



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



**Financial Statements**  
**With Independent Auditor's**  
**Report Thereon**  
**For the Year Ended June 30, 2016**





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



**INTRODUCTORY SECTION**





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### June 30, 2016

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



**Official Roster**  
**June 30, 2016**

Board of Regents

Ex Officio Members:

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

Governor of the State of New Mexico  
Secretary of Higher Education

Appointed Members:

Timothy Paul  
COL Barbara Trent  
Stirling Spencer  
Phillip Ingram  
Jesse Eckel

President  
Vice President  
Secretary/Treasurer  
Member  
Member

Principal Administrative Officials

MG Jerry W. Grizzle  
LTC Jonathan Graff  
COL David West  
BG Douglas Murray  
COL George Brick  
COL Judy Scharmer  
MAJ Deana Curnutt  
LTC Kalith Smith  
LTC Sonya Rodriguez  
Mr. Kent Taylor  
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  
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, 2016, 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, 2016, 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, 2016, 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, 2016 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.

## 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 9-23, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, 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 November 7, 2016 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, blue, cursive font.

Axiom CPAs and Business Advisors, LLC  
Albuquerque, New Mexico  
November 7, 2016





**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**



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, 2016 with selective comparative information for the year ending June 30, 2015. 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). In accordance with GASB Statement 68, the Statement of Net Position reflects the Institute's allocated proportionate share of the Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Institute's management.

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 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, 2016**



**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**

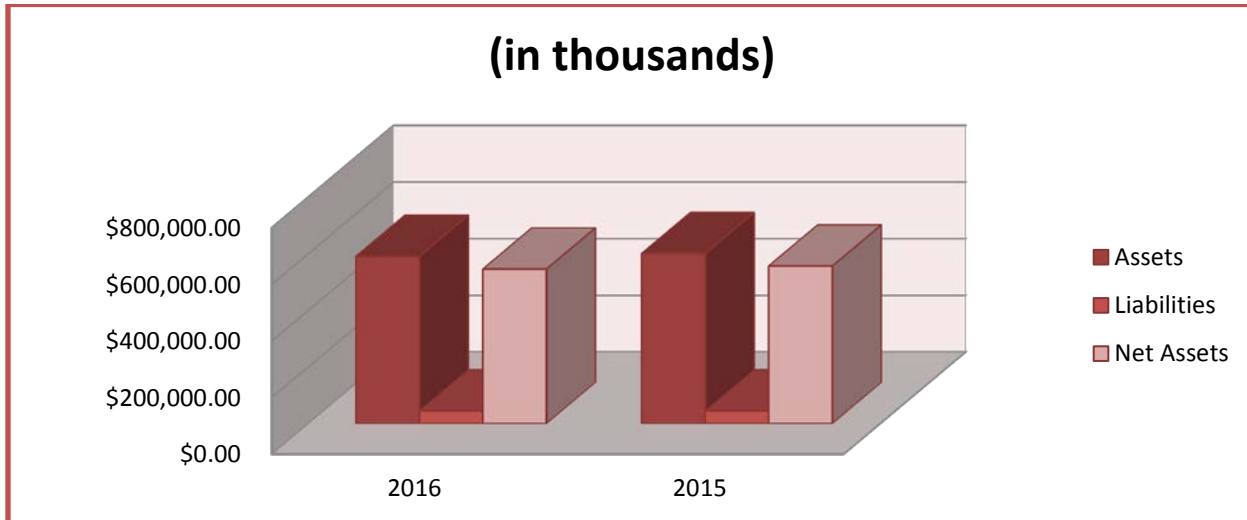
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 21,040,658	\$ 21,448,611
Capital assets, net	71,123,277	71,981,192
Non-current assets	<u>494,584,206</u>	<u>504,511,858</u>
<b>Total assets</b>	<b><u>\$ 586,748,141</u></b>	<b><u>\$ 597,941,661</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related	<u>\$ 3,605,037</u>	<u>\$ 2,732,335</u>
<b>Total deferred outflows of resources</b>	<b><u>\$ 3,605,037</u></b>	<b><u>\$ 2,732,335</u></b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 590,353,178</u></b>	<b><u>\$ 600,673,996</u></b>
<b>LIABILITIES</b>		
Current liabilities	\$ 4,440,206	\$ 4,657,893
Net pension liability	30,317,493	26,531,069
Non-current liabilities	<u>9,124,898</u>	<u>10,176,972</u>
<b>Total liabilities</b>	<b><u>\$ 43,882,597</u></b>	<b><u>\$ 41,365,934</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related	<u>\$ 698,539</u>	<u>\$ 2,807,032</u>
<b>Total deferred inflows of resources</b>	<b><u>\$ 698,539</u></b>	<b><u>\$ 2,807,032</u></b>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 60,794,220	\$ 48,431,105
Restricted	470,658,566	482,107,376
Unrestricted	<u>14,319,256</u>	<u>25,962,549</u>
<b>Total net position</b>	<b><u>\$ 545,772,042</u></b>	<b><u>\$ 556,501,030</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>\$ 590,353,178</u></b>	<b><u>\$600,673,996</u></b>



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**



**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, 2016 and 2015 are cash and cash equivalents and short term investments totaling \$18,063,492 and \$18,685,281 , respectively.

**Capital Assets**

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



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**



The increase in capital assets of \$2,032,464 during fiscal year 2016 can be attributed to the completion of the Bates Hall renovation, the design costs of Marshall Infirmary, and the installation of artificial turf and upgrade of the NMMI Baseball field. The capital asset additions are funded using a combination of state capital appropriations, debt, and Institute funds.

- As of June 30, 2016, NMMI substantially completed the multi-year project renovation of the Bates Dining Hall. The total renovation of the Bates Dining Hall was approximately \$9.7 million. 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 brought 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 was generally outdated, inefficient and non-serviceable. The renovation allowed 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.

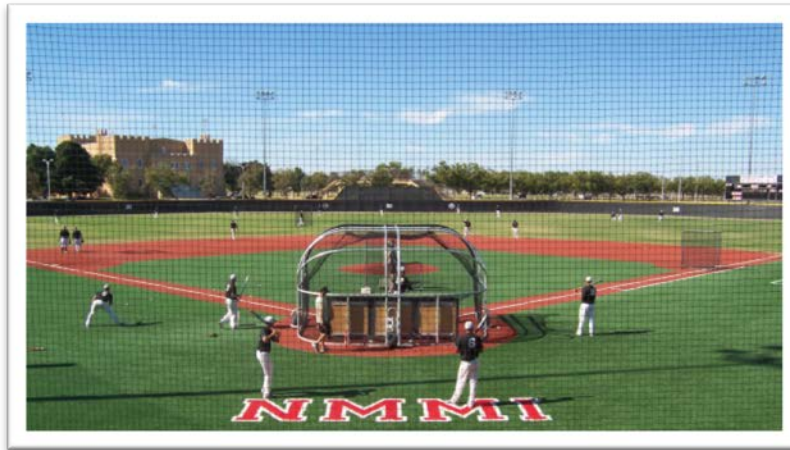




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**Management's Discussion and Analysis**  
**June 30, 2016**

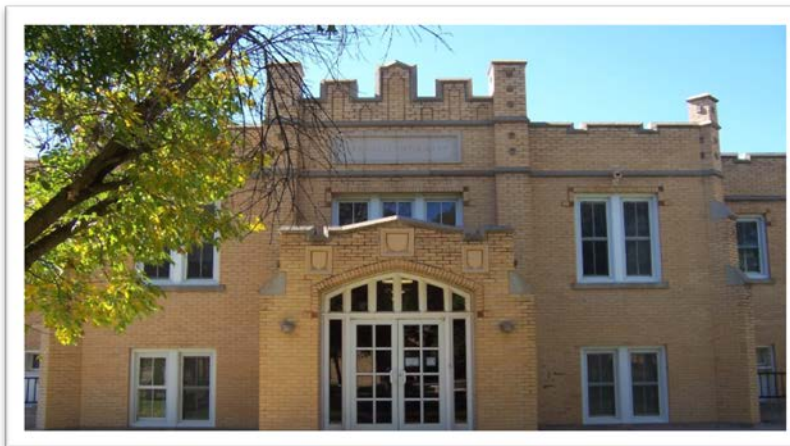


- In April 2016, NMMI substantially completed the installation of artificial turf and upgrade of the NMMI Baseball field. A combination of NM State Severance tax funds (\$153,200) and NMMI's debt from the Series 2013 Revenue Bonds (\$446,800) were leveraged together to install artificial turf for the infield and upgrade the deteriorated backstop, which was a safety concern for fans and players alike.



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

- **Marshall Hall Renovation** - \$5 million renovation project. The majority of the design phase occurred in fiscal year 2016 and the construction cost is anticipated to cross over multiple years. Marshall Hall serves NMMI as the primary health clinic for the entire Corps of Cadets as well as the on-campus police force. Marshall Hall was built in 1920 and is approximately 15,400 square feet consisting of two primary floors with the bottom floor a half-basement. The foremost concern is bringing this facility up to current building, accessibility and energy code standards. The intent is to utilize the current areas which can be maintained while reorganizing and adding space as needed to provide adequate restrooms, fire suppression and proper ventilations system to meet current codes. The funding of this project is through the 2014 General Obligation Bonds.







