



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Financial Statements
With Independent Auditor's
Report Thereon
For the Year Ended June 30, 2018





NEW MEXICO MILITARY INSTITUTE
Roswell, NM



INTRODUCTORY SECTION

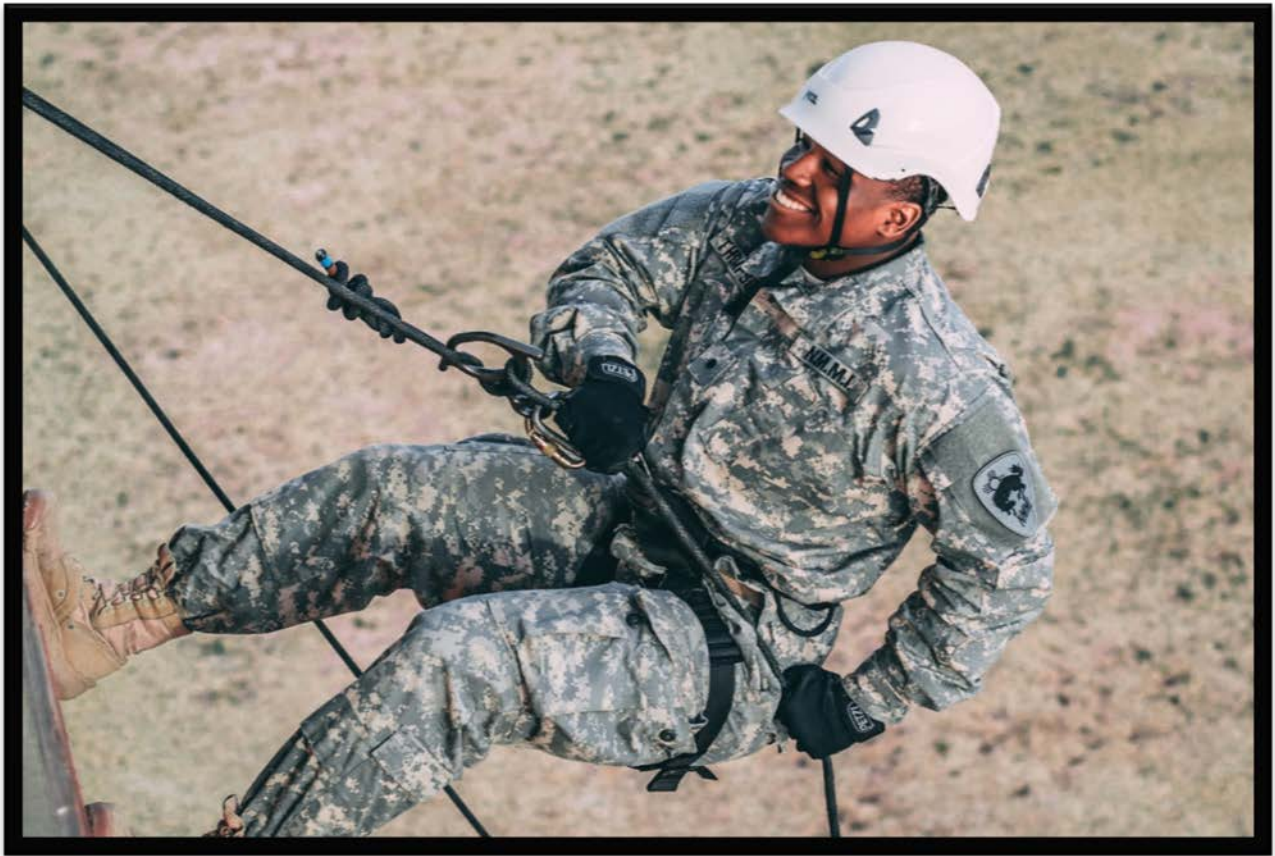




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NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Official Roster
June 30, 2018

Board of Regents

Ex Officio Members:

The Honorable Susana Martinez
Barbara Damron, PhD, RN, FAAN

Governor of the State of New Mexico
Secretary of Higher Education

Appointed Members:

Timothy Paul
COL Barbara Trent
Stirling Spencer
Phillip Ingram
Bradford Christmas

President
Vice President
Secretary/Treasurer
Member
Member

Principal Administrative Officials

MG Jerry W. Grizzle
LTC Jonathan Graff
COL David West
BG Douglas Murray
COL George Brick
COL Judy Scharmer
LTC Deana Curnutt
LTC Darrius Douglas
LTC Sonya Rodriguez
Mr. Kent Taylor
COL Todd Lupien
COL Jose Barron

President/Superintendent
Commandant
Chief of Staff
Academic Dean
Vice Dean/High School Principal
Chief Financial Officer
Assistant Chief Financial Officer
Director of Admissions
Director of Financial Aid
Director of Facilities
Director of Information Services
Athletic Director



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
New Mexico Military Institute
and
Mr. Wayne Johnson, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component unit of the New Mexico Military Institute (the "Institute"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of the Institute, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the New Mexico Military Institute are intended to present the net position and the changes in net position of only that portion of the State of New Mexico that is attributable to the transactions of the Institute and its discretely presented component unit. They do not purport to, and do not, present fairly the net position of the State of New Mexico as of June 30, 2018, and the changes in its net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 16 to the financial statements, the beginning balance of net position of the Institute has been restated due to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018. The restatement resulted in a decrease in the beginning of net position of the Institute of \$16,589,196. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis in pages 10-26, the Schedules of the Institute's Proportionate Share of the Net Pension Liability and Net OPEB Liability and Schedules of the Institute's Pension and OPEB Contributions on pages 64-68, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute's basic financial statements. The accompanying *Schedule of Expenditures of Federal Awards* as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, the budgetary comparison schedules and other schedules required by Section 2.2.2.NMAC* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards, the budgetary comparison schedules and other schedules required by Section 2.2.2.NMAC* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, *Schedule of Expenditures of Federal Awards, the budgetary comparison schedules and other schedules required by Section 2.2.2.NMAC* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2018 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 result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 26, 2018



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2018



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, 2018 with selective comparative information for the year ending June 30, 2017. 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.

NMMI originated in 1891 as Goss Military Institute in the Territory of New Mexico which later became the New Mexico Military Institute as it is known today. It started with 38 students and grew to its current day capacity of over 900 cadets representing 42 U.S. States & Territories and 36 Countries/Regions outside of the United States. NMMI is a co-educational four year college preparatory high school and university parallel junior college, awarding an Associate of Arts and an Associate of Science Degree. NMMI has been continuously accredited by the North Central Association and the State of New Mexico Commission on Higher Education since 1909.

Using the Basic Financial Statements

The Institute's financial report includes three financial statements:

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

The Statement of Net Position presents the assets, liabilities, deferred inflows/outflows with the difference reported as net position of the New Mexico Military Institute (Institute) as of the end of the fiscal year. The Statement of Net Position 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 position (assets minus liabilities). Additionally, in accordance with GASB Statement 68, the Statement of Net Position reflects the Institute's allocated proportionate share of the Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Institute's management. In accordance with GASB Statement 75, Other Post Employment Benefits proportionate share is presented in the Statement of Net Position.

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenue, Expenses, and Changes in Net Position (SRECNP). 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 Position.**



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2018



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.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2018



SUMMARY STATEMENT OF NET POSITION

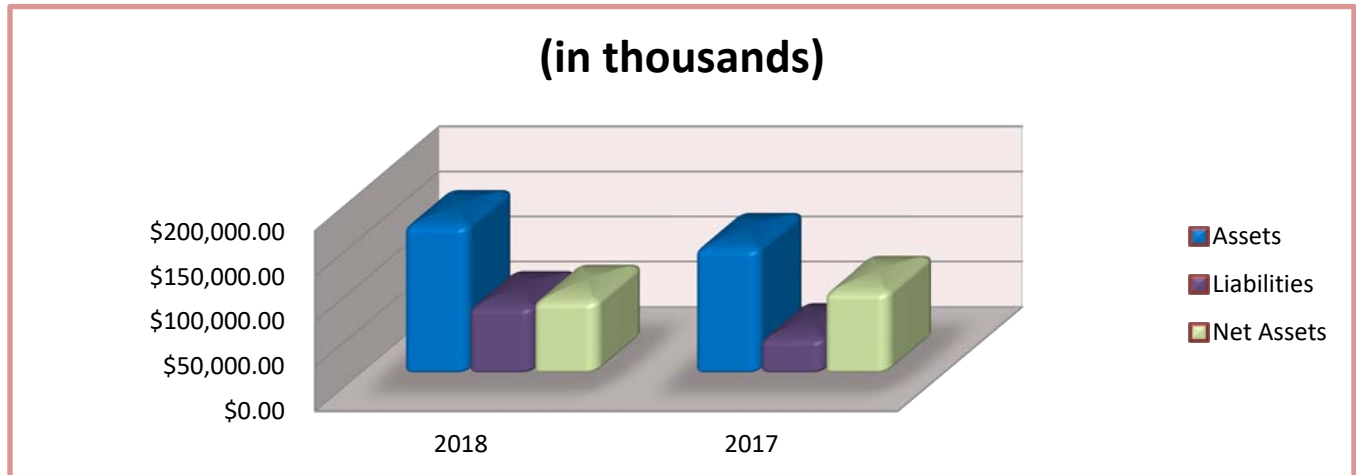
	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 31,606,652	\$ 23,037,522
Capital assets, net	72,280,521	71,684,550
Non-current assets	<u>50,972,157</u>	<u>47,345,297</u>
Total assets	<u>\$ 154,859,320</u>	<u>\$ 142,067,369</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	\$ 17,438,811	\$ 5,059,207
OPEB related	<u>270,601</u>	<u>-</u>
Total deferred outflows of resources	<u>17,709,412</u>	<u>5,059,207</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 172,568,732</u>	<u>\$ 147,126,576</u>
LIABILITIES		
Current liabilities	\$ 5,186,787	\$ 5,619,713
Net pension liability	52,254,416	33,574,961
Net OPEB liability	14,193,653	-
Non-current liabilities	<u>7,350,748</u>	<u>8,052,823</u>
Total liabilities	<u>\$ 78,985,604</u>	<u>\$ 47,247,497</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	\$ 857,595	\$ 390,387
OPEB related	<u>3,230,441</u>	<u>-</u>
Total deferred inflows of resources	<u>\$ 4,088,036</u>	<u>\$ 390,387</u>
NET POSITION		
Net investment in capital assets	\$ 62,591,721	\$ 60,978,380
Restricted (Non-expendable)	19,897,121	19,620,407
Restricted (Expendable)	27,130,820	24,696,403
Unrestricted	<u>(20,124,576)</u>	<u>(5,806,498)</u>
Total net position (as restated)	<u>\$ 89,495,092</u>	<u>\$ 99,488,692</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 172,568,732</u>	<u>\$ 147,126,576</u>



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2018



ASSETS, LIABILITIES AND NET POSITION



Statement of Net Position Highlights:

Assets

Current Assets

Current assets consists primarily of cash and cash equivalents, short-term investments of operating funds and debt proceeds to be used for capital improvements, accounts and notes receivable and other assets that are deemed to be consumed or convertible to cash within one year. The most significant current assets of the Institute at June 30, 2018 and 2017 are cash and cash equivalents and short term investments totaling \$30,782,225 and \$19,549,289 respectively.

Capital Assets

NMMI's 2020 Strategic Plan sets the stage for the capital plan to systematically address renovating the existing buildings and infrastructure with the quest for improved energy efficiency, compliance with ADA and other design standards as well as focusing on strategic function.

The additions to capital assets of \$3,737,720 during fiscal year 2018 can be attributed to the ongoing construction costs for the Marshall Infirmary and the renovation of the Science Labs. The capital asset additions are funded using a combination of state general obligation bonds, capital appropriations, debt, and Institute funds.

