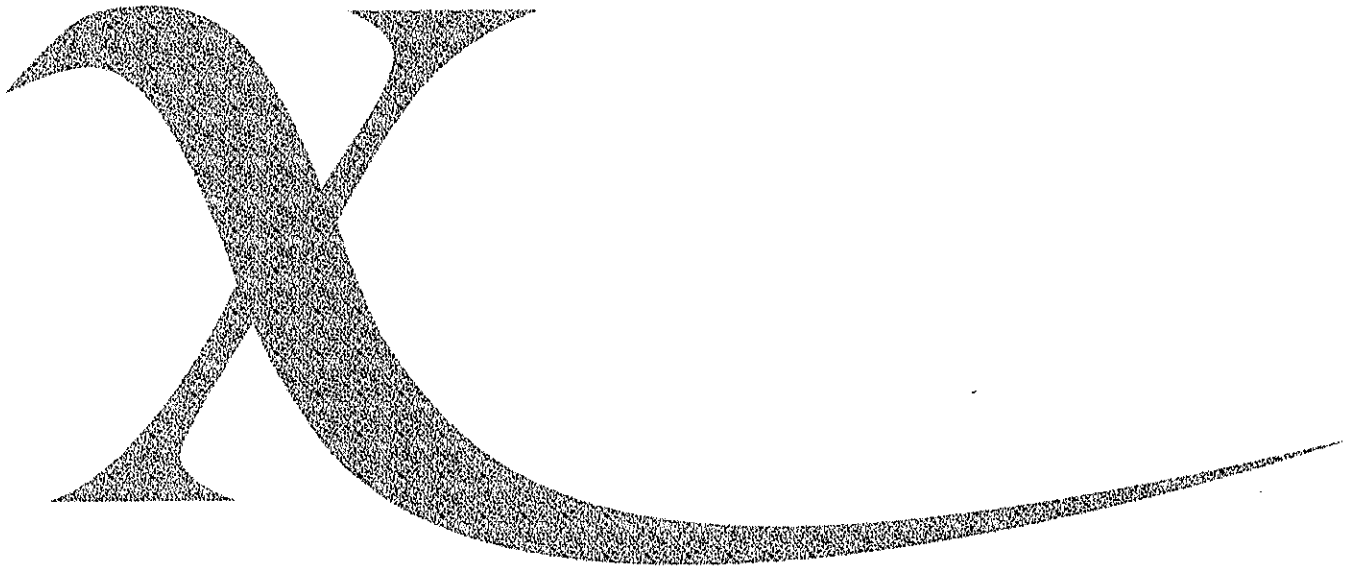


**NEW MEXICO MILITARY
INSTITUTE FOUNDATION, INC.**

Financial Statements

Years Ended June 30, 2018 and 2017



AXIOM

*Certified Public Accountants
and Business Advisors LLC*

**NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)**

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June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the New Mexico Military Institute Foundation, Inc. (the "Foundation") (a non-profit organization and component unit of the New Mexico Military Institute) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 Foundation as of June 30, 2018 and 2017, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The Supplementary Information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was 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, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

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

Albuquerque, New Mexico
October 26, 2018

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Statements of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 40,659	59,795
Cash and cash equivalents, restricted	557,309	617,989
Accounts receivable	1,685	6,639
Pledges receivable, net of allowance	52,273	50,785
Prepaid expenses	3,041	3,718
Total current assets	<u>654,967</u>	<u>738,926</u>
Noncurrent assets:		
Investments	14,706,542	13,520,976
Investments, restricted	33,703,813	31,564,648
Land and buildings held for investment	3,807,522	3,807,522
Pledges receivable, net of allowance	275,310	310,169
Surrender value of life insurance policies	756,628	742,427
Beneficial interest in perpetual trust, restricted	745,141	708,632
Other assets, restricted	84,830	50,000
Property and Equipment	1,761	-
Total noncurrent assets	<u>54,081,547</u>	<u>50,704,374</u>
Total assets	<u>\$ 54,736,514</u>	<u>51,443,300</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 7,273	4,373
Due to NMMI	383,818	362,847
Accrued employee leave	15,929	18,072
Annuity obligations	404,997	392,688
Total current liabilities	<u>812,017</u>	<u>777,980</u>
Total liabilities	<u>812,017</u>	<u>777,980</u>
Net Position:		
Unrestricted	19,198,425	18,064,602
Temporarily restricted	14,270,363	12,525,346
Permanently restricted	20,455,709	20,075,372
Total net position	<u>53,924,497</u>	<u>50,665,320</u>
Total liabilities and net position	<u>\$ 54,736,514</u>	<u>51,443,300</u>