**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**

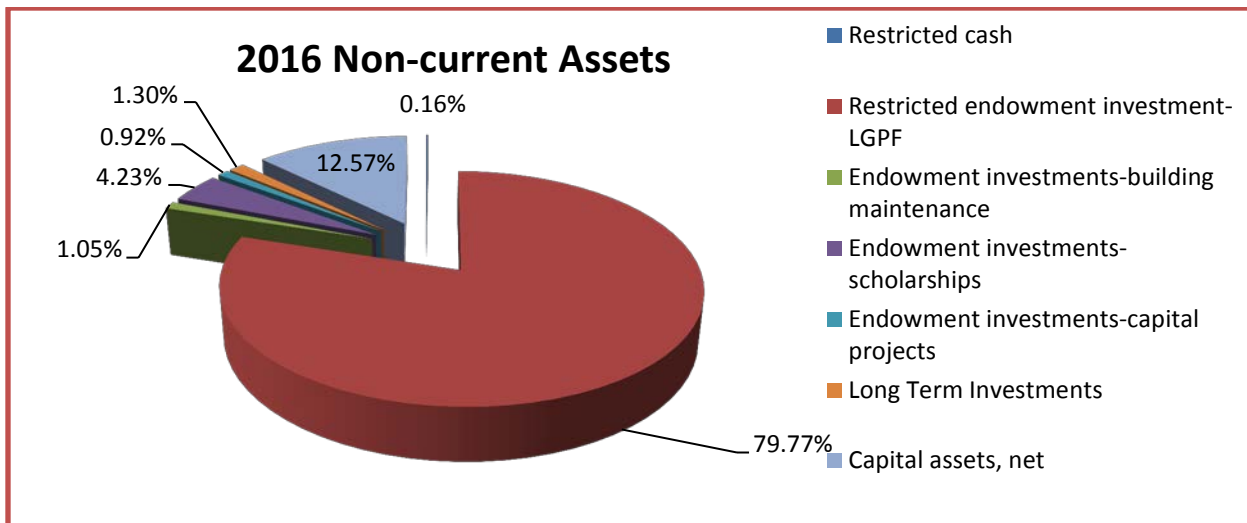


- Science Lab Renovation - \$1.5 million renovation project. This project renovates and equips the science labs which are located in both Wilson and McClure Halls. The renovation addresses the much needed improvements for the NMMI science and technology offerings in order to remain competitive with the “STEM” educational process. Recent re-emphasis on Engineering and other science-based offerings require a degree of modernization and support at both the High School and College level. The funding of this project is through the State’s 2015 Severance Tax Bonds.

At June 30, 2016, the Institute had \$71,123,277 invested in capital assets, net of accumulated depreciation of \$59,156,255. Depreciation charges for the current year totaled \$2,921,890 compared to \$2,874,461 in 2015.

**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 \$451,237,113 and \$466,313,369 at June 30, 2016 and 2015, respectively.





**NEW MEXICO MILITARY INSTITUTE**  
**Management’s Discussion and Analysis**  
**June 30, 2016**



**Debt**

As of June 30, 2016, NMMI has debt of \$9.8 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>2016</u>	<u>2015</u>
Bonds payable, current	\$ 1,020,000	\$ 1,010,000
Bonds payable, long-term	<u>8,740,000</u>	<u>9,760,000</u>
<b>Total Bonds Payable</b>	<b><u>\$ 9,760,000</u></b>	<b><u>\$ 10,770,000</u></b>

Moody’s Investment Service report 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.”

On September 14, 2016 Moody’s Investors Service placed NMMI “Under Review for Downgrade” along with three other NM Public Universities.

As of June 30, 2016, NMMI’s debt service coverage ratio was 16.96 as shown on the Schedule of Debt Service Coverage.

At June 30, 2016, the Institute’s current ratio, the amount of current assets (\$21,040,658) available to cover current liabilities (\$4,440,206) was 4.73 to 1.

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.



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**



**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 \$71,123,277 as of June 30, 2016.

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 \$451,237,113, 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 \$20,551,930 as of June 30, 2016.

Unrestricted net position decreased from 2015 by \$12,158,798 to a total of \$(6,232,674). A primary component of the decrease in net position is the increase to the Net Pension Liability of \$3.8 million and the Investment Loss of \$9.9 million. 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.



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**

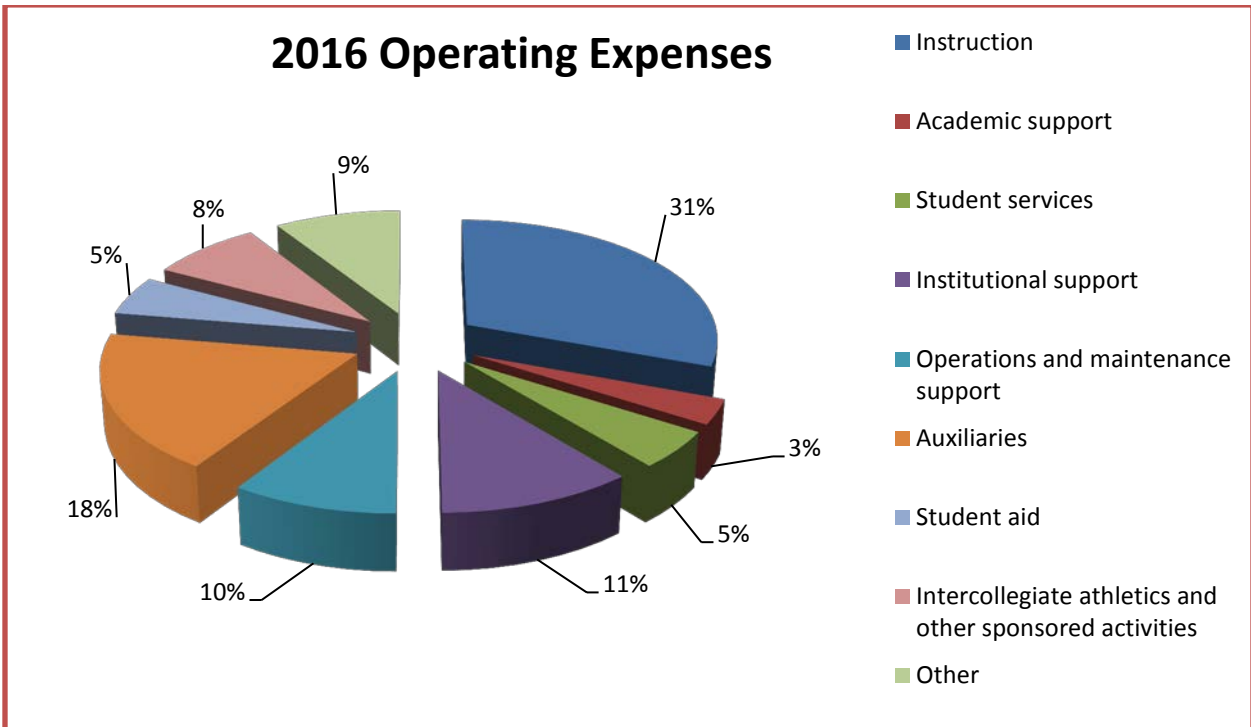
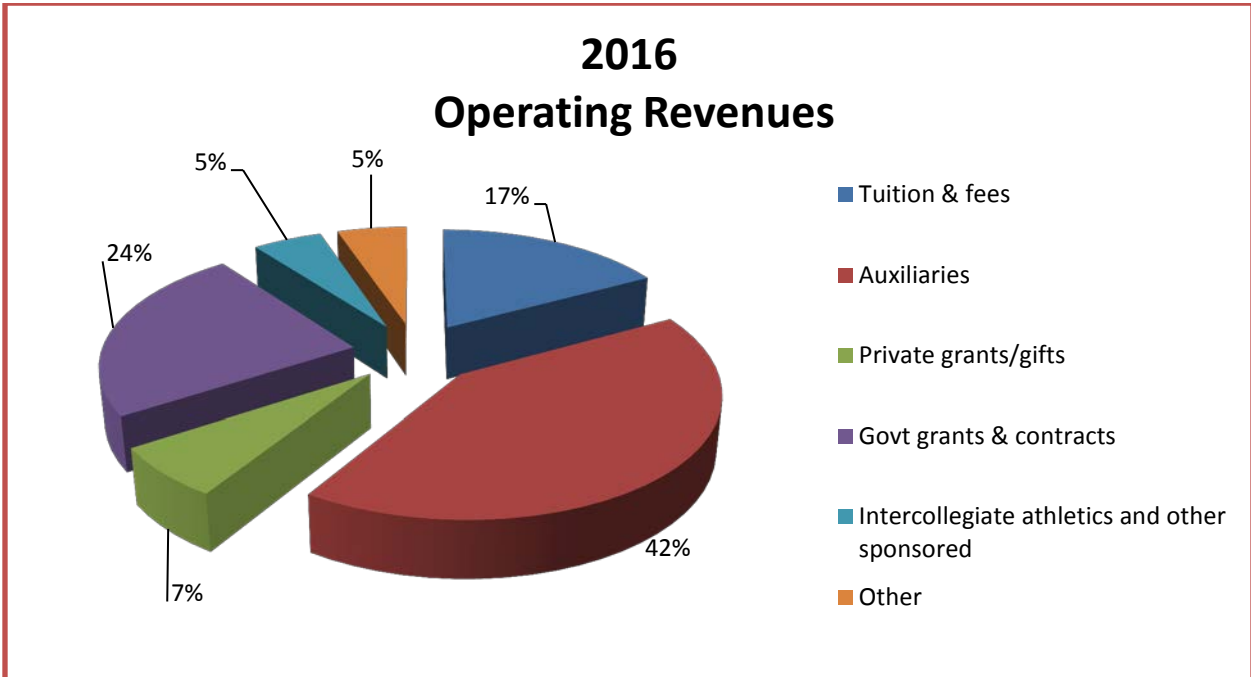


**Summary Statement of Revenues, Expense and Changes in Net Position**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenue by Major Source</b>		
Tuition	\$ 2,806,592	\$ 2,938,614
Auxiliaries	6,860,765	6,726,433
Private grants/gifts	1,113,968	1,072,040
Governmental grants and contracts	3,911,174	3,992,840
Intercollegiate athletics and other sponsored activities	846,283	913,209
Other	852,796	763,930
	<u>\$ 16,391,578</u>	<u>\$ 16,407,066</u>
<b>Operating Expense by Major Function</b>		
Instruction	\$ 11,323,721	\$ 11,053,162
Academic support	1,227,472	1,246,782
Student services	1,829,169	1,756,208
Institutional support	4,081,138	3,849,670
Operations and maintenance support	3,462,307	3,384,477
Auxiliaries	6,775,592	6,024,790
Student aid	1,923,065	2,010,141
Intercollegiate athletics and other sponsored activities	2,980,108	2,951,334
Other	3,370,379	3,249,862
	<u>\$ 36,972,951</u>	<u>\$ 35,526,426</u>
<b>Non-operating Revenue (Expense)</b>		
Investment income (loss) including income received From the State Land Office and State Land Grant Permanent Fund	\$ 10,827,762	\$ 26,585,397
Other	(69,385)	(23,282)
	<u>\$ 10,758,377</u>	<u>\$ 26,562,115</u>
Income (loss) before other revenue, expense, gains and losses	\$ (9,822,998)	\$ 7,442,755
Capital grants	(905,990)	1,282,393
<b>Total increase (decrease) in net position</b>	<u>\$ (10,728,988)</u>	<u>\$ 8,725,148</u>
Net position, beginning of year (2016 as restated)	<u>\$ 556,501,030</u>	<u>\$ 547,775,882</u>
<b>Net position, end of year</b>	<u>\$ 545,772,042</u>	<u>\$ 556,501,030</u>