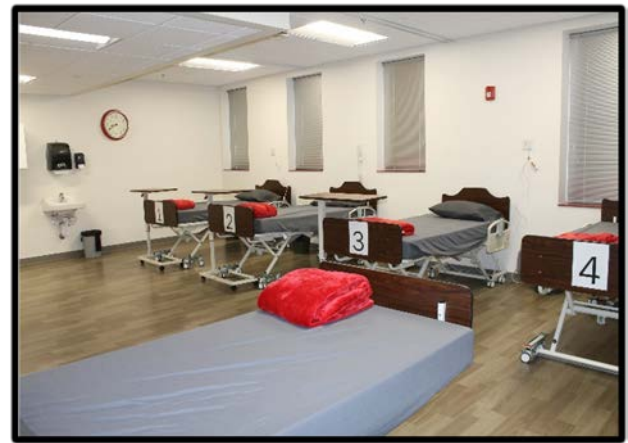


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Significant capital projects currently in design, construction or implementation phases include:

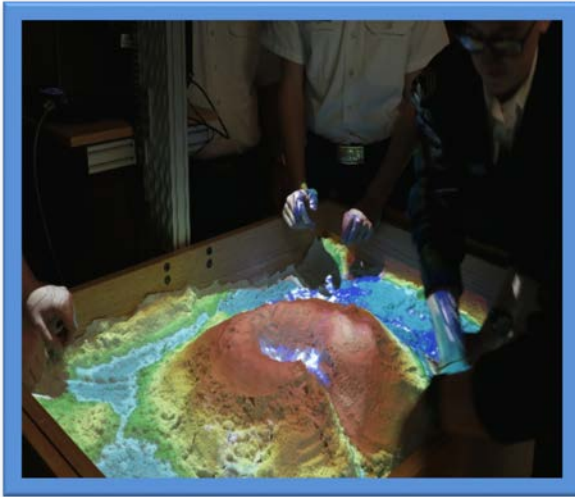
- **Marshall Hall Renovation** - \$5 million renovation project. The renovation of Marshall Hall has crossed over multiple years beginning with the design phase in 2016 and continued with construction in progress in 2018. Marshall Hall serves NMMI as the primary health clinic for the entire Corps of Cadets as well as the on-campus police force. Marshall Hall was built in 1920 and is approximately 15,400 square feet consisting of two primary floors with the bottom floor a half-basement. The foremost concern was bringing this facility up to current building, accessibility and energy code standards. The renovation addressed structural and energy deficiencies, reconfigured the space to provide adequate restrooms and added fire suppression and proper ventilation systems to meet current codes. The funding of this project was through the New Mexico 2014 General Obligation Bonds (\$4.8 million) plus \$200 thousand of Institutional funds.



- **Science Lab Renovation** - \$1.5 million renovation project. This project renovates and equips the science labs which are located in both Wilson and McClure Halls. The cadets are enjoying the new labs and a few final modernizations are anticipated to be fully completed by December 2018. The renovation addresses the much needed improvements for the NMMI science and technology offerings in order to remain competitive with the “STEM” educational process. Recent re-emphasis on Engineering and other science-based offerings require a degree of modernization and support at both the High School and College level. The renovation allowed for greater space utilization for all of the science disciplines. All chemistry instruction and labs are on the second floor of McClure Hall and all of the physics and engineering classrooms and labs on the first floor. A greenhouse was also included in order to expand the hands-on instructional capabilities for the Biology and Earth Science programs. The funding of this project is through the State’s 2015 Severance Tax Bonds.



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- Stapp Field Parade Stand - \$238,000 renovation project. As part of NMMI's military structure, cadets are trained in the history and practice in the precision of the military parade. The Stapp Field Review Stand is the structure to provide a formal place of review for senior administration and other dignitaries during the parade exhibitions and drill. The Stand is also used for other formal ceremonies. The project is substantially completed and was funded through the State's 2015 Severance Tax Bonds.





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- Stairs and Stoops - \$220,000 renovation project. The stairs and “stoops” of the Hagerman and Saunders barracks had been determined to have significant deterioration resulting in failed stair treads from the supporting risers. This significant safety matter was completed through the funding provided by the State's 2016 Severance Tax Bonds.
- Cahoon Hall Renovation - \$10 million complete building renovation project. Cahoon Hall was originally constructed in 1928 to be the main activities center for the corps. Cahoon Hall is a vital part of NMMI's rich history and crucial to the athletic program and physical education of the institution. Physical development is one of the three primary mission elements embedded in the Institutional Mission. The building is one of the oldest buildings on campus that has never been fully remodeled. Cahoon Hall is just under 69,000 square feet with two levels. The scope of work includes bringing the entire facility up to current building and ADA code compliance, increasing energy efficiency using LEED practices, addressing much needed female and male restrooms and shower space and completely renovating the electrical and plumbing systems. The renovation is a multi-year project with an expected completion in the summer of 2019. A combination of the 2017A New Mexico General Obligation Bonds (\$4.8 million), proceeds from NMMI's Series 2013 Revenue Bonds (\$3 million) and the remaining from Institutional funds (\$2.2 million) are leveraged together to fund the project.





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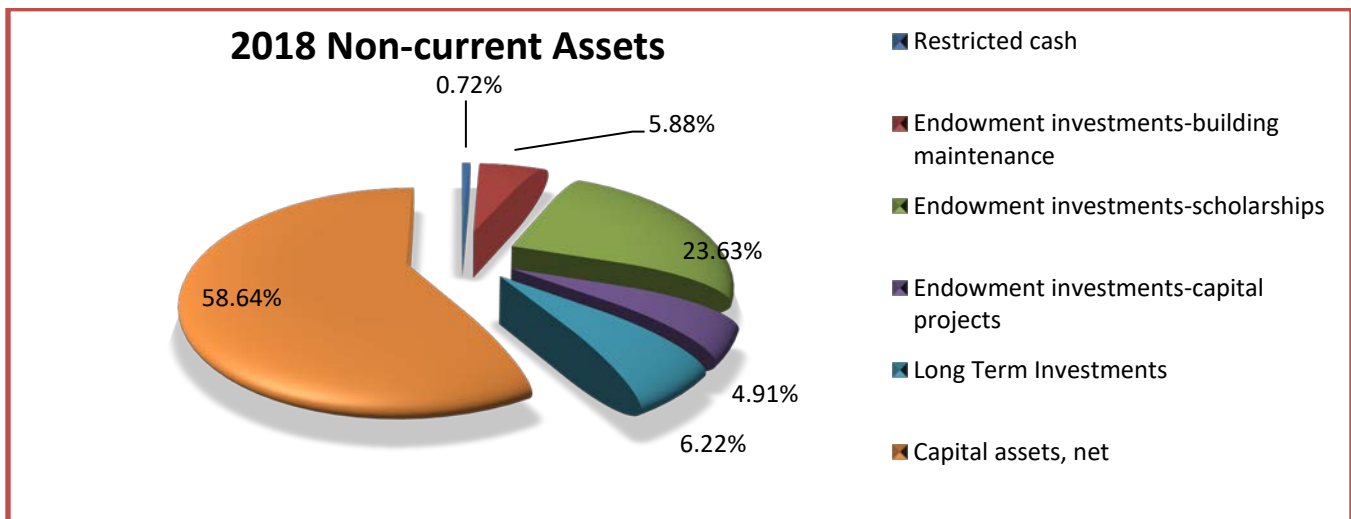


At June 30, 2018, the Institute had \$72,280,521 invested in capital assets, net of accumulated depreciation of \$61,237,265. Depreciation charges for the current year totaled \$3,141,749 compared to \$3,086,626 in 2017.

Non-Current Assets

The non-current assets consist primarily of Institute endowed investments and restricted cash and cash equivalents as of June 30, 2018 and 2017 respectively totaled \$50,972,147 and \$47,345,297. Investment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is expended for a specific purpose. Funds functioning as endowment consist of restricted gifts or unrestricted funds that have been allocated by the Institute for the purpose of long-term investment, but are not limited by donor stipulations requiring the Institute to preserve principal in perpetuity. Programs supported by endowment funds included scholarships, building maintenance and other restrictive capital projects.

Not reflected in the non-current assets is the Institute's beneficiary interest of the State's Land Grant Permanent Fund held and administered by the State of New Mexico. The market value of the Institute's undivided interest of the Land Grant Permanent Fund is \$529,855,351 and \$494,634,711 as of June 30, 2018 and June 30, 2017, respectively. The Land Grant Permanent Fund trust is irrevocable and the Institute has a vested beneficial interest in the annual distributions by the fund. In accordance with the policy statement issued by the NM Department of Finance, the Land Grant Permanent Fund's assets are not to be reported on the 21 beneficiary agencies Statement of Net Position.





NEW MEXICO MILITARY INSTITUTE
Management’s Discussion and Analysis
June 30, 2018



Debt

As of June 30, 2018, NMMI has debt of \$7.7 million in outstanding bonds. NMMI recognizes that investing in its facilities is an integral part of attracting and maintaining high quality cadets, faculty and staff in an increasingly competitive environment. NMMI’s capital planning is a long-term process requiring continuously re-evaluating the utilization and leveraging a mix of funding sources beyond the level provided by state capital appropriations through the strategic issuance of new debt. NMMI retired the 2001 System Revenue Bonds in June of 2013 leaving NMMI with zero long-term debt as of June 30, 2013. This retirement provided NMMI the opportunity to negotiate a sale of new revenue bonds, Series 2013A and 2013B Revenue bonds totaling \$12,915,000 for the purpose of improving its facilities. Approximately \$9.9 million of the 2013 series revenue bonds were used to renovate the Bates Dining Hall and the installation of artificial turf and upgrade to the NMMI Baseball field. The remaining \$3 million is earmarked for the renovation of Cahoon Hall which began construction in the summer of 2018. In the near term, management does not intend to issue new debt in order to ensure continued economic stability.

	<u>2018</u>	<u>2017</u>
Bonds payable, current	\$ 670,000	\$ 1,040,000
Bonds payable, long-term	<u>7,030,000</u>	<u>7,700,000</u>
Total Bonds Payable	<u>\$ 7,700,000</u>	<u>\$ 8,740,000</u>

On October 25, 2016 Moody’s Investors Service downgraded the State of New Mexico’s general obligation bonds to Aa1 from Aaa, outlook negative. Subsequent to this downgrade, on October 31, 2016, Moody’s placed NMMI’s outstanding revenue bonds to a Aa3 from a Aa2, outlook stable. Moody’s acknowledged the credit strength of the Institute’s beneficiary status of the constitutionally protected Land Grant Permanent Fund sizable annual distribution.

As of June 30, 2018, NMMI’s debt service coverage ratio was 16.98 as shown on the Schedule of Debt Service Coverage.

At June 30, 2018, the Institute’s current ratio, the amount of current assets (\$31,606,652) available to cover current liabilities (\$5,186,787) was 6.1 to 1.

Net Position

Total net position (assets minus liabilities) is classified by the Institute’s ability to use these resources to meet operating needs. Net position that is restricted as to their use by sponsoring agencies, donor or other non-Institute entities are classified as “non-expendable”, such as permanent endowments, and “expendable”, such as contract or grant net assets. The restricted net position is further classified in general terms as to the function for which they must be used. Unrestricted net position 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 \$62,591,727 as of June 30, 2018.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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Restricted non-expendable net position represent the Institute's permanently invested endowment funds of \$19,897,121.

Restricted expendable net position is subject to externally imposed provisions or strategic initiatives governing their use. This category of net position mainly includes unspent expendable endowment funds and debt service of \$27,130,820 and \$24,696,403 as of June 30, 2018 and June 30, 2017, respectively.

The variance in the unrestricted net position from 2017 was (\$14,318,078 to a total of \$(20,124,576). A primary component of the change to unrestricted net position is the increase to the Net Pension Liability of \$18,679,455 and the increase to the Net OPEB Liability of \$14,193,653. In 2015, GASB Statement No. 68 required these statements to recognize a net pension liability, pension expense, and pension related deferred inflows and outflows of resources based on the Institutes proportionate share of the New Mexico Educational Retirement plan. In 2018, GASB Statement No. 75 required these statements to recognize Other Post Employment Benefits (OPEB) of the Institute's proportionate share of the State's collective net Retiree Health Care liability.



