



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Financial Statements
With Independent Auditor's
Report Thereon
For the Year Ended June 30, 2015





NEW MEXICO MILITARY INSTITUTE
Roswell, NM



INTRODUCTORY SECTION





NEW MEXICO MILITARY INSTITUTE
Roswell, NM



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June 30, 2015

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NEW MEXICO MILITARY INSTITUTE
Roswell, NM



Official Roster
June 30, 2015

Board of Regents

Ex Officio Members:

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

Governor of the State of New Mexico
Secretary of Higher Education

Appointed Members:

Jesse Eckel
Timothy Paul
Phillip Ingram
COL Barbara Trent
Stirling Spencer

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
COL Charles C. Hendrickson
LTC Steve Davis
LTC Sonya Rodriguez
Mr. Kent Taylor
LTC Hubert Stephens
Mr. Duane Elms
COL Jose Barron

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



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
New Mexico Military Institute
and
Mr. Tim Keller, New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the New Mexico Military Institute (the "Institute"), as of and for the year ended June 30, 2015, 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 budget comparisons presented as supplementary information, as defined by the Government Accounting Standards Board, in the accompanying financial statements as of and for the year ended June 30, 2015, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Institute, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 budgetary comparisons for the years ended June 30, 2015 in conformity with the budgetary basis of accounting prescribed by the New Mexico Administrative Code, as more fully described in the budgetary schedules, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1 to the financial statements, effective July 1, 2014 the Institute adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinions are 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, Schedule of the Institute's Proportionate Share of the Net Pension Liability, and Schedule of the Institute's Contributions on pages 9-22, 54, and 55, respectively, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute's basic financial statements and budget comparisons. The accompanying *Schedule of Expenditures of Federal Awards as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and other schedules required by Section 2.2.2.NMAC* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Schedule of Vendor Information required by 2.2.2.10(A)(2)(g) NMAC has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

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

Axiom CPAs and Business Advisors, LLC
Albuquerque, New Mexico
October 22, 2015



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



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, 2015 with selective comparative information for the year ending June 30, 2014. 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). The Statement of Net Position reflects the implementation of GASB Statement 68 for the year ending June 30, 2015. With the new reporting change, the Institute is allocated its proportionate share of the Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$26,311,849. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Institute's management.

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.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



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.

SUMMARY STATEMENT OF NET POSITION

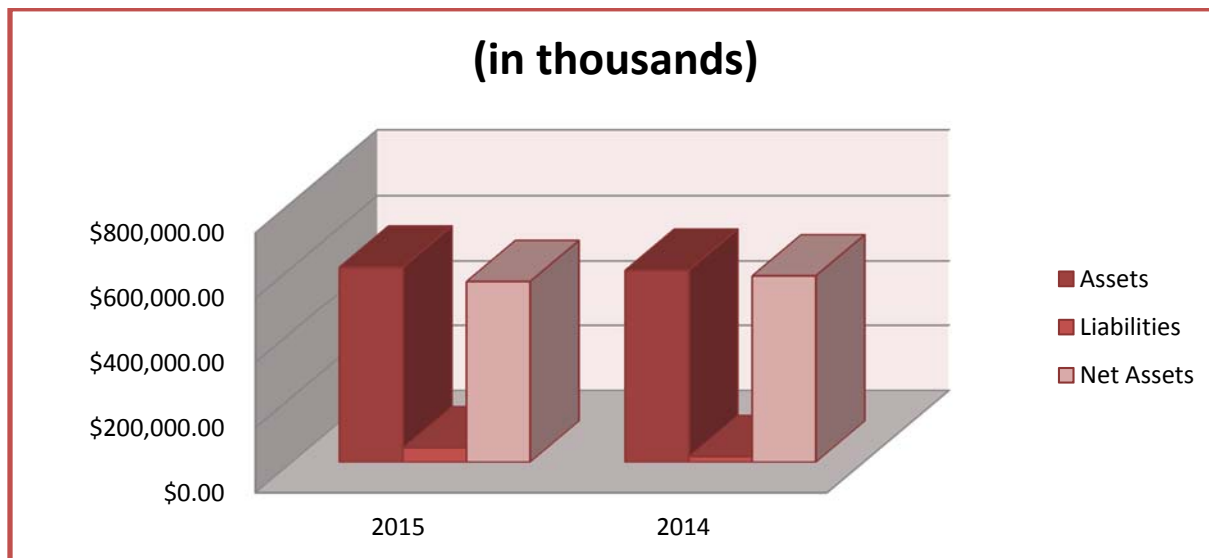
	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets	\$ 21,448,611	\$ 32,695,680
Capital assets, net	71,981,192	60,414,073
Non-current assets	<u>507,244,193</u>	<u>498,021,342</u>
Total assets	<u>\$ 600,673,996</u>	<u>\$ 591,131,095</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	<u>\$ 2,732,335</u>	\$ -
Total deferred outflows of resources	<u>\$ 2,732,335</u>	<u>\$ -</u>
LIABILITIES		
Current liabilities	\$ 4,657,893	\$ 5,808,279
Net pension liability	26,531,069	-
Non-current liabilities	<u>10,176,972</u>	<u>11,235,085</u>
Total liabilities	<u>\$ 41,365,934</u>	<u>\$ 17,043,364</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	<u>\$ 2,807,032</u>	\$ -
Total deferred inflows of resources	<u>\$ 2,807,032</u>	<u>\$ -</u>
NET POSITION		
Net investment in capital assets	\$ 48,431,105	\$ 48,178,988
Restricted	455,501,610	503,300,714
Unrestricted	<u>52,568,315</u>	<u>22,608,029</u>
Total net position	<u>\$ 556,501,030</u>	<u>\$ 574,087,731</u>



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



ASSETS, LIABILITIES AND NET POSITION



Statement of Net Position Highlights:

Assets

Current Assets

Current assets consists primarily of cash and cash equivalents, short-term investments of operating funds and debt proceeds to be used for capital improvements, accounts and notes receivable and other assets that are deemed to be consumed or convertible to cash within one year. The most significant current assets of the Institute at June 30, 2015 and 2014 are cash and cash equivalents and short term investments totaling \$18,685,281 and \$29,173,964, respectively. The decrease in current assets in 2015 is primarily due to debt proceeds used for capital improvements.

Capital Assets

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



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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The increase in capital assets of \$14,327,627 during fiscal year 2015 can be attributed to the construction costs for Lusk Hall and Bates Hall.

- As of June 30, 2015, NMMI substantially completed the multi-year project renovation of Lusk Hall. Approximately \$8 million was capitalized to NMMI's total Buildings. The project consisted of 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. \$5 million of the project was derived from the state's 2012 General Obligation Bonds and the remaining came from NMMI reserves.
- The ongoing renovation of the Bates Dining Hall is attributable to approximately \$8.2 million of construction costs. Renovation - \$9 million project. Bates Hall 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. Additionally, the building was reconfigured to house a laundry facility and modern book store. The funding of this project is through NMMI's Series 2013 System Revenue Bonds further detailed in note 6 to the basic financial statements.





In December 2014, the Institute's Board of Regents approved the funding for the renovation of Marshall Hall which currently houses the campus infirmary and the Campus Police Department for \$5 million. NMMI was approved for Marshall Hall from the 2014 General Obligation Bonds. The design and construction is anticipated to cross over multiple years.

At June 30, 2015, the Institute had \$71,981,192 invested in capital assets, net of accumulated depreciation of \$56,265,876. Depreciation charges for the current year totaled \$2,874,461 compared to \$3,001,169 in 2014.

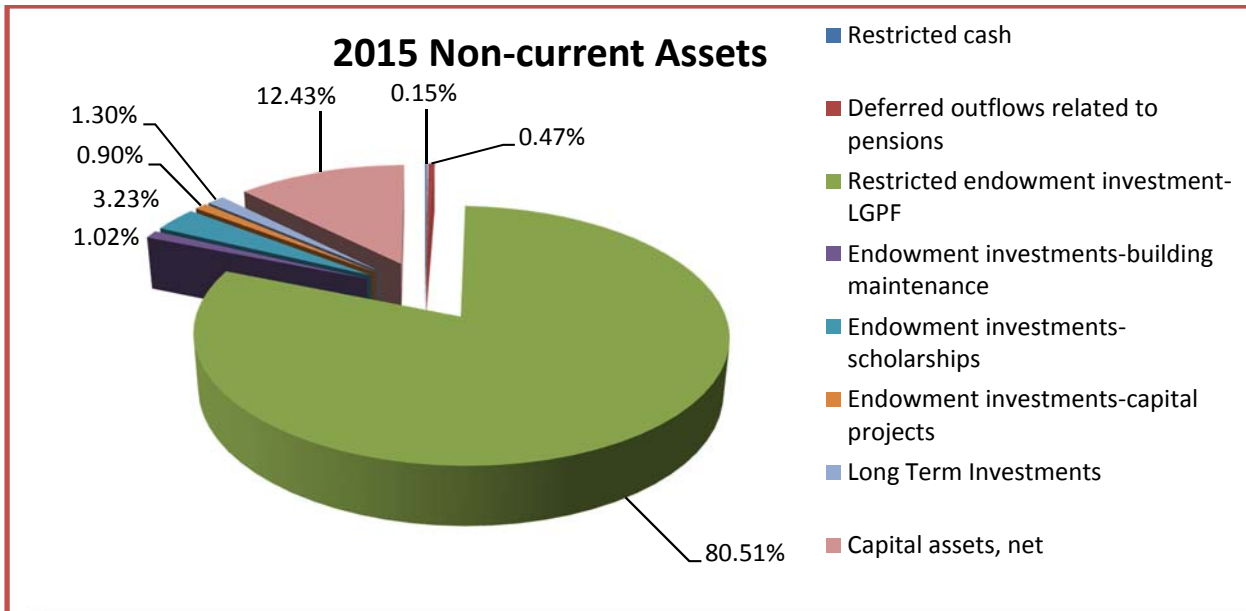


NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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Non-Current Assets

The largest category of non-current assets is the Institute's undivided interest in the State Land Grant Permanent Fund (SLGPF) of \$466,313,369 and \$459,994,534 at June 30, 2015 and 2014, respectively.



