



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Financial Statements
With Independent Auditor's
Report Thereon
For the Year Ended June 30, 2014





NEW MEXICO MILITARY INSTITUTE
Roswell, NM



INTRODUCTORY SECTION





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June 30, 2014

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NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Official Roster
June 30, 2014

Board of Regents

Ex Officio Members:

The Honorable Susana Martinez
Dr. Jose Z. Garcia

Governor of the State of New Mexico
Secretary of Higher Education

Appointed Members:

Jesse Eckel
Fermin Rubio
Kea W. Riggs
Stephen D. Paternoster
Vacant

President
Vice President
Secretary/Treasurer
Member
Member

Principal Administrative Officials

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

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



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit (New Mexico Military Institute Foundation) of the New Mexico Military Institute (Institute), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements as listed in the table of contents. We have also audited the unrestricted and restricted funds budget comparisons presented as Supplemental Information as of and for the year ended June 30, 2014, 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 of the New Mexico Military Institute and the discretely presented component unit, as of June 30, 2014, 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. In addition, in our opinion the budget comparisons referred to above present fairly in all material respects, the respective budgetary basis of accounting as prescribed in the New Mexico Administrative Code (NMAC).

Change in Accounting Principle

As described in Note 1, the Institute implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014, which represents a change in accounting principle. 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 on pages 8 through 19 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 and budget comparisons. The accompanying Schedule of Pledged Collateral, Schedule of Individual Deposits, and Schedule of Endowments, listed as Other Supplemental Schedules in the table of contents, are presented for purposes of additional analysis as required by 2.2.2 NMAC, and are not a required part of the basic financial statements. In addition, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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, the Other Supplemental Schedules and Schedule of Expenditures of Federal Awards 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 November 4, 2014, on our consideration of New Mexico Military Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Mexico Military Institute's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

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

November 4, 2014



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014



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, 2014 with selective comparative information for the year ending June 30, 2013. Comments relate only to NMMI and do not pertain to the NMMI Foundation unless specifically designated otherwise. This discussion should be read in conjunction with the accompanying financial statements and footnotes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the basic financial statements, notes and this discussion are the responsibility of NMMI's management.

Using the Basic Financial Statements

The Institute's financial report includes three financial statements:

Statement of Net 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).

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. The operating loss is offset by non-operating revenues in the next section of this statement, Non-operating Revenues (Expenses).**

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

Reporting Entity

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



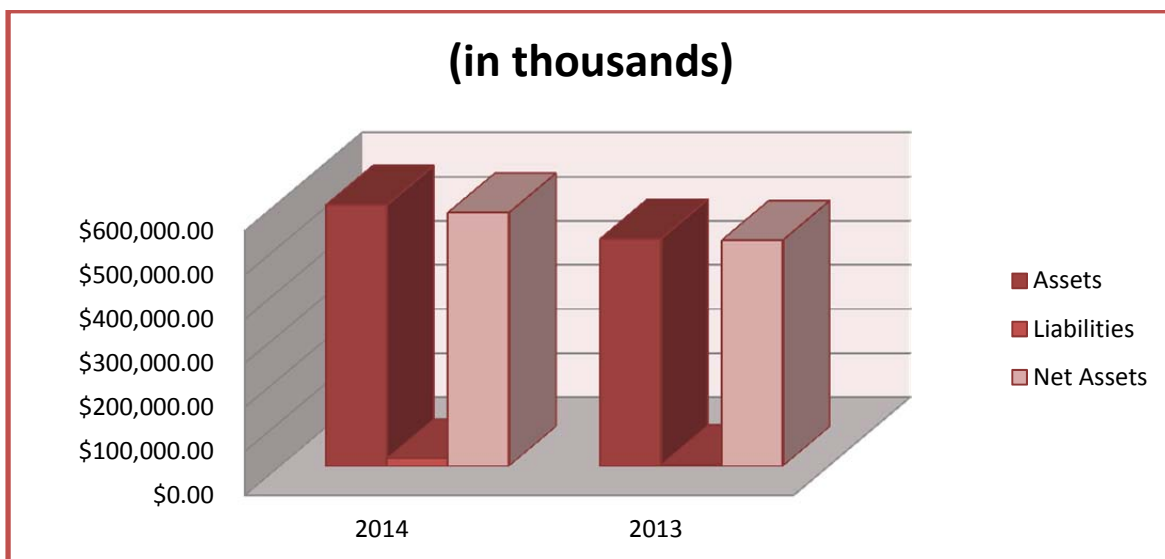
NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014



SUMMARY STATEMENT OF NET POSITION

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets	\$ 32,695,680	\$ 22,229,627
Capital assets, net	60,414,073	59,897,848
Non-current assets	<u>498,021,342</u>	<u>432,960,700</u>
Total assets	<u>\$ 591,131,095</u>	<u>\$ 515,088,175</u>
LIABILITIES		
Current liabilities	\$ 5,808,279	\$ 3,100,788
Non-current liabilities	<u>11,235,085</u>	<u>-</u>
Total liabilities	<u>\$ 17,043,364</u>	<u>\$ 3,100,788</u>
NET POSITION		
Net investment in capital assets	\$ 48,178,988	\$ 59,859,999
Restricted	503,300,714	428,516,701
Unrestricted	<u>22,608,029</u>	<u>23,610,687</u>
Total net position	<u>\$ 574,087,731</u>	<u>\$ 511,987,387</u>

ASSETS, LIABILITIES AND NET POSITION





NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014



Statement of Net Position Highlights:

Assets

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year. The most significant current assets of the Institute at June 30, 2014 and 2013 are cash, cash equivalents and short term investments totaling \$29,173,964 and \$19,837,213, respectively.

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. Over the last five years, NMMI's net increase to the investment in capital assets before depreciation totaled \$13.7 million. NMMI is committed to continuing the quality of NMMI's mission through the development and maintenance of its property, plant and equipment.

During the 2014 year, NMMI renovated the tennis complex which consisted of 12 courts for \$812,791. The new structure provides a 20 year life with a new sub-base and post-tension slab. Additionally, focusing on the backlog of deferred maintenance, NMMI repaired the roof of Saunders Barracks and has begun a phased program to replace the old boilers and chillers across the NMMI Campus.

Significant major capital projects in construction or design phase at June 30, 2014:

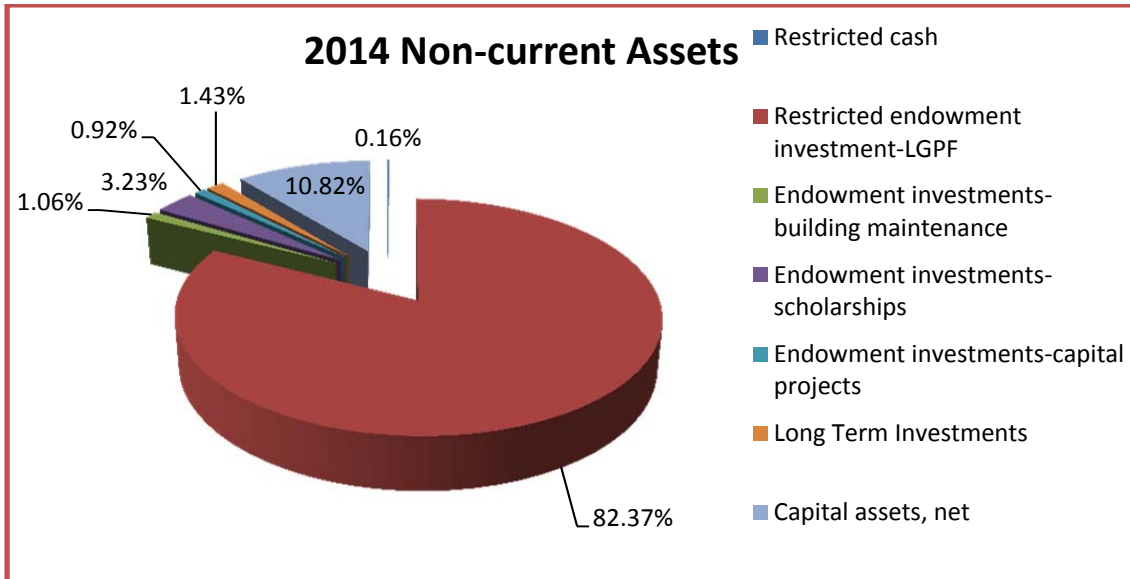
- Lusk Hall Renovation - \$9 million project renovating and refiguring the "Headquarters" building to a one-stop shop for student services to include admissions, financial aid, registrar and business office as well as offices for the Superintendent and Dean. The funding of this project is comprised of a combination of state and NMMI funds. NMMI was approved for \$5 million from the State 2012 General Obligation Bonds.
- Bates Dining Hall Renovation - \$9 million project. One of NMMI's current prioritized capital needs is the renovation of Bates Hall which is the primary dining facility for NMMI cadets. All cadets attending the Institute are required to room and board on campus. The project includes a complete renovation of the primary dining facility of approximately 67,000 square feet to address the deficiencies in the building which include life safety (IBC) and accessibility (ADA/ANSI) as well as fire detection and prevention systems. Bates dining hall was built in 1918 prior to the existence of many of the building codes in existence today and the renovation will bring the facility up to current code. The current student population of 950 plus cadets exceeds the capacity anticipated by the last renovation which was intended to serve 650 cadets. The equipment within the dining hall is generally outdated, inefficient and non-serviceable. The renovation will allow for a modern, efficient food processing, cooking and service as well as address the significant infrastructure support elements. The funding of this project is through NMMI's Series 2013 System Revenue Bonds further detailed in note 5 to the basic financial statements.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014



The largest category of non-current assets is the Institute's undivided interest in the State Land Grant Permanent Fund (SLGPF) of \$459,994,534 and \$402,485,123 at June 30, 2014 and 2013, respectively.