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Summary Statement of Revenues, Expense and Changes in Net Position

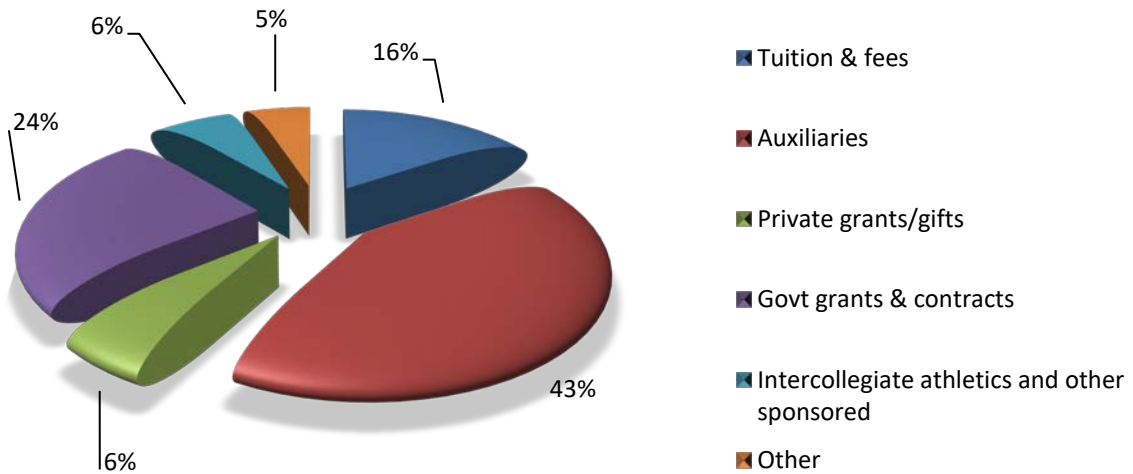
	<u>2018</u>	<u>2017</u>
Operating Revenue by Major Source		
Tuition	\$ 2,455,462	\$ 2,589,791
Auxiliaries	6,707,371	6,862,826
Private grants/gifts	931,935	859,291
Governmental grants and contracts	3,861,810	3,915,858
Intercollegiate athletics and other sponsored activities	971,687	995,170
Other	<u>810,711</u>	<u>795,767</u>
	<u>\$ 15,738,976</u>	<u>\$ 16,018,703</u>
Operating Expense by Major Function		
Instruction	\$ 14,899,938	\$ 11,517,152
Academic support	1,597,756	1,261,762
Student services	2,450,333	1,924,898
Institutional support	4,961,831	4,035,644
Operations and maintenance support	4,184,328	3,352,618
Auxiliaries	6,796,002	6,383,360
Student aid	1,982,734	2,024,155
Intercollegiate athletics and other sponsored activities	3,300,103	3,138,751
Other	<u>3,679,303</u>	<u>3,326,953</u>
	<u>\$ 43,852,328</u>	<u>\$ 36,965,293</u>
Non-operating Revenue (Expense)		
Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund	\$ 32,049,995	\$ 24,698,784
Other	<u>(80,657)</u>	<u>(61,866)</u>
	<u>\$ 31,969,338</u>	<u>\$ 24,636,918</u>
Income (loss) before other revenue, expense, gains and losses	\$ 3,855,986	\$ 3,690,328
Capital grants	<u>2,739,610</u>	<u>1,263,435</u>
Total increase (decrease) in net position	<u>\$ 6,595,596</u>	<u>\$ 4,953,763</u>
Net position, beginning of year (2018 as restated)	<u>\$ 82,899,496</u>	<u>\$ 94,534,929</u>
Net position, end of year	<u>\$ 89,495,092</u>	<u>\$ 99,488,692</u>



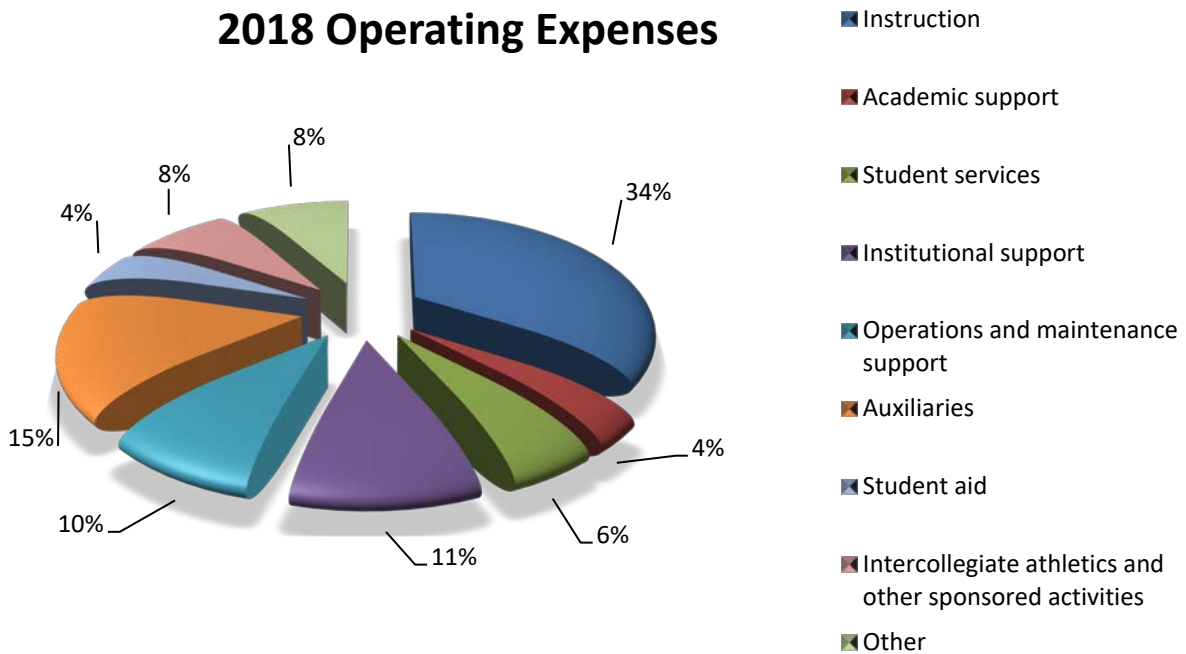
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**2018
Operating Revenues**



2018 Operating Expenses



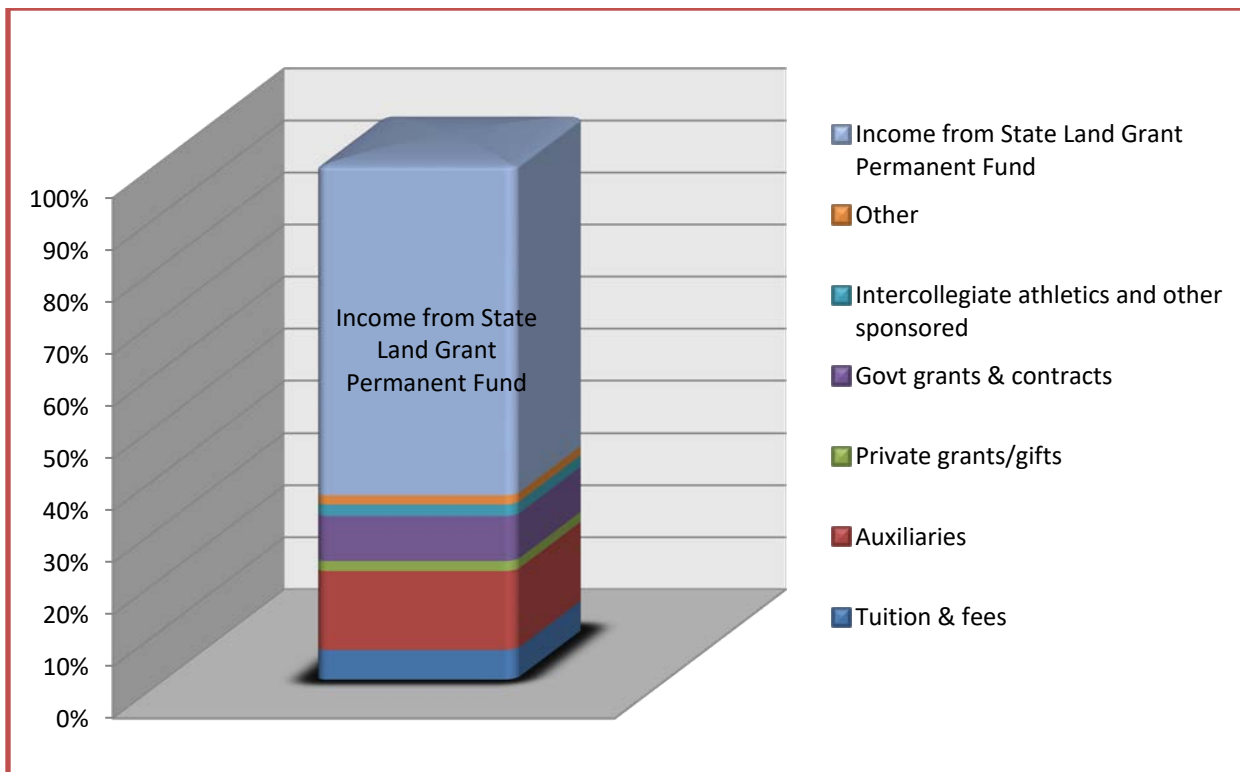


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Statement of Revenues, Expenses and Changes in Net Position Highlights:

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 Position”. 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 64% of total operating revenues for 2018. 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 Position by the major functions of the Institute.

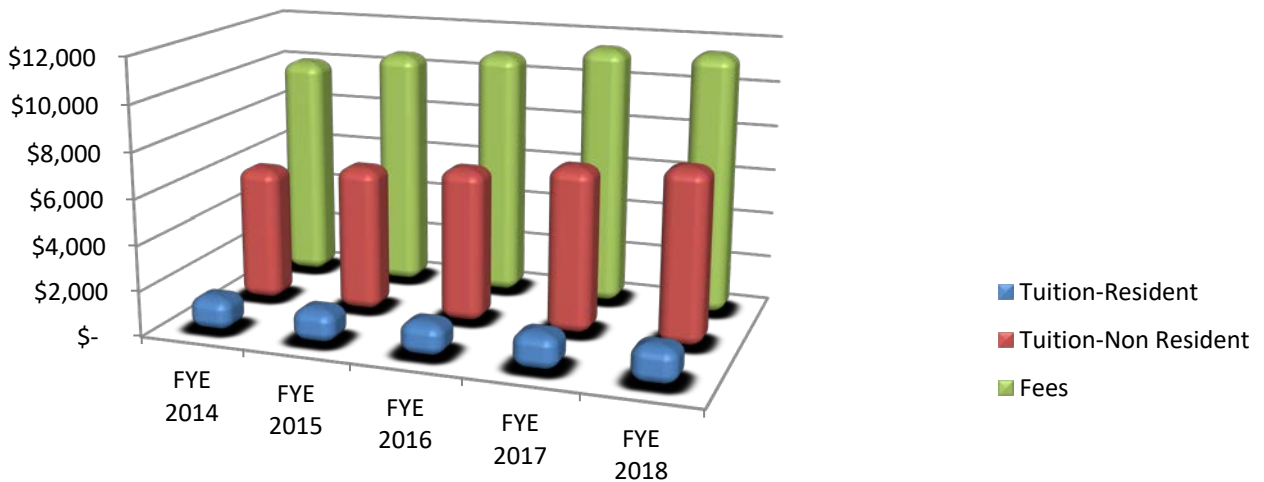


NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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Operating

Operating revenues for the Institute decreased by \$279,727 from 2017. The main contributor to the loss was a decrease in Auxiliaries which decreased \$155,455. The auxiliary portion covers 43% of the operating revenue which substantially is derived from the room and board fees assessed to cadets.



	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Tuition-Resident	\$1,571	\$1,571	\$1,571	\$1,681	\$1,715
Tuition-Non Resident	\$6,090	\$6,516	\$6,842	\$7,321	\$7,687
Fees	\$10,135	\$10,738	\$11,018	\$11,543	\$11,568

The operating expenses increased \$6,887,035 from 2017. The increase in pension expense and change in deferred inflows and outflows over the prior year is a significant change in overall operating expenses. Operating expenses reported prior to recording pension expense and OPEB expenses shows an increase to operating expense of \$1,050,824. The Institute was deliberate and focused on its operating expenses for FY18 to meet mission critical and strategic driven initiatives. The operating expenses reported in the SRECNA included a GASB 68 pension adjustment of \$7,331,356 and \$1,495,146 as of June 30, 2018 and June 30, 2017, respectively. The Institute continues in its quest to allocate its resources in areas to advance NMMI's vision and constitutional mission.

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 2018 increased from 2017 in the amount of \$1,288,544. Income received from the State Land Office and the Land Grant Permanent Fund was \$8,230,882 and \$523,504, respectively. All trust land beneficiaries receive a fixed



NEW MEXICO MILITARY INSTITUTE
Management’s Discussion and Analysis
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distribution of 5.0% of the five-year average market value of the Land Grant Permanent Fund at December 31 annually.

Change in Net Position

The Institute’s total change in net position showed a net increase for 2018 and a net increase in 2017. Both years’ results are primarily the result of volatile fluctuations in the market value of endowed investments.

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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net cash used by operating activities	\$(17,559,161)	\$ (15,464,885)
Net cash provided (used) by non-capital financing activities	78,501	362,027
Net cash provided by investing activities	25,764,813	20,780,767
Net cash provided (used) by capital and related financing activities	<u>(1,695,081)</u>	<u>(4,221,939)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 6,589,072</u>	<u>\$ 1,455,970</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 actual revenues were \$1,940,864 less than the final budget. The largest variance is found in State Revenue Sources which is reflective of the timing of the capital project construction and associated draw down requirements from the available General Obligation bonds and Severance Tax Bonds. The construction projects are generally multi-year projects which may result in significant variances between budget and actual revenues and expenses in any one year. The overall actual expenditures were \$10,549,139 lower than budgeted, of which \$5,248,897 (50%) is attributable to the Capital Projects and Renewal and Replacement budgets. These projects are typically multi-year of which are conservatively over-estimated to enable the Institute to have the appropriate level of spending authority to maintain budgetary flexibility to address unforeseen construction contingencies and timing differences. The actual change in net position on a budgetary basis created a positive budget variance of \$8,608,275 which is strategically reserved for construction commitments, future scholarships, 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.