Debt

As of June 30, 2015, NMMI has debt of \$10.8 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>2015</u>	<u>2014</u>
Bonds payable, current	\$ 1,010,000	\$ 1,000,000
Bonds payable, long-term	<u>9,760,000</u>	<u>10,770,000</u>
Total Bonds Payable	<u>\$ 10,770,000</u>	<u>\$ 11,770,000</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
Management's Discussion and Analysis
June 30, 2015



At June 30, 2015, the Institute's current ratio, the amount of current assets (\$21,448,611) available to cover current liabilities (\$4,657,893) was 4.60 to 1.

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.

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 \$71,981,192 as of June 30, 2015.

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 \$466,313,369, 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 \$20,036,425 as of June 30, 2015.

Unrestricted net position increased from 2014 by \$9,923,861 to a total of \$32,531,890. 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 (\$52,568,315) to operations expense (\$35,526,426) 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, 2015.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
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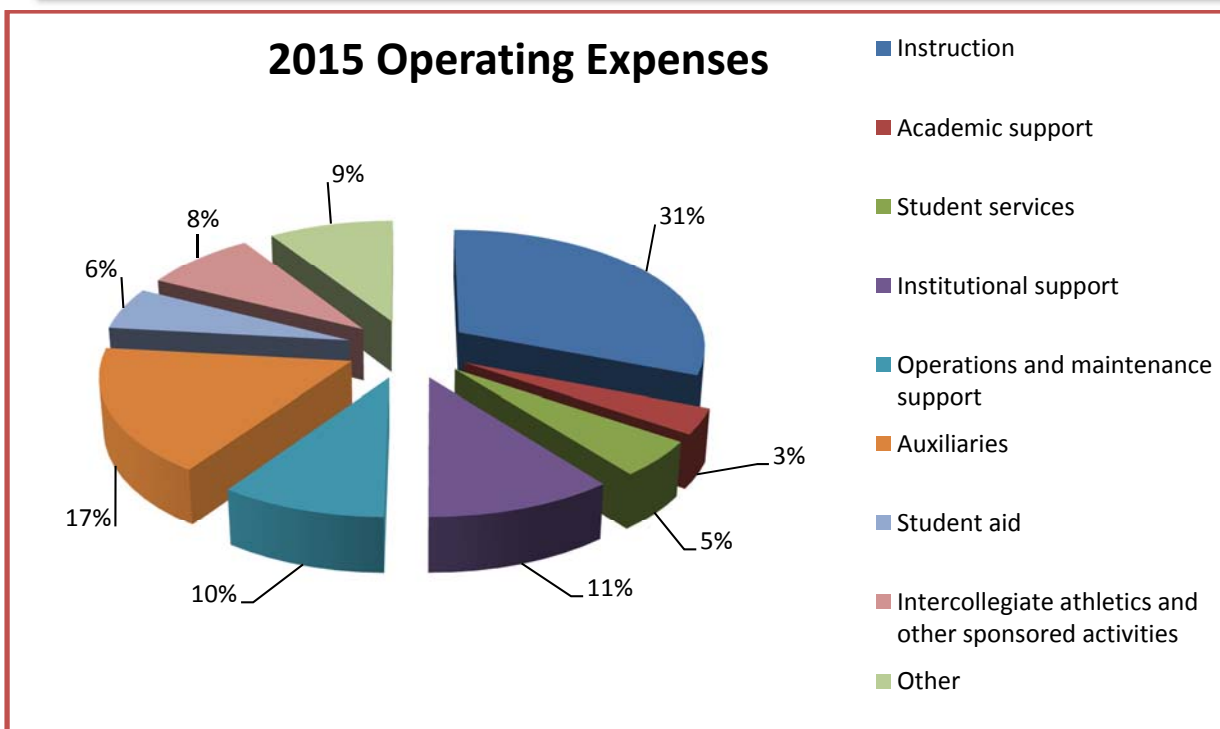
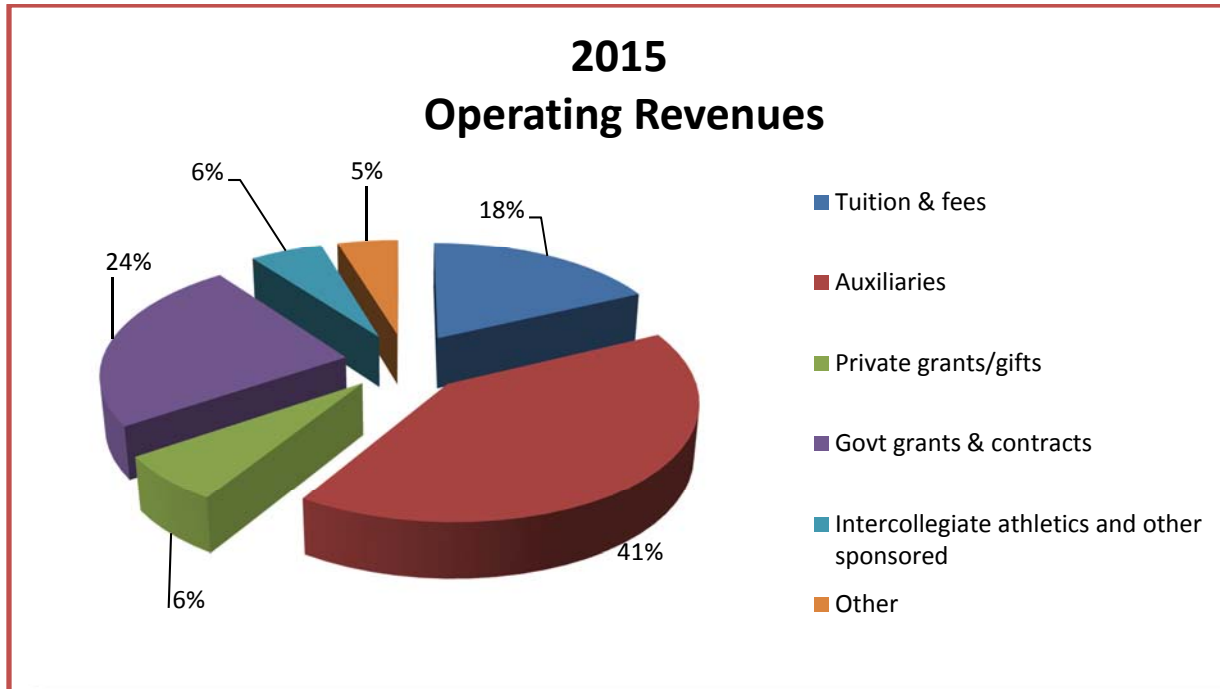


Summary Statement of Revenues, Expense and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenue by Major Source		
Tuition	\$ 2,938,614	\$ 3,054,061
Auxiliaries	6,726,433	6,634,119
Private grants/gifts	1,072,040	853,816
Governmental grants and contracts	3,992,840	3,361,259
Intercollegiate athletics and other sponsored activities	913,209	852,105
Other	763,930	477,194
	<u>\$ 16,407,066</u>	<u>\$ 15,232,554</u>
Operating Expense by Major Function		
Instruction	\$ 11,053,162	\$ 10,242,857
Academic support	1,246,782	1,207,227
Student services	1,756,208	1,654,863
Institutional support	3,849,670	3,594,612
Operations and maintenance support	3,384,477	3,277,005
Auxiliaries	6,024,790	5,897,542
Student aid	2,010,141	1,914,439
Intercollegiate athletics and other sponsored activities	2,951,334	2,967,044
Other	3,249,862	3,238,723
	<u>\$ 35,526,426</u>	<u>\$ 33,994,312</u>
Non-operating Revenue (Expense)		
Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund	\$ 26,585,397	\$ 80,604,084
Other	(23,282)	(58,950)
	<u>\$ 26,562,115</u>	<u>\$ 80,545,134</u>
Income (loss) before other revenue, expense, gains and losses	\$ 7,442,755	\$ 61,783,376
Capital grants	1,282,393	316,968
Total increase (decrease) in net position	<u>\$ 8,725,148</u>	<u>\$ 62,100,344</u>
Net position, beginning of year (2015 as restated)	<u>\$ 547,775,882</u>	<u>\$ 511,987,387</u>
Net position, end of year	<u>\$ 556,501,030</u>	<u>\$ 574,087,731</u>



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



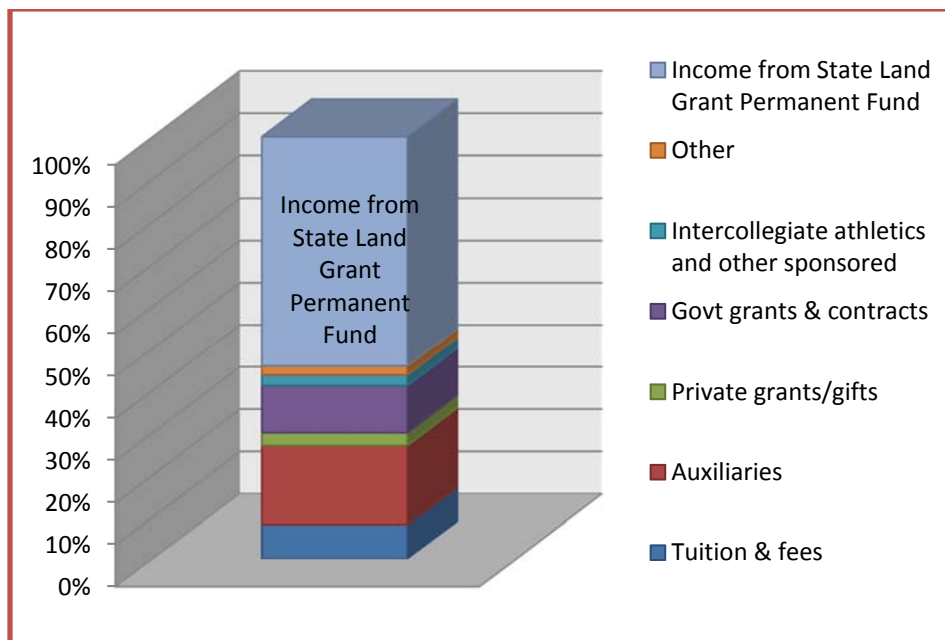


NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



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 54.23% of total operating revenues for 2015. 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

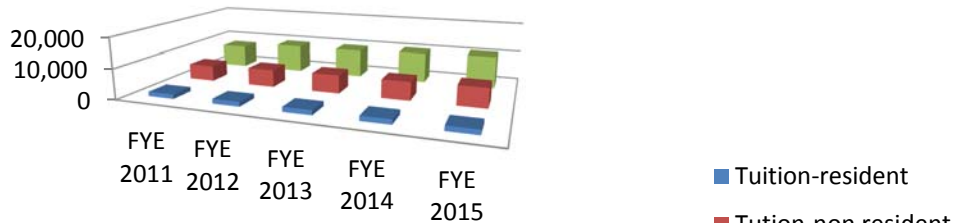
Operating revenues for the Institute increased 7.71% for 2015 over 2014 which was attributable to an increase in the state appropriation awards for the Richard T. Knowles Legislative Scholarship as well as additional room and board fees assessed to cadets; however, tuition for resident students remained the same as 2013.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



Tuition and Fees History



	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
Tuition-resident	1,452	1,525	1,571	1,571	1,571
Tuition-non resident	5,215	5,800	6,090	6,090	6,516
Fees	7,676	9,441	9,529	10,135	10,738

The operating expenses increased \$1,532,114 from 2014. The increase in 2015 was mainly attributable to an increase in various costs mainly related to Instruction and Institutional Support as well as a GASB 68 pension adjustment of \$293,917. The Institute continues in its quest to allocate its resources in areas to advance NMMI's vision and constitutional mission.