**NEW MEXICO MILITARY INSTITUTE**  
Management's Discussion and Analysis  
June 30, 2016





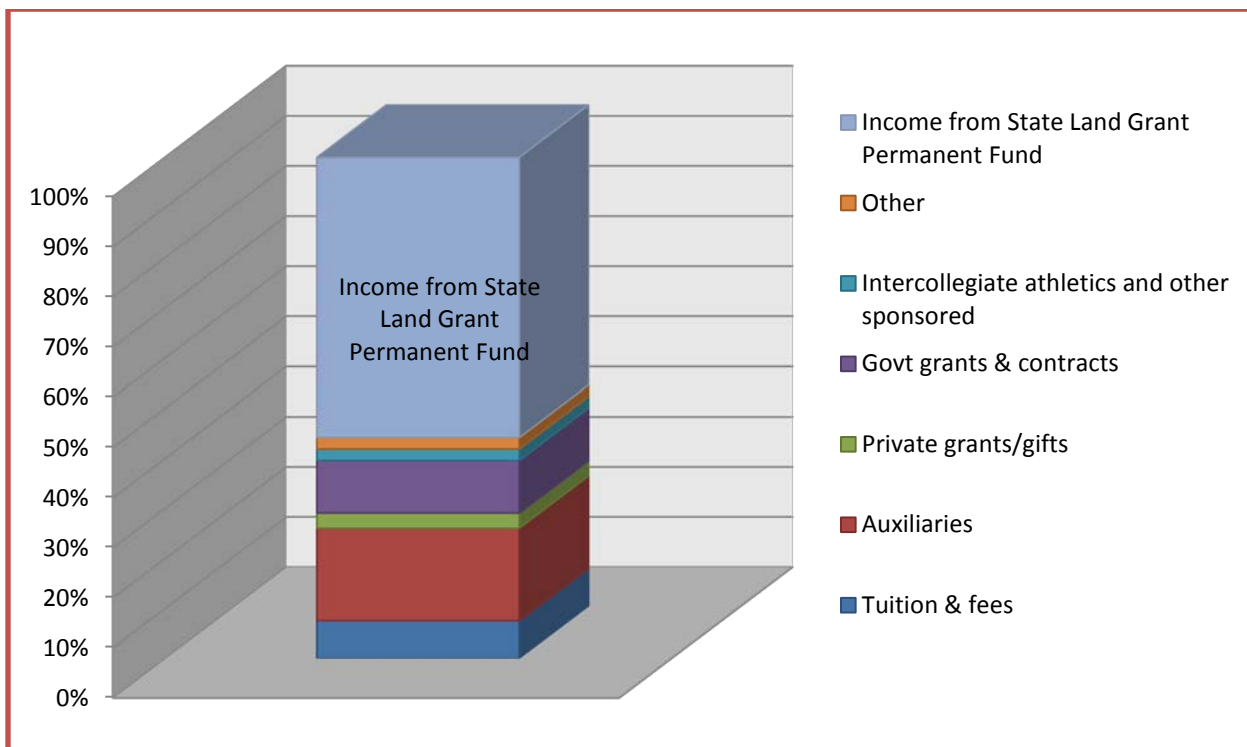


**NEW MEXICO MILITARY INSTITUTE**  
**Management’s Discussion and Analysis**  
**June 30, 2016**



**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 56% of total operating revenues for 2016. 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**

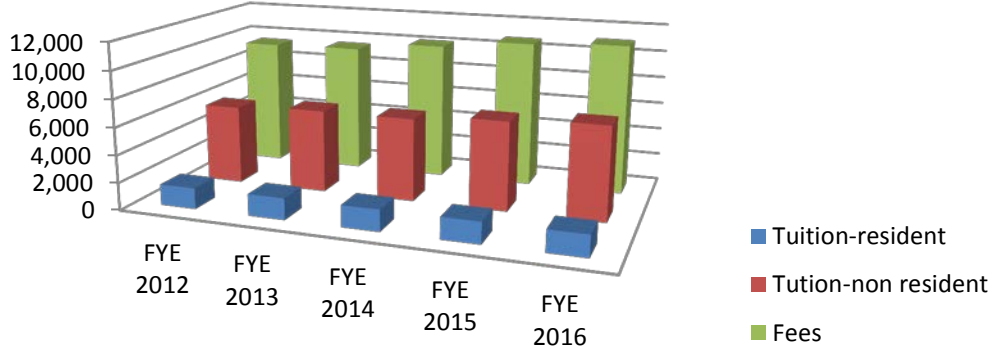
Operating revenues for the Institute was relatively flat for 2016 over 2015. The auxiliary category covers 42% of the operating revenue which primarily is derived from the room and board fees assessed to cadets.



**NEW MEXICO MILITARY INSTITUTE**  
**Management's Discussion and Analysis**  
**June 30, 2016**



**Tuition and Fees History**



	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Tuition-resident	1,525	1,571	1,571	1,571	1,571
Tuition-non resident	5,800	6,090	6,090	6,516	6,842
Fees	9,441	9,529	10,135	10,738	11,018

The operating expenses increased \$1,446,525 from 2015. The increase in 2016 was mainly attributable to an increase in various costs mainly related to Instruction and Auxiliaries as well as a GASB 68 pension adjustment of \$805,220. 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 2016 increased from 2015 in the amount of \$1,470,157 which is a result of an increase to the five-year market average of the Permanent Fund Endowment ending December 31, 2016. Income received from the State Land Office and the Land Grant Permanent Fund was \$257,782 and \$20,461,501, 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 5.0% from its current rate of 5.5% in FY17.

**Change in Net Position**

The Institute's total change in net position showed a net decrease for 2016 and a net increase in 2015. 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, 2016**



**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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Net cash used by operating activities	\$ <b>(16,962,763)</b>	\$ (17,489,190)
Net cash provided (used) by non-capital financing activities	<b>87,010</b>	(86,759)
Net cash provided by investing activities	<b>20,293,253</b>	19,343,136
Net cash provided (used) by capital and related financing activities	<u><b>(4,013,359)</b></u>	<u>(12,894,174)</u>
Net increase (decrease) in cash and cash equivalents	<u><b>\$ (595,859)</b></u>	<u>\$ (11,126,987)</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 \$3,053,652 less than the final budget. The largest variance is found in State Revenue Sources which is reflective of the timing of the capital project construction and associated draw down requirements from the available General Obligation bonds and Severance Tax Bonds. The construction projects are generally multi-year projects which may result in significant variances between budget and actual revenues and expenses in any one year. The overall actual expenditures were \$8,147,526 lower than budgeted, of which \$4,876,411 (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 \$5,093,874 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.

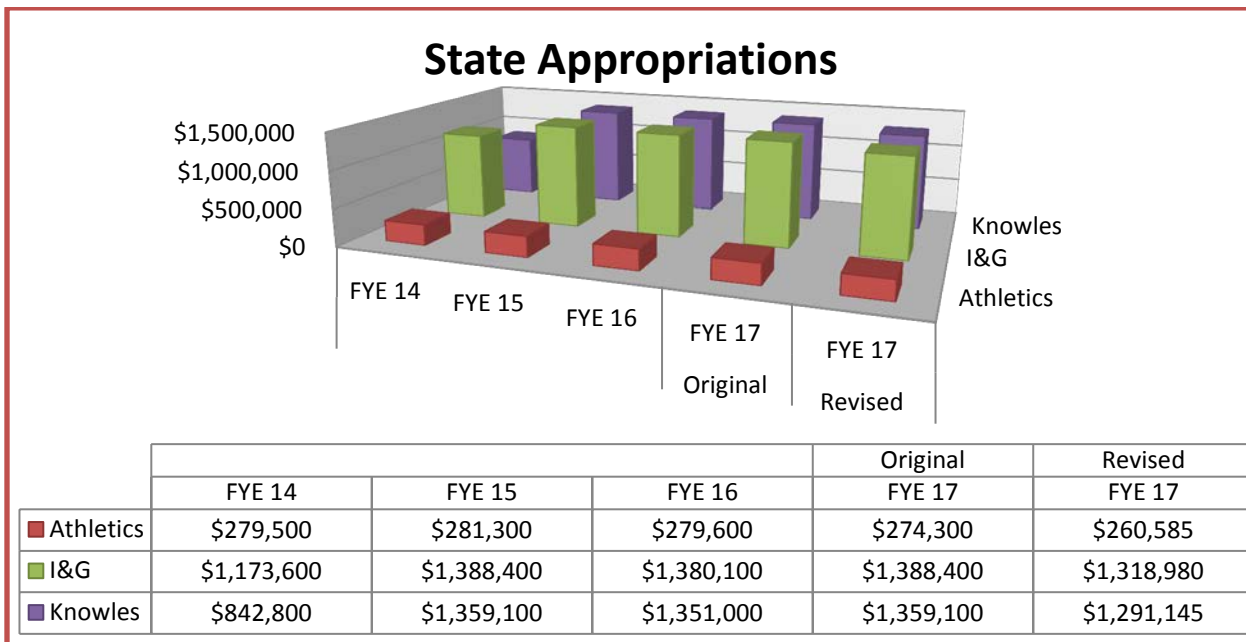


**NEW MEXICO MILITARY INSTITUTE**  
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**Economic Factors Impacting Future Periods**