Debt

As of June 30, 2014, NMMI has debt of \$11.8 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 to fund critical projects, specifically the Bates Dining Hall. In November of 2013, NMMI issued Series 2013A and 2013B Revenue bonds totaling \$12,915,000 for the purpose of improving its facilities.

	<u>2014</u>	<u>2013</u>
Bonds payable, current	\$ 1,000,000	\$ -
Bonds payable, long-term	<u>10,770,000</u>	<u>-</u>
Total Bonds Payable	<u>\$ 11,770,000</u>	<u>\$ -</u>

Moody's Investment Service reported October 23, 2013 stated "The Aa2 rating reflects Institute's healthy financial resources and distribution income from state held Land Grant Permanent Fund, its position as a state-supported entity of a Aaa rated state, improving student demand, fiscal discipline resulting in consistently healthy operating cash flows, and modest amount of debt following this issuance."



NEW MEXICO MILITARY INSTITUTE
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At June 30, 2014, the Institute's current ratio, the amount of current assets (\$32,695,680) available to cover current liabilities (\$5,808,279) was 5.63 to 1.

At June 30, 2013, the Institute's current ratio, the amount of current assets (\$22,229,627) available to cover current liabilities (\$3,100,788) was 7.17 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 \$60,414,073 as of June 30, 2014.

Restricted non-expendable net position represent the Institute's permanently invested endowment funds. The primary component is NMMI's undivided interest in the State Land Grant Permanent Fund of \$459,994,534, which is under the governance and management of the New Mexico State Investment Council. The Land Grant Permanent Fund is New Mexico's largest endowment and permanent fund and was established primarily for the purpose of funding education. The New Mexico Military Institute is one of 21 other identified state institutions that are beneficiaries of the Land Grant Permanent Fund.

Restricted expendable net position is subject to externally imposed provisions governing their use. This category of net position mainly includes restricted endowments of \$27,808,148 as of June 30, 2014.

Unrestricted net position decreased from 2013 by \$1,002,658 to a total of \$22,608,029. The Institute has been strategically managing the operating revenues and expenditures to adequately maintain its unrestricted net position to meet the operating needs of the Institute.

The expendable financial resource (\$50,416,177) to operations expense (\$33,994,312) ratio equates to 1.48. A ratio of 1.0 or greater indicates that the Institute has sufficient expendable resources to continue its operations for a full year. For the Institute this ratio equates to 17.76 months of coverage at June 30, 2014.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014

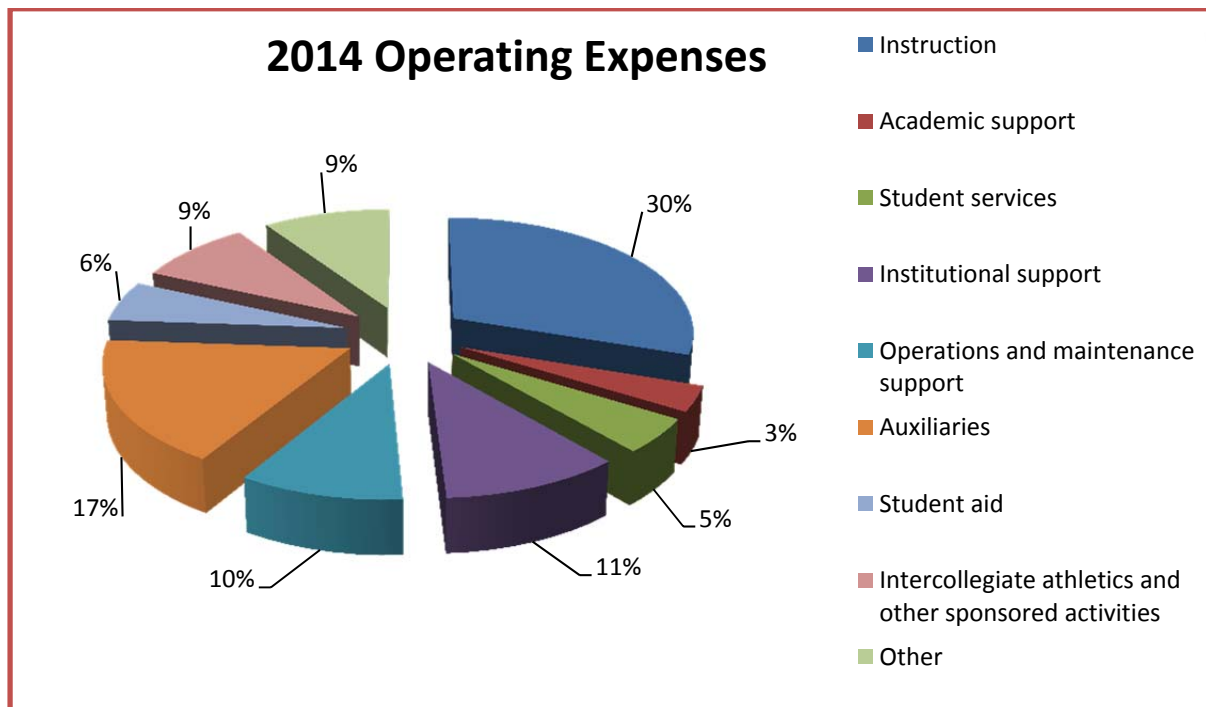
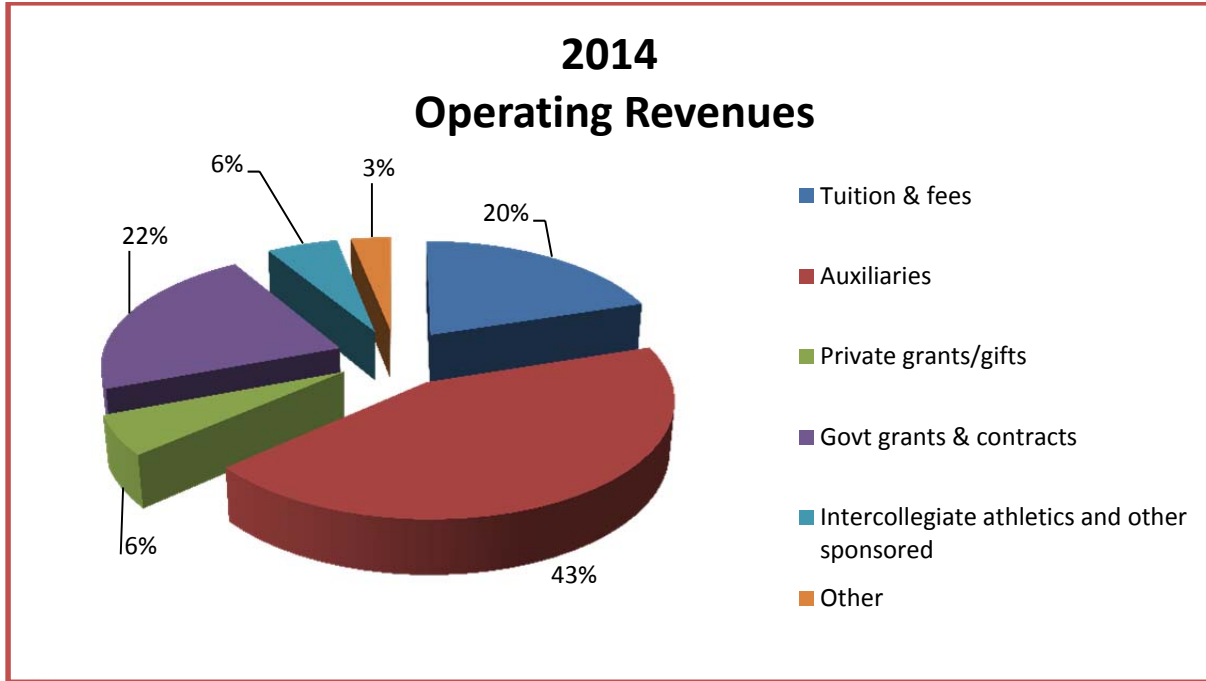