Non-Operating Revenues

The primary source of revenue for the New Mexico Military Institute is the distributions from the Land Grant Permanent Funds, which are held for investment by the State Investment Council. Permanent Fund distributions for 2015 increased from 2014 in the amount of \$1,437,437 which is a result of an increase to the five-year market average of the Permanent Fund Endowment ending December 31, 2014. Income received from the State Land Office and the Land Grant Permanent Fund was \$446,927 and \$18,991,344, 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 2015 and 2014. Both years' results are primarily the result of volatile fluctuations in the market value of investments held in trust for the State Land Grant Permanent Fund as noted above.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Net cash used by operating activities	\$ (17,489,190)	\$ (14,234,471)
Net cash provided (used) by non-capital financing activities	(86,759)	18,971
Net cash provided by investing activities	19,343,136	16,384,783
Net cash provided (used) by capital and related financing activities	<u>(12,894,174)</u>	<u>7,940,119</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (11,126,987)</u>	<u>\$ 10,109,402</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 \$183,115 greater than the final budget. The overall actual expenditures were \$7,700,914 lower than budgeted, of which \$4,590,906 (60%) is attributable to the Capital Projects and Renewal and Replacement budgets. These projects are typically multi-year of which are conservatively over-estimated to enable the Institute to have the appropriate level of spending authority to maintain budgetary flexibility to address unforeseen construction contingencies and timing differences. The actual change in net position on a budgetary basis created a positive budget variance of \$7,884,029 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.

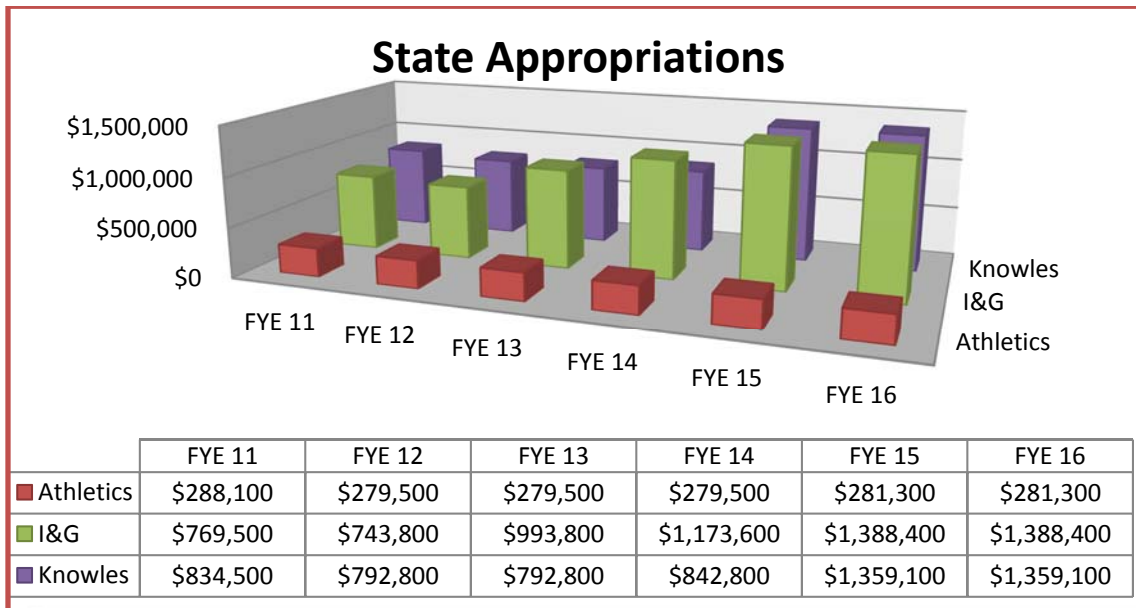


NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



Economic Factors Impacting Future Periods

The Institute is preparing for its 125th anniversary in 2016. The Institute has been an integral part New Mexico's history and its mission in educating the young men and women who reside in the Land of Enchantment. The economic outlook as of the August 19, 2015 General Fund Consensus Revenue Forecast remains stable with an estimate of "new money" at \$293 million for FY17. NMMI is not included in the New Mexico Higher Education funding formula calculation; however, NMMI does receive State Appropriations, one of which is specifically restricted to the Knowles Legislative Scholarship program. NMMI anticipates continued support from the Legislators to maintain this funding. See below a five-year historical summary of State Appropriations:



Additionally, as noted previously, NMMI receives over half of its funding from the Land Grant Permanent Fund (LGPF). In accordance with the 2003 New Mexico Constitutional Amendment 2, the annual distribution will scale down to 5.0% beginning July 1, 2016 from its current 5.5%. Due to the lowered distribution percentage and the weaker oil and gas prices, the Institute is cautiously monitoring the performance of the LGPF and its possible impact on the Institute.



NEW MEXICO MILITARY INSTITUTE
Management's Discussion and Analysis
June 30, 2015



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 2014-2015 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, 2015**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,828,158	\$ 812,367
Restricted cash and cash equivalents	6,208,497	-
Short-term investments	3,648,626	-
Prepaid expenses	-	12,533
Pledges receivable, net of allowance	-	47,893
Student accounts receivable, net of allowance for doubtful receivables of \$1,305,000	147,265	-
Receivable from NMMI Foundation	381,498	-
Other accounts receivable	2,101,445	24,695
Prepaid expense	31,042	-
Inventories	<u>102,080</u>	<u>-</u>
Total current assets	<u>21,448,611</u>	<u>897,488</u>
Non-current Assets:		
Restricted cash and cash equivalents	882,931	-
Land and buildings held for investment	-	6,357,662
Pledges receivable, net of allowance	-	371,650
Surrender value of life insurance policies	-	663,347
Endowment investments, Land Grant Permanent Fund	466,313,369	-
Endowment investments, scholarships	18,712,136	-
Endowment investments, capital projects	5,190,588	-
Endowment investments, building maintenance	5,887,657	-
Long-term investments	7,525,177	40,049,764
Beneficial interest in perpetual trust	-	715,849
Other assets	-	50,000
Capital assets, net of accumulated depreciation	<u>71,981,192</u>	<u>99</u>
Total non-current assets	<u>576,493,050</u>	<u>48,208,371</u>
Total assets	<u>597,941,661</u>	<u>49,105,859</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	<u>2,732,335</u>	<u>-</u>
Total deferred outflows	<u>2,732,335</u>	<u>-</u>
Total Assets and Deferred Outflows	<u>\$ 600,673,996</u>	<u>\$ 49,105,859</u>

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



NEW MEXICO MILITARY INSTITUTE

**Statement of Net Position
June 30, 2015**



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,909,616	\$ 2,801
Accounts payable NMMI Foundation	5,102	-
Accrued compensated absences	547,693	17,251
Payable to NMMI	-	381,498
Unearned revenues	-	11,526
Other credits	534,926	-
Funds held for others	650,556	-
Bonds payable-current portion	1,010,000	-
Annuity obligations	-	394,518
Other payables	-	<u>16,660</u>
Total current liabilities	<u>4,657,893</u>	<u>824,254</u>
Non-current Liabilities:		
Bonds payable – long term portion	9,760,000	-
Bond premium	416,972	-
Net pension liability	<u>26,531,069</u>	-
Total non-current liabilities	<u>36,708,041</u>	-
Total liabilities	<u>41,365,934</u>	<u>824,254</u>
DEFERRED INFLOWS OF RESOURCES		
Pension related	<u>2,807,032</u>	-
Total deferred inflow of resources	<u>2,807,032</u>	-
NET POSITION		
Net investment in capital assets	48,431,105	-
Restricted for		
Non-expendable:		
Restricted, Land Grant Permanent Fund at State Investment Council	466,313,369	-
Restricted, scholarships at State Investment Council	10,094,007	-
Restricted, building maintenance	3,700,000	-
Restricted, capital projects	2,000,000	-
Permanently restricted, NMMI Foundation	-	19,520,530
Expendable:		
Term endowments, scholarships	9,838,168	-
Capital Projects	7,356,342	-
Building maintenance	2,359,804	-
Debt service	482,111	-
Temporarily restricted, NMMI Foundation	-	11,253,067
Unrestricted	<u>5,926,124</u>	<u>17,508,008</u>
Total net position	<u>556,501,030</u>	<u>48,281,605</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 600,673,996</u>	<u>\$49,105,859</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, 2015



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
Operating revenues:		
Tuition and fees	\$ 2,938,614	\$ -
Contributions	-	1,174,806
	<u>2,938,614</u>	<u>1,174,806</u>
Federal grants and contracts	924,528	-
State grants and contracts	3,068,312	-
Private grants and contracts	1,072,040	-
Other sponsored activities	524,252	-
Auxiliary enterprises	6,726,433	-
Intercollegiate athletics	388,957	-
Internal service department	326,668	-
Other	437,262	12,703
Rental income	-	368,886
Total operating revenues	<u>16,407,066</u>	<u>1,556,395</u>
Expenses:		
Instruction and general:		
Instruction	11,053,162	-
Academic support	1,246,782	-
Student services	1,756,208	-
Institutional support	3,849,670	-
Operations and maintenance support	<u>3,384,477</u>	-
Total instruction and general expenses	21,290,299	-
Other sponsored activities	485,195	-
Student aid grants and stipends	2,010,141	-
Auxiliary enterprises	6,024,790	-
Intercollegiate athletics	2,466,139	-
Internal service department	303,542	-
Supporting services	-	270,598
Minor capital outlay operations	71,859	-
Program services	-	1,795,377
Real estate expenses	-	44,875
Depreciation	<u>2,874,461</u>	-
Total expenses	<u>35,526,426</u>	<u>2,110,850</u>
Operating loss	<u>\$ (19,119,360)</u>	<u>\$ (554,455)</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, 2015**