See accompanying notes to the financial statements

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Contributions	\$ 728,540	695,121
Change in cash value of life insurance	14,201	16,337
Miscellaneous	6,558	8,935
Total Operating Revenues	<u>749,299</u>	<u>720,393</u>
 Operating Expenses:		
NMMI support	115,900	55,680
Scholarships	751,884	728,075
Activities and projects	703,920	701,911
Professorships and awards	40,992	53,242
Management and general	254,238	292,610
Fundraising	5,252	5,497
Total Operating Expenses	<u>1,872,186</u>	<u>1,837,015</u>
 Operating Loss	<u>(1,122,887)</u>	<u>(1,116,622)</u>
 Nonoperating Revenues (Expenses):		
Investment income	4,120,176	5,735,485
Loss on sale of real estate	-	(484,423)
Rental income	291,081	368,697
Real estate	(29,193)	(37,785)
Total nonoperating income (loss)	<u>4,382,064</u>	<u>5,581,974</u>
 Change in net position	3,259,177	4,465,352
 Net position, beginning of year	<u>50,665,320</u>	<u>46,199,968</u>
 Net position, end of year	<u>\$ 53,924,497</u>	<u>50,665,320</u>

See accompanying notes to the financial statements

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

Cash flows from operating activities:	<u>2018</u>	<u>2017</u>
Cash received from donors and grantors	\$ 752,794	768,697
Cash paid to NMMI for scholarships and program support	(875,496)	(827,033)
Cash paid to beneficiaries and vendors	<u>(1,012,686)</u>	<u>(1,065,207)</u>
Net cash used in operating activities	<u>(1,135,388)</u>	<u>(1,123,543)</u>
Cash flows from investing activities:		
Net proceeds from sale of real estate	-	1,547,121
Rental income	296,035	368,697
Purchase of investments	(3,055,000)	(6,322,048)
Proceeds from sale of investments	3,845,492	6,104,182
Purchase of personal property	(1,761)	-
Payment for real estate expenses	<u>(29,194)</u>	<u>-</u>
Net cash from provided by investing activities	<u>1,055,572</u>	<u>1,697,952</u>
Net increase (decrease) in cash and cash equivalents	(79,816)	574,409
Cash and cash equivalents, beginning of year	<u>677,784</u>	<u>103,375</u>
Cash and cash equivalents, end of year	\$ <u>597,968</u>	<u>677,784</u>
 RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Cash flows from operating activities:	<u>2018</u>	<u>2017</u>
Operating loss	\$ (1,122,887)	(1,116,622)
Adjustments to reconcile change in net position to net cash used in operating activities		
Non-cash donated asset	(34,830)	-
Changes in operating assets:		
Decrease in accounts and other receivables	4,954	17,647
Decrease in pledges receivable	33,371	30,657
Decrease in prepaid assets	677	1,838
Surrender value of life insurance	(14,201)	(16,337)
Beneficial interest in perpetual trust	(36,509)	(49,294)
Changes in operating liabilities:		
Decrease in payables	2,900	(1,596)
Accrued expenses	(2,143)	200
Due to other governments	20,971	(20,585)
Increase in annuity obligations	<u>12,309</u>	<u>30,549</u>
Net cash used in operating activities	\$ <u>(1,135,388)</u>	<u>(1,123,543)</u>
Supplemental disclosure of noncash investing, capital, and financing activities		
Unrealized gain on investments	(1,985,796)	(3,898,140)

See accompanying notes to the financial statements

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 1 – ORGANIZATION

The New Mexico Military Institute Foundation, Inc. (Foundation) is a not-for-profit corporation, which was incorporated in the State of New Mexico on October 9, 1945. The Foundation receives support from contributions, earnings on investments, and rental of real estate.

