</u>
	NMMI Investment Trust	Checking/I	247,480	247,480
	NMMI Bond Sinking Fund	Checking/NI	457,807	457,807
	NMMI Cadet Activities	Checking/NI	171,107	171,107
	NMMI Operating	CD/I	500,003	500,003
	NMMI DLC Bldg. Maint.	CD/I	149,021	149,021
	NMMI Cadet Activities	CD/I	100,317	100,317
	NMMI Cadet Activities	CD/I	<u>49,525</u>	<u>49,525</u>
Total Wells Fargo Bank			14,475,370	13,935,299
Cash on Hand			-	28,540
Total			<u>\$14,475,370</u>	<u>\$13,963,839</u>

(I)= Interest Bearing Account  
(NI)=Non-interest Bearing Account



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Endowments**  
**June 30, 2012**



**Scholarship Trust**

At Market Value

American Legion	\$	6,715
Berger		224,300
Bondurant		1,708,576
Boyd		50,456
Camp		75,973
JG Cannon		156,804
Colfax		227,515
Carter		71,671
Coppinger		18,586
Crosby		370,359
Decker		97,109
Ellis		70,438
Evans		339,838
Fisher		77,392
General		140,391
Kelley		14,967
Lawrence		15,413
Lusk		68,124
Mechem		108,600
Morey		90,451
Patton		72,806
Rapp		481,232
Runnels		18,558
Ruppert		8,200
San Miguel & Mora		112,636
San Miguel & Mora (FEM)		170,483
Scherotter		7,720
Schmitt/Fitzgibbon		58,680
Total	\$	<u>4,863,993</u>

Breakdown of Investments:

Cash-Wells Fargo Bank		63,742
State Investment Council	\$	<u>4,800,251</u>
Total	\$	<u>4,863,993</u>



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Endowments**  
**June 30, 2012**



(Continued)

**General Richard T. Knowles Legislative Scholarship Trust**

At Market Value

Birnie	\$	4,812
Carter		2,675
Clark		39,536
Dickason		56,364
Domzalski		7,128
Duson		9,985
Featherstone		6,178
Gibson		21,279
Green		80,954
Hazard		1,612
Huston		196,082
Legis (General)		8,365,178
Marmaduke		15,791
Ostenberg		396,111
Robertson		18,053
Schillingburg		13,106
Sparkman		4,995
Stevens		1,227
Wyles		36,690
Total	\$	<u>9,277,756</u>

Breakdown of Investments

Cash – Wells Fargo Bank	\$	727,862
State Investment Council		8,549,894
Total	\$	<u>9,277,756</u>

**Patterson Endowment**

Cash – Wells Fargo Bank	\$	4,728
State Investment Council		3,808,053
Total	\$	<u>3,812,781</u>

**Daniels Leadership Center Building Maintenance Endowment**

State Investment Council	\$	4,385,012
Total	\$	<u>4,385,012</u>

**Summary of Endowments**

Scholarship Trust	\$	4,863,993
General Richard T. Knowles-Legislative Scholarship Trust		9,277,756
Patterson Account		3,812,781
Daniels Leadership Center-Building Maintenance Account		4,385,012
Total	\$	<u>22,339,542</u>

Cash, restricted	\$	796,332
Investments at State Investment Council		21,543,210
Total Endowments	\$	<u>22,339,542</u>



**NEW MEXICO MILITARY INSTITUTE**  
**Roswell, NM**



## **COMPLIANCE SECTION**



**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 aggregate discretely presented component unit (New Mexico Military Institute Foundation) and the unrestricted and restricted funds budget comparisons presented as Supplemental Information of New Mexico Military Institute (Institute) as of and for the year ended June 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Institute is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Institute's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, the New Mexico State Auditor, the New Mexico Legislature, and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.

*Heinfeld, Meech & Co., P.C.*

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

November 8, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Mr. Hector H. Balderas  
New Mexico State Auditor

Board of Regents  
New Mexico Military Institute

Compliance

We have audited New Mexico Military Institute's (Institute) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended June 30, 2012. The 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 Institute's management. Our responsibility is to express an opinion on 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 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 Institute's compliance with those requirements.

In our opinion, the 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, 2012.

Internal Control Over Compliance

Management of 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 Institute's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit (New Mexico Military Institute Foundation) and the unrestricted and restricted funds budget comparisons presented as Supplemental Information of the Institute as of and for the year ended June 30, 2012, and have issued our report thereon dated November 8, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Regents, others within the entity, the New Mexico State Auditor, the New Mexico Legislature, and applicable federal grantors and is not intended to be and should not be used by anyone other than these specified parties.



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

November 8, 2012



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2012**



<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education</b>			
<b>Direct Programs</b>			
Student Financial Aid Cluster – Federal Supplemental Education			
Opportunity Grant (1)	84.007	N/A	\$ 78,366
Federal Work-Study Program (1)	84.033	N/A	20,390
Federal Pell Grant Program (1)	84.063	N/A	<u>754,509</u>
Total Student Financial Assistance Cluster			853,265
Federal Native American Criminal Justice Grant	84.116	N/A	<u>38,169</u>
Total U.S. Department of Education Programs			<u>891,434</u>
<b>U.S. Department of the Army</b>			
<b>Direct Programs</b>			
ROTC	12.Unknown	DAFK 57-92-H-0422	100,195
JROTC	12.Unknown	DAFK 57-91-H-0422	<u>85,595</u>
Total U.S. Department of the Army Programs			<u>185,790</u>
Total			<u>\$ 1,077,224</u>

**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 modified 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*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**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 2012 *Catalog of Federal Domestic Assistance*.



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2012**



**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?           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?           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, 84.033, 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, 2012**



**SECTION II – FINDINGS RELATED TO FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

None reported.

**SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS**

None reported.



**NEW MEXICO MILITARY INSTITUTE**  
**Summary Schedule of Prior Audit Findings**  
**June 30, 2012**



**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, 2012



The contents of this report were discussed at an exit conference held on November 08, 2012. The following individuals attended:

### **Board of Regents**

Stephen D. Paternoster, President  
Jesse F. Eckel, Secretary/Treasurer

### **New Mexico Military Institute**

COL David West, Chief of Staff  
COL Judy Scharmer, Chief Financial Officer  
LTC Charles C. Hendrickson, Assistant Chief Financial Officer  
CPT Amanda Garcia, Accountant  
LTC Sonya Rodriguez, Director, Admissions and Financial Aid  
LTC David Gray, Internal Auditor

### **New Mexico Military Foundation, Inc.**

Stephen D. Paternoster  
Jesse F. Eckel

### **Heinfeld, Meech & Co., P.C.**

Audrey J. Jaramillo, CPA, CFE

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