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
Non-operating revenues (expenses):		
Investment income	\$ 7,147,126	\$ 1,198,000
Loss on sale of assets	-	(7,373)
Change in cash value of life insurance	-	(13,101)
Income from State Land Office	446,927	-
Income from State Land Grant Permanent Fund	18,991,344	-
Other income	265,024	-
Interest on capital asset related to debt	(288,306)	-
Net non-operating revenues (expenses)	<u>26,562,115</u>	<u>1,177,526</u>
Income before other revenues, expenses, gains and losses	<u>7,442,755</u>	<u>623,071</u>
Other:		
Capital grants, net	<u>1,282,393</u>	-
Net other revenues	<u>1,282,393</u>	-
Change in net position	8,725,148	623,071
Net position, beginning of year	574,087,731	47,658,534
Beginning net position recognized by GASB 68 (note 2)	<u>(26,311,849)</u>	-
Net position, end of year	<u>\$ 556,501,030</u>	<u>\$ 48,281,605</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, 2015**



	<u>Primary Government</u>
	<u>NMMI</u>
Cash flows from operating activities:	
Tuition and fees	\$ 2,881,690
Grants and contracts	4,056,871
Sales and services of educational activities	6,726,888
Other operating receipts	1,178,728
Payments to employees for salaries and benefits	(18,440,620)
Payments to suppliers	(12,696,828)
Grants issued to students	<u>(1,195,919)</u>
Net cash used for operating activities	<u>(17,489,190)</u>
Cash flows from non-capital financing activities:	
Agency receipts	2,250,536
Agency payments	<u>(2,337,295)</u>
Net cash used by non-capital financing activities	<u>(86,759)</u>
Cash flows from investment activities:	
Cash distribution from State Land Grant Permanent Fund	18,869,198
Cash distribution from State Land Office	446,927
Other investment income	76,723
Cash received from scholarship gifts	250
Cash transferred to investment accounts	77,206
Cash payment of trust expenses	<u>(127,168)</u>
Net cash provided by investing activities	<u>19,343,136</u>
Cash flows from capital and related financing activities:	
Cash paid for capital assets	(15,284,121)
Cash received on capital grants	4,546,839
Cash paid for renewal and replacement of assets	(787,790)
Other receipts	168,517
Repayments of capital debt	(1,211,961)
Interest paid on capital debt	<u>(325,658)</u>
Net cash used for capital and related financing activities	<u>(12,894,174)</u>
Net decrease in cash and cash equivalents	(11,126,987)
Cash and cash equivalents, beginning of year	<u>27,046,573</u>
Cash and cash equivalents, end of year	<u>\$ 15,919,586</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, 2015**



(continued)

	<u>Primary Government</u>
	<u>NMMI</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities	
Operating loss	\$ (19,119,360)
Adjustments to reconcile operating loss to net cash Used by operating activities:	
Depreciation expense	2,874,461
Pension expense	2,143,359
Employer pension contribution	(1,849,442)
Changes in assets and liabilities:	
Short-term investments	(120,824)
Accounts receivable	(381,929)
Inventories	(26,024)
Accounts payable and accrued expenses	(1,081,565)
Deferred income	121,664
Accrued benefits	(49,530)
Net cash used by operating activities	<u>\$ (17,489,190)</u>

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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

According to the Constitution of the State of New Mexico, the legislature shall provide for the control and management by a Board of Regents consisting of five members appointed by the Governor and confirmed by the State Senate for overlapping terms of six years. The State of New Mexico Constitution, Article XII, Section 13, also vests this control and management in the Board of Regents.

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

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

Basis of Accounting

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

For the year ended June 30, 2015, the Institute implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 69, *Government Combinations and Disposals of Governmental Operations*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits, see note 8.

Reporting Entity

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, requires an evaluation of the reporting entity and certain related parties, defined as potential component units. Depending on the results of the 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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the Institute.

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

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the Institute. The New Mexico State Auditor through Rule 2 of the NMAC 2.2.2 12E (5), requires the inclusion of this component unit in the reporting entity. Audit materiality for component units is at the component unit level. The decision to include a potential component unit in the Institute's reporting entity is based upon several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following discretely presented component unit is included in these financial statements:

New Mexico Military Institute Foundation, Inc.

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

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

The purpose of the Foundation is to create, maintain and administer assets for the benefit of the New Mexico Military Institute, a state educational institution, located in Roswell, New Mexico. The earnings from these assets are to be used for research, scientific and literacy purposes; for increasing the buildings, equipment and other facilities of the Institute: to provide for scholarships for Institute cadets and to promote general growth, welfare and maintenance of the Institute.

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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2015 is \$1,305,000.

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.

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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 depreciation of the Institute’s donor-restricted endowments that are available for expenditures by the governing board is \$7,804,400. This amount is reported in expendable scholarships, building maintenance and capital projects in the net assets of the primary government. New Mexico state law allows the governing body to spend the net appreciation. The Institute uses the total-return policy for authorizing and spending investment income.

Net depreciation of the Foundation’s donor-restricted endowments that are available for expenditures by the governing board is (\$107,793). This amount is reported in restricted scholarships at NMMI Foundation in the net assets of the component unit. New Mexico state law allows the governing body to spend net appreciation. The Foundation uses the total-return policy for authorizing and spending investment income.

Unrestricted Net 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.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements
June 30, 2015



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues

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

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) most Federal, state and local grants and contracts and Federal appropriations, and (3) interest on institutional student loans.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and 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, 2015.

Deferred Outflows and Inflows of Resources

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

Pension

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

NOTE 2: CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net position as previously reported at June 30, 2014	\$ 574,087,731
Prior period adjustment – implementation of GASB No. 68:	



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 2: CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

Net Pension Liability (measurement date as of June 30, 2013)	(27,997,272)
Deferred outflows – Institute contributions made during Fiscal year 2014	<u>1,685,423</u>
Total prior period adjustment	<u>26,311,849</u>
Net position as restated, July 1, 2014	<u>\$ 547,775,882</u>

NOTE 3: 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, 2015, 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	\$ 650,931	\$ 6,185,944	\$ 1,006,668
Checking Account Deposits	<u>8,241,023</u>	<u>-</u>	<u>-</u>
Total Deposits in Bank	<u>8,891,954</u>	<u>6,185,944</u>	<u>1,006,668</u>
Less: FDIC Insurance on Interest Bearing Accounts	(250,000)	-	(1,006,668)
FDIC Insurance on Checking Accounts	<u>(250,000)</u>	<u>-</u>	<u>-</u>
Uninsured Public Funds	<u>8,391,954</u>	<u>6,185,944</u>	<u>-</u>
Collateral Requirement 50%	4,195,977	-	-
Collateral Requirement 102%	-	6,309,663	-
Pledged Collateral Held by the Pledging Bank's Trust Department Not in the Agency's Name	<u>5,064,785</u>	<u>6,309,663</u>	<u>-</u>
Uninsured and Undercollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event of a bank failure, the Institute’s deposits may not be returned to it. The Institute has a policy to invest operating funds in financial instruments that are relatively safe based on the level of collateralization provided by the financial institutions and have the highest rating from the national rating agencies. As of June 30, 2015, \$14,577,898 of the Institute’s bank balance of \$16,084,566 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>14,577,898</u>
Total		<u>\$ 14,577,898</u>

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 \$3,648,626 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 \$7,525,177 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

Sallie Mae Bank	\$	250,035
First Business Bank		250,038
Bank of China NY		250,068
Everbank		250,136
Ally Bank		250,388
Marlin Business Bank		250,517
Oriental Bank and Trust		250,181
Bank of North Carolina		249,838
Park Sterling Bank		250,833
GE Capital Bank		<u>251,956</u>
Total		2,503,990

Money market account	20,216
NM State Investment Council Investments	<u>1,124,420</u>
Total short-term investments	<u>\$ 3,648,626</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Long-term:

Brokered certificates of deposit

Cathay Bank	\$	251,109
Rio Rancho NM Pub S/D		255,718
JP Morgan Chase		249,717
Synovious Bank		251,115
GE Captal Bank		253,919
First Bank of Highland		250,057
Delta National Bank		249,430
Horizon Bank		251,383
CITI Bank		251,045
Compass Bank		248,541
Merrick Bank		250,298
Connectone Bank		251,855
BMW Bank		252,657
Third Federal Savings and Loan		251,873
SAFRA National Bank		249,484
Barclays Bank		251,666
American Express Bank		250,746
Sallie Mae Bank		250,691
State Bank of India NY		250,296
Comenity Capital		250,867
Goldman Sachs Bank		250,558
Discover Bank		248,233
American Express Bank		<u>247,806</u>
Total		5,769,064

NM State Investment Council Investments	<u>1,756,113</u>
Total long-term investments	<u>\$ 7,525,177</u>

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



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Pooled investments of the Institute consist of the following at June 30, 2015:

<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	\$12,781,061		39.12%	38.00%
Mid-Small	3,626,650		11.10%	11.00%
Non-U.S. Developed Equity	3,825,769		11.71%	12.00%
Emerging Markets	<u>924,626</u>		<u>2.83%</u>	<u>3.00%</u>
Total Equity	\$21,158,106		64.76%	64.00%
Core Bonds	<u>11,512,808</u>	1-5 years	<u>35.24%</u>	<u>36.00%</u>
Total Investment Pool	<u>\$32,670,914</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.
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.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 3: CASH AND INVESTMENTS (CONTINUED)

- 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, 2015 the fair value of such interest was \$466,313,369. These investments are not categorized by custodial risk.