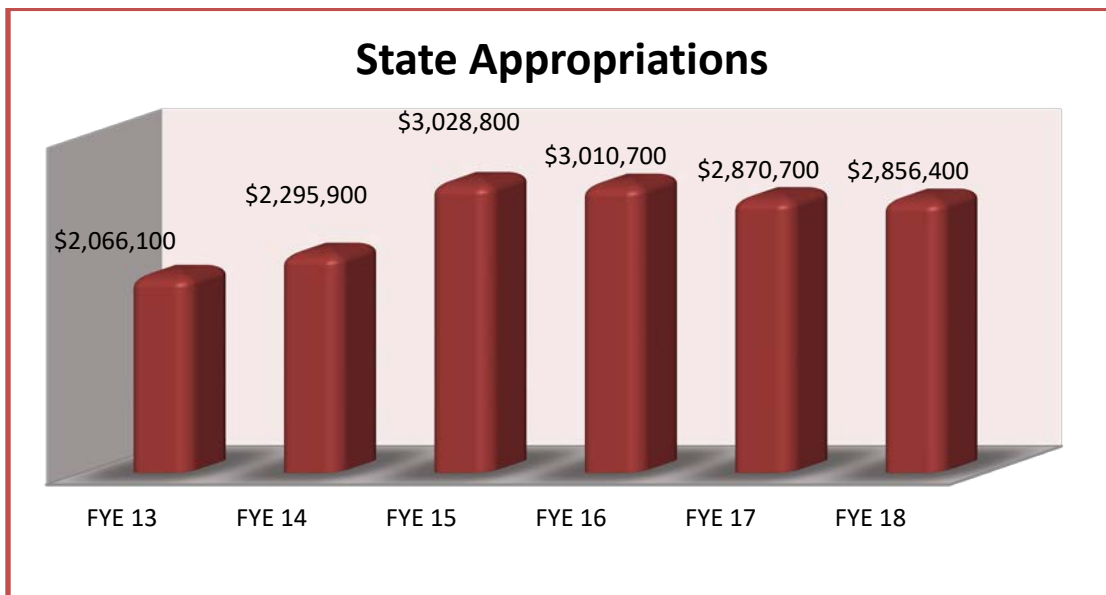


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Economic Factors Impacting Future Periods

The Institute has been an integral part of New Mexico's history and its mission in educating the young men and women who reside in the Land of Enchantment. The economic outlook as of the August 22, 2018 General Fund Consensus Revenue Forecast for the State of New Mexico grew substantially however caveated with caution not to over rely due to the volatility of the energy industry. NMMI is **not** included in the New Mexico Higher Education funding formula calculation; however, NMMI does receive three State Appropriations, one of which is specifically restricted to the Knowles Legislative Scholarship program. See below a historical summary of State Appropriations:



Additionally, as noted previously, NMMI receives over half of its funding from the Land Grant Permanent Fund (LGPF). In accordance with the 2003 New Mexico Constitutional Amendment 2, the annual distribution is 5.0% of the five-year market value of the Permanent Fund. The market value of the Fund has reached over \$17 billion which indicates a possible increase to the distribution which would provide the Institute greater opportunity to grow flexible reserves. The Institute is cautiously optimistic and continues to monitor the performance of the LGPF and its possible impact on the Institute.



NEW MEXICO MILITARY INSTITUTE
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Other Factors Impacting Future Periods

NMMI is not aware of any additional facts, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations during the 2018-2019 fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

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.

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

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 Position June 30, 2018



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 17,079,452	\$ 40,659
Restricted cash and cash equivalents	5,406,389	557,309
Short-term investments	8,296,384	-
Prepaid expenses	-	3,041
Pledges receivable, net of allowance	-	52,273
Student accounts receivable, net of allowance for doubtful receivables of \$1,520,000	22,838	-
Receivable from NMMI Foundation	383,818	-
Other accounts receivable	352,833	1,685
Inventories	64,938	-
Total current assets	<u>31,606,652</u>	<u>654,967</u>
Non-current Assets:		
Restricted cash and cash equivalents	882,931	-
Land and buildings held for investment	-	3,807,522
Pledges receivable, net of allowance	-	275,310
Surrender value of life insurance policies	-	756,628
Endowment investments, scholarships	29,130,634	-
Endowment investments, capital projects	6,048,524	-
Endowment investments, building maintenance	7,244,778	-
Long-term investments	7,665,280	48,410,355
Beneficial interest in perpetual trust	-	745,141
Other assets	-	86,591
Capital assets, net of accumulated depreciation	<u>72,280,521</u>	-
Total non-current assets	<u>123,252,668</u>	<u>54,081,547</u>
Total assets	<u>154,859,320</u>	<u>54,736,514</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	17,438,811	-
OPEB related	<u>270,601</u>	-
Total deferred outflows	17,709,412	-
Total Assets and Deferred Outflows	<u>\$ 172,568,732</u>	<u>\$ 54,736,514</u>

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



NEW MEXICO MILITARY INSTITUTE

Statement of Net Position

June 30, 2018

(Continued)



	Primary Government	Component Unit
	<u>NMMI</u>	<u>NMMI Foundation</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,332,231	\$ 7,273
Accounts payable NMMI Foundation	-	-
Accrued compensated absences	594,483	15,929
Payable to NMMI	-	383,818
Unearned revenues	-	-
Other credits	411,980	-
Funds held for others	1,178,093	-
Bonds payable-current portion	670,000	-
Annuity obligations	-	404,997
Total current liabilities	<u>5,186,787</u>	<u>812,017</u>
Non-current Liabilities:		
Bonds payable – long term portion	7,030,000	-
Bond premium	320,748	-
Net pension liability	52,254,416	-
Net OPEB liability	<u>14,193,653</u>	-
Total non-current liabilities	<u>73,798,817</u>	-
Total liabilities	<u>78,985,604</u>	-
DEFERRED INFLOWS OF RESOURCES		
Pension related	857,595	-
OPEB related	<u>3,230,441</u>	-
Total deferred inflow of resources	<u>4,088,036</u>	-
NET POSITION		
Net Investment in capital assets	62,591,727	-
Restricted for:		
Non-expendable:		
Restricted, scholarships	14,197,121	-
Restricted, building maintenance	3,700,000	-
Restricted, capital projects	2,000,000	-
Permanently restricted, NMMI Foundation	-	20,455,709
Expendable:		
Term endowments, scholarships	16,005,327	-
Capital Projects	7,032,009	-
Building maintenance	3,613,510	-
Debt service	479,974	-
Temporarily restricted, NMMI Foundation	-	14,270,363
Unrestricted	<u>(20,124,576)</u>	<u>19,198,425</u>
Total net position (2018 as restated)	<u>89,495,092</u>	<u>53,924,497</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 172,568,732</u>	<u>\$ 54,736,514</u>

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



NEW MEXICO MILITARY INSTITUTE
Statement of Revenues, Expenses and
Changes in Net Position
For Year Ended June 30, 2018



	Primary <u>Government</u>	Component <u>Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
Operating revenues:		
Tuition and fees	\$ 2,455,462	\$ -
Contributions	<u>-</u>	<u>728,540</u>
Federal grants and contracts	967,592	-
State grants and contracts	2,894,218	-
Private grants and contracts	931,935	-
Other sponsored activities	492,863	-
Auxiliary enterprises	6,707,371	-
Intercollegiate athletics	478,824	-
Internal service department	309,971	-
Other	500,740	6,558
Rental income	<u>-</u>	<u>291,081</u>
Total operating revenues	<u>15,738,976</u>	<u>1,026,179</u>
Expenses:		
Instruction and general:		
Instruction	14,899,938	-
Academic support	1,597,755	-
Student services	2,450,333	-
Institutional support	4,961,831	-
Operations and maintenance support	<u>4,184,328</u>	<u>-</u>
Total instruction and general expenses	28,094,185	-
Other sponsored activities	478,600	-
Student aid grants and stipends	1,982,734	-
Auxiliary enterprises	6,796,002	-
Intercollegiate athletics	2,821,503	-
Internal service department	537,340	-
Supporting services	-	115,900
Minor capital outlay operations	-	-
Program services	-	1,756,286
Real estate expenses	-	29,193
Depreciation	<u>3,141,964</u>	<u>-</u>
Total expenses	<u>43,852,328</u>	<u>1,901,379</u>
Operating loss	<u>\$ 28,113,352</u>	<u>\$ (875,200)</u>

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



NEW MEXICO MILITARY INSTITUTE
Statement of Revenues, Expenses and
Changes in Net Position
For Year Ended June 30, 2018



(Continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
Non-operating revenues (expenses):		
Investment Income	\$ 2,942,269	\$ 4,120,176
Change in cash value of life insurance	-	14,201
Income from State Land Office	8,230,882	-
Income from State Land Grant Permanent Fund	20,876,844	-
Other income	121,835	-
Endowment and Other Gifts	50,500	-
Interest on capital asset related to debt	<u>(252,992)</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>31,969,338</u>	<u>4,134,317</u>
Income before other revenues, expenses, gains and losses	<u>3,855,986</u>	<u>3,259,177</u>
Other:		
Capital grants, net	<u>2,739,610</u>	<u>-</u>
Net other revenues	<u>2,739,610</u>	<u>-</u>
Change in net position	6,595,596	3,259,177
Net position, beginning of year as previously reported	99,488,692	50,665,320
Restatement (Note 16)	(16,589,196)	-
Net Position, beginning of year as restated	<u>82,899,496</u>	<u>-</u>
Net position, end of year	<u>\$ 89,495,092</u>	<u>\$ 53,924,497</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, 2018



	<u>Primary Government</u>
	<u>NMMI</u>
Cash flows from operating activities:	
Tuition and fees	\$ 2,565,542
Grants and contracts	3,935,669
Sales and services of educational activities	6,709,251
Other operating receipts	1,547,787
Payments to employees for salaries and benefits	(18,355,387)
Payments to suppliers	(12,819,360)
Grants issued to students	(1,142,663)
Net cash used by operating activities	<u>(17,559,161)</u>
Cash flows from non-capital financing activities:	
Agency receipts	1,190,062
Agency payments	<u>(1,111,561)</u>
Net cash provided by non-capital financing activities	<u>78,501</u>
Cash flows from investment activities:	
Cash distribution from State Land Grant Permanent Fund	22,460,249
Cash distribution from State Land Office	8,230,882
Other investment income	35,133
Cash received from scholarship gifts	-
Cash transferred to investment accounts	(4,856,084)
Cash transferred from investment accounts	-
Cash payment of trust expenses	<u>(105,367)</u>
Net cash provided by investing activities	<u>25,764,813</u>
Cash flows from capital and related financing activities:	
Cash paid for capital assets	(4,241,143)
Cash received on capital grants	4,829,094
Cash paid for renewal and replacement of assets	(1,079,801)
Other receipts	121,835
Repayments of capital debt	(1,040,000)
Interest paid on capital debt	<u>(285,066)</u>
Net cash used by capital and related financing activities	<u>(1,695,081)</u>
Net increase in cash and cash equivalents	6,589,072
Cash and cash equivalents, beginning of year	<u>16,779,700</u>
Cash and cash equivalents, end of year	<u>\$ 23,368,772</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, 2018
(Continued)**



	<u>Primary Government</u>	<u>NMMI</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (28,113,352)	
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	3,141,964	
Pension expense	8,636,585	
Employer pension contribution	(1,869,526)	
OPEB expense	564,297	
Changes in assets and liabilities:		
Short-term investments		
Accounts receivable	176,944	
Inventories	38,423	
Other current assets		
Accounts payable and accrued expenses	(136,813)	
Deferred income	(8,140)	
Accrued benefits	10,457	
Net cash used by operating activities	<u>\$ (17,559,161)</u>	

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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2018



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.

For the Year Ended June 30, 2015, the Institute implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 69, *Government Combinations and Disposals of Governmental Operations*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits, see note 7.

For the Year Ended June 30, 2018, the Institute which participates in the Retiree Health Care Fund administered by the New Mexico Retiree Health Care Authority implemented the provisions for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 requires all participating employers in the Retiree Health Care Fund to recognize their portion of the net other postemployment benefits (OPEB) liability, deferred inflows and outflows of resources, and OPEB expense. In addition, Statement No. 75 requires disclosure of information related to OPEB benefits, see note 8.

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



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is 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.

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.

The Board of Regents are members of the Board of Trustees of the Foundation and supervise all Foundation activities. The bylaws of the Foundation provide that three continuing members be appointed by the Board of Regents, with no



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 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.

Cash and Cash Equivalents

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

Investments

Certain investments such as debt and equity securities and pooled investment funds are recorded at market value in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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 position. 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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

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

Income Taxes

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

Student Accounts Receivable

The Institute records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institute's grants and contracts. Provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses. The provision for uncollectible student accounts for fiscal year 2018 is \$1,520,000.