Summary Statement of Revenues, Expense and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenue by Major Source		
Tuition	\$ 3,054,061	\$ 3,076,981
Auxiliaries	6,634,119	6,390,889
Private grants/gifts	853,816	762,607
Governmental grants and contracts	3,361,259	3,089,638
Intercollegiate athletics and other sponsored activities	852,105	585,908
Other	477,194	357,904
	<u>\$ 15,232,554</u>	<u>\$ 14,263,927</u>
Operating Expense by Major Function		
Instruction	\$ 10,242,857	\$ 9,652,594
Academic support	1,207,227	1,154,760
Student services	1,654,863	1,590,041
Institutional support	3,594,612	3,178,354
Operations and maintenance support	3,277,005	3,101,257
Auxiliaries	5,897,542	5,233,873
Student aid	1,914,439	2,032,312
Intercollegiate athletics and other sponsored activities	2,967,044	2,529,763
Other	3,238,723	3,282,783
	<u>\$ 33,994,312</u>	<u>\$ 31,755,737</u>
Non-operating Revenue (Expense)		
Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund	\$ 80,604,084	\$ 62,670,448
Other	(58,950)	124,309
	<u>\$ 80,545,134</u>	<u>\$ 62,794,757</u>
Income (loss) before other revenue, expense, gains and losses	\$ 61,783,376	\$ 45,302,947
Capital grants	316,968	(66,412)
Total increase (decrease) in net position	<u>\$ 62,100,344</u>	<u>\$ 45,236,535</u>
Net position, beginning of year	<u>\$ 511,987,387</u>	<u>\$ 466,750,852</u>
Net position, end of year	<u>\$ 574,087,731</u>	<u>\$ 511,987,387</u>



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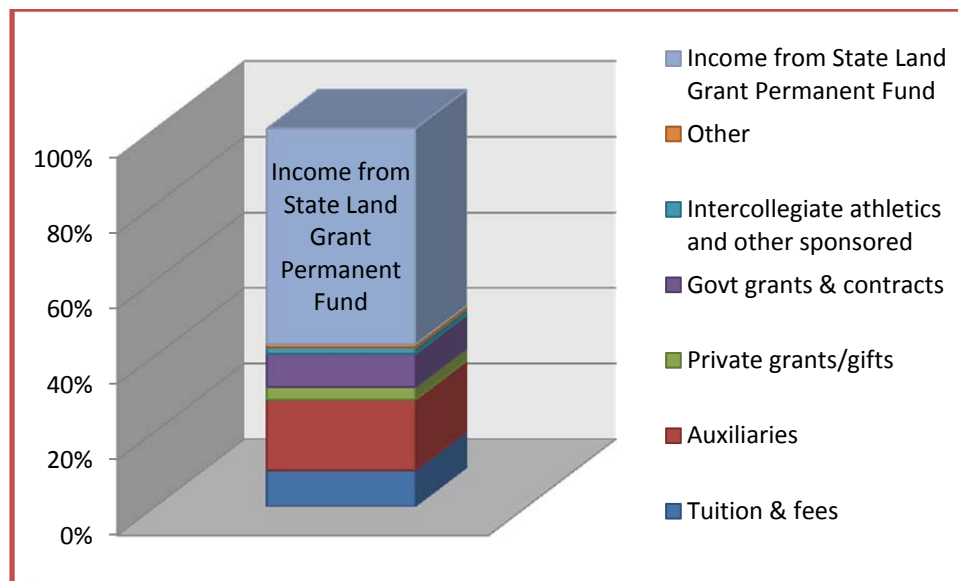


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Statement of Revenues, Expenses and Changes in Net Position Highlights:

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 of 54.52% of total operating revenues for 2014. 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.

Operating

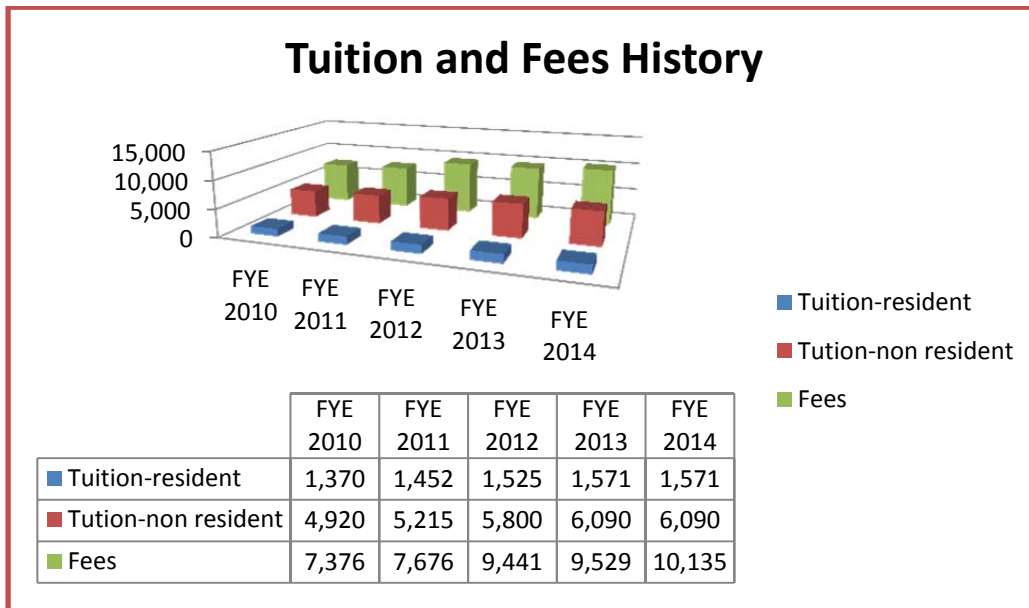
Operating revenues for the Institute increased 6.79% for 2014 over 2013 which was attributable to an increase in fees assessed to cadets, however, tuition for resident students remained the same as 2013. Utilizing a balanced budget model, the fees were assessed in order to cover the anticipated increase to technology and security infrastructure, and other student services relating to improved cadet life.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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The operating expenses increased \$2,238,575 from 2013. The increase in 2014 was mainly attributable to an increase to intercollegiate athletics grants-in-aid as well as to the auxiliary services for the Infirmary and Dining Hall which experienced an increase in the costs of the contractual services providing those services due to a rise in overall health care and food costs.



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 2014 decreased slightly from 2013 in the amount of \$45,567 which is a result of a decrease in the revenue generated from the acres of land allocated specifically to NMMI. Income received from the State Land Office and the Land Grant Permanent Fund was \$708,018 and \$17,553,907, respectively. All trust land beneficiaries receive a fixed distribution of 5.5% of the five-year average market value of the Land Grant Permanent Fund at December 31 annually. The fixed distribution as determined through the NM Constitution is slated to decline to 5% from its current rate of 5.5% in FY17.

Change in Net Position

The Institute's total change in net position showed a net increase for both 2014 and 2013. Both years' results are primarily the result of volatile fluctuations in the market value of investments held in trust for the State Land Grant Permanent Fund as noted above.



NEW MEXICO MILITARY INSTITUTE
Management’s Discussion and Analysis
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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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Net cash used by operating activities	\$ (14,234,471)	\$ (13,666,739)
Net cash provided (used) by non-capital financing activities	18,971	(6,325)
Net cash provided by investing activities	16,384,783	19,316,960
Net cash provided (used) by capital and related financing activities	<u>7,940,119</u>	<u>(2,670,564)</u>
Net increase in cash and cash equivalents	<u>\$ 10,109,402</u>	<u>\$ 2,973,332</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 \$1,792,490 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 to actual revenues and expenses in any one year. The overall actual expenditures were \$8,274,217 lower than budgeted, of which \$6,192,860 (74%) is attributable to timing of the capital project construction projects specifically relating to the renovation of Lusk Hall, Bates Hall and the staging of the replacement of boilers and chillers project. The actual change in net position on a budgetary basis created a positive budget variance of \$6,481,727 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.