The purpose of the Foundation is to create, maintain and administer assets for the benefit of the New Mexico Military Institute (NMMI), 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 Foundation is considered a component unit of the Institute in accordance with government auditing standards generally accepted in the United States of America and these financial statements include all activities over which the Foundation has responsibility.

The Foundation receives, and is dependent on, contributions and on rental income from ground leases and commercial buildings located in Chaves County, New Mexico. For the years ended June 30, 2018 and 2017, the Foundation received \$728,540 and \$695,121, respectively, in restricted contributions. For the years ended June 30, 2018 and 2017, the Foundation received \$291,081 and \$368,697, respectively, in rental income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Foundation is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, the net position of the Foundation and changes therein are classified and reported as follows.

- *Unrestricted net position* – net position that are not subject to donor-imposed restrictions. Unrestricted net position may be designated for specific purposes, such as quasi-endowments, by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Unless otherwise designated, unrestricted net position are used for the support of NMMI programs.
- *Temporarily restricted net position* – net position subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net position* – net position subject to donor-imposed restrictions that must be maintained permanently by the Foundation.

Temporarily restricted net position are those whose use by the Foundation have been limited by donors to a specific time period or purpose. When a donor restriction expires, either when the stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net position are reclassified to unrestricted net position and reported in the Statement of Activities as net position released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released from restriction in the accompanying financial statements.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises and other gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

Expense Allocation

Directly identifiable expenses of the Foundation's programs are charged to program expenses. Supporting services expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers all cash on hand, demand deposits, and unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt and equity securities at their fair value in the Statement of Financial Position. Investment income or loss (including unrealized gains and losses on investments, interest, and dividends) is included in the Statement of Activities as increases or decreases in unrestricted net positions unless the income or loss is restricted by donor or law.

Investment Pools

The Foundation maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues and Expenses

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

Operating income include activities that relate to the primary continuing operations of the Foundation. Principal operating revenues include nonendowed donations and pledges. Principal operating expenses include distributions to the College, fundraising, and general and administrative expenses.

Nonoperating income includes investment income, sale on real estate, and rental income.

Income Tax Status

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Accordingly, no provision for income taxes has been provided in the financial statements. As of year-end, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The

Foundation's Form 990, Return of Organization Exempt from Income Taxes, is generally subject to examination by the Internal Revenue Service for three years after the date filed.

Contributions and Pledges

The Foundation recognizes contributions as revenue when they are received or unconditionally pledged. The Foundation reports gifts of cash and other asset as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net positions are reclassified to unrestricted net positions and reported in the Statement of Activities as net positions released from donor restrictions.

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value initially and in subsequent periods. Management believes that the use of fair value reduces the cost of measuring unconditional promises to give in periods subsequent to their receipt and provides equal or better information to users of its financial statements than if those promises were measured using present value techniques. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness.

Donated Services and Facilities

Donated services are recognized in the financial statements as contributions if the services:

- Create or enhance nonfinancial assets or
- Require specialized skills, are provided by individuals possessing those skills, and would otherwise be purchased if not donated.

Office space donated by the New Mexico Military Institute (including building maintenance, utilities, and janitorial services) is valued and described in Note 9.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Life Insurance

The Foundation is the owner and beneficiary of numerous life insurance policies gifted to it by donors. The policies are presented at their aggregate cash value at June 30, 2018 and 2017. Increases in cash value during the year are recognized as earned revenue.

Annual Leave

Accumulated unpaid vacation is accrued when incurred. In the event of separation, an employee may be eligible for payment of accumulated unpaid vacation up to a maximum of 20 days. Accumulated sick leave is not paid upon separation of employment.