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 Position.

Accrued Liabilities

Accrued liabilities include accrued current payroll and fringe benefits. These benefits consist of the employee and employer portion of taxes, insurance, retirement and other compensation related withholdings.

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.



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net Position – The Institute's net position is classified as follows:

Net Investment in Capital Assets

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 Position – Non-expendable

Non-expendable restricted net position consists 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 Position – Expendable

Expendable restricted net position consists of the 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 \$2,436,150. 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 appreciation of the Foundation's donor-restricted endowments that are available for expenditures by the governing board is \$1,749,866. The amount is included in the restricted net position balance of the Foundation. New Mexico state



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

law allows the governing body to spend net appreciation. The Foundation uses the total-return policy for authorizing and spending investment income.

Unrestricted Net Position

Unrestricted net position represents 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.

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 Non-expendable 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, 2018.

Deferred Outflows and Inflows of Resources

The statement of net position includes separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will be recognized as revenue in future periods.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2018



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2018, the Institute's cash deposits (which differ from recorded balances due to reconciling items) and short-term investments with financial institutions as classified by "credit risk" were as follows:

	Wells Fargo	Wells Fargo (Repurchase)	Wells Fargo Investment
Interest Bearing Deposits	\$ -	\$ 9,624,392	\$ 1,023,432
Checking Account Deposits	<u>12,996,365</u>	<u>-</u>	<u>-</u>
Total Deposits in Bank	<u>12,996,365</u>	<u>9,624,392</u>	<u>1,023,432</u>
Less: FDIC Insurance on Interest			
Bearing Accounts	(250,000)	-	(1,023,432)
FDIC Insurance on	-	-	-
Checking Accounts	<u>(250,000)</u>	<u>-</u>	<u>-</u>
Uninsured Public Funds	<u>12,746,365</u>	<u>9,624,392</u>	<u>-</u>
Collateral Requirement 50%	6,248,183		
Collateral Requirement 102%	-	9,816,880	-
Pledged Collateral Held	-	-	-
by the Pledging Bank's	-	-	-
Trust Department Not in	-	-	-
the Agency's Name	<u>7,511,006</u>	<u>9,816,880</u>	<u>-</u>
Uninsured and Under Collateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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, 2018, \$17,327,886 of the Institute’s bank balance of \$23,644,189 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>15,527,682</u>
Total	\$	<u><u>15,527,682</u></u>

Investments

The Institute invests some unrestricted operating funds with Moreton Capital Markets as well as with the State Investment Council. The short-term investments of \$8,296,384 include investments in cash, money market funds; brokered certificates of deposit maturing within one year as well as funds deposited with the New Mexico State Investment Council intended for operations consisting of equity and fixed income investments. The long-term investments of \$7,665,280 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

Connectone Bank	\$	249,980
Wex Bank		249,825
Wells Fargo Bank		249,778
Third Federal Sav & Loan		249,755
Barclays Bank		<u>249,417</u>
Total Moreton Capital Securities		1,248,755
NM State Investment Council Investments		<u>7,047,629</u>
Total short-term investments	\$	<u><u>8,296,384</u></u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Long-term:

Brokered certificates of deposit

US Govt MMK	\$	99,916
American Exp. Bank		248,892
Sallie Mae Bank		248,883
State Bank of India NY		248,612
Comenity Capital		248,647
Firstmerit Bank		248,363
Goldman Sachs Bank		248,428
Discover Bank		246,825
American Exp .Cent.		246,133
BMW Bank North America		246,928
Capital One, NA		246,895
Capital One Bank USA		247,263
Everbank		245,860
HSBC Bank USA		240,467
United Cmnty Bank		237,956
JPMorgan Chase Bank		237,700
Northfield Bank		241,480
Stearns Bank		242,270
First Bank		241,202
Crossfirst Bank		246,813
Synchrony Bank		241,623
Morgan Stanley Bank		244,020
Belmont Svgs Bank		245,347
Total Moreton Capital Markets Securities	\$	<u>5,490,523</u>

NM State Investment Council Investments		<u>2,174,757</u>
Total long-term investments	\$	<u><u>7,665,280</u></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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
June 30, 2018



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Pooled investments of the Institute consist of the following at June 30, 2018:

<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	\$ 18,078,879		39.28%	38.00%
Mid-Cap Index	5,139,071		11.16%	11.00%
Non-U.S. Developed Equity	5,404,052		11.74%	12.00%
Emerging Markets	1,279,636		2.78%	3.00%
Total Equity	\$ 29,901,638		64.96%	64.00%
Core Bonds	16,127,754	1-5 years	35.04%	36.00%
Total Investment Pool	\$ 46,029,392		100.00%	100.00%
<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	14,837,452		39.30%	38.00%
Mid-Cap Index	4,508,616		11.94%	11.00%
Non-U.S. Developed Equity	4,508,786		11.94%	12.00%
Emerging Markets	1,240,991		3.29%	3.00%
Total Equity	\$ 25,095,845		66.47%	64.00%
Core Bonds	12,661,896	1-5 years	33.53%	36.00%
Total Investment Pool	\$ 37,757,741		100.00%	100.00%

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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2018



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Credit Risk

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

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

Fair Value Measurement

The Institute categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level one inputs are quoted prices in active markets for identical assets; Level two inputs are significant over observable inputs; Level three inputs are significant unobservable inputs.



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

<u>Description</u>	<u>Level of Inputs</u>	<u>Percentage of Portfolio</u>	<u>Market Value</u>	<u>Credit Risk Rating</u>
Cash Alternatives	Level 1	0.22%	\$ 113,516	Not Available
Large Cap Active	Level 1	3.40%	1,755,582	Not Available
Core Bonds	Level 2	34.93%	18,038,935	Not Available
Non-US Developed	Level 1	11.29%	5,832,104	Not Available
Non-US Emerging	Level 1	3.18%	1,642,715	Not Available
Large Cap Index	Level 1	35.01%	18,078,879	Not Available
Mid/Small Cap	Level 1	11.39%	5,882,989	Not Available
Real Assets	Level 2	0.58%	301,602	Not Available
Total		100.00%	\$ 51,646,322	

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, 2018, the fair value of such interest was \$529,855,351. These investments are not categorized by custodial risk. However, the beneficial interest of this trust is not reported as an asset on the Institute's Statement of Net Position as required by the NM Department of Finance and Administration policy change.

Investment Income (Loss)

Investment income (loss) consists of the following For the Year Ended June 30, 2018:

	Daniels					
	Leadership Center Bldg Maintenance	Patterson Construction Endowment	Scholarship Trust Fund	Capital Project Fund	Unrestricted Funds	Total
Investment Income (loss)	\$ -	\$ -	\$ 35,093	\$ -	\$ -	\$ 35,093
Realized gains (losses)	122,103	(226,027)	206,750	49,370		152,196
Unrealized gains (losses)	377,028	333,654	1,610,301	112,659	321,338	2,754,980
	\$ 499,131	\$ 107,627	\$ 1,852,144	\$ 162,029	\$321,338	2,942,269

During the year ended June 30, 2018, \$20,876,844 in cash was distributed to NMMI from the State Land Grant Permanent Fund. NMMI transferred \$323,427 into the Legislative Scholarship Endowment Fund during the year ended June 30, 2018.



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



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	736,037	-	-		736,037
Construction in progress	3,548,685	3,318,976	-	(231,367)	6,636,294
Artwork	810,791	5,500	-	-	816,291
Total Capital Assets Not Being Depreciated	<u>5,095,513</u>	<u>3,324,476</u>	<u>-</u>	<u>(231,367)</u>	<u>8,188,622</u>
Capital Assets Being Depreciated:					
Buildings	109,624,104	221,331	-	-	109,845,435
Furniture, fixtures and equipment	10,029,938	77,556	(3,970,894)	-	6,136,600
Leased equipment	170,040	-	-	-	170,040
Library books	758,299	25,940	-	-	784,239
Infrastructure	5,980,369	62,674	-	231,367	6,274,410
Land improvements	1,485,834	-	-	-	1,485,834
Vehicles and golf carts	667,466	25,743	(60,604)	-	632,605
Total at Historical Cost	<u>128,716,050</u>	<u>413,244</u>	<u>(4,031,498)</u>	<u>231,367</u>	<u>125,329,163</u>
Less Accumulated Depreciation:					
Buildings	49,677,335	2,526,708	-	(215)	(52,203,828)
Furniture, fixtures and equipment	9,203,637	389,860	(3,970,894)	-	(5,622,603)
Leased equipment	170,040	-	-	-	(170,040)
Library books	638,883	23,532	-	-	(662,415)
Infrastructure	1,584,480	142,915	-	-	(1,727,395)
Land improvements	372,551	5,879	-	-	(378,430)
Vehicles and golf carts	480,087	53,070	(60,604)	-	(472,553)
Total Accumulated Depreciation	<u>62,127,013</u>	<u>3,141,964</u>	<u>(4,031,498)</u>	<u>(215)</u>	<u>(61,237,264)</u>
Total Capital Assets, Net	<u>71,684,550</u>	<u>595,756</u>	<u>-</u>	<u>215</u>	<u>72,280,521</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES

The Institute is committed under various operating leases which expire through 2022. These leases are primarily for computers, golf carts, grounds maintenance equipment and vehicles. Rental expense under these leases amounted to \$618,839 in the fiscal year 2018.

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

2019	577,146
2020	441,365
2021	41,807
2022	2,736
	<u>\$1,063,054</u>

At June 30, 2018, the Institute was not committed under any capital leases.

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, 2018 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.

NOTE 5: BONDS PAYABLE

The Institute issued Series 2013A (tax exempt) and Series 2013B (taxable) System Improvement Revenue Bonds. The bonds were issued for the purpose of providing funds for purchasing, erecting, altering, improving, repairing, furnishing and equipping facilities of the Institute. These bonds require semiannual interest payments and annual principal payments which commenced on June 1, 2014 and ending in 2028. The Institute has pledged the gross revenues received from the ownership and operation of the system, the gross proceeds of the collection of all student tuition and fees, except fees expressly imposed for the use or availability of buildings, equipment or facilities or fees expressly excluded by the Board of Regents, the gross income from the Permanent Fund and the income from the Land Income/Maintenance Fund and revenues from grants that are legally available for use as well as all other income sources excluding ad valorem taxes, state appropriations and the proceeds of any restricted gifts grants and endowments.



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



NOTE 5: BONDS PAYABLE (CONTINUED)

Total annual principal and interest payments for these revenue bonds are expected to require less than 7% of gross revenues.

Total current pledged revenues were \$22.5 million and the total principal and interest paid on the bonds was \$1,326,800, or 6 % of pledged revenues.

The bond interest expense incurred (excluding amortization of bond premium) for the fiscal years 2018 and 2017 was \$285,066 and \$304,592 respectively.

Total Institute issued bonds and outstanding at June 30, 2018 and 2017 consisted of:

	Total Issued	Outstanding	
		2018	2017
Series Improvement Revenue Bonds			
Series 2013A			
(2.000% - 4.000%) final maturity 2028	\$ 8,935,000	\$ 7,700,000	\$ 8,740,000
Total bonds payable	8,935,000	7,700,000	8,740,000
Plus unamortized net premium	465,085	320,748	352,823
Bonds payable, net	\$ 9,400,085	\$ 8,020,748	\$ 9,092,823

The maturity schedule for the Institute bonds payable at June 30, 2018, follows:

Year ending June 30,	Principal	Interest
2019	670,000	266,000
2020	685,000	252,600
2021	705,000	232,050
2022	725,000	210,900
2023	745,000	189,150
2024-2028	4,170,000	513,400
Total	\$ 7,700,000	\$ 1,664,100



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
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NOTE 6: LONG TERM LIABILITIES

Long-term liability activity For the Year Ended June 30, 2018 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Long term bonds payable	\$ 8,052,823	\$ -	\$ 702,075	\$ 7,350,748
Current portion of bonds payable	<u>1,040,000</u>	<u>670,000</u>	<u>1,040,000</u>	<u>670,000</u>
	<u>9,092,823</u>	<u>670,000</u>	<u>1,742,075</u>	<u>8,020,748</u>
Net pension liability/deferred inflows	<u>\$ 33,574,961</u>	<u>\$ 18,679,455</u>	<u>\$ -</u>	<u>\$ 52,254,416</u>
Net OPEB liability/deferred inflows	<u>\$ 17,128,718</u>	<u>\$ (2,935,065)</u>		<u>\$ 14,193,653</u>

NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

General Information about the Pension Plan

Plan description. The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB’s comprehensive annual financial report. The report can be found on NMERB’s Web site at https://www.nmerb.org/Annual_reports.html.