The Institute is preparing for its 125<sup>th</sup> anniversary in 2016. The Institute has been an integral part of New Mexico's history and its mission in educating the young men and women who reside in the Land of Enchantment. The economic outlook for the State of New Mexico according to Moody's Investor Service credit opinion dated October 25, 2016 was "negative" which was largely based on a large fall in tax revenue and depleting reserves of the State's General Fund. NMMI is **not** included in the New Mexico Higher Education funding formula calculation; however, NMMI does receive three State Appropriations, one of which is specifically restricted to the Knowles Legislative Scholarship program. The Legislators conducted a special session in October which passed a 5% "clawback" of all Higher Education Institutions of which resulted in a \$151,090 decrease for NMMI. See below a historical summary of State Appropriations including the FY17 revised amounts:



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, 2016**



**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 2016-2017 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, 2016



	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 9,306,090	\$ 103,375
Restricted cash and cash equivalents	5,134,708	-
Short-term investments	3,622,694	-
Prepaid expenses	-	5,556
Pledges receivable, net of allowance	-	49,341
Student accounts receivable, net of allowance for doubtful receivables of \$1,425,000	29,815	-
Receivable from NMMI Foundation	409,057	-
Other accounts receivable	2,444,429	24,286
Inventories	<u>93,865</u>	<u>-</u>
Total current assets	<u>21,040,658</u>	<u>182,558</u>
Non-current Assets:		
Restricted cash and cash equivalents	882,930	-
Land and buildings held for investment	-	5,876,851
Pledges receivable, net of allowance	-	342,270
Surrender value of life insurance policies	-	726,090
Endowment investments, Land Grant Permanent Fund	451,237,113	-
Endowment investments, scholarships	23,929,662	-
Endowment investments, capital projects	5,226,976	-
Endowment investments, building maintenance	5,928,900	-
Long-term investments	7,378,625	39,132,273
Beneficial interest in perpetual trust	-	659,338
Other assets	-	50,000
Capital assets, net of accumulated depreciation	<u>71,123,277</u>	<u>-</u>
Total non-current assets	<u>565,707,483</u>	<u>46,786,822</u>
Total assets	<u>586,748,141</u>	<u>46,969,380</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related	<u>3,605,037</u>	<u>-</u>
Total deferred outflows	3,605,037	-
<b>Total Assets and Deferred Outflow</b>	<b><u>\$ 590,353,178</u></b>	<b><u>\$ 46,969,380</u></b>

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



# NEW MEXICO MILITARY INSTITUTE

## Statement of Net Position June 30, 2016



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,679,882	\$ 5,969
Accounts payable NMMI Foundation	4,471	
Accrued compensated absences	569,142	17,872
Payable to NMMI	-	383,432
Unearned revenues	-	-
Other credits	429,145	
Funds held for others	737,566	
Bonds payable-current portion	1,020,000	
Annuity obligations	-	362,139
Other payables	-	-
Total current liabilities	<u>4,440,206</u>	<u>769,412</u>
Non-current Liabilities:		
Bonds payable – long term portion	8,740,000	-
Bond premium	384,898	-
Net pension liability	<u>30,317,493</u>	-
Total non-current liabilities	<u>39,442,391</u>	-
Total liabilities	<u>43,882,597</u>	<u>769,412</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related	<u>698,539</u>	-
Total deferred inflow of resources	<u>698,539</u>	-
<b>NET POSITION</b>		
Invested in capital assets	60,794,220	-
Restricted for:		
Non-expendable:		
Restricted, Land Grant Permanent Fund at State Investment Council	451,237,113	-
Restricted, scholarships	13,721,453	-
Restricted, building maintenance	3,700,000	-
Restricted, capital projects	2,000,000	-
Permanently restricted, NMMI Foundation	-	19,776,360
Expendable:		
Term endowments, scholarships	11,446,785	-
Capital Projects	6,273,246	-
Building maintenance	2,341,195	-
Debt service	490,704	-
Temporarily restricted, NMMI Foundation	-	9,427,328
Unrestricted	<u>(6,232,674)</u>	<u>16,996,280</u>
Total net position	<u>545,772,042</u>	<u>46,199,968</u>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<u>\$ 590,353,178</u>	<u>\$46,969,380</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, 2016**



	Primary <u>Government</u>	Component <u>Unit</u>
	NMMI	NMMI <u>Foundation</u>
<b>Operating revenues:</b>		
Tuition and fees	\$ 2,806,592	\$ -
Contributions	-	<u>712,565</u>
	<u>2,806,592</u>	<u>712,565</u>
Federal grants and contracts	861,034	-
State grants and contracts	3,050,140	-
Private grants and contracts	1,113,968	-
Other sponsored activities	427,298	-
Auxiliary enterprises	6,860,765	-
Intercollegiate athletics	418,985	-
Internal service department	316,507	-
Other	536,289	7,741
Rental income	-	<u>376,903</u>
Total operating revenues	<u>16,391,578</u>	<u>1,097,209</u>
<b>Expenses:</b>		
Instruction and general:		
Instruction	11,323,721	-
Academic support	1,227,472	-
Student services	1,829,169	-
Institutional support	4,081,138	-
Operations and maintenance support	<u>3,462,307</u>	-
Total instruction and general expenses	21,923,807	-
Other sponsored activities	451,445	-
Student aid grants and stipends	1,923,065	-
Auxiliary enterprises	6,775,592	-
Intercollegiate athletics	2,528,663	-
Internal service department	434,487	-
Supporting services	-	262,224
Minor capital outlay operations	14,002	-
Program services	-	1,948,499
Real estate expenses	-	51,748
Depreciation	<u>2,921,890</u>	-
Total expenses	<u>36,972,951</u>	<u>2,262,471</u>
<b>Operating loss</b>	<u>\$ (20,581,373)</u>	<u>\$ (1,165,262)</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, 2016**



(continued)

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>NMMI</u>	<u>NMMI Foundation</u>
<b>Non-operating revenues (expenses):</b>		
Investment loss	\$ (9,891,521)	\$ (974,108)
Loss on sale of assets	-	(5,010)
Change in cash value of life insurance	-	62,743
Income from State Land Office	257,782	-
Income from State Land Grant Permanent Fund	20,461,501	-
Other income	215,342	-
Endowment and Other Gifts	350	-
Interest on capital asset related to debt	<u>(285,079)</u>	<u>-</u>
Net non-operating revenues (expenses)	<u>10,758,375</u>	<u>(916,375)</u>
<b>Income before other revenues, expenses, gains and losses</b>	<u>(9,822,998)</u>	<u>(2,081,637)</u>
Other:		
Capital grants, net	<u>(905,990)</u>	<u>-</u>
Net other revenues	<u>(905,990)</u>	<u>-</u>
Change in net position	(10,728,988)	(2,081,637)
Net position, beginning of year	556,501,030	48,281,605
<b>Net position, end of year</b>	<u>\$ 545,772,042</u>	<u>\$ 46,199,968</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, 2016



	<u>Primary Government</u>
	<u>NMMI</u>
Cash flows from operating activities:	
Tuition and fees	\$ 2,992,042
Grants and contracts	4,290,609
Sales and services of educational activities	6,862,388
Other operating receipts	1,444,743
Payments to employees for salaries and benefits	(18,585,013)
Payments to suppliers	(12,759,137)
Grants issued to students	<u>(1,208,395)</u>
Net cash used by operating activities	<u>(16,962,763)</u>
Cash flows from non-capital financing activities:	
Agency receipts	2,202,745
Agency payments	<u>(2,115,735)</u>
Net cash used by non-capital financing activities	<u>87,010</u>
Cash flows from investment activities:	
Cash distribution from State Land Grant Permanent Fund	20,349,491
Cash distribution from State Land Office	257,782
Other investment income	18,827
Cash received from scholarship gifts	350
Cash transferred to investment accounts	(159,675)
Cash payment of trust expenses	<u>(173,522)</u>
Net cash provided by investing activities	<u>20,293,253</u>
Cash flows from capital and related financing activities:	
Cash paid for capital assets	(2,209,885)
Cash received on capital grants	399,224
Cash paid for renewal and replacement of assets	(695,197)
Other receipts	215,342
Repayments of capital debt	(1,404,695)
Interest paid on capital debt	<u>(318,148)</u>
Net cash used by capital and related financing activities	<u>(4,013,359)</u>
Net increase in cash and cash equivalents	(595,859)
Cash and cash equivalents, beginning of year	<u>15,919,586</u>
Cash and cash equivalents, end of year	<u>\$ 15,323,727</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, 2016**



(continued)

	<u>Primary Government</u>	<u>NMMI</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$	(20,581,373)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense		2,921,890
Pension expense		2,657,344
Employer pension contribution		(1,852,124)
Changes in assets and liabilities:		
Short-term investments		184,798
Accounts receivable		315,856
Inventories		8,217
Other current assets		31,042
Accounts payable and accrued expenses		(564,082)
Deferred income		(105,780)
Accrued benefits		21,449
Net cash used by operating activities	<u>\$</u>	<u>(16,962,763)</u>

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





**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Financial Statements**  
**June 30, 2016**



**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, 2016, 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, 2016**



**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, 2016



#### 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, 2016**



**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 2016 is \$1,425,000.

**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, 2016**



**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 appreciation of the Institute’s donor-restricted endowments that are available for expenditures by the governing board is \$515,505. This amount is reported in expendable scholarships, building maintenance and capital projects in the net assets of the primary government. New Mexico state law allows the governing body to spend the net appreciation. The Institute uses the total-return policy for authorizing and spending investment income.

Net depreciation of the Foundation’s donor-restricted endowments that are available for expenditures by the governing board is (\$ 1,310,234). This amount is reported in restricted scholarships at NMMI Foundation in the net assets of the component unit. New Mexico state law allows the governing body to spend net appreciation. The Foundation uses the total-return policy for authorizing and spending investment income.