Investment Income (Loss)

Investment income (loss) consists of the following for the year ended June 30, 2015:

	Daniels							
	Land Grant Permanent Fund	Leadership Center Bldg Maintenance	Patterson Construction Endowment	Scholarship Trust Fund	Capital Project Fund	Unrestricted Funds		Total
Investment Income (loss)	\$ (439,804)	\$ -	\$ -	\$ 76,673	\$ -	\$ -		\$ (363,131)
Realized gains (losses)	18,711,787	66,545	(13,498)	167,467	27,778	-		18,960,079
Unrealized gains (losses)	(11,953,148)	51,444	44,360	156,217	14,824	236,481		(11,449,822)
	<u>\$ 6,318,835</u>	<u>\$ 117,989</u>	<u>\$ 30,862</u>	<u>\$ 400,357</u>	<u>\$ 42,602</u>	<u>\$ 236,481</u>		<u>\$ 7,147,126</u>

During the year ended June 30, 2015, \$18,991,344 in cash was distributed to NMMI from the State Land Grant Permanent Fund. NMMI also received distributions of \$96,257 from the Patterson Construction Endowment Fund and \$200,000 from the DLC Maintenance Endowment Fund. Also, NMMI transferred \$219,051 into the Legislative Scholarship Endowment Fund during the year ended June 30, 2015.

**NEW MEXICO MILITARY INSTITUTE****Notes to the Financial Statements
June 30, 2015****NOTE 4: CAPITAL ASSETS**

The following are the changes in capital assets:

	Beginning				Ending
	Balance	Additions	Retirements	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 731,037	\$ 5,000	\$ -	\$ -	\$ 736,037
Construction in progress	3,275,453	13,696,180	-	(7,856,885)	9,114,748
Artwork	810,791	-	-	-	810,791
Total Capital Assets Not Being Depreciated	4,817,281	13,701,180	-	(7,856,885)	10,661,576
Capital Assets Being Depreciated:					
Buildings	91,221,913	378,709	-	7,856,885	99,457,507
Furniture, fixtures and equipment	9,574,767	310,909	(110,327)	-	9,775,349
Leased equipment	170,040	-	-	-	170,040
Library books	683,213	26,455	-	-	709,668
Infrastructure	5,409,130	-	-	-	5,409,130
Land improvements	1,485,834	-	-	-	1,485,834
Vehicles and golf carts	557,263	36,700	(15,999)	-	577,964
Total at Historical Cost	109,102,160	752,773	(126,326)	7,856,885	117,585,492
Less Accumulated Depreciation:					
Buildings	42,579,405	2,178,504	-	-	44,757,909
Furniture, fixtures and equipment	8,214,115	494,473	(97,954)	-	8,610,634
Leased equipment	170,040	-	-	-	170,040
Library books	545,386	42,560	-	-	587,946
Infrastructure	1,181,186	131,073	-	-	1,312,259
Land improvements	354,915	5,879	-	-	360,794
Vehicles and golf carts	460,321	21,972	(15,999)	-	466,294
Total Accumulated Depreciation	53,505,368	2,874,461	(113,953)	-	56,265,876
Total Capital Assets, Net	\$ 60,414,073	\$ 11,579,492	\$ (12,373)	\$ -	\$ 71,981,192



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 5: 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 \$265,207 in fiscal year 2015.

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

2016	\$ 286,351
2017	309,559
2018	<u>7,710</u>
	<u>\$ 603,620</u>

At June 30, 2015 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, 2015 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 6: 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, 2015**



NOTE 6: BONDS PAYABLE (CONTINUED)

expected to require less than 7% of gross revenues. Total current revenues were \$22.5 million and the total principal and interest paid on the bonds was \$1,325,658, or 5.862% of gross revenues.

The bond interest expense incurred for the fiscal years 2015 and 2014 was \$325,658 and \$176,469 respectively.

Total Institute issued bonds and outstanding at June 30, 2015 and 2014 consisted of:

	Total Issued	Outstanding	
		2015	2014
Series Improvement Revenue Bonds			
Series 2013A (2.000% - 4.000%) final maturity 2028	\$ 8,935,000	\$ 8,935,000	\$ 8,935,000
Series Improvement Revenue Bonds			
Series 2013B (.456% - 1.880%) final maturity 2017	3,980,000	1,835,000	2,835,000
Total bonds payable	<u>12,915,000</u>	<u>10,770,000</u>	<u>11,770,000</u>
Plus unamortized net premium	<u>465,085</u>	<u>416,972</u>	<u>465,085</u>
Bonds payable, net	<u>\$ 13,380,085</u>	<u>\$ 11,186,972</u>	<u>\$ 12,235,085</u>

The maturity schedule for the Institute bonds payable at June 30, 2015, follows:

Year ending June 30,	Principal	Interest
2016	\$ 1,010,000	\$ 318,148
2017	1,020,000	306,210
2018	1,040,000	286,800
2019	670,000	266,000
2020	685,000	252,600
2021-2025	3,745,000	934,900
2026-2028	<u>2,600,000</u>	<u>210,600</u>
Total	<u>\$ 10,770,000</u>	<u>\$ 2,575,258</u>



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 7: LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015 is as follows:

	Beginning	Additions	Retirements	Ending
Long term bonds payable	\$ 11,235,085	\$ -	\$ 1,058,113	\$ 10,176,972
Current portion of bonds payable	1,000,000	1,010,000	1,000,000	1,010,000
	<u>12,235,085</u>	<u>1,010,000</u>	<u>2,058,113</u>	<u>11,186,972</u>
Net pension liability/deferred inflows	<u>\$ -</u>	<u>\$ 29,338,101</u>	<u>\$ -</u>	<u>\$ 29,338,101</u>

NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD

General Information about the Pension Plan

Plan description. ERB was created by the state’s Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees’ Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state’s public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

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

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member’s age and earned service credit add up to the sum or 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. The eligibility for a member who either becomes a new member on or after July 1, 2010, or at any time prior to that date refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member’s age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit is reduced to provide for a 50% survivor's benefit.

Retired members and surviving beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) to their benefit each July 1, beginning in the year the member attains or would have attained age 65 or on July 1 of the year following the member's retirement date, whichever is later. Prior to June 30, 2013 the COLA adjustment was equal to one-half the change in the Consumer Price Index (CPI), except that the COLA shall not exceed 4% nor be less than 2%, unless the change in CPI is less than 2%, in which case, the Cola would equal the change in the CPI, but never less than zero. As of July 1, 2013, for current and future retirees the COLA was immediately reduced until the plan is 100% funded. The COLA reduction was based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. All other retirees will have a 20% COLA reduction; their average COLA will be 1.6%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%. All other retirees will have a 10% COLA reduction; their average will be 1.8%. Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement.

A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Contributions. The contribution requirements of defined benefit plan members and the Institute are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal year ended June 30, 2014 employers contributed 13.15% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.10% of their gross annual salary. For fiscal year ended June 30, 2015 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed an increased amount of 10.70% of their gross annual salary. Contributions to the pension plan from the Institute were \$1,849,442 for the year ended June 30, 2015.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2014. At June 30, 2015, the Institute reported a liability of \$26,531,069 for its proportionate share of the net pension liability. The Institute’s proportion of the net pension liability is based on the employer contributing entity’s percentage of total employer contributions for the fiscal year ended June 30, 2014. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2014, the Institute’s proportion was 0.46499 percent, which was an increase of 0.01895 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Institute recognized pension expense of \$2,143,359. At June 30, 2015, the Institute reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	<u>Deferred Outflows Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 395,222
Changes of assumptions	882,893	-
Net difference between projected and actual earnings on pension plan investments	-	2,411,810
Changes in proportion and differences between the Institutes contributions and proportionate share of contributions	-	-
Institute’s contributions subsequent to the measurement date	<u>1,849,442</u>	<u>-</u>
Total	<u>\$ 2,732,335</u>	<u>\$ 2,807,032</u>

\$1,849,442 reported as deferred outflows of resources related to pensions resulting from Institute contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$433,619
2017	433,619
2018	453,938
2019	602,949
2020	-



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

Actuarial assumptions. As described above, the total ERB pension liability and net pension liability are based on an actuarial valuation performed as of June 30, 2013. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2014 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2014. Specifically, the liabilities measured as of June 30, 2014 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.10% during the fiscal year ending June 30, 2014 and 10.7% thereafter.
2. Members hired after June 30, 2013 will have an actuarially reduced retirement benefit if they retire before age 55 and their COLA will be deferred until age 67.
3. COLAs for most retirees are reduced until ERB attains a 100% funded status.
4. These assumptions were adopted by ERB on April 26, 2013 in conjunction with the six-year experience study period ending June 30, 2012.

For the purposes of projecting future benefits, it is assumed that the full COLA is paid in all future years. The actuarial methods and assumptions used to determine contribution rates included in the measurement are as follows:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5 year smoothed market for funding valuation (fair value for financial valuation)
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table of age and service rates
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustment projected to 2014 using Scale AA (one year setback for females)

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: 1) rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.), 2) application of key economic projections (inflation, real growth, dividends, etc.), and 3) structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class. Best estimates of geometric real rates of return for each major asset class

**NEW MEXICO MILITARY INSTITUTE****Notes to the Financial Statements
June 30, 2015****NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)**

included in the Plan’s target asset allocation for 2014 and 2013 for 30- year return assumptions are summarized in the following table:

Asset Class	2014 Long-Term Expected Real Rate of Return	2013 Long-Term Expected Real Rate of Return
Cash	1.50%	0.75%
Treasuries	2.00%	1.00%
IG Corp Credit	3.50%	3.00%
MBS	2.25%	2.50%
Core Bonds	2.53%	2.04%
TIPS	2.50%	1.50%
High Yield Bonds	4.50%	5.00%
Bank Loans	5.00%	5.00%
Global Bonds (Unhedged)	1.25%	0.75%
Global Bonds (Hedged)	1.38%	0.93%
EMD External	5.00%	4.00%
EMD Local Currency	5.75%	5.00%
Large Cap Equities	6.25%	6.75%
Small/Mid Cap	6.25%	7.00%
International Equities (Unhedged)	7.25%	7.75%
International Equities (Hedged)	7.50%	8.00%
Emerging International Equities	9.50%	9.75%
Private Equity	8.75%	9.00%
Private Debt	8.00%	8.50%
Private Real Assets	7.75%	8.00%
Real Estate	6.25%	6.00%
Commodities	5.00%	5.00%
Hedge Funds Low Vol	5.50%	4.75%
Hedge Funds Mod Vol	5.50%	6.50%

Discount rate: A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2014 and June 30, 2013. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB’s defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five year contribution history.