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state’s public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Section 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined in Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Pension Benefits. A member’s retirement benefit is determined by a formula which includes three component parts: 1) the member’s final average salary (FAS), 2) the number of years of service credit, and 3) a 0.0235 multiplier. The FAS is the average of the member’s salaries for the last five years of service or any other consecutive five-year period, whichever is greater.



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
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NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Summary of Plan Provisions for Retirement Eligibility – For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs:

- The member's age and earned service credit add up to the sum of 75 or more,
- The member is at least sixty-five years of age and has five or more years of earned service credit, or
- The member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on, or after, July 1, 2010 and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010 and before July 1, 2013, or at any time prior to July 1, 2010 refunded all member contributions and then becomes re-employed after July 1, 2010 is as follows:

- The member's age and earned service credit add up to the sum of 80 or more,
- The member is at least sixty-seven years of age and has five or more years of earned service credit, or
- The member has service credit totaling 30 years or more.

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013 but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements.

- The member's minimum age is 55, and has earned 30 or more years of service credit. Those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55.
- The member's minimum age and earned service credit add up to the sum of 80 or more. Those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits
- The member's age is 67, and has earned 5 or more years of service credit.

Forms of Payment – The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary.

Benefit Options – The Plan has three benefit options available.

- **Option A – Straight Life Benefit** – The single life annuity option has no reductions to the monthly benefit, and there is no continuing benefit due to a beneficiary or estate, except the balance, if any, of member contributions plus interest less benefits paid prior to the member's death.
- **Option B – Joint 100% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 100% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that, upon death, the same benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member's monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member's increased monthly benefit commences in the month following the beneficiary's death.
- **Option C – Joint 50% Survivor Benefit** – The single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit. The reduced benefit is payable during the life of the member, with the provision that,



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Notes to the Financial Statements
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NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

upon death, the reduced 50% benefit is paid to the beneficiary for his or her lifetime. If the beneficiary predeceases the member, the member’s monthly benefit is increased to the amount the member would have received under Option A Straight Life benefit. The member’s increased monthly benefit commences in the month following the beneficiary’s death.

Disability Benefit – An NMERB member is eligible for disability benefits if they have acquired at least ten years of earned service credit and is found totally disabled. The disability benefit is equal to 2% of the member’s Final Average Salary (FAS) multiplied by the number of years of total service credits. However, the disability benefit shall not be less than the smaller of (a) one-third of the member’s FAS or (b) 2% of the member’s FAS multiplied by total years of service credit projected to age 60.

Cost of Living Adjustment (COLA) – All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3).

- Tier 1 membership is comprised of employees who became members prior to July 1, 2010
- Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013
- Tier 3 membership is comprised of employees who became members on or after July 1, 2013

As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.5%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.7%.

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

Refund of Contributions – Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Contributions – For the fiscal year ended June 30, 2018 and 2017 educational employers contributed to the Plan based on the following rate schedule.

Fiscal Year	Date Range	Wage Category	Member Rate	Employer Rate	Combined Rate	Increase Over Prior Year
2018	7-1-17 to 6-30-18	Over \$20K	10.70%	13.90%	24.60%	0.00%
2018	7-1-17 to 6-30-18	\$20K or less	7.90%	13.90%	21.80%	0.00%
2017	7-1-16 to 6-30-17	Over \$20K	10.70%	13.90%	24.60%	0.00%
2017	7-1-16 to 6-30-17	\$20K or less	7.90%	13.90%	21.80%	0.00%



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The contribution requirements are established in statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the New Mexico Legislature. For the fiscal years ended June 30, 2018 and 2017, the New Mexico Military Institute paid employee and employer contributions of \$1,869,526 and \$1,861,299, which equal the amount of the required contributions for each fiscal year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the New Mexico Military Institute reported a liability of \$52,254,416 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer’s portion was established as of the measurement date of June 30, 2017. The New Mexico Military Institute proportion of the net pension liability was based on a projection of the New Mexico Military Institute’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2017, the New Mexico Military Institute’s proportion was 0.47019 %, which was an increase of 0.00364 percentage points from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the New Mexico Military Institute recognized pension expense of \$8,636,485. At June 30, 2018, New Mexico Military Institute reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 93,802	\$ 805,029
Changes of assumptions	15,254,091	-
Net difference between projected and actual Earnings on pension plan investments	-	7,168
Changes in proportion and differences between Contributions and proportionate share of contributions	221,392	45,398
Employer contributions subsequent to the measurement date	1,869,526	-
Total	<u>\$ 17,438,811</u>	<u>\$ 857,595</u>

\$1,869,526 reported as deferred outflows of resources related to pensions resulting from New Mexico Military Institute’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Year ended June 30:

2019	\$ 5,613,158
2020	5,936,758
2021	3,592,049
2022	(430,275)

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.25% composed of 2.50% inflation, plus a 0.75% productivity increase rate, plus a step-rate promotional increase for members with less than 10 years of service.
Investment rate of return	7.25% compounded annually, net of expenses. This is made up of a 2.50% inflation rate and a 4.75 real rate of return.

Average of Expected Remaining Service Lives	Fiscal year	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	Service life in years	3.65	3.77	3.92	3.88

Mortality

Healthy males: Based on the RP-2000 Combined Healthy Mortality Table with White Collar adjustments, not set back. Generational mortality improvements with Scale BB from the table's base year of 2000.

Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.

Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.

Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.

Retirement Age	Experience-based table rates based on age and service, adopted by the Board on June 12, 2015 in conjunction with the six-year experience study for the period ending June 30, 2014.
Cost-of-living increases	1.9% per year, compounded annually.
Payroll growth	3.00% per year (with no allowance for membership growth).



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Contribution accumulation The accumulated member account balance with interest is estimated at the valuation date by assuming that member contributions increased 5.50% per year for all years prior to the valuation date. Contributions are credited with 4.00% interest, compounded annually, applicable to the account balances in the past as well as the future.

Disability Incidence Approved rates applied to eligible members with at least 10 years of service.

Actuarial assumptions and methods are set by the Plan’s Board of Trustees, based upon recommendations made by the Plan’s actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

The long-term expected rate of return on pension plan investments was determined using a building-block approach that includes the following:

- Rate of return projections that are the sum of current yield plus projected changes in price (valuations, defaults, etc.)
- Application of key economic projections (inflation, real growth, dividends, etc.)
- Structural themes (supply and demand imbalances, capital flows, etc.) developed for each major asset class.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Equities	33%	
Fixed income	26	
Alternatives	40	
Cash	1	
Total	100%	7.25%

Discount rate. A single discount rate of 5.9% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.25%, and a municipal bond rate of 3.56%, net of expense. Based on the stated assumptions and the projection of cash flows, the plan’s fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2053. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2053 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Sensitivity of the Institute’s proportionate share of the net pension liability to changes in the discount rate. The following presents the Institute’s proportionate share of the net pension liability calculated using the discount rate of 5.9 percent, as well as what the Institute’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.9 percent) or 1-percentage-point higher (6.9 percent) than the current rate:

	1% Decrease (4.90%)	Current Discount Rate	1% Increase (6.90%)
The Institute’s Proportionate share of the net pension liability	<u>\$ 68,022,255</u>	<u>\$ 52,254,416</u>	<u>\$ 39,365,491</u>

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in separately issued NMERB’S financial reports. The reports can be found on NMERB’s Web site at https://www.nmerb.org/Annual_reports.html.

Payables to the pension plan. At June 30, 2018, NMMI owed \$173,930 to the ERB which consisted of amounts withheld from employees and employer contributions for the month of June 2018.

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

Plan Description. Employees of the New Mexico Military Institute are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA’s financial information is included with the financial presentation of the State of New Mexico.

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.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2018



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

Employees covered by benefit terms. At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	<u>97,349</u>
	<u>160,035</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	<u>48,756</u>
	<u>97,349</u>

Contributions. Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from New Mexico Military Institute were \$270,601 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2018, the Institute reported a liability of \$14,193,653 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Institute's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the Institute's proportion was 0.31321 percent.

For the year ended June 30, 2018, the Institute recognized OPEB expense of \$ 564,297. At June 30, 2018 the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:



NEW MEXICO MILITARY INSTITUTE
Notes to the Financial Statements
June 30, 2018



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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience		\$ 544,677
Changes of assumptions		2,481,579
Net difference between projected and actual earnings on OPEB plan investments		204,185
Institute's contributions subsequent to the measurement date	<u>270,601</u>	<u>-</u>
Total	<u>\$ 270,601</u>	<u>\$ 3,230,441</u>

Deferred outflows of resources totaling \$270,601 represent New Mexico Military Institute contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$	(686,815)
2020		(686,815)
2021		(686,815)
2022		(686,815)
2023		<u>(483,181)</u>
Total	\$	<u>(3,230,441)</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



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

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age normal, level percent of pay, calculated on individual employee basis
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50% for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation
Health care cost trend rate	8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 for Medicare medical plan costs

Rate of Return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions. The best estimates for the long-term expected rate of return is summarized as follows:

<u>Asset Class</u>	<u>Long-Term Rate of Return</u>
U.S. core fixed income	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

Discount Rate. The discount rate used to measure the Fund’s total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2028. Thus, the 7.25% discount rate was used to



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



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

calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the School, as well as what the Institute’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1- percentage-point higher (4.81 percent) than the current discount rate:

<u>1% Decrease</u> <u>(2.81%)</u>	<u>Current</u> <u>Discount</u> <u>(3.81%)</u>	<u>1% Increase</u> <u>(4.81%)</u>
\$ 17,216,680	\$ 14,193,653	\$ 11,821,817

The following presents the net OPEB liability of the Institute, as well as what the Institute’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<u>1% Decrease</u>	<u>Current</u> <u>Trend</u> <u>Rates</u>	<u>1% Increase</u>
\$ 12,072,679	\$ 14,193,653	\$ 15,847,488

OPEB plan fiduciary net position. Detailed information about the OPEB plan’s fiduciary net position is available in NMRHCA’s audited financial statements for the year ended June 30, 2017.

Payable Changes in the Net OPEB Liability. At June 30, 2018, the Institute reported a payable of \$10,871 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

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, 2017 to June 30, 2018. Total premiums paid by the Institute for the years ending June 30, 2018 and 2017 were \$280,750 and \$331,235 respectively.



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NOTE 10: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS

At June 30, 2018, the Foundation's deposits were \$597,968, and the bank balance was \$609,838. 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, other observable information such as quoted prices for similar assets which represent level 2 inputs, and unobservable valuation methodology which represents level 3 inputs. The Foundation places no limits on the amount the Foundation may invest in any one issuer. Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers but the Foundation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

Investments measured at Fair Value and NAV as of June 30, 2018 were comprised of the following:

Managed Funds/Bonds	Category	Fair Value Measurements using			Balance as of June 30, 2018
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	
Vanguard Dividend Growth	Large Cap	\$ 7,810,399	-	-	7,810,399
	Small Cap				
Longleaf Small Cap	Equity	1,193,850	-	-	1,193,850
Dodge & Cox International	International Equity	2,047,569	-	-	2,047,569
Vanguard Short Term Bond Fund	Fixed Income	2,771,308	-	-	2,771,308
		<u>\$ 13,823,126</u>	<u>-</u>	<u>-</u>	<u>13,823,126</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



**NOTE 10: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS
(CONTINUED)**

<u>Alternatives</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Archstone Absolute Return Strategies Fund, Ltd.	\$ 26,372	n/a	Semi annually 6/30 and 12/31	90 days
Davidson Kempner Institutional Partners, LP	1,044,532	n/a	6/30 and 12/31	65 days
Fortress Partners Offshore Fund LP	872	n/a	Annually	180 days
Maverick Stable Fund, Ltd., Class P-2	2,200,485	n/a	Rolling annually on anniversary	95 days
IR&M Core Bond Fund II LLC	2,754,088	n/a	Daily	Daily
Wellington Archipelago Holdings, Ltd.	3,669,598	n/a	Quarterly	45 days
GQG Partners International Equity Fund	2,334,011	n/a	Weekly	5 days
Indus Select Fund, Ltd	1,899,206	n/a	Monthly	30 days
Kabouter International Opportunities Offshore Fund II, Ltd	1,776,036	n/a	Monthly	30 days
Newport Asia Institutional Fund LP	1,977,558	n/a	Monthly After lockup, quarterly within 45 days' notice	30 days 45 days
Rock Springs Capital Fund LP	1,968,978	n/a	Monthly	30 days
Wellington Research Equity	10,343,789	n/a	Monthly	n/a
Canyon Distressed Opportunity Fund II (Cayman)	548,939	515,000	n/a	n/a
Golub Capital Partners International 11, L.P.	307,730	700,000	n/a	n/a
Wellington Select Energy Opportunities	1,079,890	n/a	Monthly	10 days
Wellington Micro Cap	1,473,229	n/a	Monthly	90 days
Davidson Kempner Long-Term Distressed Opportunities International IV LP	108,583	900,000	n/a	n/a
Renaissance Institutional Diversified Alpha Fund LLC (Series A) - RIDA	1,073,333	n/a	Monthly	45 days
Total Investments measured at NAV	<u>34,587,229</u>	<u>2,115,000</u>		
Total Investments held by the Foundation	\$ <u>48,410,355</u>			

Investment income (loss) consisted of the following For the Year Ended June 30, 2018.