**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, 2016**



**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, 2016.

**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: 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.





**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

At June 30, 2016, 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	\$ 651,263	\$ 7,025,407	\$ 1,007,575
Checking Account Deposits	7,207,643	-	-
Total Deposits in Bank	<u>7,858,906</u>	<u>7,025,407</u>	<u>1,007,575</u>
Less: FDIC Insurance on Interest Bearing Accounts	(250,000)	-	(1,007,575)
FDIC Insurance on Checking Accounts	<u>(250,000)</u>	<u>-</u>	<u>-</u>
Uninsured Public Funds	<u>7,358,906</u>	<u>7,025,407</u>	<u>-</u>
Collateral Requirement 50%	3,679,453	-	-
Collateral Requirement 102%	-	7,165,915	-
Pledged Collateral Held by the Pledging Bank's Trust Department Not in the Agency's Name	<u>4,804,169</u>	<u>7,165,915</u>	<u>-</u>
Uninsured and Undercollateralized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Custodial Credit Risk**

Custodial Credit Risk is the risk that in the event of a bank failure, the Institute’s deposits may not be returned to it. The Institute has a policy to invest operating funds in financial instruments that are relatively safe based on the level of collateralization provided by the financial institutions and have the highest rating from the national rating agencies. As of June 30, 2016, \$14,384,313 of the Institute’s bank balance of \$15,891,888 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>14,384,313</u>
Total	<u>\$ 14,384,313</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

**Investments**

The Institute invests some unrestricted operating funds with Wells Fargo Bank's Brokerage Services as well as with the State Investment Council. The short-term investments of \$3,622,694 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 \$7,378,625 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

Cathay Bank	\$ 250,039
Rio Rancho NM Pub S/D	250,385
JP Morgan Chase	250,011
Synovus Bank	250,805
GE Capital Bank	<u>252,569</u>
Total	\$ 1,253,809

Money market account	1,135,835
NM State Investment Council Investments	<u>1,233,050</u>
Total short-term investments	<u>\$ 3,622,694</u>



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

Long-term:

Brokered certificates of deposit

Enerbank USA	\$	251,137
First Bank of Highland		251,146
Delta Natl. Bank and Trust		250,098
Horizon Bank		251,488
Citi Bank		250,321
Compass Bank		251,222
Merrick Bank		252,654
Connectone Bank		253,915
Third Federal Savings and Loan		255,028
Barclays Bank		255,944
American Exp. Bank		256,254
Sallie Mae Bank		256,255
State Bank		256,292
Comenity Capital		257,075
Firstmerit Bank		256,681
Goldman Sachs Bank		257,094
Discover Bank		256,372
American Exp .Cent.		256,346
BMW Bank North America		258,205
Capital One, NA		258,205
Capital One Bank USA		259,204
Everbank		259,262
Total	\$	<u>5,610,198</u>

NM State Investment Council Investments		<u>1,768,427</u>
Total long-term investments	\$	<u><u>7,378,625</u></u>

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



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

Pooled investments of the Institute consist of the following at June 30, 2016:

<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	\$ 12,574,046		37.92%	38.00%
Mid-Small	3,605,164		10.87%	11.00%
Non-U.S. Developed Equity	3,750,833		11.31%	12.00%
Emerging Markets	<u>1,007,295</u>		<u>3.04%</u>	<u>3.00%</u>
Total Equity	\$ 20,937,338		63.14%	64.00%
Core Bonds	<u>12,221,069</u>	1-5 years	<u>36.86%</u>	<u>36.00%</u>
Total Investment Pool	<u>\$ 33,158,407</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, 2016**



**NOTE 2: 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, 2016 the fair value of such interest was \$451,237,113. These investments are not categorized by custodial risk.

**Investment Income (Loss)**

Investment income (loss) consists of the following for the year ended June 30, 2016:

During the year ended June 30, 2016, \$20,461,501 in cash was distributed to NMMI from the State Land Grant

	Daniels						Total
	Land Grant	Leadership	Patterson	Scholarship	Capital	Unrestricted	
	Permanent	Center Bldg	Construction	Trust	Project		
Fund	Maintenance	Endowment	Fund	Fund	Funds		
Investment Income (loss)	\$ (373,073)	\$ -	\$ -	\$ 4,946,794	\$ -	\$ -	\$ 4,573,721
Realized gains (losses)	4,041,445	48,786	95,791	345,607	32,413	-	4,564,042
Unrealized gains (losses)	(18,744 ,628)	(67,395)	(59,403)	(216,363)	(20,099)	78,604	(19,029,284)
	<u>\$ (15,076,256)</u>	<u>\$ (18,609)</u>	<u>\$ 36,388</u>	<u>\$ 5,076,038</u>	<u>\$ 12,314</u>	<u>\$ 78,604</u>	<u>\$ 9,891,521</u>

Permanent Fund. NMMI transferred \$159,675 into the Legislative Scholarship Endowment Fund during the year ended June 30, 2016.



**NEW MEXICO MILITARY INSTITUTE**  
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**NOTE 3: CAPITAL ASSETS**

The following are the changes in capital assets:

	Beginning		Retirements	Transfers	Ending
	Balance	Additions			Balance
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 736,037	-	-	-	736,037
Construction in progress	9,114,748	984,982	-	(9,768,974)	330,756
Artwork	810,791	-	-	-	810,791
<b>Total Capital Assets Not Being Depreciated</b>	<b>10,661,576</b>	<b>984,982</b>	<b>-</b>	<b>(9,768,974)</b>	<b>1,877,584</b>
<b>Capital Assets Being Depreciated:</b>					
Buildings	99,457,507	386,482	-	9,768,974	109,612,963
Furniture, fixtures and equipment	9,775,349	144,450	(41,638)	-	9,878,161
Leased equipment	170,040	-	-	-	170,040
Library books	709,668	25,353	-	-	735,021
Infrastructure	5,409,130	503,738	-	-	5,912,868
Land improvements	1,485,834	-	-	-	1,485,834
Vehicles and golf carts	577,964	37,731	(8,634)	-	607,061
<b>Total at Historical Cost</b>	<b>117,585,492</b>	<b>1,097,754</b>	<b>(50,272)</b>	<b>9,768,974</b>	<b>128,401,948</b>
<b>Less Accumulated Depreciation:</b>					
Buildings	44,757,909	2,358,757	-	-	47,116,666
Furniture, fixtures and equipment	8,610,634	375,435	(22,877)	-	8,963,192
Leased equipment	170,040	-	-	-	170,040
Library books	587,946	22,338	-	-	610,284
Infrastructure	1,312,259	131,073	-	-	1,443,332
Land improvements	360,794	5,879	-	-	366,673
Vehicles and golf carts	466,294	28,408	(8,634)	-	486,068
<b>Total Accumulated Depreciation</b>	<b>56,265,876</b>	<b>2,921,890</b>	<b>(31,511)</b>	<b>-</b>	<b>59,156,255</b>
<b>Total Capital Assets, Net</b>	<b>\$ 71,981,192</b>	<b>(839,154)</b>	<b>(18,761)</b>	<b>-</b>	<b>71,123,277</b>





**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



**NOTE 4: LEASE COMMITMENTS AND CONTINGENCIES**

The Institute is committed under various operating leases which expire through 2020. These leases are primarily for office machinery and golf carts. Rental expense under these leases amounted to \$324,988 in fiscal year 2016.

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

2017	355,924
2018	54,075
2019	46,365
2020	<u>7,728</u>
	<u>\$ 464,092</u>

At June 30, 2016 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, 2016 are subject to audits by federal and state agencies. It is the opinion of Institute management that adjustments, if any, will not have a material effect on the Institute’s financial position or results of operations.

**State Risk Management Pool**

The Institute as a state institution defined in the New Mexico Tort Claims Act is insured through Risk Management for coverage provided in the following areas:

1. Liability and civil rights protection for claims made by others against the Institute.
2. Coverage to protect the Institute’s property and assets.

The Institute is a defendant in legal actions arising from normal business activities. Management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Institute’s financial position or results of operations.

**NOTE 5: BONDS PAYABLE**

The Institute issued Series 2013A (tax exempt) and Series 2013B (taxable) System Improvement Revenue Bonds. The bonds were issued for the purpose of providing funds for purchasing, erecting, altering, improving, repairing, furnishing and equipping facilities of the Institute. These bonds require semiannual interest payments and annual principal payments which commenced on June 1, 2014 and ending in 2028. The Institute has pledged the gross revenues received from the ownership and operation of the system, the gross proceeds of the collection of all student tuition and fees, except fees expressly imposed for the use or availability of buildings, equipment or facilities or fees expressly excluded by the Board of Regents, the gross income from the Permanent Fund and the income from the Land Income/Maintenance Fund and revenues from grants that are legally available for use as well as all other income sources excluding ad valorem taxes, state appropriations and the proceeds of any restricted gifts grants and endowments. Total annual principal and interest payments for these revenue bonds are expected to require less than 7% of gross revenues.



**NEW MEXICO MILITARY INSTITUTE**  
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**NOTE 5: BONDS PAYABLE (CONTINUED)**

Total current pledged revenues were \$22.5 million and the total principal and interest paid on the bonds was \$1,328,148, or 5.9% of pledged revenues.

The bond interest expense incurred for the fiscal years 2016 and 2015 was \$317,153 and \$325,658 respectively.

