



New Mexico  
Small Business Investment Corporation

2012 Annual Report

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# NEW MEXICO SBIC

Joseph H. Badal  
*Chairman and President*  
New Mexico Small Business  
Investment Corporation



October 16, 2012

The Honorable Susana Martinez  
Office of the Governor  
490 Old Santa Fe Trail, Suite 400  
Santa Fe, New Mexico 87501

Dear Governor Martinez:

On behalf of the members of the Board of Directors of the New Mexico Small Business Investment Corporation (“NMSBIC”), I want to thank you for appointing us to this important organization and giving us the opportunity to serve our State.

The NMSBIC was formed in 2001 by the Small Business Investment Act, NMSA 58-29-1 et. seq., to create new job opportunities in communities statewide, and is funded by an allocation from the Severance Tax Permanent Fund pursuant to NMSA 7-27-5.15. Upon receipt of the independent audited financial statements, the NMSBIC Board of Directors is charged with reporting the organization’s financial results to you in accordance with the provisions of the Act. The enclosed report is intended to serve that purpose. A copy of the report of the independent auditors for the NMSBIC’s fiscal year ended June 30, 2012 is also enclosed.

With the exception of one member, the NMSBIC Board of Directors (the “Board”) is comprised of all new members appointed by you in mid to late 2011. Retaining one previous Board member has allowed the organization to retain valuable institutional knowledge. The new Board members have taken the past year to review and learn from the organization’s investment history. The enclosed report includes observations regarding past activities, and actions being taken by the Board to strengthen the NMSBIC.

On behalf of the members of the Board, I am pleased to report the changes we are making to move the organization forward in a positive direction. We are committed to building a viable and sustainable structure to enable the NMSBIC to fulfill its mission of stimulating the state’s economy and creating job opportunities throughout New Mexico, while preserving the NMSBIC’s capital.

Joseph H. Badal  
Chairman and President

# NEW MEXICO SBIC

Joseph H. Badal  
*Chairman and President*  
New Mexico Small Business  
Investment Corporation



October 16, 2012

The Honorable John Arthur Smith, Chair  
New Mexico Legislative Finance Committee  
325 Don Gaspar, Suite 101  
Santa Fe, NM 87501

Dear Chairman Smith:

On behalf of the members of the Board of Directors of the New Mexico Small Business Investment Corporation (“NMSBIC”), I want to express our appreciation for having the opportunity to serve our State.

The NMSBIC was formed in 2001 by the Small Business Investment Act, NMSA 58-29-1 et. seq., to create new job opportunities in communities statewide, and is funded by an allocation from the Severance Tax Permanent Fund pursuant to NMSA 7-27-5.15. Upon receipt of the independent audited financial statements, the NMSBIC Board of Directors is charged with reporting the organization’s financial results to you in accordance with the provisions of the Act. The enclosed report is intended to serve that purpose. A copy of the report of the independent auditors for the NMSBIC’s fiscal year ended June 30, 2012 is also enclosed.

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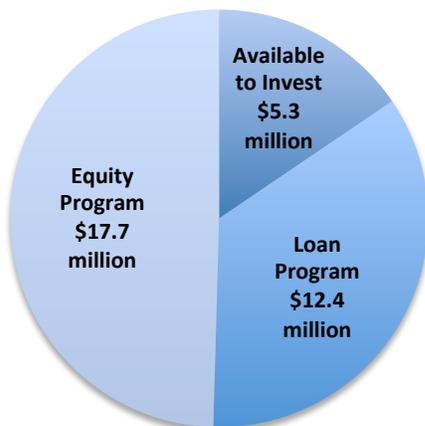
Joseph H. Badal  
Chairman and President

## Introduction

The New Mexico Small Business Investment Corporation (“NMSBIC”) was formed in 2001 by the Small Business Investment Act to create new job opportunities in communities statewide, and is funded by an allocation from the Severance Tax Permanent Fund.

## Investment Overview

The NMSBIC invests in New Mexico businesses through its lending program and equity program. As of June 30, 2012, there were \$35.4 million in total assets deployed, committed, or available to invest.