	<u>2018</u>
Interest and dividend	\$ 446,489
Net unrealized gains	1,985,796
Net realized gains	1,841,867
Investment expenses	<u>(153,976)</u>
Total investment income	<u>\$ 4,120,176</u>



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
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NOTE 11: 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 12: 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:

2019	\$	184,127
2020		156,933
2021		137,938
2022		137,938
2023		118,816
Thereafter		<u>323,317</u>
Total	\$	<u>1,059,069</u>

NOTE 13: 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, 2018, \$4,000 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, 2018, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2018, \$383,818 was due to the Institute for operating expenses and support. For the Year Ended June 30, 2018, the Foundation provided \$1,612,696 in scholarships and awards for the benefit of Institute cadets and faculty.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2018**



NOTE 14: 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, Operating Fund, 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
Amount Withdrawn in Current Year	\$0
Audit Responsibility:	N/A
Fiscal Agent:	New Mexico State Treasurer
Agency Where the Entity Reports:	N/A

NOTE 15: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2018, the Institute began initial planning phases of the multiyear Cahoon Hall renovation project. This project is funded by \$4,856,200 of State of New Mexico General Obligation Bonds which were issued 2017. The Institute will contribute an additional \$4,143,800 thus making this a \$9,000,000 project. The reversion date for these funds will be June 30, 2021 and as of June 30, 2017 no funds have been expended. NMMI will not be obligated in any manner for the related indebtedness in regards to these bonds.

NOTE 16: CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2017, has been restated as follows for compliance with accounting financial reporting requirements on the Governmental Accounting Standards Board’s Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions year ending June 30, 2018.

Net position as previously reported at June 30, 2017	\$ 99,488,692
Prior period adjustment – implementation of OPEB Liability	
NM Retiree Health Care GASB 75 June 30, 2017	<u>(16,589,196)</u>
Total prior period adjustment	<u>(16,589,196)</u>
Net position as restated, July 1, 2017	<u>\$ 82,899,496</u>



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



REQUIRED SUPPLEMENTAL INFORMATION





NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Proportionate Share of the
Net Pension Liability
Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*



Fiscal Year Measurement Date	June 30			
	2018 2017	2017 2016	2016 2015	2015 2014
New Mexico Military Institute's Proportion of the Net Pension Liability (Asset)	0.47019%	0.46655%	0.46806%	0.46499%
New Mexico Military Institute's Proportionate Share of Net Pension Liability (Asset)	\$ 52,254,416	\$ 33,574,961	\$ 30,317,493	\$ 26,531,069
New Mexico Military Institute's Covered-Employee Payroll	\$13,389,908	\$ 13,324,622	\$ 12,779,537	\$ 12,816,869
New Mexico Military Institute's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	391.00%	251.98%	237.23%	207.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.95%	61.58%	63.97%	66.54%

* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for New Mexico Military Institute is not available prior to fiscal year 2015, the year the statement's requirements became effective.



NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Contributions
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*
June 30, 2018



	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory required contributions	\$ 1,869,526	1,861,299	1,852,124	1,849,442
Contributions in relation to the statutorily required contributions	<u>1,869,526</u>	<u>1,861,299</u>	<u>1,852,124</u>	<u>1,849,442</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

* Governmental Accounting Standards Board Statement No. 68 requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for New Mexico Military Institute is not available prior to fiscal year 2015, the year the statement's requirements became effective.



NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Proportionate
Share of the Net OPEB Liability
New Mexico Retiree Health Care Authority
June 30, 2018



	<u>2018*</u>
New Mexico Military Institute's Proportion of the Net OPEB Liability	0.31321%
New Mexico Military Institute's Proportionate Share of Net OPEB Liability	\$ 14,193,653
New Mexico Military Institute's Covered-Employee Payroll	\$ 13,047,224
New Mexico Military Institute's Proportionate Share of the Net OPEB Liability as a Percentage of Its Covered-Employee Payroll	108.79%
Plan Fiduciary Net Position as a Percentage of the Net OPEB Liability	11.34%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for available years.



NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Contributions
New Mexico Retiree Health Care Authority
June 30, 2018



	<u>2018*</u>
Contractually required contribution	\$ 994,589
Contributions in relation to the contractually required contribution	<u>499,173</u>
Contribution deficiency (excess)	<u>\$ 293,693</u>
Employer's covered- employee payroll	\$ 13,047,224
Contributions as a percentage of covered-employee payroll	3.83 %

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for available years.



NEW MEXICO MILITARY INSTITUTE
Notes to Required Supplementary Information
For the Year Ended June 30, 2018



Changes of benefit terms and assumptions. There were no modifications to the benefit provisions that were reflected in the actuarial valuation as of June 30, 2017.

Changes in assumptions and methods. Actuarial assumptions and methods are set by the Board of Trustee, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on April 21, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, The Board adopted a number of economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



OTHER SUPPLEMENTAL SCHEDULES





NEW MEXICO MILITARY INSTITUTE
Schedule of Pledged Collateral
June 30, 2018



	Wells Fargo (Roswell)	Wells Fargo (Roswell)	Wells Fargo Investments	Total
Bank Accounts				
Demand deposit accounts	\$ 12,996,365	\$ -	\$ -	\$ 12,996,365
Certificates of deposit	-	-	1,023,432	1,023,432
Repurchase agreements	-	9,624,392	-	9,624,392
Total amount of deposits (bank balances)	<u>\$ 12,996,365</u>	<u>9,624,392</u>	<u>1,023,432</u>	<u>23,644,189</u>
FDIC coverage on checking	(250,000)	-	-	(250,000)
FDIC coverage on interest Bearing accounts	<u>(250,000)</u>	-	<u>(1,023,432)</u>	<u>(1,273,432)</u>
Total uninsured public funds	<u>12,496,365</u>	<u>9,624,392</u>	<u>-</u>	<u>22,120,757</u>
Collateral requirement @ 50%	6,248,183	-	-	6,248,183
Collateral requirement @ 102%	-	9,816,880	-	9,816,880
Pledges and securities				
FNMA FNMS , matures 12/01/2025 Held at BNY MELLON CUSIP3138A2CB3 Current Face: \$6,998,888	1,227,803	-	-	1,227,803
FNMA FNMS , matures 05/01/2031 Held at BNY MELLON CUSIP 3140F4JS6 Current Face: \$8,396,794	6,283,203	-	-	6,283,203
FHG-3 G08721 matures 08/01/2046 Held at Wells Fargo Bank, N.A. CUSIP 3128MJYT1 Current Face: \$10,087,183	-	9,816,880	-	9,816,880
Over (under) secured	<u>\$ 1,262,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,262,823</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Individual Deposits
June 30, 2018



<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	\$ 15,969	\$ 15,969
	NMMI Combined Accounts	Checking		20,821,372
	Control		11,500,899	-
	Invest		9,624,392	-
	Total combined		<u>21,125,291</u>	<u>20,821,372</u>
	NMMI Investment Trust	Checking	251,400	251,400
	NMMI Bond Sinking	Checking	457,807	457,807
	NMMI Alumni Office	Checking	392,751	392,751
	NMMI Cadet Activities	Checking	<u>377,538</u>	<u>377,538</u>
Total Wells Fargo Bank			22,620,757	22,316,837
Wells Fargo Investments				
	NMMI Bond Fund	CD	1,023,432	1,023,432
Cash On Hand			-	28,502
Total			<u>\$ 23,644,189</u>	<u>\$ 23,368,772</u>



NEW MEXICO MILITARY INSTITUTE

Schedule of Endowments June 30, 2018



Scholarship Trust

At Market Value

American Legion	\$	10,707
Berger		381,202
Bondurant		2,857,664
Boyd		66,177
Camp		114,505
JG Cannon		266,492
Colfax		370,592
Carter		102,993
Coppinger		27,413
Crosby		535,724
Decker		141,345
Ellis		102,766
Evans		494,795
Fisher		111,899
General		238,598
Kelley		21,613
Lawrence		22,733
Lusk		100,434
Mechem		168,587
Morey		132,495
Patton		108,960
Rapp		718,573
Runnels		27,121
Ruppert		9,275
San Miguel & Mora		177,426
San Miguel/Mora (FEM)		282,653
Scherotter		11,222
Schmitt/Fitzgibbon		134,953
Total	\$	<u>7,738,917</u>
Breakdown of Investments:		
Cash-Wells Fargo Bank		119,217
State Investment Council		<u>7,619,700</u>
Total	\$	<u>7,738,917</u>



NEW MEXICO MILITARY INSTITUTE

**Schedule of Endowments
June 30, 2018**



(Continued)

General Richard T. Knowles Legislative Scholarship Trust

	<u>At Market Value</u>
Birnie	7,904
Carter	4,394
Clark	64,934
Dickason	92,572
Domzalski	11,708
Duson	16,399
Featherstone	10,146
Gibson	34,950
Green	132,962
Hazard	2,649
Huston	322,050
Legislative (General)	15,452,030
Marmaduke	25,936
Ostenberg	650,580
Robertson	29,650
Schillingburg	21,525
Sparkman	8,202
Stevens	2,015
Wyles	60,260
Total	\$ <u><u>16,950,866</u></u>

Breakdown of Investments	
Cash – Wells Fargo Investment Trust	\$ 981,862
Cash – Wells Fargo Bank Operating	75,000
State Investment Council	15,894,004
Total	\$ <u><u>16,950,866</u></u>

Alumni Scholarship Trust Endowment

Investments-Wells Fargo Bank	\$ <u>5,616,930</u>
Total	\$ <u><u>5,616,930</u></u>

Patterson Endowment

Cash – Wells Fargo Bank	\$ 4,728
State Investment Council	6,048,524
Total	\$ <u><u>6,053,252</u></u>



NEW MEXICO MILITARY INSTITUTE

**Schedule of Endowments
June 30, 2018**



(Continued)

Daniels Leadership Center Building Maintenance Endowment

Cash – Wells Fargo Bank	\$	68,731
State Investment Council		7,244,778
Total	\$	<u>7,313,509</u>

Summary of Endowments

Scholarship Trust	\$	7,738,917
General Richard T. Knowles-Legislative Scholarship Trust		16,950,866
Alumni Scholarship Trust		5,616,930
Patterson Account		6,053,252
Daniels Leadership Center-Building Maintenance Account		7,313,510
Total	\$	<u>43,673,475</u>

Cash, restricted	\$	1,249,539
Investments Wells Fargo Bank		5,616,930
Investments at State Investment Council		36,807,006
Total Endowments	\$	<u>43,673,475</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Historical Pledged Revenue
June 30, 2018



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Tuition and Fees	\$ 8,632,170	\$ 8,730,324	\$ 9,282,475	\$ 9,268,660	\$ 9,136,913	\$ 9,161,592	\$ 8,952,492
Land & Permanent Fund Income	23,094,967	18,022,078	18,261,925	19,438,271	20,719,283	20,111,804	29,107,726
Sales and Services	1,243,119	1,252,006	1,382,226	1,464,742	1,515,372	1,428,171	1,332,926
Other Sources	134,561	385,148	307,526	365,547	408,778	331,154	324,473
Pledged Revenues	\$ 33,104,817	\$ 28,389,556	\$ 29,234,152	\$ 30,537,220	\$ 31,780,346	\$ 31,032,721	\$39,717,617
Operating Expenses of Auxiliary Enterprises	\$ 4,839,575	\$ 5,233,873	\$ 5,897,542	\$ 6,009,953	\$ 6,735,817	\$ 6,306,126	\$ 6,442,007
Intercollegiate Athletics	\$ 1,975,466	\$ 2,147,906	\$ 2,489,823	\$ 2,462,224	\$ 2,517,219	\$ 2,645,781	\$ 2,685,223
	<u>\$ 6,815,041</u>	<u>\$ 7,381,779</u>	<u>\$ 8,387,365</u>	<u>\$ 8,472,177</u>	<u>\$ 9,253,036</u>	<u>\$ 8,951,907</u>	<u>\$ 9,127,230</u>
Revenues Available for Debt Service	<u>\$ 26,289,776</u>	<u>\$ 21,007,777</u>	<u>\$ 20,846,787</u>	<u>\$ 22,065,043</u>	<u>\$ 22,527,310</u>	<u>\$ 22,080,814</u>	<u>\$ 30,590,387</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Debt Service Coverage
June 30, 2018