Total Institute issued bonds and outstanding at June 30, 2016 and 2015 consisted of:

	Total Issued	<u>Outstanding</u>	
		2016	2015
Series Improvement Revenue Bonds			
Series 2013A	\$ 8,935,000	\$ 8,935,000	\$ 8,935,000
(2.000% - 4.000%) final maturity 2028			
Series Improvement Revenue Bonds			
Series 2013B	3,980,000	825,000	1,835,000
(.456% - 1.880%) final maturity 2017			
Total bonds payable	<u>12,915,000</u>	<u>9,760,000</u>	<u>10,770,000</u>
Plus unamortized net premium	465,085	384,898	416,972
Bonds payable, net	<u>\$ 13,380,085</u>	<u>\$ 10,144,898</u>	<u>\$ 11,186,972</u>

The maturity schedule for the Institute bonds payable at June 30, 2016, follows:

Year ending	<u>Principal</u>	<u>Interest</u>
June 30,		
2017	\$ 1,020,000	\$ 306,210
2018	1,040,000	286,800
2019	670,000	266,000
2020	685,000	252,600
2021	705,000	232,050
2022-2026	3,040,000	806,850
2027-2028	2,600,000	106,600
Total	<u>\$ 9,760,000</u>	<u>\$ 2,257,110</u>



**NEW MEXICO MILITARY INSTITUTE**  
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**NOTE 6: LONG TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2016 is as follows:

	Beginning	Additions	Retirements	Ending
Long term bonds payable	\$ 10,176,972	\$ -	\$ 1,052,074	\$ 9,124,898
Current portion of bonds payable	1,010,000	1,020,000	1,010,000	1,020,000
	<u>11,186,972</u>	<u>1,020,000</u>	<u>2,062,074</u>	<u>10,144,898</u>
Net pension liability/deferred inflows	<u>\$ 29,338,101</u>	<u>\$ 1,677,931</u>	<u>\$ -</u>	<u>\$ 31,016,032</u>

**NOTE 7: 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](http://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 of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010. 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.



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**NOTE 7: 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.

All retired members and beneficiaries receiving benefits receive an automatic cost of living adjustment (COLA) in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3). Tier 1 membership is comprised of employees who became members prior to July 1, 2010; Tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013; Tier 3 membership is comprised of employees who became members on or after July 1, 2013. As of July 1, 2013, for current and future retirees the COLA is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.6%. 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 1.8%. 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, 2015, employers contributed 13.90% 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 10.70% of their gross annual salary. For fiscal year ended June 30, 2016 employers contributed 13.90%, and employees earning \$20,000 or less continued to contribute 7.90% and employees earning more than \$20,000 contributed 10.70% of their gross annual salary. Contributions to the pension plan from the Institute were \$1,852,124 for the year ended June 30, 2016.



**NEW MEXICO MILITARY INSTITUTE**

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**NOTE 7: 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, 2014. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015. At June 30, 2016, the Institute reported a liability of \$30,317,493 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, 2015. The contribution amounts were defined by Section 22-11-21, NMSA 1978. At June 30, 2015, the Institute’s proportion was .46806 percent, which was an increase of .66022 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Institute recognized pension expense of \$2,657,344. At June 30, 2016, the Institute reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Change in proportionate share	\$ 710,139	\$ -
Differences between expected and actual experience	-	562,044
Changes in assumptions	1,042,774	136,495
Differences between actual and projected earnings	-	-
Institutes contributions subsequent to the measurement date	1,852,124	-
Total June 30, 2016	<u>\$ 3,605,037</u>	<u>\$ 698,539</u>

\$1,852,124 reported as deferred outflows of resources related to pensions resulting from Institute contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

2017	281,965
2018	261,754
2019	89,589
2020	421,081



**NEW MEXICO MILITARY INSTITUTE**  
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**NOTE 7: 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, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015. Specifically, the liabilities measured as of June 30, 2015 and 2014 incorporate the following assumptions:

1. All members with an annual salary of more than \$20,000 will contribute 10.70% during the fiscal year ending June 30, 2015 and 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. The new assumptions adopted by the Board on June 12, 2015 in conjunction with the six-year experience study period ending June 30, 2014.
5. For 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:

<b>Actuarial Assumption</b>	<b>Description</b>
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
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 2015 using Scale AA (with one year setback for females)

The target 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





**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

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.

**Discount rate:** A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2015 and June 30, 2014. 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 sufficient to finance all projected future benefit payments of current plan membership. 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 Alternative Retirement Plan (ARP), 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 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 ( percent) or 1-percentage-point higher ( percent) than the current rate.

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate</b>	<b>1% Increase (8.75%)</b>
Institute’s Proportionate share of the net pension liability	<u>\$ 40,794,212</u>	<u>\$ 30,317,493</u>	<u>\$ 21,515,958</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, 2015 and 2014 which are publicly available at [www.nmerb.org](http://www.nmerb.org).

**Payables to the pension plan.** At June 30, 2016 NMMI owed \$176,250 to the ERB which consisted of amounts withheld from employees and employer contributions for the month of June 2016.

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

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

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



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements June 30, 2016



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

of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

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

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member.

Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The 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, 2016, 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, 2016, 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, 2016, 2015 and 2014 were \$, \$268,121 and \$266,016 and 257,889 in employer contributions, and \$133,923, \$133,653 and \$128,706 in employee contributions, respectively.

#### **NOTE 9: INSURANCE COVERAGE**

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



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



**NOTE 9: INSURANCE COVERAGE (CONTINUED)**

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, 2015 to June 30, 2016. Total premiums paid by the Institute for the years ending June 30, 2016 and 2015 were \$363,873 and \$369,831 respectively.

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

At June 30, 2016, the Foundation’s deposits were \$2,164,813, and the bank balance was \$2,205,582. The balances were insured by the Federal Deposit Insurance Corporation.

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value. Fair value for investments are determined by reference to quoted market prices or other relevant information generated by market transactions which represent level 1 inputs, other observable information such as quoted prices for similar assets which represent level 2 inputs, and unobservable valuation methodology which represents level 3 inputs. The Foundation places no limits on the amount the Foundation may invest in any one issuer. Investments at June 30, 2016 were comprised of the following:

<u>Managed Funds/Bonds</u>	<u>2016</u>	<u>Input Level</u>
Archstone Absolute Return Strategies Fund	\$ 1,697,668	2
CamCap Resources Offshore	1,009,884	2
Capital Group Emerging Markets	1,108,880	2
Dodge & Cox International Stock	3,340,607	1
Fortress Partners Offshore Fund	161,692	3
Longleaf Partners Small Cap Fund	929,778	1
Maverick Stable Fund LTD	1,944,534	2
Newport Asia Institutional	1,229,975	2
Rock Springs Equity	1,303,846	3
IR&M Core Bond Fund II	1,769,137	2
Vanguard Dividend Growth Fund	7,705,609	1
Vanguard Short Term Bond	982,538	1
Archipelago Holdings LTD	3,012,090	2
CTF Micro Cap Equity	1,449,747	2
CTF Research Equity	9,424,850	2
Total Foundation Investments	<u>\$ 37,070,835</u>	



**NEW MEXICO MILITARY INSTITUTE**

**Notes to the Financial Statements  
June 30, 2016**



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

Investment income (loss) consisted of the following for the year ended June 30, 2016.

	<u>2016</u>
Interest and dividend	\$ 548,353
Net unrealized gains	875,274
Net realized gains	524,649
Investment expenses	<u>(122,539)</u>
Total investment income	<u>\$ 1,825,737</u>

**NOTE 11: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LAND HELD FOR INVESTMENT**

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

**NOTE 12: NEW MEXICO MILITARY INSTITUTE FOUNDATION – LEASES**

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

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

2017	\$ 311,448
2018	311,448
2019	286,348
2020	236,654
2021	217,659
Thereafter	<u>4,725,821</u>
Total Minimum lease payments	<u>\$ 6,089,378</u>

**NOTE 13: NEW MEXICO MILITARY FOUNDATION - RELATED PARTY TRANSACTION**

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the year ended June 30, 2016, \$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, 2016, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2016, \$409,057 was due to the Institute for operating expenses and support. The variance between the NMMI receivable and Foundation payable is a deposit in transit of \$25,625. For the year ended June 30, 2016, the Foundation provided \$1,948,499 in scholarships and awards for the benefit of Institute cadets and faculty.



## NEW MEXICO MILITARY INSTITUTE

### Notes to the Financial Statements June 30, 2016



#### NOTE 14: JOINT POWERS AGREEMENT

The New Mexico Military Institute entered into a Joint Powers Agreement with the State Investment Council dated May 14, 1997, and amended, August 15, 1997, pursuant to the Joint Powers Agreement Act, Sections 11-1-1 through 11-1-7, NMSA 1978. Under this agreement the State Investment Office invests the Trust Scholarship Endowment, LTG Richard T. Knowles Legislative Scholarship Trust Endowment, Patterson Construction Endowment, Capital Outlay Funds, Operating Fund, and the Daniels Leadership Center Building Maintenance Endowment in accordance with guidelines established in the New Mexico Military Institute's investment policy.

Participants:	New Mexico Military Institute and State Investment Council
Party Responsible for Operations:	State Investment Office
Description:	Investment of endowment funds
Effective Date:	May 14, 1997
Total Estimated Cost:	N/A
Amount Contributed in the Current Year:	\$259,675
Amount Withdrawn in Current Year	\$0
Audit Responsibility:	N/A
Fiscal Agent:	New Mexico State Treasurer
Agency Where the Entity Reports:	N/A

#### NOTE 15: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Also as of June 30, 2016, the Institute had a project in progress to renovate Marshall Hall. The work on this project began Spring of 2016 and should be completed by June 2018. This project is funded by \$4,800,000 of State of New Mexico General Obligation Bonds which were issued in 2015. The Institute will contribute an additional \$200,000 thus making this a \$5,000,000 project. The reversion date for these funds is June 30, 2018, and as of June 30, 2016 \$330,756 of these funds had been expended. NMMI is not obligated in any manner for the related indebtedness in regards to these bonds.

At June 30, 2016 the Institute had completed a construction contract pertaining to the renovation of Bates Hall, which is the primary dining facility on the NMMI campus. This project was 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, 2016 related to this project are \$9,768,973.