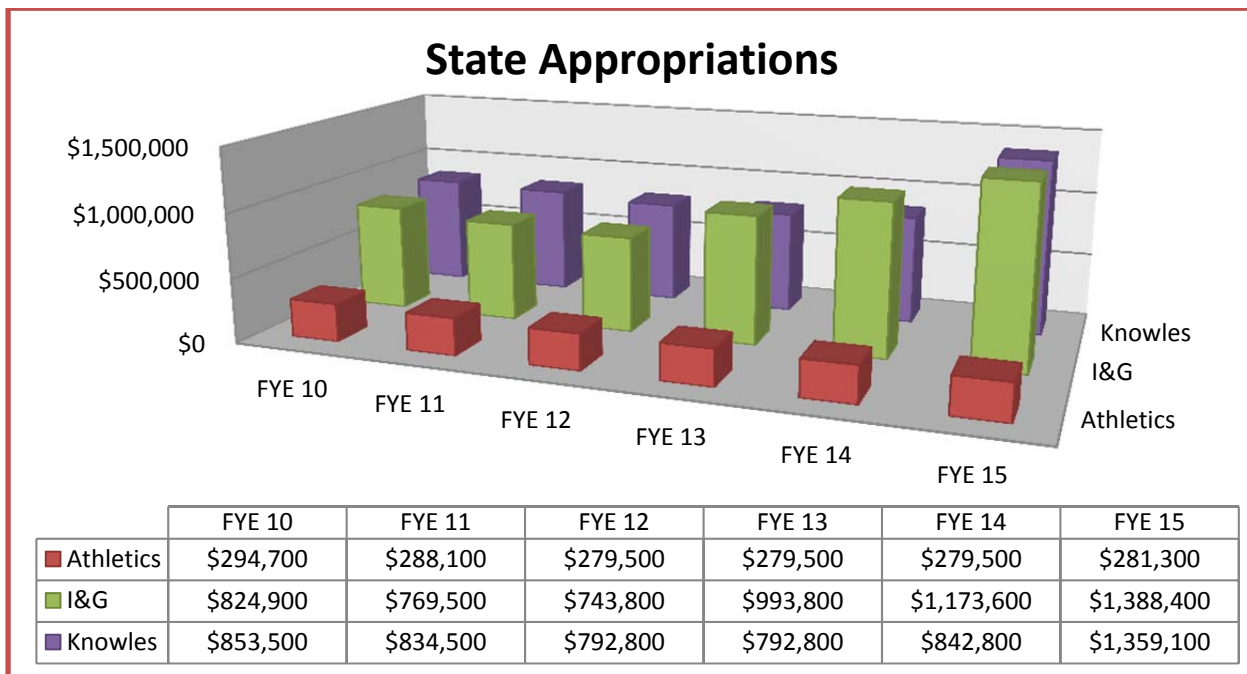
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June 30, 2014



Economic Factors Impacting Future Periods

As of June 30, 2014, NMMI continues to maintain its strong financial position. NMMI's Moody Rating is Aa2.

As noted previously, NMMI receives over half of its funding from the Land Grant Permanent Fund (LGPf). Constitutionally defined, the LGPF distributes annually to its 21 beneficiaries an amount equal to 5.5% of the five year average market value of the total fund. NMMI is the second largest beneficiary of the trust lands, thus not included in the New Mexico Higher Education Department's funding formula calculation. However, NMMI does receive State Appropriations, one of which is specifically restricted to the Knowles Legislative Scholarship program. See below a five-year historical summary of State Appropriations:



Going forward, NMMI is optimistic anticipating a stable LGPF Endowment based on the State's August 2014 General Fund Revenue Estimates forecast for FY14 estimating "new money" of \$285 million for the state, barring any significant market decline or significant reduction in Oil & Gas revenue contributions to the LGPF Endowment.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2014



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 2013-2014 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, 2014



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,666,268	\$ 1,319,204
Restricted cash and cash equivalents	14,483,180	-
Short-term investments	3,024,516	-
Prepaid expenses	-	4,232
Pledges receivable, net of allowance	-	46,578
Student accounts receivable, net of allowance for doubtful receivables of \$1,195,000	158,341	-
Investment sales receivable	-	3,481,425
Receivable from NMMI Foundation	201,327	-
Other accounts receivable	3,054,948	50,891
Inventories	<u>107,100</u>	<u>-</u>
Total current assets	<u>32,695,680</u>	<u>4,902,330</u>
Non-current Assets:		
Restricted cash and cash equivalents	897,125	-
Land and buildings held for investment	-	6,466,909
Pledges receivable, net of allowance	-	398,255
Surrender value of life insurance policies	-	676,448
Endowment investments, Land Grant Permanent Fund	459,994,534	-
Endowment investments, scholarships	18,042,282	-
Endowment investments, capital projects	5,159,725	-
Endowment investments, building maintenance	5,941,814	-
Long-term investments	7,985,862	35,126,495
Beneficial interest in perpetual trust	-	740,643
Other assets	-	50,000
Capital assets, net of accumulated depreciation	<u>60,414,073</u>	<u>665</u>
Total non-current assets	<u>558,435,415</u>	<u>43,459,415</u>
Total Assets	<u>\$ 591,131,095</u>	<u>\$48,361,745</u>

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



NEW MEXICO MILITARY INSTITUTE

**Statement of Net Position
June 30, 2014**



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 3,044,180	\$ 10,686
Accounts payable NMMI Foundation	16,300	-
Accrued compensated absences	597,223	21,347
Payable to NMMI	-	201,327
Unearned revenues	-	30,673
Other credits	413,261	-
Funds held for others	737,315	-
Bonds payable-current portion	1,000,000	-
Annuity obligations	-	406,368
Other payables	-	<u>32,810</u>
Total current liabilities	<u>5,808,279</u>	<u>703,211</u>
Non-current Liabilities:		
Bonds payable – long term portion	<u>11,235,085</u>	-
Total non-current liabilities	<u>11,235,085</u>	-
Total liabilities	<u>17,043,364</u>	<u>703,211</u>
NET POSITION		
Net investment in capital assets	48,178,988	-
Restricted for		
Non-expendable:		
Restricted, Land Grant Permanent Fund at State Investment Council	459,994,534	-
Restricted, Scholarships at State Investment Council	9,798,032	-
Restricted, Building Maintenance	3,700,000	-
Restricted, Capital Projects	2,000,000	-
Permanently Restricted, NMMI Foundation	-	18,759,803
Expendable:		
Term endowments, scholarships	9,514,484	-
Capital Projects	15,602,416	-
Building Maintenance	2,241,814	-
Debt Service	449,434	-
Temporarily Restricted, NMMI Foundation	-	11,360,860
Unrestricted	<u>22,608,029</u>	<u>17,537,871</u>
Total net position	<u>574,087,731</u>	<u>47,658,534</u>
Total Liabilities and Net Position	<u>\$ 591,131,095</u>	<u>\$48,361,745</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, 2014**



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
Operating revenues:		
Tuition and fees	\$ 3,054,061	\$ -
Contributions	<u>-</u>	<u>2,132,571</u>
	3,054,061	
Federal grants and contracts	997,921	-
State grants and contracts	2,363,338	-
Private grants and contracts	853,816	-
Other sponsored activities	517,096	-
Auxiliary enterprises	6,634,119	-
Intercollegiate athletics	335,009	-
Internal service department	303,690	-
Other	173,504	7,073
Rental income	<u>-</u>	<u>352,536</u>
Total operating revenues	<u>15,232,554</u>	<u>2,492,180</u>
Expenses:		
Instruction and general:		
Instruction	10,242,857	-
Academic support	1,207,227	-
Student services	1,654,863	-
Institutional support	3,594,612	-
Operations and maintenance support	<u>3,277,005</u>	<u>-</u>
Total instruction and general expenses	19,976,564	-
Other sponsored activities	477,221	-
Student aid grants and stipends	1,914,439	-
Auxiliary enterprises	5,897,542	-
Intercollegiate athletics	2,489,823	-
Internal service department	204,396	-
Supporting services	-	488,729
Minor capital outlay operations	33,158	-
Program services	-	1,462,198
Real estate expenses	-	37,224
Depreciation	<u>3,001,169</u>	<u>-</u>
Total expenses	<u>33,994,312</u>	<u>1,988,151</u>
Operating income (loss)	<u>\$ (18,761,758)</u>	<u>\$ 504,029</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, 2014**



(continued)

	<u>Primary Government</u>	<u>Component Unit NMMI Foundation</u>
	<u>NMMI</u>	
Non-operating revenues (expenses):		
Investment income (loss)	\$ 62,342,159	\$ 5,677,139
Gain (loss) on sale of assets	-	(955)
Change in cash value of life insurance	-	51,443
Income from State Land Office	708,018	-
Income from State Land Grant Permanent Fund	17,553,907	-
Other income (loss)	314,291	-
Interest on capital asset related to debt	(176,469)	-
Bond issuance costs	<u>(196,772)</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>80,545,134</u>	<u>5,727,627</u>
Income before other revenues, expenses, gains and losses	<u>61,783,376</u>	<u>6,231,656</u>
Other:		
Capital grants, net	<u>316,968</u>	<u>-</u>
Net other revenues (expenses)	<u>316,968</u>	<u>-</u>
Change in net position	62,100,344	6,231,656
Net position, beginning of year	<u>511,987,387</u>	<u>41,426,878</u>
Net position, end of year	<u>\$ 574,087,731</u>	<u>\$47,658,534</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, 2014