<u>FY</u>	<u>2013A Bonds</u>			<u>2013B Bonds</u>			<u>2013</u>	<u>Pledged</u>	<u>Coverage</u>
	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Combined Debt Service</u>	<u>Revenues</u>	
2014	\$ -	\$ 155,040	\$ 155,040	\$ 1,145,000	\$ 21,429	\$ 1,166,429	\$ 1,321,469	\$ 20,846,787	15.78
2015	-	290,700	290,700	1,000,000	34,958	1,034,958	1,325,658	22,065,043	16.64
2016	-	290,700	290,700	1,010,000	27,448	1,037,448	1,328,148	22,527,310	16.96
2017	195,000	290,700	485,700	825,000	15,510	840,510	1,326,210	22,527,310	16.99
2018	1,040,000	286,800	1,326,800	-	-	-	1,326,800	22,527,310	16.98
2019	670,000	266,000	936,000	-	-	-	936,000	22,527,310	24.07
2020	685,000	252,600	937,600	-	-	-	937,600	22,527,310	24.03
2021	705,000	232,050	937,050	-	-	-	937,050	22,527,310	24.04
2022	725,000	210,900	935,900	-	-	-	935,900	22,527,310	24.07
2023	745,000	189,150	934,150	-	-	-	934,150	22,527,310	24.12
2024	770,000	166,800	936,800	-	-	-	936,800	22,527,310	24.05
2025	800,000	136,000	936,000	-	-	-	936,000	22,527,310	24.07
2026	835,000	104,000	939,000	-	-	-	939,000	22,527,310	23.99
2027	865,000	70,600	935,600	-	-	-	935,600	22,527,310	24.08
2028	900,000	36,000	936,000	-	-	-	936,000	22,527,310	24.07
Total	\$ 8,935,000	\$ 2,978,040	\$ 11,913,040	\$ 3,980,000	\$ 99,345	\$ 4,079,345	\$ 15,992,385		



NEW MEXICO MILITARY INSTITUTE
Schedule of Budgetary Comparisons – Budgetary Basis
Schedule 1 – All Operations
For the Year Ended June 30, 2018



	Original	Final		Actual
	Budget	Budget	Actual	Positive (Negative) Budget
Beginning Fund Balance	18,111,947	24,901,994	24,901,993	(1)
Unrestricted and Restricted Revenues:				
State General Fund Appropriations	2,857,685	2,856,400	2,856,400	-
Federal Revenue Sources	1,334,468	1,334,468	967,592	(366,876)
State Revenue Sources	7,631,260	6,490,273	4,360,653	(2,129,620)
Tuition and Fees	2,404,435	2,435,861	2,455,462	19,601
Endowment and Private Gifts	1,232,421	1,232,421	931,935	(300,486)
Land and Permanent Fund	20,925,730	28,818,729	29,107,726	288,997
Sales and Services	7,445,209	7,273,826	7,345,593	71,767
Other	1,332,235	1,196,160	1,671,914	475,754
Total Unrestricted & Restricted Revenues	45,163,443	51,638,138	49,697,275	(1,940,863)
Unrestricted and Restricted Expenditures:				
Instruction	11,855,330	11,855,330	10,905,349	949,981
Academic Support	1,275,689	1,374,250	1,212,788	161,462
Student Services	1,831,047	2,462,539	2,051,532	411,007
Institutional Support	4,329,509	4,702,674	3,994,764	707,910
Operation and Maintenance of Plant	3,548,420	3,662,458	3,416,596	245,862
Student Social and Cultural Activities	485,387	988,409	411,338	577,071
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	345,567	760,991	276,678	484,313
Student Aid, Grants and Stipends	2,654,722	2,503,325	2,151,396	351,929
Auxiliary Services	6,530,681	7,641,144	6,442,007	1,199,137
Intercollegiate Athletics	2,639,518	2,762,145	2,685,223	76,922
Independent Operations	-	-	-	-
Capital Outlay	12,943,342	7,736,942	3,641,226	4,095,716
Renewal and Replacement	2,134,482	2,232,982	1,079,801	1,153,181
Retirement of Indebtedness	1,962,905	2,059,631	1,924,983	134,648
Total Unrestricted & Restricted Expenditures	52,536,599	50,742,820	40,193,681	10,549,139
Net transfers				
Change in Fund Balance (Budgetary Basis)	(7,373,156)	895,318	9,503,594	8,608,276
Ending Fund Balance	10,738,791	25,797,312	34,405,587	8,608,276

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



NEW MEXICO MILITARY INSTITUTE
Schedule of Budgetary Comparisons – Budgetary Basis
Schedule 2 – Unrestricted Instruction & General
For the Year Ended June 30, 2018



	Original Budget	Final Budget	Actual	Actual Positive(Negative) Budget
Beginning Fund Balance	5,026,791	6,763,462	6,763,462	-
Unrestricted Revenues:				
Tuition	2,215,766	2,286,864	2,286,864	-
Miscellaneous Fees	188,669	148,997	168,598	19,601
Federal Government Appropriations	-	-	-	-
State Government Appropriations	1,312,400	1,312,400	1,312,400	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/.Grants	-	-	-	-
Private Gifts/Contracts/Grants	-	-	-	-
Endow. Land & Permanent Fund Income	20,925,730	28,818,729	29,107,726	288,997
Sales and Services	-	-	-	-
Other Sources	217,714	81,803	370,130	288,327
Total Unrestricted Revenues	24,860,305	32,648,793	33,245,718	596,925
Unrestricted Expenditures:				
Instruction	11,024,183	11,024,183	10,244,216	779,967
Academic Support	1,274,244	1,372,805	1,212,788	160,017
Student Services	1,830,847	2,462,339	2,051,532	410,807
Institutional Support	3,722,612	4,095,777	3,571,171	524,606
Operations & Maintenance of Plant	3,548,420	3,662,458	3,416,596	245,862
Total Unrestricted Expenditures	21,400,306	22,617,562	20,496,303	2,121,259
Net Transfers	3,459,014	5,720,514	5,920,514	
Change in Fund Balance (Budgetary Basis)	985	4,310,717	6,828,901	<u>\$ 2,718,184</u>
Ending Fund Balance	\$ 5,027,776	11,074,179	13,592,363	

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



NEW MEXICO MILITARY INSTITUTE
Schedule of Budgetary Comparisons – Budgetary Basis
Schedule 3 – Restricted Instruction & General
For the Year Ended June 30, 2018



	Original Budget	Final Budget	Actual	Actual Positive(Negative) Budget
	\$ -	\$ -	\$ -	\$ -
Beginning Fund Balance				
Restricted Revenues:				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	-	-	-	-
State Government Appropriations	-	-	-	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	204,468	204,468	152,790	(51,678)
State Government Contracts/Grants	2,800	2,800	-	(2,800)
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	1,232,421	1,232,421	931,935	(300,486)
Endowments, Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	1,439,689	1,439,689	1,084,725	(354,964)
Restricted Expenditures:				
Instruction	831,147	831,147	661,133	170,014
Academic Support	1,445	1,445	-	1,445
Student Services	200	200	-	200
Institutional Support	606,897	606,897	423,592	183,305
Operations & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	1,439,689	1,439,689	1,084,725	354,964
Net Transfers	-	-	-	-
Change in Fund Balance (Budgetary Basis)	-	-	-	-
Ending Fund Balance	\$ -	\$ -	\$ -	\$ -

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



NEW MEXICO MILITARY INSTITUTE
Notes to Schedule of Budgetary Comparisons – Budgetary Basis
June 30, 2018



Basis of Budgetary Presentation

The accompanying supplementary information; Schedule of Budgetary Comparisons – Budgetary Basis, For the Year Ended June 30, 2018, are prepared on the basis of accounting prescribed by the State of New Mexico law and Higher Education Department. These budgets are prepared on the Non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. The budget comparisons are presented as the legally adopted budget with actual data on a budgetary basis.

Budgets for All Operations, Unrestricted Instruction & General, and Restricted Instruction & General are prepared by management and are approved by the Board of Regents, Higher Education Department and the Department of Finance and Administration.

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 policies that, when the appropriation has been made to the Institute, its Board of Regents can, in general, adopt an operating budget within the limits of available income on the modified accrual basis, including capital outlay and retirement of indebtedness.

Procedures for Approval of Operating Budgets

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

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

Budgetary Control

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

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



NEW MEXICO MILITARY INSTITUTE
Notes to Schedule of Budgetary Comparisons – Budgetary Basis
June 30, 2018



Reconciliation of Budgetary Basis to GAAP

Budget comparisons revenues	\$	49,697,274
Net investment gain (loss)-net		2,563,767
Net loan fund balance change		(27,400)
Endowment Gift		50,500
Capital expenditures (netted on SRECNP – Capital Grants, net)		-
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)		(1,583,225)
SRECNP Total Revenues		<u>50,700,916</u>
Budget comparisons expenditures		40,193,681
Current year depreciation		3,141,964
Current year amortization of bond premium		321,074
Unrealized investment loss		-
Capital expenditures (netted on SRECNP – Capital Grants, net)		(6,360,945)
GASB 68 and 75 pension and OPEB expense adjustment		7,331,356
Endowment fund transfers		(168,662)
SRECNP Total Expenditures		<u>44,105,320</u>
Change in Net Position	\$	<u>6,595,596</u>



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



COMPLIANCE SECTION



INDEPENDENT AUDITOR'S 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

To the Board of Regents
New Mexico Military Institute
and
Mr. Wayne Johnson, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component unit of the New Mexico Military Institute (the "Institute") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements, and have issued our report thereon dated October 26, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Albuquerque, New Mexico

October 26, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Regents
New Mexico Military Institute
and
Mr. Wayne Johnson, New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Military Institute's (the "Institute") compliance with the types of compliance requirements described in the *OMB 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, 2018. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

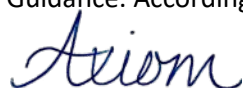
Report on Internal Control over Compliance

Management of the Institute, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The logo for Axiom, featuring the word "Axiom" in a stylized, cursive blue font.

Albuquerque, New Mexico
October 26, 2018



NEW MEXICO MILITARY INSTITUTE
Schedule of Expenditures of Federal Awards
June 30, 2018



Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Education			
Direct Programs			
Student Financial Aid Cluster –			
Federal Supplemental Education Opportunity Grant	84.007	N/A	\$ 77,225
Federal Work-Study Program	84.033	N/A	21,228
Federal Pell Grant Program	84.063	N/A	711,835
Parent Loans Program for Undergraduate Students	84.268	N/A	138,272
Stafford Subsidized Loans	84.268	N/A	168,810
Stafford Unsubsidized Loans	84.268	N/A	<u>206,843</u>
Total Student Financial Assistance Cluster			<u>1,324,213</u>
U.S. Department of the Army			
Direct Programs			
JROTC	12.Unknown	DAFK 57-91-H-0422	<u>131,562</u>
Total U.S. Department of the Army Programs			<u>131,562</u>
			\$ <u>1,455,775</u>



NEW MEXICO MILITARY INSTITUTE
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018



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 Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 2018 *Catalog of Federal Domestic Assistance*.

NOTE 3 – SUB RECIPIENTS

The Institute did not provide any federal awards to sub recipients during the year.

NOTE 4 – INDIRECT COSTS RATE

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. None of New Mexico Military Institute's federal award programs have been charged with indirect costs.



NEW MEXICO MILITARY INSTITUTE
Schedule of Findings and Questioned Costs
June 30, 2018



SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' Unmodified

Internal control over

- Material weakness (es) identified? _____ yes X no
- Significant deficiency (ies) identified? _____ yes X none reported

Non-compliance material to financial statements _____ yes X no

Federal Awards

Internal control over

- Material weakness (es) identified? _____ yes X no
- Significant deficiency (ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major Unmodified

Any audit findings disclosed that are required to be reported in accordance with Two CFR 200.516(A)? _____ yes X no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Various CFDA numbers	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ No



NEW MEXICO MILITARY INSTITUTE
Schedule of Findings and Questioned Costs
June 30, 2018



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

No matters were reported.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

No matters were reported.



NEW MEXICO MILITARY INSTITUTE

Exit Conference
June 30, 2018



The contents of this report were discussed at an exit conference held on October 18, 2018. The following individuals attended:

Board of Regents

Stirling Spencer, Secretary/Treasurer
Brad Christmas, Member

New Mexico Military Institute

MG Jerry W. Grizzle, President/Superintendent
COL David West, Chief of Staff
COL Judy Scharmer, Chief Financial Officer
LTC Deana Curnutt, Assistant Chief Financial Officer
LTC Sonya Rodriguez, Director for Admissions and Financial Aid
CPT Ma Eva Heacox, Internal Auditor
CPT Debra Morsey, Comptroller

New Mexico Military Foundation, Inc.

Jimmy Barnes, President and Chief Executive Officer

Axiom Certified Public Accountants and Business Advisors LLC

Jaime Rumbaoa, CPA/CITP, CFE, CISA, Partner

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