**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, 2016**



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
NMMI's Proportion of the Net Pension Liability (Asset)	0.465%	0.468%	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	\$30,317,493	-	-	-	-	-	-	-	-
NMMI's Covered-Employee Payroll	\$12,816,896	\$12,779,537	-	-	-	-	-	-	-	-
NMMI's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered-Employee Payroll	207.00%	237.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	198.85%	177.51%	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, 2016**



**New Mexico Educational Retirement Board Pension Plan**  
**Schedule of Ten Year Tracking Data**  
**(Dollars in Thousands)**

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Contractually Required Contribution	\$ 2,143,359	2,657,353	-	-	-	-	-	-	-	-
Contributions in Relation to the	1,849,442	1,852,124	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ 293,917	805,229	-	-	-	-	-	-	-	-
Institute's covered employee payroll	\$ 12,816,896	\$ 12,779,537								
Contributions as a percentage employee payroll	14.43%	14.49%								

Increase (Decrease) in Pension Expense over Recognition Periods

Year	Total		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	Amount	Amortization										
2014	\$ 1,924,125	5		\$ 433,619	\$ 433,619	\$ 453,938	602,949	-				
2015	(1,051,389)	5			(281,965)	(261,754)	(89,589)	(421,081)				
2016	-	5										
2017	-	5										
2018	-	5										
2019	-	5										
2020	-	5										
2021	-	5										
2022	-	5										
2023	-	5										
	<u>\$ 872,736</u>			<u>\$ 433,619</u>	<u>151,654</u>	<u>192,184</u>	<u>513,360</u>	<u>(421,081)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

\* 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, 2016**



**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2016**

***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 June 12, 2015, ERB implemented the following changes in assumptions for fiscal year 2015.

1. Fiscal year 2015 valuation assumptions that changed based on this study:
  - a. Lower wage inflation from 4.25% to 3.75%
  - b. Update the mortality tables with generational improvements
  - c. Update demographic assumptions to use currently published tables, which may result in minor calculation changes
  - d. Remove population growth assumption for projections
  - e. Lower population growth assumption from .50% to zero (no impact on valuation results)
  
2. Assumptions that were not changed:
  - a. No change in current 3.00% inflation assumption
  - b. Retain 4.75% net real return assumption
  - c. Retain 7.75% nominal return assumption
  - d. No change to current COLA assumption of 2.00% per year
  - e. Maintain current payroll growth assumption to 3.50%
  - f. Maintain experience-based rates for members who joined ERB by June 30, 2010

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, 2016**



	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo (Roswell)</u>	<u>Wells Fargo Investments</u>	<u>Total</u>
<b>Bank Accounts</b>				
Demand deposit accounts	\$ 7,207,643	\$ -	\$ -	\$ 7,207,643
Certificates of deposit	651,263	-	1,007,575	1,658,838
Repurchase agreements	-	7,025,407		7,025,407
Total amount of deposits (bank balances)	<u>\$ 7,858,906</u>	<u>7,025,407</u>	<u>1,007,575</u>	<u>15,891,888</u>
FDIC coverage on checking	(250,000.00)			(250,000.00)
FDIC coverage on interest				
Bearing accounts	<u>(250,000.00)</u>	-	<u>(1,007,575)</u>	<u>(1,257,575.00)</u>
Total uninsured public funds	<u>7,358,906</u>	<u>7,025,407</u>	<u>(0)</u>	<u>14,384,313</u>
Collateral requirement @ 50%	3,679,453	-	0	3,679,453
Collateral requirement @ 102%	-	7,165,916	0	7,165,916
<b>Pledges and securities</b>				
FNMA FNMS, matures 11/01/2041				
Held at Wells Fargo Bank, N.A.				
CUSIP 3138AXRD5				
Current Face: \$5,847,394.00	4,804,169			4,804,169
FHG-3 G08641, matures 05/01/2045				
Held at Wells Fargo Bank, N.A.				
CUSIP 3128MJWB2				
Current Face: \$6,775,275.63		7,165,916		7,165,916
Over (under) secured	<u>\$ 1,124,716</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ 1,124,716</u>



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Individual Deposits**  
**June 30, 2016**



<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	\$ 38,822	\$ 39,007
	NMMI Combined Accounts	Checking		12,428,462
	Control		6,000,000	
	Invest		7,025,407	
	Total combined		<u>13,025,407</u>	<u>12,428,462</u>
	NMMI Investment Trust	Checking	359,772	359,772
	NMMI Bond Sinking	Checking	457,807	457,807
	NMMI Alumni Office	Checking	167,538	167,528
	NMMI Cadet Activities	Checking	183,704	183,704
	NMMI Operating	CD	500,013	500,013
	NMMI DLC Bldg. Maint.	CD	0	0
	NMMI Cadet Activities	CD	101,279	101,279
	NMMI Cadet Activities	CD	<u>49,971</u>	<u>49,971</u>
Total Wells Fargo Bank			14,884,314	14,287,543
Wells Fargo Investments				
	NMMI Bond Fund	CD	1,007,575	1,007,575
Cash On Hand				
				28,609
Total			<u>\$ 15,891,888</u>	<u>\$ 15,323,727</u>



**NEW MEXICO MILITARY INSTITUTE**

**Schedule of Endowments**

**June 30, 2016**



**Scholarship Trust**

At Market Value

American Legion	\$	9,179
Berger		310,067
Bondurant		2,415,438
Boyd		60,366
Camp		97,555
JG Cannon		216,763
Colfax		308,008
Carter		91,331
Coppinger		24,066
Crosby		471,521
Decker		125,046
Ellis		90,364
Evans		434,384
Fisher		98,575
General		194,074
Kelley		19,176
Lawrence		19,680
Lusk		88,577
Mechem		145,687
Morey		116,044
Patton		95,137
Rapp		617,553
Runnels		23,806
Ruppert		8,559
San Miguel & Mora		148,943
San Miguel & Mora (FEM)		229,908
Scherotter		9,859
Schmitt/Fitzgibbon		75,485
Total	\$	<u>6,545,151</u>
Breakdown of Investments:		
Cash-Wells Fargo Bank	\$	181,714
State Investment Council		<u>6,363,437</u>
Total	\$	<u>6,545,151</u>



**NEW MEXICO MILITARY INSTITUTE**

**Schedule of Endowments**

**June 30, 2016**



(continued)

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

	<u>At Market Value</u>
Birnie	6,514
Carter	3,621
Clark	53,519
Dickason	76,298
Domzalski	9,650
Duson	13,516
Featherstone	8,363
Gibson	28,806
Green	109,587
Hazard	2,183
Huston	265,434
Legislative (General)	12,459,135
Marmaduke	21,377
Ostenberg	536,210
Robertson	24,438
Schillingburg	17,741
Sparkman	6,760
Stevens	1,661
Wyles	49,354
Total	<u>\$ 13,694,480</u>

**Breakdown of Investments**

Cash – Wells Fargo Bank	\$ 1,056,862
State Investment Council	<u>12,637,618</u>
Total	<u>\$ 13,694,480</u>

**Alumni Scholarship Trust Endowment**

Investments-Wells Fargo Bank	\$ 4,928,607
Total	<u>\$ 4,928,607</u>

**Patterson Endowment**

Cash – Wells Fargo Bank	\$ 4,728
State Investment Council	<u>5,226,976</u>
Total	<u>\$ 5,231,704</u>





**NEW MEXICO MILITARY INSTITUTE**

**Schedule of Endowments**

**June 30, 2016**



(continued)

**Daniels Leadership Center Building Maintenance Endowment**

Cash – Wells Fargo Bank	\$	112,295
State Investment Council		<u>5,928,899</u>
Total	<b>\$</b>	<b><u>6,041,194</u></b>

**Summary of Endowments**

Scholarship Trust	\$	6,545,151
General Richard T. Knowles-Legislative Scholarship Trust		13,694,480
Alumni Scholarship Trust		4,928,607
Patterson Account		5,231,704
Daniels Leadership Center-Building Maintenance Account		<u>6,041,194</u>
Total	<b>\$</b>	<b><u>36,441,136</u></b>

Cash, restricted	\$	1,355,599
Investments Wells Fargo Bank		4,928,607
Investments at State Investment Council		<u>30,156,930</u>
Total Endowments	<b>\$</b>	<b><u>36,441,136</u></b>



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Historical Pledged Revenue**  
**June 30, 2016**



	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Tuition and Fees	\$ 6,056,313	\$ 7,407,119	\$ 8,632,170	\$ 8,730,324	\$ 9,282,475	\$ 9,268,660	\$ 9,136,913
Land & Permanent Fund Income	18,794,609	19,898,397	23,094,967	18,022,078	18,261,925	19,438,271	20,719,283
Sales and Services	1,224,521	1,165,518	1,243,119	1,252,006	1,382,226	1,464,742	1,515,372
Other Sources	196,060	221,891	134,561	385,148	307,526	365,547	408,778
<b>Pledged Revenues</b>	<b>\$ 26,271,503</b>	<b>\$ 28,692,925</b>	<b>\$ 33,104,817</b>	<b>\$ 28,389,556</b>	<b>\$ 29,234,152</b>	<b>\$ 30,537,220</b>	<b>\$ 31,780,346</b>
Operating Expenses of Auxiliary Enterprises	\$ 4,228,462	\$ 4,766,122	\$ 4,839,575	\$ 5,233,873	\$ 5,897,542	\$ 6,009,953	\$ 6,735,817
Intercollegiate Athletics	\$ 1,536,296	\$ 1,704,543	\$ 1,975,466	\$ 2,147,906	\$ 2,489,823	\$ 2,462,224	\$ 2,517,219
	\$ 5,764,758	\$ 6,470,665	\$ 6,815,041	\$ 7,381,779	\$ 8,387,365	\$ 8,472,177	\$ 9,253,036
Revenues Available for Debt Service	<b>\$ 20,506,745</b>	<b>\$ 22,222,260</b>	<b>\$ 26,289,776</b>	<b>\$ 21,007,777</b>	<b>\$ 20,846,787</b>	<b>\$ 22,065,043</b>	<b>\$ 22,527,310</b>



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Debt Service Coverage**  
**June 30, 2016**



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



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Vendor Information for Purchases**  
**Exceeding \$60,000 (excluding GRT)**  
**June 30, 2016**



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
RFP#2015/16-04	RFP	Adam's Cleaners, Inc.	Pricing Agreement		Adams' Cleaners, Inc. 1607 N Garden Ave Roswell, NM 88201	Y	N	Dry Cleaning Services for Corp of Cadets
RFP#2015/16-05	RFP	Adam's Cleaners, Inc.	Pricing Agreement		Adams' Cleaners, Inc. 1607 N Garden Ave Roswell, NM 88201	Y	N	Laundry Services for Corp of Cadets
	Sole Source	Ellucian LP	\$ 69,569		Ellucian Support Inc. 4 Country View Road Malvern, PA 19355	NA	NA	Software Maintenance Agreement, Student Receivable