	<u>Primary Government</u>
	<u>NMMI</u>
Cash flows from operating activities:	
Tuition and fees	\$ 3,097,294
Grants and contracts	3,274,938
Sales and services of educational activities	6,636,352
Other operating receipts	833,929
Payments to employees for salaries and benefits	(16,860,291)
Payments to suppliers	(10,199,237)
Grants issued to students	<u>(1,017,456)</u>
Net cash used for operating activities	<u>(14,234,471)</u>
Cash flows from non-capital financing activities:	
Agency receipts	1,892,258
Agency payments	<u>(1,873,287)</u>
Net cash provided by non-capital financing activities	<u>18,971</u>
Cash flows from investment activities:	
Cash distribution from State Land Grant Permanent Fund	17,523,712
Cash distribution from State Land Office	708,018
Other investment income (loss)	106,097
Cash received from scholarship gifts	500
Cash transferred to investment accounts	(1,849,962)
Cash payment of trust expenses	<u>(103,582)</u>
Net cash provided by investing activities	<u>16,384,783</u>
Cash flows from capital and related financing activities:	
Cash paid for capital assets	(3,974,253)
Cash received on capital grants	1,275,114
Cash received from issuance of revenue bonds	13,183,232
Cash paid for renewal and replacement of assets	(1,492,963)
Other receipts (payments)	313,791
Repayments of capital debt	(1,188,333)
Interest paid on capital debt	<u>(176,469)</u>
Net cash used for capital and related financing activities	<u>7,940,119</u>
Net increase in cash and cash equivalents	10,109,402
Cash and cash equivalents, beginning of year	<u>16,937,171</u>
Cash and cash equivalents, end of year	<u>\$ 27,046,573</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, 2014**



(continued)

	<u>Primary Government</u>
	<u>NMMI</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (18,761,758)
Adjustments to reconcile operating loss to net cash Used by operating activities:	
Depreciation expense	3,001,169
Changes in assets and liabilities:	
Short-term investments	(182,234)
Accounts receivable	(24,634)
Inventories	(15,199)
Accounts payable and accrued expenses	1,776,288
Deferred income	(68,570)
Accrued benefits	40,467
Net cash used by operating activities	<u>\$ (14,234,471)</u>

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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



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.

During the year ended June 30, 2014, the Institute implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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.

New Accounting Pronouncement

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* will be effective for the Institute's June 30, 2015 fiscal year end. This Statement replaces the requirements of prior GASB standards for pensions accounting and reporting. This Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. Each employer participating in a multiple-employer defined benefit pension plan will be required to record a liability representing their "proportionate share" of the plan's total net pension liability which possibly could be deemed material in respect to the overall financial statements. This Statement also enhances accountability and transparency through revised note disclosures and new required supplementary information.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

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

In evaluating how to define the Institute for financial reporting purposes, management has evaluated the Institute's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is responsibility to include, but 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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 6 months or less.

Investments

Certain investments such as debt and equity securities and pooled investment funds are recorded at market value in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net 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, 2014



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 2014 is \$1,195,000.

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, 2014



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 \$16,818,094. 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 \$3,263,234. This amount is reported in restricted scholarships at NMMI Foundation in the net assets of the component unit. New Mexico state law allows the governing body to spend net appreciation. The Foundation uses the total-return policy for authorizing and spending investment income.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014.

Subsequent Events

Subsequent events have been evaluated through November 3, 2014, which is the date the financial statements were available to be issued.

In 2013, the Institute broke off relations with the Alumni Association over disagreement about the management of the Alumni Association's finances. The Institute is currently party to a lawsuit of which NMMI filed a lawsuit to petition the court to transfer the Alumni Association's funds to the NMMI Foundation. At this time the Board and the Institute do not expect that the litigation will have a material adverse effect on the financial position or operations of the Institute.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



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, 2014, 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	\$ 683,523	\$ 18,021,592	\$ 2,995,497
Checking Account Deposits	<u>5,656,212</u>		
Total Deposits in Bank	<u>6,339,735</u>	<u>18,021,592</u>	<u>2,995,497</u>
Less: FDIC Insurance on Interest			
Bearing Accounts	(250,000)	-	(2,995,497)
FDIC Insurance on			
Checking Accounts	<u>(250,000)</u>	<u>-</u>	<u>-</u>
Uninsured Public Funds	<u>5,839,735</u>	<u>18,021,592</u>	<u>-</u>
Collateral Requirement 50%	2,919,867		
Collateral Requirement 102%		18,382,024	
Pledged Collateral Held			
by the Pledging Bank's			
Trust Department Not in			
the Agency's Name	<u>2,961,699</u>	<u>18,382,024</u>	<u>-</u>
Uninsured and Undercollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a bank failure, the Institute’s deposits may not be returned to it. The Institute has a policy to invest operating funds in financial instruments that are relatively safe based on the level of collateralization provided by the financial institutions and have the highest rating from the national rating agencies. As of June 30, 2014, \$23,861,327 of the Institute’s bank balance of \$27,356,824 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>23,861,327</u>
Total	<u>\$ 23,861,327</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments

The Institute invests some unrestricted operating funds with Wells Fargo Bank's Brokerage Services as well as with the State Investment Council. The short-term investments of \$3,024,516 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 \$7,985,862 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

Investors Bank	\$ 250,006
First Bank NC	250,137
Bank of Baroda	249,970
American Express	250,782
Goldman Sachs	250,926
State Bank of India NY	251,481
Georgia Bank and Trust	<u>251,322</u>
Total	1,754,624

Money market account	172,155
NM State Investment Council Investments	<u>1,097,737</u>
Total short-term investments	<u>\$ 3,024,516</u>

Long-term:

Brokered certificates of deposit

First Business Bank	\$ 251,429
Bank of China NY	250,357
Ally Bank	250,315
Park Sterling Bank	250,211
Cathay Bank	250,539
Synovious Bank GA	249,575
Horizon Bank	250,172
Merrick Bank	248,466
Connect One Bank	250,425
BMW Bank	251,037
Third Federal S&L	249,968
Safra National Bank	249,882
Barclays Bank	249,359
Sallie Mae	251,419
Everbank	251,526
Marlin Business Bank	249,958
Oriental Bank & Trust	250,139



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Bank of North Carolina	250,426
GE Capital Bank	252,463
Rio Rancho NM Pub S/D	261,300
JP Morgan Chase	247,785
GE Capital Retail Bank	253,659
Discover Bank NC	83,020
Discover Bank	170,053
Delta National Bank & Trust	249,169
CITI Bank	<u>249,698</u>
Total	6,272,350

NM State Investment Council Investments	<u>1,713,512</u>
Total long-term investments	<u>\$ 7,985,862</u>

The Institute participates under a joint powers agreement in an External Investment Pool (Pool) with the New Mexico State Investment Council (Council). Monies of Institute funds are pooled and invested by the Council in various debt and equity securities. The Pool is recorded as investments on the Institute’s balance sheets at market value. Since the Institute’s investments are recorded at market value, there is a potential risk that due to the volatility of quoted market values the Institute’s recorded investments in the Pool could be significantly affected.

Pooled investments of the Institute consist of the following at June 30, 2014:

<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	\$12,642,487		40.05%	38.00%
Mid-Small	3,587,991		11.37%	11.00%
Non-U.S. Developed Equity	3,748,270		11.87%	12.00%
Emerging Markets	<u>914,863</u>		<u>2.90%</u>	<u>3.00%</u>
Total Equity	\$20,893,611		66.19%	64.00%
Core Bonds	<u>10,671,252</u>	1-5 years	<u>33.81%</u>	<u>36.00%</u>
Total Investment Pool	<u>\$31,564,863</u>		<u>100.00%</u>	<u>100.00%</u>

Interest Rate Risk

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

Credit Risk

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

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



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 2: CASH AND INVESTMENTS (CONTINUED)

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

The Institute has an investment policy that states that investments shall be made in accordance with New Mexico constitutional and statutory laws as defined in NMSA 1978, Sections 6-8 and 6-10, and that the investments may only be invested in money market funds, U.S. Treasuries, U.S. government agency securities, certificates of deposit or repurchase agreements. The Core Bonds Pool uses the Lehman Aggregate Index as its benchmark. The Core Pool is unrated.

State Investment Council Assets

The Institute has an undivided interest in assets of the State of New Mexico Land Grant Permanent Fund. At June 30, 2014 the fair value of such interest was \$459,994,534. These investments are not categorized by custodial risk.

Investment Income (Loss)

Investment income (loss) consists of the following for the year ended June 30, 2014:

	Daniels						
	Land Grant	Leadership	Patterson	Scholarship	Capital		
	Permanent	Center Bldg	Construction	Trust	Project	Unrestricted	
	Fund	Maintenance	Endowment	Fund	Fund	Funds	Total
Investment Income (loss)	\$ (356,497)	\$ -	\$ -	\$ 106,046	\$ -	\$ -	\$ (250,451)
Realized gains (losses)	16,467,585	85,885	128,336	157,709	25,282	-	16,864,797
Unrealized gains (losses)	41,398,323	839,836	675,552	2,492,814	237,439	83,849	45,727,813
	<u>\$ 57,509,411</u>	<u>\$ 925,721</u>	<u>\$ 803,888</u>	<u>\$ 2,756,569</u>	<u>\$ 262,721</u>	<u>\$ 83,849</u>	<u>\$ 62,342,159</u>

During the year ended June 30, 2014, \$17,553,907 in cash was distributed to NMMI from the State Land Grant Permanent Fund. Also during the year ended June 30, 2014, \$500,000 was transferred to the Capital Outlay State Investment Account, \$500,000 was transferred to the Operating Funds State Investment account and \$849,962 was transferred to the Legislative Scholarship Trust Funds State Investment account.