Furniture and Equipment

All acquisitions of furniture and equipment with a cost in excess of \$1,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Furniture and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which is three to ten years for all assets.

Budget

The operating budget of the Foundation is prepared for unrestricted activities and is subject to the approval of the Board of Trustees, but is not legally adopted or subject to any other proceedings. The adopted budget of the Foundation is prepared on a basis consistent with accounting principles generally accepted in the United States of America except expenses from net positions released from restriction are not included in the budget; therefore, the related expenses are excluded from the actual expenses reported on the budget comparison.

NOTE 3 – CASH AND INVESTMENTS

At year end, the Foundation's deposits were \$597,968, and the bank balance was \$609,838.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. Investments in any one issuer that represents 5% or more for bonds and 5% or more for all other investments are considered to be exposed to concentrated credit risks and are required to be disclosed. Investments issued and explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There were no bonds in a single issuer that represents 5% or more of the total investments and there were no other investments 5% or more of the total investments at June 30, 2018.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation does not have a policy to limit its exposure to interest rate risk. At June 30, 2018, Foundation’s bond mutual funds are subject to interest rate risk.

Investment Income

For the years ended June 30, 2018 and 2017, components of investment income were as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 446,489	393,625
Net unrealized gains (losses)	1,985,796	3,884,478
Net realized gains (losses)	1,841,867	1,583,409
Investment expenses	<u>(153,976)</u>	<u>(126,027)</u>
Total investment income (loss)	<u>\$ 4,120,176</u>	<u>5,735,485</u>

The investments held that are valued at Net Position Valuations had the following investment strategies per the Foundation’s investment committee:

Hedge fund investments, including equity long/short are defined as private investment vehicles that utilize non-traditional investing techniques in pursuit of superior risk-adjusted returns. These are specialist investment managers with various strategies across the spectrum of event driven, opportunistic, or value driven styles. The funds may employ leverage and may employ short position in order to implement their strategy. The Fund may utilize direct investment into individual hedge funds or a fund of funds with a minimum of five different core hedge fund strategies.

Hedge funds are unregulated by the SEC, therefore, the Committee must rely on detailed third party preliminary and ongoing due diligence. Through Monticello Associates, the Committee ensures that due diligence will take place. Each fund is evaluated against peer groups and passive indices that best compare the investment manager’s value added over those bench marks. Value added is defined as the fund’s absolute performance, relative performance, standard deviation, and its correlation value to the total Fund portfolio.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation does not have a policy on investment credit risk. The credit risk associated with the below investments are unrated.

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

Fair Value Measurements. The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices (unadjusted) for the identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal to principal markets.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- Level 3 inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers but the Foundation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

The Foundation has the following recurring fair value measurements as of June 30, 2018,

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments measured at the NAV as of June 30, 2018:

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

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

The Foundation has the following recurring fair value measurements as of June 30, 2017,

Managed Funds/Bonds	Category	Fair Value Measurements using			Balance as of June 30, 2017
		Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	
Vanguard Dividend Growth	Large Cap	\$ 8,061,962	-	-	8,061,963
	Small Cap				
Longleaf Small Cap	Equity	1,067,222	-	-	1,067,222
Dodge & Cox International	International Equity	1,559,190	-	-	1,559,190
Vanguard Short Term Bond Fund	Fixed Income	2,464,918	-	-	2,464,918
		<u>\$ 13,153,292</u>	<u>-</u>	<u>-</u>	<u>45,085,625</u>

Investments measured at the NAV as of June 30, 2017:

Alternatives	Fair Value	Unfunded Commitments	Redemption frequency (if currently eligible)	Redemption Notice Period
Archstone Absolute Return Strategies Fund, Ltd.	\$ 1,358,898	n/a	Semi annually 6/30 and 12/31	90 days
Davidson Kempner Institutional Partners, LP	1,000,000	n/a	6/30 and 12/31	65 days
Fortress Partners Offshore Fund LP	43,962	n/a	Annually	180 days
			Rolling annually on	
Maverick Stable Fund, Ltd., Class P-2	2,111,603	n/a	anniversary	95 days
IR&M Core Bond Fund II LLC	2,769,492	n/a	Daily	Daily
Wellington Archipelago Holdings, Ltd.	3,381,627	n/a	Quarterly	45 days
GQG Partners International Equity Fund	1,537,719	n/a	Weekly	5 days
Indus Select Fund, Ltd	1,452,426	n/a	Monthly	30 days
Kabouter International Opportunities Offshore Fund II, Ltd	1,582,799	n/a	Monthly	30 days
Newport Asia Institutional Fund LP	1,517,101	n/a	Monthly	30 days
			After lockup, quarterly within 45	
Rock Springs Capital Fund LP	1,640,558	n/a	days' notice	45 days
Wellington Research Equity Canyon Distressed Opportunity Fund II (Cayman)	10,677,535	n/a	Monthly	30 days
	348,420	670,000	n/a	n/a
Golub Capital Partners International 11, L.P.	307,200	700,000	n/a	n/a
Wellington Select Energy Opportunities	934,905	n/a	Monthly	10 days
Wellington Micro Cap	1,268,087	n/a	Monthly	90 days
Total Investments measured at NAV	<u>31,932,332</u>	<u>1,370,000</u>		
Total Investments held by the Foundation	<u>\$ 45,085,624</u>			

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 4 – ENDOWMENTS

The Foundation’s endowment consists of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net positions associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net positions (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor- restricted endowment fund that is not classified in permanently restricted net positions is classified as temporarily restricted net positions until those amounts are appropriated for expense by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment Net Position Composition by Type of Fund as of current fiscal year end:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 14,270,363	20,455,709	34,726,072
Total funds	\$ 14,270,363	20,455,709	34,726,072

Changes in Endowment Net Position for the current fiscal year:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 12,525,346	20,075,372	32,600,718
Contributions	385,565	338,975	724,540
Investment earnings	1,495,673	-	1,495,673
Net appreciation (depreciation)	1,365,429	36,508	1,401,937
Amounts appropriated for expenditure	(1,496,796)	-	(1,496,796)
Transfer funds permanently restricted	(4,854)	4,854	-
Endowment net position, end of year	\$ 14,270,363	20,455,709	34,726,072

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 4 – ENDOWMENTS (Continued)

Investment Return Objectives, Risk Parameters, and Strategies

The Foundation has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 4% annually.

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable are unconditional and due in varying amounts and periods. Unconditional pledges receivable at year end totaled \$327,583, excluding a present value discount of \$67,462 measured at a discount rate approximately 4 percent. When estimating the fair value of unconditional promises to give, management considers the relationship with the donor, the donor's past history of making timely payments, and the donor's overall creditworthiness which represent level 3 inputs.

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 52,273	50,785
Receivable in one to five years	281,788	274,653
Receivable in more than five years	<u>60,984</u>	<u>120,192</u>
Total pledges receivable	395,045	445,630
Less discounts to net present value	<u>(67,462)</u>	<u>(84,676)</u>
Net pledges receivable at year end	<u>\$ 327,583</u>	<u>360,954</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT OF UNIT OF NEW MEXICO MILITARY INSTITUTE)
Notes to Financial Statements
June 30, 2018 and 2017

NOTE 6 – LAND AND BUILDINGS HELD FOR INVESTMENTS

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

NOTE 7 – ANNUITY OBLIGATIONS

The principal amount of life gifts, charitable remainder unitrusts and accumulated earnings, which are temporarily restricted, are included in investments in the Statements of Financial Position and will be reflected as support in the Statements of Activities when the term of the life income gifts have been met and the income is no longer restricted. At June 30, 2018 and 2017 the Ralph R. Connor Charitable Remainder Unitrust was recorded as annuity obligations in the amount of \$404,997 and \$392,688, respectively.