Sensitivity of the Institute’s proportionate share of the net pension liability to changes in the discount rate. The following table presents the Institute’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Institute’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 8: PENSION PLAN – EDUCATIONAL RETIREMENT BOARD (CONTINUED)

	1% Decrease (6.75%)	Current Discount Rate	1% Increase (8.75%)
Institute’s Proportionate share of the net pension liability	<u>\$36,098,581</u>	<u>\$26,531,071</u>	<u>\$18,539,700</u>

Pension plan fiduciary net position. Detailed information about the ERB’s fiduciary net position is available in the separately issued audited financial statements as of and for June 30, 2014 and 2013 which are publicly available at www.nmerb.org.

Payables to the pension plan. At June 30, 2015 NMMI owed \$174,642 to the ERB which consisted of amounts withheld from employees and employer contributions for the month of June 2015.

NOTE 9: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

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

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

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person’s behalf unless that person retires before the employer’s RHCA effective date, in which 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



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 9: POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN (CONTINUED)

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, 2015, 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, 2015, 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.

The Institute's contributions to the RHCA for the years ended June 30, 2015, 2014 and 2013 were \$266,016, \$257,889 and \$245,824 in employer contributions, and \$133,653, \$128,706 and \$122,015 in employee contributions, respectively.

NOTE 10: 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, 2014 to June 30, 2015. Total premiums paid by the Institute for the years ending June 30, 2015 and 2014 were \$369,831 and \$322,561 respectively.

NOTE 11: NEW MEXICO MILITARY INSTITUTE FOUNDATION CASH AND INVESTMENTS

At June 30, 2015, the Foundation's deposits were \$812,367, and the bank balance was \$921,123. The balances were insured by the Federal Deposit Insurance Corporation.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



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

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, 2015 were comprised of the following:

<u>Managed Funds/Bonds</u>	<u>2015</u>	<u>Input Level</u>
Archstone Absolute Return Strategies Fund	\$ 3,417,954	2
CamCap Resources Offshore	932,297	2
Capital Group Emerging Markets	1,307,287	1
Dodge & Cox International Stock	4,117,271	1
Fortress Partners Offshore Fund	225,976	3
Longleaf Partners Small Cap Fund	940,075	1
Maverick Stable Fund LTD	2,125,147	2
Newport Asia Institutional	1,367,079	2
Rock Springs Equity	1,353,354	3
IR&M Core Bond Fund II	1,667,081	2
Vanguard Dividend Growth Fund	7,060,819	1
Vanguard Short Term Bond	1,697,885	1
Archipelago Holdings LTD	3,212,522	3
CTF Micro Cap Equity	1,386,844	2
CTF Research Equity	<u>9,238,173</u>	2
Total Foundation Investments	<u>\$ 40,049,764</u>	

Investment income (loss) consisted of the following for the year ended June 30, 2015.

	<u>2015</u>
Interest and dividend	\$ 464,319
Net unrealized gains	491,013
Net realized gains	350,331
Investment expenses	<u>(107,663)</u>
Total investment income	<u>\$ 1,198,000</u>

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

Land held for investment consists of various developed and undeveloped lots, primarily in the area of Roswell, New Mexico. All land held for investment is reported at market value using recent comparative sales, inquiries of appraisers, and actual appraisals to estimate the fair market value which represents level 3 inputs. Land is sold at the direction of the Board of Trustees.

NOTE 13: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LEASES

Lease agreements between the Foundation and tenants of its property are for terms up to sixty years and generally include provisions for escalation based upon the Consumer Price Index, as well as renewal options at the end of the primary term.



NEW MEXICO MILITARY INSTITUTE

**Notes to the Financial Statements
June 30, 2015**



NOTE 13: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LEASES (CONTINUED)

Minimum future rental income on non-cancelable leases as of June 30, are as follows:

2016	\$	294,648
2017		294,648
2018		294,648
2019		275,148
2020		236,654
Thereafter		<u>4,911,843</u>
Total minimum lease payments	\$	<u>6,307,589</u>

NOTE 14: NEW MEXICO MILITARY FOUNDATION - RELATED PARTY TRANSACTION

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the year ended June 30, 2015, \$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, 2015, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2015, \$381,498 was due to the Institute for operating expenses and support. For the year ended June 30, 2015, the Foundation provided \$1,795,377 in scholarships and awards for the benefit of Institute cadets and faculty.

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:	\$219,051
Amount Withdrawn in Current Year	\$296,257
Audit Responsibility:	N/A
Fiscal Agent:	New Mexico State Treasurer
Agency Where the Entity Reports:	N/A



NEW MEXICO MILITARY INSTITUTE

Notes to the Financial Statements June 30, 2015



NOTE 16: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2015, the Institute had completed a construction contract pertaining to the renovation of Lusk Hall. This project was 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 was June 30, 2016, and as of June 30, 2015, \$5,000,000 of these funds had been expended. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

Also as of June 30, 2015, the Institute had a project in progress 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 June 2016. 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, 2015 \$820,953 of these funds had been expended. The remaining commitment on this construction contract is approximately \$379,000. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

At June 30, 2015 the Institute was still in the process of a major renovation of Bates Hall, which is the primary dining facility on the NMMI campus. This project is expected to be completed by September 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, 2015 related to this project are \$9,093,223 and the remaining commitment on this construction contract is approximately \$300,000.

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 with the total project expected to cost \$600,000. The work on this project is expected to begin during the Spring of 2015 and be completed by June 30, 2016. The reversion date for these funds is June 30, 2018, and as of June 30, 2015 \$9,927 of these funds had been expended. The remaining commitment on this construction contract is approximately \$590,000. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

On March 25, 2015 the State of New Mexico sold General Obligation Bonds of which \$4,800,000 was allocated to the renovation of Marshall Hall on the campus of NMMI. The Institute will contribute an additional \$200,000 thus making this a \$5,000,000 project. These funds are meant to plan, design, construct, renovate as well as equip and furnish Marshall Hall. The reversion date for these funds is June 30, 2018 and as of June 30, 2015 \$21,525 of these funds have been expended. The remaining commitment on this construction contract is approximately \$4,975,000. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

The Institute does not have any funds that are non-reverting in nature, thus there is no related legislation to be disclosed in this regards and no related minimum balance requirements.



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



REQUIRED SUPPLEMENTAL INFORMATION





NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Proportionate Share of the
Net Pension Liability
Educational Retirement Board (ERB) Plan
Last 10 Fiscal Years*
June 30, 2015



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
NMMI's Proportion of the Net Pension Liability (Asset)	0.46499%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NMMI's Proportionate Share of Net Pension Liability (Asset)	\$26,531,069	-	-	-	-	-	-	-	-	-
NMMI's Covered-Employee Payroll	\$12,816,896	-	-	-	-	-	-	-	-	-
NMMI's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	207.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	198.85%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Institute will present information for those years for which information is available.



NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Contributions
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*
June 30, 2015



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
Contractually Required Contribution	\$ 2,143,359	-	-	-	-	-	-	-	-	-		
Contributions in Relation to the Contractually Required Contribution	1,849,442	-	-	-	-	-	-	-	-	-		
Contribution Deficiency (Excess)	\$ 293,917	-	-	-	-	-	-	-	-	-		
Institute's covered employee payroll	\$ 12,816,896											
Contributions as a percentage of covered employee payroll	14.43%											
Increase (Decrease) in Pension Expense over Recognition Periods												
Year	Total Amount Deferred	Amortization Years	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2014	\$ 1,924,125	5		\$ 433,619	433,619	453,938	602,949	-				
2015	-	5			-	-	-	-				
2016	-	5										
2017	-	5										
2018	-	5										
2019	-	5										
2020	-	5										
2021	-	5										
2022	-	5										
2023	-	5										
	\$ 1,924,125			\$ 433,619	433,619	453,938	602,949	-	-	-	-	-

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



NEW MEXICO MILITARY INSTITUTE
Schedule of the Institute's Contributions
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*
June 30, 2015



Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms. The COLA and retirement eligibility benefits changes in recent years are described in the ***Benefits Provided*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.

Changes of assumptions.

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on April 26, 2013, ERB implemented the following changes in assumptions for fiscal years 2014 and 2013.

1. Fiscal year 2014 and 2013 valuation assumptions that changed based on this study:
 - a. Lower wage inflation from 4.75% to 4.25%
 - b. Lower payroll growth from 3.75% to 3.50%
 - c. Minor changes to demographic assumptions
 - d. Population growth per year from 0.75% to 0.50%
2. Assumptions that were not changed:
 - a. Investment return will remain at 7.75%
 - b. Inflation will remain at 3.00%

See also the ***Actuarial Assumptions*** subsection of the financial statement note disclosure ***General Information on the Pension Plan***.



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



OTHER SUPPLEMENTAL SCHEDULES





NEW MEXICO MILITARY INSTITUTE

Schedule of Pledged Collateral

June 30, 2015



	Wells Fargo (Roswell)	Wells Fargo (Roswell)	Wells Fargo Investments	Total
Bank Accounts				
Demand deposit accounts	\$ 8,241,023	\$ -	\$ -	\$ 8,241,023
Certificates of deposit	650,931	-	1,006,668	1,657,599
Repurchase agreements	-	6,185,944	-	6,185,944
Total amount of deposits (bank balances)	<u>\$ 8,891,954</u>	<u>6,185,944</u>	<u>1,006,668</u>	<u>16,084,566</u>
FDIC coverage on checking	(250,000)	-	-	(250,000)
FDIC coverage on interest Bearing accounts	<u>(250,000)</u>	<u>-</u>	<u>(1,006,668)</u>	<u>(1,256,668)</u>
Total uninsured public funds	<u>8,391,954</u>	<u>6,185,944</u>	<u>-</u>	<u>14,577,898</u>
Collateral requirement @ 50%	4,195,977	-	-	4,195,977
Collateral requirement @ 102%	-	6,309,663	-	6,309,663
Pledges and securities:				
FG A93902, matures 9/01/2040 Held at Wells Fargo Bank, N.A. CUSIP 312942KP9 Current Face: \$63,943.20	67,832	-	-	67,832
FN AH0946, matures 12/01/2040 Held at Wells Fargo Bank, N.A. CUSIP 3138A2BQ1 Current Face: \$26,680.58	28,505	-	-	28,505
FN AH6284, matures 4/1/2041 Held at Wells Fargo Bank, N.A. CUSIP 3138A76W3 Current Face: \$781,146.04	849,185	-	-	849,185
FN AH6438, matures 2/1/2026 Held at Wells Fargo Bank, N.A. CUSIP 3138A8EL6 Current Face: \$149,379.01	158,375	-	-	158,375