**NEW MEXICO MILITARY INSTITUTE****Notes to the Financial Statements
June 30, 2014****NOTE 3: CAPITAL ASSETS**

The following are the changes in capital assets:

	Beginning		Retirements	Transfers	Ending
	Balance	Additions			Balance
Capital Assets Not Being Depreciated:					
Land	\$ 726,537	\$ 4,500	\$ -	\$ -	\$ 731,037
Construction in progress	433,982	2,878,414	-	(36,943)	3,275,453
Artwork	810,291	500	-	-	810,791
Total Capital Assets Not Being Depreciated	1,970,810	2,883,414	-	(36,943)	4,817,281
Capital Assets Being Depreciated:					
Buildings	91,139,103	45,867	-	36,943	91,221,913
Furniture, fixtures and equipment	10,501,426	547,646	(1,474,305)	-	9,574,767
Leased equipment	170,040	-	-	-	170,040
Library books	654,590	28,623	-	-	683,213
Infrastructure	5,409,130	-	-	-	5,409,130
Land improvements	1,472,960	12,874	-	-	1,485,834
Vehicles and golf carts	562,187	40,318	(45,242)	-	557,263
Total at Historical Cost	109,909,436	675,328	(1,519,547)	36,943	109,102,160
Less Accumulated Depreciation:					
Buildings	40,376,044	2,203,361	-	-	42,579,405
Furniture, fixtures and equipment	9,047,914	599,157	(1,432,956)	-	8,214,115
Leased equipment	148,785	21,255	-	-	170,040
Library books	519,343	26,043	-	-	545,386
Infrastructure	1,050,113	131,073	-	-	1,181,186
Land improvements	348,562	6,353	-	-	354,915
Vehicles and golf carts	491,637	13,926	(45,242)	-	460,321
Total Accumulated Depreciation	51,982,398	3,001,168	(1,478,198)	-	53,505,368
Total Capital Assets, Net	\$ 59,897,848	\$ 557,574	\$ (41,349)	\$ -	\$ 60,414,073



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES

The Institute is committed under various operating leases which expire through 2018. These leases are primarily for office machinery and golf carts. Rental expense under these leases amounted to \$100,556 in FY 2014. During the 2014 year the Institute entered into a new operating lease for laptop computers for use by students and staff.

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

2015	\$ 313,121
2016	267,846
2017	249,842
2018	<u>7,848</u>
	<u>\$ 838,657</u>

At June 30, 2014 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, 2014 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. Total annual principal and interest payments for these revenue bonds are



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 5: BONDS PAYABLE (CONTINUED)

expected to require less than 7% of gross revenues. Total current revenues were \$21.2 million and the total principal and interest paid on the bonds was \$1,321,469, or 6.2% of gross revenues.

The bond interest expense incurred for the fiscal years 2014 and 2013 was \$176,469 and \$63,000 respectively.

Total Institute issued bonds and outstanding at June 30, 2014 and 2013 consisted of:

	Total Issued	Outstanding	
		2014	2013
Series Improvement Revenue Bonds			
Series 2013A (2.000% - 4.000%) final maturity 2028	\$ 8,935,000	\$ 8,935,000	\$ -
Series Improvement Revenue Bonds			
Series 2013B (.456% - 1.880%) final maturity 2017	3,980,000	2,835,000	-
Total bonds payable	<u>12,915,000</u>	<u>11,770,000</u>	<u>-</u>
Plus unamortized net premium	465,085	465,085	-
Bonds payable, net	<u>\$ 13,380,085</u>	<u>\$ 12,235,085</u>	<u>\$ -</u>

The maturity schedule for the Institute bonds payable at June 30, 2014, follows:

Year ending June 30,	Principal	Interest
2015	\$ 1,000,000	\$ 325,658
2016	1,010,000	318,148
2017	1,020,000	306,210
2018	1,040,000	286,800
2019	670,000	266,000
2020-2024	3,630,000	1,051,500
2025-2028	3,400,000	346,600
Total	<u>\$ 11,770,000</u>	<u>\$ 2,900,916</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 6: LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Long term bonds payable	\$ -	\$ 12,380,085	\$ 1,145,000	\$ 11,235,085
Current portion of bonds payable	-	1,000,000	-	1,000,000
	<u>-</u>	<u>13,380,085</u>	<u>1,145,000</u>	<u>12,235,085</u>
Current portion of compensated absences	\$ 556,756	\$ 399,465	\$ 358,998	\$ 597,223

NOTE 7: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

Plan Description. Substantially all of the Institute’s full-time employees participate in an educational employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11 NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits and cost-of-living adjustments to plan members (certified teachers, other employees of state public school districts, colleges and universities, and some state agency employees) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, PO Box 26129, Santa Fe, New Mexico 87502-0129. The report is also available on ERB’s website at www.nmerb.org.

Funding Policy.

Member Contributions

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

Employer Contributions

In fiscal year 2014, the Institute was required to contribute 13.15% of the gross covered salary for all eligible employees. In the fiscal year 2015 and thereafter, the Institute will contribute the 13.9% of the gross covered salary of employees.

The contribution requirements of plan members and the Institute are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of legislature. The Institute’s contributions to ERB for the fiscal years ending June 30, 2014, 2013, and 2012, were \$1,685,762, \$1,336,981 and \$1,282,403 respectively, equal to the amount of the required contributions for each year

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

Plan Description. The Institute contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



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

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

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

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

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

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

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



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



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

The Institute's contributions to the RHCA for the years ended June 30, 2014, 2013 and 2012 were \$257,889, \$245,824 and \$216,111 in employer contributions, and \$128,706, \$122,015 and \$107,372 in employee contributions, respectively.

NOTE 9: INSURANCE COVERAGE

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

The Institute is exposed to various risks of loss related to: general, automobile and aircraft liabilities, including those relating to civil rights (torts); theft of, damage to and destruction of state property assets; errors and omissions; injuries to employees; group insurance; and natural disasters, all of which are insured against by participation in the public entity risk pool described above subject to limits of coverage set by Risk Management Division, General Services Department of the State of New Mexico. All employees of the Institute are covered by a blanket fidelity bond up to \$5,000,000 with a \$1,000 deductible per occurrence by the State of New Mexico for the period July 1, 2013 to June 30, 2014. Total premiums paid by the Institute for the years ending June 30, 2014 and 2013 were \$322,561 and \$285,720 respectively.

NOTE 10: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS

At June 30, 2014, the Foundation’s deposits were \$1,319,204, and the bank balance was \$1,326,223. 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 at June 30, 2014 were comprised of the following:

<u>Managed Funds/Bonds</u>	<u>2014</u>	<u>Input Level</u>
Archstone Absolute Return Strategies Fund	\$ 3,568,132	3
CamCap Resources Offshore	1,290,452	2
Capital Group Emerging Markets	1,426,836	1
Dodge & Cox International Stock	4,272,699	1
Fortress Partners Offshore Fund	490,733	3
Longleaf Partners Small Cap Fund	872,495	1
Maverick Stable Fund LTD	2,055,920	2
Newport Asia Institutional	1,290,991	2
Pimco Short Term Bond Fund	1,742,737	1
Pimco Unconstrained Bond Fund	1,687,755	1
Vanguard Dividend Growth Fund	6,649,457	1
CTF Micro Cap Equity	1,419,519	2
CTF Research Equity	<u>8,358,769</u>	2
Total Foundation Investments	<u>\$ 35,126,495</u>	



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



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

Investment income (loss) consisted of the following for the year ended June 30, 2014.

	<u>2014</u>
Interest and dividend	\$ 377,506
Net unrealized gains	3,168,382
Net realized gains	2,235,567
Investment expenses	<u>(104,316)</u>
Total investment income	<u>\$ 5,677,139</u>

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:

2015	\$ 298,849
2016	294,648
2017	294,648
2018	294,648
2019	275,148
Thereafter	<u>5,180,158</u>
Total minimum lease payments	<u>\$ 6,638,099</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, 2014, \$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, 2014, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2014, \$201,327 was due to the Institute for operating expenses and support. For the year ended June 30, 2014, the Foundation provided \$1,462,198 in scholarships and awards for the benefit of institute cadets and faculty.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2014**



NOTE 14: NEW MEXICO MILITARY FOUNDATION – CURRENT YEAR FINDINGS

For the year ended June 30, 2014 the Foundation did not have any current year findings noted during their annual financial audit.