	Equity Program	Loan Program
Outstanding	\$12,455,423	\$9,429,512
Committed	\$5,198,808	\$2,945,488
Total	<u>\$17,654,231</u>	<u>\$12,375,000</u>

## Impact

Through its lending program, NMSBIC is an important source of funding for New Mexico nonprofit organizations engaged in micro-lending and small business lending in New Mexico. Lending partners include Accion, New Mexico Community Development Loan Fund (“The Loan Fund”), and WESST Corp. Since its inception, and in connection

with its lending partners, the NMSBIC has funded 2,419 loans to New Mexico start-up and small businesses that have provided 5,811 jobs throughout New Mexico.

**2,419 loans**  
**5,811 jobs**

Since its inception in 2001, and in connection with its equity partners, the NMSBIC has committed \$32.3 million in equity investments to start or grow 45 New Mexico businesses. Equity partners include Flywheel Ventures, New Mexico Community Capital, New Mexico Mezzanine Partners, and Verge Fund. New Mexico businesses that are growing with equity funding from NMSBIC include Aero Mechanical Industries, Altela, Aspen Avionics, BoomTime, IntelliCyt, Nanocrystal, and Miox. These are only a few of the active companies that were started with equity provided by NMSBIC.

## Equity Investments in 45 New Mexico Companies

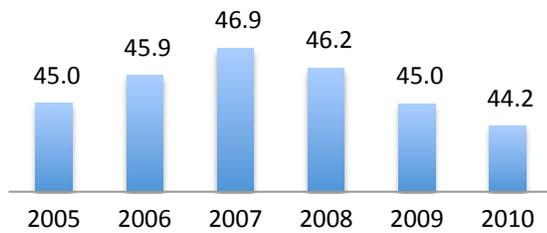
## The New Mexico Economy

New Mexico was impacted by the financial crisis that began in 2008. Employment and the number of business establishments declined, and the unemployment rate increased.

Recently released data for 2010 from the Census Bureau’s County Business Patterns series show that the number of New Mexico business establishments fell for the third year in a row [in 2010], with a net decrease of 1.7% (a loss of 765) between 2009 and 2010.<sup>1</sup>

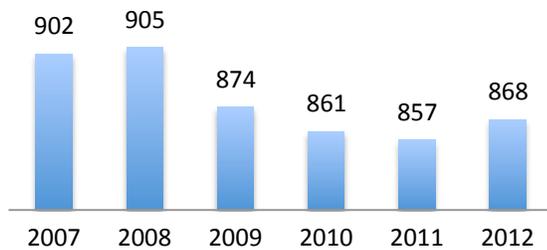
<sup>1</sup> University of New Mexico Bureau of Business and Economic Research, *New Mexico Current Business Report*, July, 2012

**New Mexico Business Establishments  
(in thousands)**



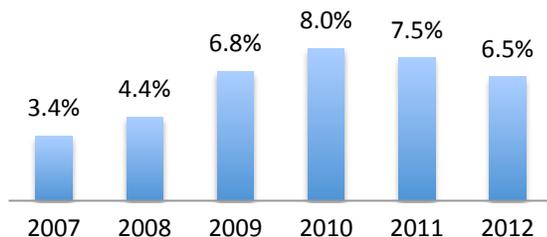
New Mexico employment increased in 2012 to 867,560, but has still not recovered to the June 2008 level of 905,398<sup>2</sup>.