NEW MEXICO MILITARY INSTITUTE
Schedule of Pledged Collateral
June 30, 2015



	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo Investments</u>	<u>Total</u>
FN AL2872, matures 12/01/2042 Held at Wells Fargo Bank, N.A. CUSIP 3138EKFN0 Current Face: \$2,275,369.22	2,358,495	-	-	2,358,495
FN AP1026, matures 7/01/2042 Held at Wells Fargo Bank, N.A. CUSIP 3138M4D82 Current Face: \$19,680.24	19,760	-	-	19,760
FN AQ9054, matures 12/1/2042 Held at Wells Fargo Bank, N.A. CUSIP 3138MRBY6 Current Face: \$102,036.65	105,786	-	-	105,786
FN AR1797, matures 2/1/2043 Held at Wells Fargo Bank, N.A. CUSIP 3138NX7K7 Current Face: \$515,968.12	534,914	-	-	534,914
FN AR9199, matures 3/01/2043 Held at Wells Fargo Bank, N.A. CUSIP 3138W7GH1 Current Face: \$17,045.30	17,107	-	-	17,107
FN AT2724, matures 5/01/2043 Held at Wells Fargo Bank, N.A. CUSIP 3138WQA28 Current Face: \$64,794.66	65,018	-	-	65,018



NEW MEXICO MILITARY INSTITUTE
Schedule of Pledged Collateral
June 30, 2015



	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo Investments</u>	<u>Total</u>
FN AQ9054, matures 12/1/2042 Held at Wells Fargo Bank, N.A. CUSIP 3138WQKM3 Current Face: \$36,062.12	36,181	-	-	36,181
FN AU5848, matures 9/01/2043 Held at Wells Fargo Bank, N.A. CUSIP 3138X5QA8 Current Face: \$70,975.58	73,512	-	-	73,512
FN 890311, matures 3/01/2041 Held at Wells Fargo Bank, N.A. CUSIP 31410LDQ2 Current Face: \$12,219.20	13,280	-	-	13,280
FN AD6960, matures 7/01/2040 Held at Wells Fargo Bank, N.A. CUSIP 31418UWW0 Current Face: \$678,600.18	736,835	-	-	736,835
FH-30 AE0478, matures 08/01/2040 Held at Wells Fargo Bank, N.A. CUSIP 31419AQ83 Current Face: \$5,901,617.97	-	6,309,663	-	6,309,663
Over (under) secured	<u>\$ 868,808</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868,808</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Individual Deposits
June 30, 2015



<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	\$ 32,860	\$ 27,161
	NMMI Combined Accounts Control Account	Checking/NI	-	13,000,460
	Investment Account		7,002,077	-
	Total combined		<u>6,185,944</u>	<u>-</u>
			<u>13,220,881</u>	<u>13,027,621</u>
	NMMI Investment Trust	Checking/I	527,956	527,956
	NMMI Bond Sinking Fund	Checking/NI	457,807	457,807
	NMMI Alumni Relations	Checking/NI	36,287	36,287
	NMMI Cadet Activities	Checking/NI	184,036	184,036
	NMMI Operating	CD/I	500,013	500,013
	NMMI Cadet Activities	CD/I	101,051	101,051
	NMMI Cadet Activities	CD/I	<u>49,867</u>	<u>49,867</u>
Total Wells Fargo Bank			15,077,898	14,884,638
Wells Fargo Investments				
	NMMI Bond Proceeds Fund	CD/I	1,006,668	1,006,668
Cash on Hand			-	28,280
Total			<u>\$16,084,566</u>	<u>\$15,919,586</u>

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



NEW MEXICO MILITARY INSTITUTE

Schedule of Endowments

June 30, 2015



Scholarship Trust

	<u>At Market Value</u>
American Legion	\$ 9,117
Berger	307,962
Bondurant	2,380,384
Boyd	59,956
Camp	96,793
JG Cannon	215,291
Colfax	305,917
Carter	90,711
Coppinger	23,903
Crosby	468,321
Decker	124,197
Ellis	89,751
Evans	431,436
Fisher	97,906
General	192,757
Kelley	19,046
Lawrence	19,547
Lusk	87,976
Mechem	144,450
Morey	115,257
Patton	94,492
Rapp	613,362
Runnels	23,644
Ruppert	9,097
San Miguel & Mora	147,933
San Miguel & Mora (FEM)	228,347
Scherotter	9,792
Schmitt/Fitzgibbon	74,972
Total	<u>\$ 6,482,317</u>
Breakdown of Investments:	
Cash-Wells Fargo Bank	163,177
State Investment Council	\$ <u>6,319,140</u>
Total	<u>\$ 6,482,317</u>



NEW MEXICO MILITARY INSTITUTE

**Schedule of Endowments
June 30, 2015**



(continued)

General Richard T. Knowles Legislative Scholarship Trust

	<u>At Market Value</u>
Birnie	\$ 6,473
Carter	3,599
Clark	53,184
Dickason	75,820
Domzalski	9,589
Duson	13,432
Featherstone	8,311
Gibson	28,624
Green	108,899
Hazard	2,169
Huston	263,768
Legislative (General)	12,222,266
Marmaduke	21,243
Ostenberg	532,844
Robertson	24,284
Schillingburg	17,629
Sparkman	6,719
Stevens	1,651
Wyles	49,354
Total	<u>\$ 13,449,858</u>

Breakdown of Investments

Cash – Wells Fargo Bank	\$ 1,056,862
State Investment Council	<u>12,392,996</u>
Total	<u>\$ 13,449,858</u>

Patterson Endowment

Cash – Wells Fargo Bank	\$ 4,728
State Investment Council	<u>5,190,588</u>
Total	<u>\$ 5,195,316</u>

Daniels Leadership Center Building Maintenance Endowment

Cash – Wells Fargo Bank	\$ 172,147
State Investment Council	<u>5,887,657</u>
Total	<u>\$ 6,059,804</u>

Summary of Endowments

Scholarship Trust	\$ 6,482,317
General Richard T. Knowles-Legislative Scholarship Trust	13,449,858
Patterson Account	5,195,316
Daniels Leadership Center-Building Maintenance Account	<u>6,059,804</u>
Total	<u>\$ 31,187,295</u>

Cash, restricted	\$ 1,396,915
Investments at State Investment Council	<u>29,790,381</u>
Total Endowments	<u>\$ 31,187,296</u>



NEW MEXICO MILITARY INSTITUTE
Schedule of Vendor Information for Purchases
Exceeding \$60,000 (excluding GRT)
June 30, 2015



RFB#/RFP#/ State-Wide Price Agreement#	Type of procurement	Awarded vendor	\$ Amount of awarded contract	\$ Amount of amended contract	Name and physical address of all vendor(s) that responded	In-State/Out-of- State vendor (Y or N) (based on statutory definition)	Was the vendor in-state and chose Veteran's preference (Y or N)	Brief description of the scope of work
2013/14-04	RFQ	Bradbury Stamm Construction	\$ 8,488,716	\$ 8,972,304	Bradbury Stamm Construction 7110 2nd Street NW Albuquerque, NM 87107 Sodexo America, LLC 283 Cranes Roost Blvd, Suite 260 Altamonte Springs, FL 32701 Au' Authum Ki, Inc. 4645 S. Ash Avenue, Suite I-1 Tempe, AZ 85282	Y	N	Bates Hall renovation and construction
GS-03F-048BA	GSA	Glendale Industries	\$ 172,880	\$ 172,880	Glendale Industries 192 Paris Ave. Northvale, NJ 07647-2016	NA	NA	Parade rifles and slings
NA	NA	CES Purchasing Cooperative	\$ 5,792,512	\$ 5,986,827	CES 4216 Balloon Park Road, NE Albuquerque, NM 87109-5801	NA	NA	Lusk Hall renovation and construction
GS-07F-0377V	GSA	Daiken Applied	\$ 141,400	\$ 141,400	Daiken Applied 2330 W. Mission Ln Ste 15 Phoenix, AZ 85021	NA	NA	Replacement chiller
11/4/2010	RFB	Sodexo	Cost plus mgt fee	Cost plus mgt fee	Sodexo 9330 East Onza Avenue Mesa, AZ 85212 Sacco Dining Services 8961 E. Sutton Dr. Scottsdale, AZ 85260 Sage Dining Services 1402 York Road, Suite 100 Lutherville, MD 21093 Guest Services 3055 Prosperity Avenue Fairfax, VA 22031 Culinart 11333 N. Scottsdale Road, STE 205 Scottsdale, AZ 85254 AmeriServe 200 E. Walnut Columbia, MO 65203 A'viands 1751 Country Club Road B West Suite 300 Roseville, MN 55113	N	N	Management and operation of the Cadet Store



NEW MEXICO MILITARY INSTITUTE
Schedule of Budgetary Comparisons – Budgetary Basis
Schedule 1 – All Operations
For the Year Ended June 30, 2015