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Budgetary Comparisons – Budgetary Basis**  
**Schedule 1 – All Operations**  
**For the Year Ended June 30, 2016**



	Original Budget	Final Budget	Actual	Actual Positive (Negative) Budget
Beginning Fund Balance	\$ (16,905,632)	\$ (24,789,661)	\$ (24,789,661)	
Unrestricted and Restricted Revenues:				
State General Fund Appropriations	(3,028,800)	(3,010,700)	(3,010,700)	
Federal Revenue Sources	(1,314,468)	(1,354,468)	(860,803)	(493,665)
State Revenue Sources	(5,174,896)	(3,817,441)	(720,660)	(3,096,781)
Tuition and Fees	(2,872,417)	(2,738,157)	(2,806,593)	68,436
Land and Permanent Fund	(21,264,329)	(20,722,793)	(20,719,283)	(3,510)
Endowment and Private Gifts	(1,210,640)	(1,227,587)	(1,113,968)	(113,619)
Sales and Services	(7,114,119)	(7,025,230)	(7,409,849)	384,619
Other	(1,038,168)	(1,255,531)	(1,456,399)	200,868
<b>Total Unrestricted &amp; Restricted Revenues</b>	<b>(43,017,837)</b>	<b>(41,151,907)</b>	<b>(38,098,255)</b>	<b>(3,053,652)</b>
Unrestricted and Restricted Expenditures:				
Instruction	11,422,132	11,524,502	10,872,405	652,097
Academic Support	1,275,683	1,365,839	1,187,621	178,218
Student Services	1,855,448	2,016,555	1,791,641	224,914
Institutional Support	4,495,274	,487,371	3,981,741	505,630
Operation and Maintenance of Plant	3,593,325	3,440,387	3,375,699	64,688
Student Social and Cultural Activities	466,961	925,435	443,223	482,212
Research				
Public Service				
Internal Services	301,593	663,597	403,551	260,046
Student Aid, Grants and Stipends	2,601,946	2,530,070	2,082,740	447,330
Auxiliary Services	5,503,402	6,960,015	6,735,817	224,198
Intercollegiate Athletics	2,581,575	2,678,048	2,517,219	160,829
Independent Operations				
Capital Outlay	10,358,270	6,465,300	2,575,075	3,890,225
Renewal and Replacement	1,419,000	1,681,383	695,197	986,186
Retirement of Indebtedness	1,792,801	1,792,801	1,721,848	70,953
<b>Total Unrestricted &amp; Restricted Expenditures</b>	<b>47,667,410</b>	<b>46,531,303</b>	<b>38,383,777</b>	<b>8,147,526</b>
Net transfers				
Change in Fund Balance (Budgetary Basis)	4,649,573	5,379,396	285,522	5,093,874
Ending Fund Balance	(12,256,059)	(19,410,265)	(24,504,139)	5,093,874

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, 2016**



	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Positive (Negative) Budget</u>
Beginning Fund Balance	5,055,975	6,181,286	6,181,286	-
Unrestricted Revenues:				
Tuition	2,679,267	2,536,018	2,536,361	343
Miscellaneous Fees	193,150	202,139	270,232	68,093
Federal Government Appropriations	-	-	-	-
State Government Appropriations	1,388,400	1,380,100	1,380,100	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	0	0	0	-
State Government Contracts/Grants	0	0	0	-
Local Government Contracts/.Grants	-	-	-	-
Private Gifts/Contracts/Grants	0	0	0	-
Endow. Land & Permanent Fund Income	21,264,329	20,722,793	20,719,283	(3,510)
Sales and Services	-	-	-	-
Other Sources	61,750	217,740	308,473	90,733
Total Unrestricted Revenues	25,586,896	25,058,790	25,214,448	155,659
Unrestricted Expenditures:				
Instruction	10,620,134	10,706,053	10,150,297	555,756
Academic Support	1,274,238	1,324,394	1,160,935	163,459
Student Services	1,855,248	2,016,355	1,791,641	224,714
Institutional Support	3,881,009	3,872,610	3,436,619	435,991
Operations & Maintenance of Plant	3,593,325	3,440,387	3,375,699	64,688
Total Unrestricted Expenditures	21,223,954	21,359,799	19,915,190	1,444,608
Net Transfers	(4,409,014)	(4,745,514)	(4,745,514)	-
Change in Fund Balance (Budgetary Basis)	( 46,072)	(1,046,523)	553,744	<u>1,600,267</u>
Ending Fund Balance	<u>\$ 5,009,903</u>	<u>\$5,134,763</u>	<u>\$ 6,735,030</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, 2016**



	<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	-	-	-	-
State Government Appropriations	-	-	-	-
Local Government Appropriations	-	-	-	-
Federal Government Contracts/Grants	204,468	244,468	176,373	(68,095)
State Government Contracts/Grants	2,800	2,800	3,574	774
Local Government Contracts/Grants	-	-	-	-
Private Contracts/Grants	1,210,640	1,227,587	1,113,968	(113,619)
Endowments, Land & Permanent Fund	-	-	-	-
Private Gifts	-	-	-	-
Sales and Services	-	-	-	-
Other	-	-	-	-
Total Restricted Revenues	<u>1,417,908</u>	<u>1,474,855</u>	<u>1,293,915</u>	<u>(180,940)</u>
Restricted Expenditures:				
Instruction	801,998	818,449	722,108	96,341
Academic Support	1,445	41,445	26,686	14,759
Student Services	200	200	-	200
Institutional Support	614,265	614,761	545,121	69,640
Operations & Maintenance of Plant	-	-	-	-
Total Restricted Expenditures	<u>1,417,908</u>	<u>1,474,855</u>	<u>1,293,915</u>	<u>-</u>
Net Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>180,940</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, 2016**



### **Basis of Budgetary Presentation**

The accompanying supplementary information; Schedule of Budgetary Comparisons – Budgetary Basis, for the year ended June 30, 2016, 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 1<sup>st</sup>.
2. The HED meets in June and acts on approval of the budgets.
3. The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

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, 2016**



**Reconciliation of Budgetary Basis to GAAP**

Budget comparisons revenues	\$	38,098,255
Net investment gain (loss)-net		(90,918)
Net loan fund balance change		350
Capital expenditures (netted on SRECNP – Capital Grants, net)		
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)		<u>(681,132)</u>
SRECNP Total Revenues		37,326,555
Budget comparisons expenditures		38,383,777
Current year depreciation		2,921,890
Current year amortization of bond premium		(32,074)
Unrealized investment loss		9,891,289
Change in plant fund accounts (netted on SRECNP – Capital Grants, net)		(681,132)
Capital expenditures (netted on SRECNP – Capital Grants, net)		(3,073,760)
GASB 68 pension expense adjustment		805,220
Endowment fund transfers		<u>(159,675)</u>
SRECNP Total Expenditures		<u>48,055,535</u>
Change in Net Position	\$	<u>(10,728,980)</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, 2016, and the related notes to the financial statements, which collectively comprise the Institute's basic financial statements, and have issued our report thereon dated November 7, 2016.

**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  
November 7, 2016

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

To the Board of Regents  
New Mexico Military Institute  
and  
Mr. 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 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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the Institute, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016

## Report on Internal Control over Compliance

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

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

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

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

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

Axiom CPAs and Business Advisors, LLC  
Albuquerque, New Mexico  
November 7, 2016





**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Expenditures of Federal Awards**  
**June 30, 2016**



	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
<b>Federal Grantor/Pass-Through Grantor/Program Title</b>			
<b>U.S. Department of Education</b>			
<b>Direct Programs</b>			
Student Financial Aid Cluster –			
Federal Supplemental Education Opportunity Grant	84.007	N/A	\$ 80,715
Federal Work-Study Program	84.033	N/A	13,083
Federal Pell Grant Program	84.063	N/A	576,810
Federal Direct Loan Program			
Parent Loans Program for Undergraduate Students			73,247
Stafford Subsidized Loans			166,740
Stafford Unsubsidized Loans			<u>182,231</u>
Total Student Financial Assistance Cluster			<u>1,092,826</u>
Federal Higher Education Institutional Aid			
Entryway to Engineering Success	84.031	P031C110059	23,112
Sub award P0013839			
Total U.S. Department of Education Programs			<u>1,115,938</u>
<b>U.S. Department of the Army</b>			
<b>Direct Programs</b>			
ROTC	12.Unknown	DAFK 57-92-H-0422	18,445
JROTC	12.Unknown	DAFK 57-91-H-0422	<u>135,817</u>
Total U.S. Department of the Army Programs			<u>154,262</u>
			<u>\$ 1,270,200</u>



**NEW MEXICO MILITARY INSTITUTE**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2016**



**NOTE 1 - BASIS OF PRESENTATION**

The Schedule of Expenditures of Federal Awards includes the federal grant activity of New Mexico Military Institute and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 *Catalog of Federal Domestic Assistance*.

**NOTE 3 – SUB RECIPIENTS**

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

**NOTE 4 – INDIRECT COSTS RATE**

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



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**



**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 Uniform Grant Guidance?           yes   X  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063	Student Financial Assistance Cluster

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

Auditee qualified as low-risk auditee?   X  yes           no



**NEW MEXICO MILITARY INSTITUTE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2016**



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

None Reported.

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

None reported.



**NEW MEXICO MILITARY INSTITUTE**  
**Summary of Schedule of Prior Audit Findings**  
**June 30, 2016**



**2015-001 Improve IT General Controls (Other Matters) - Resolved**

*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.

**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, 2016



The contents of this report were discussed at an exit conference held on November 7, 2016. The following individuals attended:

### **Board of Regents**

Stirling Spencer, Secretary/Treasurer  
Phillip Ingram, Member

### **New Mexico Military Institute**

MG Jerry W. Grizzle, President/Superintendent  
COL David West, Chief of Staff  
COL Judy Scharmer, Chief Financial Officer  
MAJ Deana Curnutt, 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.*