NOTE 15: JOINT POWERS AGREEMENT

The New Mexico Military Institute entered into a Joint Powers Agreement with the State Investment Council dated May 14, 1997, and amended, August 15, 1997, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement the State Investment Office invests the Trust Scholarship Endowment, LTG Richard T. Knowles Legislative Scholarship Trust Endowment, Patterson Construction Endowment, Capital Outlay Funds, 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:	\$1,849,962 of new funds
Audit Responsibility:	N/A
Fiscal Agent:	New Mexico State Treasurer
Agency Where the Entity Reports:	N/A

NOTE 16: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2014, the Institute had an uncompleted construction contract pertaining to the renovation of Lusk Hall. This project is partially funded by \$5,000,000 of State of New Mexico General Obligation Bonds which were issued in 2013. The reversion date for these funds is June 30, 2016, and as of June 30, 2014, \$2,404,743 of these funds had been expended. The remaining commitment on this construction contract is approximately \$6,600,000. The expected completion date for this project is December 2014. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

Also as of June 30, 2014, the Institute had a project in the works pertaining to the upgrade and repair of the Institute’s boilers and chillers. The work on this project began Fall of 2013 and should be completed by Spring 2015. This project is partially funded by \$1,000,000 of State of New Mexico Severance Bonds which were sold in December 2013. The reversion date for these funds is June 30, 2017, and as of June 30, 2014 \$153,581 of these funds had been expended. The remaining commitment on this construction contract is approximately \$1,050,000. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

At June 30, 2014 the Institute began the major renovation of Bates Hall which is the primary dining facility on the NMMI campus. This project is expected to be completed by August 2015. This project is funded by System Improvement Revenue Bonds that were issued in November 2013. NMMI is obligated for the related indebtedness in regards to these bonds, see also Note 5 above. Total expenditures as of June 30, 2014 related to this project are \$804,312 and the remaining commitment on this construction contract is approximately \$8,200,000.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2014



NOTE 16: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (CONTINUED)

On June 24, 2014 the State of New Mexico issued Severance Tax Bonds in the amount of \$153,200 in order for the Institute to fund the design, construction and installation of artificial turf in the infield of the Institute's baseball field. Also to be included in this project is a renovation to the baseball field infrastructure and equipment which will be funded by the Institute. The work on this project is expected to begin during the Spring of 2015 and be completed by August 2015. The reversion date for these funds is June 30, 2018, and as of June 30, 2014 \$0 of these funds had been expended. The remaining commitment on this construction contract is approximately \$600,000. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



SUPPLEMENTAL INFORMATION





NEW MEXICO MILITARY INSTITUTE
Schedule of Budgetary Comparisons – Budgetary Basis
Schedule 1 – All Operations
For the Year Ended June 30, 2014



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Actual Positive (Negative) <u>Budget</u>
Beginning Fund Balance	\$ 19,572,863	\$ 24,007,938	\$ 24,007,938	\$ -
Unrestricted and Restricted Revenues:				
State General Fund Appropriations	2,185,000	2,295,900	2,295,900	-
Federal Revenue Sources	1,226,468	1,314,468	994,436	(320,032)
State Revenue Sources	16,054,800	18,386,730	15,569,257	(2,817,473)
Tuition and Fees	2,985,772	3,009,686	3,054,061	44,375
Land and Permanent Fund	18,914,693	18,050,219	18,261,925	211,706
Endowment and Private Gifts	931,142	991,142	853,816	(137,326)
Sales and Services	6,357,686	6,790,488	7,140,978	350,490
Other	<u>508,560</u>	<u>607,031</u>	<u>1,482,801</u>	<u>875,770</u>
Total Unrestricted & Restricted Revenues	<u>49,164,121</u>	<u>51,445,664</u>	<u>49,653,174</u>	<u>(1,792,490)</u>
Unrestricted and Restricted Expenditures:				
Instruction	10,594,583	10,533,705	10,242,856	290,849
Academic Support	1,224,740	1,224,740	1,207,227	17,513
Student Services	1,790,914	1,829,173	1,654,863	174,310
Institutional Support	3,673,752	3,883,514	3,594,612	288,902
Operation and Maintenance of Plant	3,423,375	3,344,188	3,277,004	67,184
Student Social and Cultural Activities	419,139	853,069	477,224	375,845
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	-	213,376	204,396	8,980
Student Aid, Grants and Stipends	2,679,784	2,679,784	2,264,401	415,383
Auxiliary Services	5,181,067	6,105,874	5,897,542	208,332
Intercollegiate Athletics	2,115,268	2,519,087	2,489,823	29,264
Independent Operations	-	-	-	-
Capital Outlay	20,603,269	9,528,011	4,076,057	5,451,954
Renewal and Replacement	2,233,869	2,233,869	1,492,963	740,906
Retirement of Indebtedness	<u>1,571,271</u>	<u>1,766,369</u>	<u>1,561,574</u>	<u>204,795</u>
Total Unrestricted & Restricted Expenditures	<u>55,511,031</u>	<u>46,714,759</u>	<u>38,440,542</u>	<u>8,274,217</u>
Net transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(6,346,910)	4,730,905	11,212,632	<u>\$ 6,481,727</u>
Ending Fund Balance	<u>\$ 13,225,953</u>	<u>\$ 28,738,843</u>	<u>\$ 35,220,570</u>	

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, 2014



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Positive (Negative) Budget</u>
Beginning Fund Balance	\$ 7,553,975	\$ 8,633,175	\$ 8,633,175	\$ -
Unrestricted Revenues:				
Tuition	2,854,072	2,829,893	2,820,165	(9,728)
Miscellaneous Fees	131,700	179,793	233,897	54,104
Federal Government Appropriations	-	-	-	-
State Government Appropriations	1,062,700	1,173,600	1,173,600	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/.Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	18,914,693	18,050,219	18,261,925	211,706
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	<u>53,750</u>	<u>86,709</u>	<u>216,602</u>	<u>129,893</u>
Total Unrestricted Revenues	<u>23,016,915</u>	<u>22,320,214</u>	<u>22,706,189</u>	<u>385,975</u>
Unrestricted Expenditures:				
Instruction	9,934,555	9,785,677	9,552,032	233,645
Academic Support	1,223,295	1,223,295	1,206,069	17,226
Student Services	1,790,714	1,828,973	1,654,863	174,110
Institutional Support	3,285,015	3,434,777	3,283,169	151,608
Operations & Maintenance of Plant	<u>3,423,375</u>	<u>3,344,188</u>	<u>3,277,005</u>	<u>67,183</u>
Total Unrestricted Expenditures	<u>19,656,954</u>	<u>19,616,910</u>	<u>18,973,138</u>	<u>643,772</u>
Net Transfers	<u>(5,552,020)</u>	<u>(5,552,020)</u>	<u>(5,552,020)</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(2,192,059)	(2,848,716)	(1,818,969)	<u>\$ 1,029,747</u>
Ending Fund Balance	<u>\$ 5,361,916</u>	<u>\$ 5,784,459</u>	<u>\$6,814,206</u>	

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, 2014



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Actual Positive (Negative) <u>Budget</u>
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -
Restricted Revenues:				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	116,468	204,468	148,452	(56,016)
State Government Appropriations	2,800	2,800	1,158	(1,642)
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	931,142	991,142	853,816	(137,326)
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	<u>1,050,410</u>	<u>1,198,410</u>	<u>1,003,426</u>	<u>(194,984)</u>
Restricted Expenditures:				
Instruction	660,028	748,028	690,825	57,203
Academic Support	1,445	1,445	1,158	287
Student Services	200	200	-	200
Institutional Support	388,737	448,737	311,443	137,294
Operations & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	<u>1,050,410</u>	<u>1,198,410</u>	<u>1,003,426</u>	<u>194,984</u>
Net Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	-	-	-	\$ <u>-</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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, 2014



Basis of Budgetary Presentation

The accompanying supplementary information; Schedule of Budgetary Comparisons – Budgetary Basis, for the year ended June 30, 2014, 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, 2014



Reconciliation of Budgetary Basis to GAAP

Budget comparisons revenues	\$ 49,653,174
Net investment gain (loss)	61,996,090
Net loan fund balance change	3,485
Capital expenditures (netted on SRECNP – Capital Grants, net)	(8,460,656)
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)	<u>(6,724,196)</u>
SRECNP Total Revenues	<u>96,467,897</u>
Budget comparisons expenditures	38,440,542
Current year depreciation and amortization	3,001,169
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)	(6,724,196)
Endowment fund transfers	<u>(349,962)</u>
SRECNP Total Expenditures	<u>34,367,553</u>
Change in Net Position	<u>\$ 62,100,344</u>