NOTE 8 – LEASE AGREEMENTS

Lease agreements between the Foundation and tenants of its property are for terms up to 40 years and generally included 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 leases as of year end:

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

NOTE 9 – RELATED PARTY TRANSACTIONS

The New Mexico Military Institute provides office space (including building maintenance, utilities, and janitorial services) to the Foundation at no charge. For the years ended June 30, 2018 and 2017, \$4,000 and \$4,000, respectively, was recorded each year as a contribution for the use of office space with a corresponding amount recorded as rent expense.

For the years ended June 30, 2018 and 2017, various expenses were paid by the New Mexico Military Institute on behalf of the Foundation, which have been reimbursed. At June 30, 2018 and 2017, \$383,818 and \$362,847, respectively, were due to the NMMI for operating expenses and support. For the years ended June 30, 2018 and 2017, the Foundation provided \$1,612,696 and \$1,539,908, respectively, in scholarships and awards for the benefit of Institute cadets and faculty and Alumni relations support.

NOTE 10 – INVESTMENT VOLATILITY

The investment markets experienced fluctuations as changes in the global economy affect the U.S. market. It is expected that this volatility will continue to impact the value of investments reported in the statement of financial position in the subsequent fiscal year.

SUPPLEMENTARY INFORMATION

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Budget Comparison – Unrestricted Net Assets
For the Year Ended June 30, 2018
(with Comparative Totals of 2017 Actual)

	<u>Original and Final Budget</u>	<u>2018 Actual</u>	<u>Variance</u>	<u>2017 Actual</u>
Revenues				
Rents:				
1900 North Main / Dairy Queen	\$ 38,244	41,612	3,368	44,897
2200 North Main / Denny's	37,992	38,002	10	38,001
College and Main / F&H Investments	54,696	54,694	(2)	54,694
2000 North Main / Sally Port Inn	-	-	-	87,553
401 West College / Community Homecare	16,800	16,800	-	16,800
2110 North Main / Whataburger	90,000	139,973	49,973	126,752
Total Rents	<u>237,732</u>	<u>291,081</u>	<u>53,349</u>	<u>368,697</u>
Other revenues:				
In-kind revenues	4,000	4,000	-	4,000
Earnings from unrestricted investments	433,600	638,710	205,110	491,886
Unrealized gain on investments	-	583,856	583,856	1,054,462
Change in cash value of life insurance	-	14,201	14,201	16,337
Gain (loss) on sale of real estate	-	-	-	(484,423)
Fundraising support	3,000	3,255	255	5,210
Other income or fund transfers	3,000	3,303	303	3,725
Total other revenues	<u>443,600</u>	<u>1,247,325</u>	<u>803,725</u>	<u>1,091,197</u>
Total rents and other revenues	<u>\$ 681,332</u>	<u>1,538,406</u>	<u>857,074</u>	<u>1,459,894</u>
Expenses:				
Foundation expenses				
Accounting and auditing	\$ 9,000	6,851	2,149	8,929
Auto allowance	600	173	427	179
Columbarium expense	1,500	1,203	297	1,239
Computer hardware and software	3,300	4,056	(756)	3,556
Depreciation	-	311	(311)	-
Executive committee contingency	3,500	1,378	2,122	1,758
Executive director professional development	2,000	1,971	29	1,979
Director's insurance	12,000	11,566	434	11,566
Legal service	10,000	6,260	3,740	36,468
Miscellaneous	2,000	-	2,000	75
Office supplies	12,000	8,693	3,307	10,127
Rent Expense	4,600	4,540	60	4,495
Salaries, taxes and benefits	214,000	207,236	6,764	212,154
Travel	1,500	-	1,500	85
Total Foundation expenses	<u>276,000</u>	<u>254,238</u>	<u>21,762</u>	<u>292,610</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Budget Comparison – Unrestricted Net Assets
For the Year Ended June 30, 2018
(with Comparative Totals of 2017 Actual)