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Actual Positive (Negative) <u>Budget</u>
Beginning Fund Balance	\$ 28,738,843	\$ 35,220,570	\$ 35,220,570	\$ -
Unrestricted and Restricted Revenues:				
State General Fund Appropriations	3,028,800	3,028,800	3,028,800	-
Federal Revenue Sources	1,314,468	1,314,468	925,017	(389,451)
State Revenue Sources	819,566	3,655,835	3,416,313	(239,522)
Tuition and Fees	3,083,415	2,757,391	2,938,613	181,222
Land and Permanent Fund	20,040,672	19,490,504	19,438,271	(52,233)
Endowment and Private Gifts	1,174,595	1,197,929	1,072,040	(125,889)
Sales and Services	7,067,332	6,934,942	7,315,798	380,856
Other	<u>1,003,903</u>	<u>1,203,497</u>	<u>1,631,629</u>	<u>428,132</u>
Total Unrestricted & Restricted Revenues	<u>37,532,751</u>	<u>39,583,366</u>	<u>39,766,481</u>	<u>183,115</u>
Unrestricted and Restricted Expenditures:				
Instruction	11,115,051	11,207,788	10,889,593	318,195
Academic Support	1,232,346	1,334,255	1,231,195	103,060
Student Services	1,842,782	1,879,966	1,742,068	137,898
Institutional Support	4,226,629	4,300,008	3,813,089	486,919
Operation and Maintenance of Plant	3,461,770	3,430,071	3,353,386	76,685
Student Social and Cultural Activities	454,672	900,281	482,380	417,901
Research	-	-	-	-
Public Service	-	-	-	-
Internal Services	276,240	639,338	292,161	347,177
Student Aid, Grants and Stipends	2,661,322	2,579,736	2,229,192	350,544
Auxiliary Services	5,488,615	6,481,248	6,009,953	471,295
Intercollegiate Athletics	2,396,812	2,620,626	2,462,224	158,402
Independent Operations	-	-	-	-
Capital Outlay	12,115,976	18,211,434	15,355,980	2,855,454
Renewal and Replacement	2,523,242	2,523,242	787,790	1,735,452
Retirement of Indebtedness	<u>1,790,311</u>	<u>1,790,311</u>	<u>1,548,379</u>	<u>241,932</u>
Total Unrestricted & Restricted Expenditures	<u>49,585,768</u>	<u>57,898,304</u>	<u>50,197,390</u>	<u>7,700,914</u>
Net transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance (Budgetary Basis)	(12,053,017)	(18,314,938)	(10,430,909)	<u>\$ 7,884,029</u>
Ending Fund Balance	<u>\$ 16,685,826</u>	<u>\$ 16,905,632</u>	<u>\$ 24,789,661</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, 2015



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Positive (Negative) Budget</u>
Beginning Fund Balance	\$ 5,784,459	\$ 6,814,206	\$ 6,814,205	\$ (1)
Unrestricted Revenues:				
Tuition	2,911,665	2,581,727	2,581,727	-
Miscellaneous Fees	171,750	175,664	356,887	181,223
Federal Government Appropriations	-	-	-	-
State Government Appropriations	1,388,400	1,388,400	1,388,400	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/.Grants	-	-	-	-
Private Contracts/Grants	-	-	-	-
Endowments	-	-	-	-
Land & Permanent Fund	20,040,672	19,490,504	19,438,271	(52,233)
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	<u>53,750</u>	<u>167,066</u>	<u>223,480</u>	<u>56,414</u>
Total Unrestricted Revenues	<u>24,566,237</u>	<u>23,803,361</u>	<u>23,988,765</u>	<u>185,404</u>
Unrestricted Expenditures:				
Instruction	10,313,078	10,382,481	10,127,157	255,324
Academic Support	1,230,901	1,332,810	1,228,039	104,771
Student Services	1,842,582	1,879,766	1,742,068	137,698
Institutional Support	3,648,384	3,721,763	3,356,333	365,430
Operations & Maintenance of Plant	<u>3,461,770</u>	<u>3,430,071</u>	<u>3,353,386</u>	<u>76,685</u>
Total Unrestricted Expenditures	<u>20,496,715</u>	<u>20,746,891</u>	<u>19,806,983</u>	<u>939,908</u>
Net Transfers	<u>(4,814,701)</u>	<u>(4,814,701)</u>	<u>(4,814,701)</u>	-
Change in Fund Balance (Budgetary Basis)	(745,179)	(1,758,231)	(632,919)	<u>\$ 1,125,312</u>
Ending Fund Balance	<u>\$ 5,039,280</u>	<u>\$ 5,055,975</u>	<u>\$6,181,286</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, 2015



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Positive (Negative) Budget</u>
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -
Restricted Revenues:				
Tuition	-	-	-	-
Miscellaneous Fees	-	-	-	-
Federal Government Appropriations	204,468	204,468	147,152	(57,316)
State Government Appropriations	2,800	2,800	3,156	356
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	-	-	-	-
State Government Contracts/Grants	-	-	-	-
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	1,174,595	1,197,929	1,072,040	(125,889)
Endowments	-	-	-	-
Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	<u>1,381,863</u>	<u>1,405,197</u>	<u>1,222,348</u>	<u>(182,849)</u>
Restricted Expenditures:				
Instruction	801,973	825,307	762,436	62,871
Academic Support	1,445	1,445	3,156	(1,711)
Student Services	200	200	-	200
Institutional Support	578,245	578,245	456,756	121,489
Operations & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	<u>1,381,863</u>	<u>1,405,197</u>	<u>1,222,348</u>	<u>182,849</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, 2015



Basis of Budgetary Presentation

The accompanying supplementary information; Schedule of Budgetary Comparisons – Budgetary Basis, for the year ended June 30, 2015, 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, 2015



Reconciliation of Budgetary Basis to GAAP

Budget comparisons revenues	\$ 39,766,481
Net investment gain (loss)	6,868,295
Net loan fund balance change	(489)
Capital expenditures (netted on SRECNP – Capital Grants, net)	(17,283,872)
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)	<u>15,189,465</u>
SRECNP Total Revenues	<u>44,539,880</u>
Budget comparisons expenditures	50,197,390
Current year depreciation	2,874,461
Current year amortization of bond premium	(48,113)
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)	(17,283,872)
GASB 68 pension expense adjustment	293,917
Endowment fund transfers	<u>(219,051)</u>
SRECNP Total Expenditures	<u>35,814,732</u>
Change in Net Position	<u>\$ 8,725,148</u>



NEW MEXICO MILITARY INSTITUTE
Roswell, NM



COMPLIANCE SECTION



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

To the Board of Regents
New Mexico Military Institute
and
Mr. Tim Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component units of the New Mexico Military Institute (the "Institute") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements, and have issued our report thereon dated October 22, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Axiom CPAs and Business Advisors, LLC.
Albuquerque, New Mexico
October 22, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Regents
New Mexico Military Institute
and
Mr. Tim Keller, New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the New Mexico Military Institute's (the "Institute") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended June 30, 2015. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Institute, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the Institute, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

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

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

Axiom CPAs and Business Advisors
Albuquerque, New Mexico
October 22, 2015



NEW MEXICO MILITARY INSTITUTE
Schedule of Expenditures of Federal Awards
June 30, 2015



Federal Grantor/Pass-Through Grantor/Program Title	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Direct Programs			
Student Financial Aid Cluster – Federal Supplemental Educational Opportunity Grants	84.007	N/A	\$ 79,510
Federal Work-Study Program	84.033	N/A	9,915
Federal Pell Grant Program	84.063	N/A	<u>652,283</u>
Total Student Financial Assistance Cluster			741,708
Fund for the Improvement of Postsecondary Education	84.116	N/A	<u>19,570</u>
Total U.S. Department of Education Programs			<u>761,278</u>
U.S. Department of the Army			
Direct Programs			
ROTC	12.Unknown	DAFK 57-92-H-0422	112,476
JROTC	12.Unknown	DAFK 57-91-H-0422	<u>133,932</u>
Total U.S. Department of the Army Programs			<u>246,408</u>
Total			<u>\$ 1,007,686</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 2015 *Catalog of Federal Domestic Assistance*.



NEW MEXICO MILITARY INSTITUTE

Schedule Findings and Questioned Costs

June 30, 2015



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, 2015



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

2015-001 Improve IT General Controls (Other Matters)

Condition: During our review surrounding IT general controls that are significant to financial reporting, we noted the following:

- User credentials to NMMI’s accounting software have not been terminated for eleven inactive employees.
- Network passwords are not set in the Active Directory to expire. In effect, the users are not required to change their password.

Criteria: Per the State of New Mexico Statewide Guideline “Enterprise IT Security Policy”, S-GUIDE-00.003, “the State of New Mexico shall securely and economically protect its business functions including public access to appropriate information and resources, while maintaining compliance with legal requirements established by existing Federal and State statutes pertaining to confidentiality privacy, accessibility, availability, and integrity”.

Framework DS5 (Ensure System Security) provides that the need to maintain integrity of information and protect IT assets requires a security management process. This process includes establishing and maintaining IT security and roles and responsibilities, policies, standards, and procedures. Security management also includes performing security monitoring and periodic testing and implementing corrective actions for identified security weaknesses or incidents. Effective security management protects all IT assets to minimize the business/financial impact of security vulnerabilities and incidents.

Effect: The deficiencies identified decrease the overall network security which makes the infrastructure vulnerable to attack and unauthorized data access or modification.

Cause: The Institute’s IT policies and procedures which meet the required criteria were not followed.

Recommendation: We recommend the following:

- The Human Resource Department and Information Technology Department should work together to create and implement a user access monitoring process. At a minimum, this should involve verifying that only active employees have active user access and ensuring that user access rights are reasonable for employee’s job responsibilities.
- Passwords should be set to expire, normally from 90 to 120 days as the Institute may deem appropriate.

Management’s Response:

The Human Resources Department will continue to send email notifications to the IT Department alerting them as to the status of employees who are terminating their employment with the Institute. In addition the Human Resources Department has also implemented a new process in which all employees that are terminating their employment with the Institute will be required to physically out process through the IT department. At that time a member of the IT team will sign off on an out processing sheet, thus further alerting the department of the need to terminate the individual’s user access rights.



NEW MEXICO MILITARY INSTITUTE

Schedule Findings and Questioned Costs

June 30, 2015



As a compensating control to confirm that the above process is working as intended the IT Department will be required to send, on a monthly basis, a listing of all individuals that are active within the Institute system. The Human Resources Department will review the list to ensure that no terminated employees remain on the listing.

In regards to the password issue NMMI is committed to developing a solution to resolve the matter of the IT finding during the June 30, 2015 audit. NMMI expects the IT solution to be identified, vetted and in place by 1 February, 2016.

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, 2015



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, 2015**



The contents of this report were discussed at an exit conference held on October 22, 2015. The following individuals attended:

Board of Regents

Jesse F. Eckel, President
Phillip Ingram, Secretary/Treasurer

New Mexico Military Institute

MG Jerry W. Grizzle, President/Superintendent
COL David West, Chief of Staff
COL Judy Scharmer, Chief Financial Officer
COL Charles C. Hendrickson, Assistant Chief Financial Officer
LTC Sonya Rodriguez, Director for Admissions and Financial Aid
COL David Gray, Internal Auditor

New Mexico Military Foundation, Inc.

Jimmy Barnes, President and Chief Executive Officer

Axiom Certified Public Accountants and Business Advisors LLC

Chris Garner, CPA, Partner

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