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



OTHER SUPPLEMENTAL SCHEDULES





NEW MEXICO MILITARY INSTITUTE

**Schedule of Pledged Collateral
June 30, 2014**



	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo Investments</u>	<u>Total</u>
Bank Accounts				
Demand deposit accounts	\$ 5,656,212	\$ -	\$ -	\$ 5,656,212
Certificates of deposit	683,523	-	2,995,497	3,679,020
Repurchase agreements	-	<u>18,021,592</u>		<u>18,021,592</u>
Total amount of deposits (bank balances)	<u>\$ 6,339,735</u>	<u>\$ 18,021,592</u>	<u>\$ 2,995,497</u>	<u>\$ 27,356,824</u>
FDIC coverage on checking	(250,000)			(250,000)
FDIC coverage on interest bearing accounts	<u>(250,000)</u>	-	<u>(2,995,497)</u>	<u>(3,245,497)</u>
Total uninsured public funds	<u>5,839,735</u>	<u>18,021,592</u>	<u>-</u>	<u>23,861,327</u>
Collateral requirement @ 50%	2,919,868	-	-	2,919,868
Collateral requirement @ 102%	-	18,382,024	-	18,382,024
Pledges and securities				
FN AT2722, matures 05/1/2043				
Held at Wells Fargo Bank, N.A.				
CUSIP 3138WQAY8				
Current Face: \$3,145,000	2,961,699			2,961,699
FH-30 AS1109, matures 11/01/2043				
Held at Wells Fargo Bank, N.A.				
CUSIP 3138WAGT8				
Current Face: \$18,021,592		<u>18,382,024</u>		<u>18,382,024</u>
Over (under) secured	<u>\$ 41,832</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 41,832</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Individual Deposits
June 30, 2014



<u>Depository</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Unreconciled Bank Balance</u>	<u>Reconciled Balance</u>
Wells Fargo Bank New Mexico, N.A.				
	NMMI Federal Funds	Checking/I	\$ 49,366	\$ 49,443
	NMMI Combined Accounts	Checking/NI	-	22,182,587
	Control Account		4,500,000	-
	Investment Account		<u>18,021,592</u>	-
	Total combined		<u>22,521,592</u>	<u>22,182,587</u>
	NMMI Investment Trust	Checking/I	382,565	382,565
	NMMI Bond Sinking Fund	Checking/NI	457,807	457,807
	NMMI Alumni Relations	Checking/NI	53,433	53,433
	NMMI Cadet Activities	Checking/NI	213,041	213,041
	NMMI Operating	CD/I	500,010	500,010
	NMMI DLC Bldg. Maint.	CD/I	32,940	32,940
	NMMI Cadet Activities	CD/I	100,816	100,816
	NMMI Cadet Activities	CD/I	<u>49,757</u>	<u>49,757</u>
Total Wells Fargo Bank			24,361,327	24,022,399
Wells Fargo Investments				
	NMMI Bond Proceeds Fund	CD/I	2,995,497	2,995,497
Cash on Hand			-	<u>28,677</u>
Total			<u>\$27,356,824</u>	<u>\$27,046,573</u>

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



NEW MEXICO MILITARY INSTITUTE

Schedule of Endowments

June 30, 2014



Scholarship Trust

	<u>At Market Value</u>
American Legion	\$ 8,903
Berger	300,735
Bondurant	2,296,541
Boyd	62,456
Camp	96,963
JG Cannon	210,239
Colfax	300,691
Carter	91,268
Coppinger	23,831
Crosby	471,003
Decker	124,212
Ellis	90,086
Evans	433,030
Fisher	98,538
General	188,233
Kelley	19,087
Lawrence	19,576
Lusk	88,108
Mechem	142,281
Morey	115,335
Patton	94,716
Rapp	616,057
Runnels	23,675
Ruppert	9,470
San Miguel & Mora	146,219
San Miguel & Mora (FEM)	222,989
Scherotter	9,806
Schmitt/Fitzgibbon	75,166
Total	<u>\$ 6,379,214</u>
Breakdown of Investments:	
Cash-Wells Fargo Bank	213,372
State Investment Council	\$ <u>6,165,842</u>
Total	<u>\$ 6,379,214</u>



NEW MEXICO MILITARY INSTITUTE

**Schedule of Endowments
June 30, 2014**



(continued)

General Richard T. Knowles Legislative Scholarship Trust

	<u>At Market Value</u>
Birnie	\$ 6,327
Carter	3,518
Clark	51,988
Dickason	74,115
Domzalski	9,373
Duson	13,130
Featherstone	8,124
Gibson	27,980
Green	106,450
Hazard	2,120
Huston	257,837
Legislative (General)	11,733,315
Marmaduke	20,765
Ostenberg	520,863
Robertson	23,738
Schillingburg	17,233
Sparkman	6,568
Stevens	1,614
Wyles	48,244
Total	<u>\$ 12,933,302</u>

Breakdown of Investments

Cash – Wells Fargo Bank	\$ 1,056,862
State Investment Council	11,876,440
Total	<u>\$ 12,933,302</u>

Patterson Endowment

Cash – Wells Fargo Bank	\$ 4,728
State Investment Council	5,159,725
Total	<u>\$ 5,164,453</u>

Daniels Leadership Center Building Maintenance Endowment

State Investment Council	\$ 5,941,814
Total	<u>\$ 5,941,814</u>

Summary of Endowments

Scholarship Trust	\$ 6,379,214
General Richard T. Knowles-Legislative Scholarship Trust	12,933,302
Patterson Account	5,164,453
Daniels Leadership Center-Building Maintenance Account	5,941,814
Total	<u>\$ 30,418,783</u>

Cash, restricted	\$ 1,274,962
Investments at State Investment Council	29,143,821
Total Endowments	<u>\$ 30,418,783</u>



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



COMPLIANCE SECTION



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

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 discretely presented component unit (New Mexico Military Institute Foundation) of New Mexico Military Institute, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise New Mexico Military Institute's basic financial statements, and the budget comparisons presented as Supplemental Information for the year ended June 30, 2014, and have issued our report thereon dated November 4, 2014. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 65.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Mexico Military 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 New Mexico Military Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of New Mexico Military 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Heinfeld, Meech & Co., P.C.

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

November 4, 2014

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by OMB Circular A-133**

Independent Auditor's Report

Mr. Hector H. Balderas
New Mexico State Auditor

Board of Regents
New Mexico Military Institute

Report on Compliance for Each Major Federal Program

We have audited New Mexico Military Institute's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of New Mexico Military Institute's major federal programs for the year ended June 30, 2014. New Mexico Military 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of New Mexico Military 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about New Mexico Military Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, New Mexico Military 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, 2014.

Report on Internal Control Over Compliance

Management of New Mexico Military 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 New Mexico Military 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Mexico Military 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.

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

November 4, 2014



NEW MEXICO MILITARY INSTITUTE
Schedule of Expenditures of Federal Awards
June 30, 2014



	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
Federal Grantor/Pass-Through Grantor/Program Title			
U.S. Department of Education			
Direct Programs			
Student Financial Aid Cluster – Federal Supplemental Educational Opportunity Grants	84.007	N/A	\$ 82,619
Federal Work-Study Program	84.033	N/A	12,233
Federal Pell Grant Program	84.063	N/A	<u>687,188</u>
Total Student Financial Assistance Cluster			782,040
Fund for the Improvement of Postsecondary Education	84.116	N/A	<u>48,638</u>
Total U.S. Department of Education Programs			<u>830,678</u>
U.S. Department of the Army			
Direct Programs			
ROTC	12.Unknown	DAFK 57-92-H-0422	111,062
JROTC	12.Unknown	DAFK 57-91-H-0422	<u>132,142</u>
Total U.S. Department of the Army Programs			<u>243,204</u>
Total			<u>\$ 1,073,882</u>

NOTE 1 - BASIS OF PRESENTATION

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Domestic Assistance*.



NEW MEXICO MILITARY INSTITUTE

Schedule Findings and Questioned Costs

June 30, 2014



SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

 yes X no

Identification of major programs:

CFDA Numbers
84.007, 84.033, 84.063

Name of Federal Program or Cluster
Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes no



NEW MEXICO MILITARY INSTITUTE

Schedule Findings and Questioned Costs

June 30, 2014



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

None reported.

SECTION III – FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

None reported.



NEW MEXICO MILITARY INSTITUTE
Summary of Schedule of Prior Audit Findings
June 30, 2014



Status of Federal Award Findings and Questioned Costs

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



NEW MEXICO MILITARY INSTITUTE

Exit Conference
June 30, 2014



The contents of this report were discussed at an exit conference held on November 3, 2014. The following individuals attended:

Board of Regents

Jesse F. Eckel, President

New Mexico Military Institute

MG Jerry W. Grizzle, President/Superintendent

COL David West, Chief of Staff

COL Judy Scharmer, Chief Financial Officer

LTC Charles C. Hendrickson, Assistant Chief Financial Officer

LTC Sonya Rodriguez, Director for Admissions and Financial Aid

MAJ Monica Garcia, Assistant Director for Admissions and Financial Aid

LTC David Gray, Internal Auditor

New Mexico Military Foundation, Inc.

Jimmy Barnes, President and Chief Executive Officer

Heinfeld, Meech & Co., P.C.

Corey Arvizu, CPA, Partner

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