	<u>Original and Final Budget</u>	<u>2018 Actual</u>	<u>Variance</u>	<u>2017 Actual</u>
Expenses				
NMMI Support				
Cadet activities	\$ 20,000	20,000	-	20,000
Miscellaneous	25,000	10,900	14,100	680
Scholarships	100,000	-	100,000	-
Superintendent	35,000	35,000	-	35,000
Total NMMI Support	<u>180,000</u>	<u>65,900</u>	<u>114,100</u>	<u>55,680</u>
Alumni Support:				
Alumni relations support	-	-	-	-
Real Estate:				
Grounds maintenance	4,000	5,176	(1,176)	5,045
Miscellaneous real estate expense	1,500	348	1,152	1,116
Property insurance	7,000	6,891	109	6,873
Property tax	14,000	16,778	(2,778)	24,751
Repairs and maintenance	-	-	-	-
Total real estate	<u>26,500</u>	<u>29,193</u>	<u>(2,693)</u>	<u>37,785</u>
Development				
Salary & benefits	50,000	50,000	-	-
Operations	7,200	5,252	1,948	5,497
Total Fundraising	<u>57,200</u>	<u>55,252</u>	<u>1,948</u>	<u>5,497</u>
Total Expenses	<u>\$ 539,700</u>	<u>404,583</u>	<u>135,117</u>	<u>391,572</u>

NEW MEXICO MILITARY INSTITUTE FOUNDATION, INC.
(A COMPONENT UNIT OF THE NEW MEXICO MILITARY INSTITUTE)
Schedule of Deposit and Investment Accounts
June 30, 2018

<u>Institution</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Book Balance</u>	<u>Bank Balance</u>
Cash and equivalents:				
Wells Fargo	Operating	Checking - noninterest	\$ 40,659	46,604
Wells Fargo	Restricted	Checking - noninterest	557,309	563,234
			<u>\$ 597,968</u>	<u>609,838</u>
Investments:				
SS&C Fund Services	Archstone Absolute Returns Strategies	Investment	\$ 26,372	26,372
Indus Capital	Indus Select Fund	Investment	1,899,206	1,899,206
Dodge & Cox	Dodge & Cox International Stock Fund	Investment	2,047,569	2,047,569
Fortress Investment Group	Fortress Partners Offshore Fund	Investment	872	872
Longleaf Partners	Longleaf Partners Small Cap Fund	Investment	1,193,850	1,193,850
Citco	Maverick Stable Fund LTD	Investment	2,200,485	2,200,485
Citco	Davidson Kempner Institutional Partners LP	Investment	1,044,532	1,044,532
Newport Asia	Newport Asia International Fund	Investment	1,977,558	1,977,558
Rock Springs	Capital Fund LP	Investment	1,968,978	1,968,978
IR&M	Core Bond Fund II LLC	Investment	2,754,088	2,754,088
Vanguard	Vanguard Dividend Growth Fund	Investment	7,810,399	7,810,399
Vanguard	Vanguard Short Term Bond Fund	Investment	2,771,308	2,771,308
Wellington Management	Select Energy Opportunities	Investment	1,079,890	1,079,890
Wellington Management	Archipelago Holdings LTD	Investment	3,669,598	3,669,598
Wellington Management	CTF Micro Cap Equity	Investment	1,473,229	1,473,229
Wellington Management	CTF Research Equity	Investment	10,343,789	10,343,789
Morgan Stanley Fund Services	Kabouter International Opportunities Offshore Fund II Ltd.	Investment	1,776,036	1,776,036
Northern Trust	GQG Partners International Equity Fund	Investment	2,334,011	2,334,011
Golub Capital	Golub Capital Partners International 11, L.P.	Investment	307,730	307,730
International Fund Services	Canyon Distressed Opportunity Fund II (Cayman), L.P.	Investment	548,939	548,939
CITCO	Davidson Kempner LT DO	Investment	108,583	108,583
Renaissance	RIDA Fund LLC (Series A)	Investment	1,073,333	1,073,333
			<u>\$ 48,410,355</u>	<u>48,410,355</u>