**New Mexico Employment  
as of June 30 (in thousands)**



New Mexico's unemployment rate has declined to 6.5% in 2012 from a high of 8.0% as of June 2010. However, unemployment has not returned to the June 2007 level of 3.4%.<sup>3</sup>

**New Mexico Unemployment Rate  
as of June 30**



UNM's Bureau of Business and Economic Research provided this unemployment forecast in their report, *New Mexico Current Economic Report*, in June 2012:

*"Since the onset of the recession in New Mexico, about 18,500 persons (2.0%) have left the labor force. With only gradual employment growth forecast for the next few years, we expect the growth of the labor force to be equally gradual ... FOR-UNM anticipates the unemployment rate at or above 6.4% for the entire forecast period, through 2017."*

The financial crisis that began in 2008 had an impact on several companies that received equity capital from NMSBIC, and, at least in part, contributed to NMSBIC equity losses. While unemployment has improved, there is still a critical need for providing funds to protect existing jobs and promote job growth. NMSBIC believes expansion of its lending program addresses a serious funding gap and is the most effective way to deliver funding to New Mexico businesses in the current environment. Expanding our lending program enables the NMSBIC to better preserve capital, and to increase the velocity of that capital, thereby benefitting more companies in our state.

## Observations

The NMSBIC Board of Directors ("Board") has taken the past year to review and learn from the organization's investment history. The following are the Board's observations.

## Concentrations

Since 2001, the NMSBIC has committed \$32.3 million to equity capital investments. While these investments have resulted in the establishment and growth of several New Mexico businesses, this was a high concentration of investment dollars in high-risk vehicles. When the financial crisis began in 2008, this high concentration of high-risk investments resulted in significant losses for NMSBIC's equity investments.

<sup>2</sup> Bureau of Labor Statistics, [www.bls.gov](http://www.bls.gov)

<sup>3</sup> Bureau of Labor Statistics, [www.bls.gov](http://www.bls.gov)

### **Equity Investment Returns**

As a basis for comparison, the Cambridge Associates LLC U.S. Venture Capital Early Stage Index<sup>4</sup> (the "Index") experienced returns of 32.1% over the past 20 years and 47.0% over the past 15 years. The impact of the financial crisis that began in 2008 is reflected in the Index returns that dropped to 3.0% over the past 10 years and 5.6% over the past 5 years. By comparison, the NMSBIC has funded \$27.2 million in equity investments beginning in 2003. Those investments have a current market value of \$12.4 million, which is a negative 20.2% annualized return for investments funded over the past 10 years. It should be noted that not all of NMSBIC's equity partners have experienced the same level of losses. Details regarding equity fund values are provided below in the *Equity Program* section of this report.

### **Venture Capital in New Mexico**

NMSBIC's investment history has provided valuable experience and revealed significant challenges regarding venture capital investing that is (i) restricted to locally based venture capital funds, and (ii) further restricted to only investing in New Mexico companies. First, economy of scale impacts a venture capital fund's level of funding for hiring and retaining the full range of staff required to operate a venture capital fund, as well as funding for hiring experts to perform investment due diligence for highly specialized technologies. Locally based venture capital firms of relatively small size may face significant competitive challenges related to hiring and retaining fund management teams and staff, and performing rigorous investment due diligence. Second, the restriction that funds only invest in New Mexico companies limits investment opportunities and diversification. It appears these challenges may have contributed to significant financial losses in NMSBIC's equity investments. The equity investment losses appear to be greater than what might reasonably be attributable to the financial crisis that began in 2008.

### **Investment Term**

Equity investing is a long-term commitment that may tie up invested funds for as long as 10 years or

more. While it may be appropriate for the NMSBIC to have a portion of its assets committed to long-term investments, the portfolio should be balanced with a mix of long-term, medium-term, and short-term investments.

### **Income Generation**

Equity investments do not generate interest or dividend income during their long-term investment period. Having a high concentration of non-interest bearing assets can result in a shortage of current income to offset NMSBIC's operating expenses. Investments should be balanced with a sufficient mix of interest bearing assets to support NMSBIC operating expenses, and to mitigate risk.

### **Lending Gap**

As a result of the financial crisis, there has been a tightening of bank lending to small businesses. The loan-to-deposit ratio for New Mexico-based banks dropped to 67% in 2012 from 80% in 2009<sup>5</sup>. This tight credit market provides an opportunity for NMSBIC to expand its lending program and help fill the current lending gap.

### **Actions and Changes**

The NMSBIC has made the following changes and is taking action to strengthen the organization and capitalize on opportunities to stimulate economic growth in New Mexico.

### **Prudent Investor Rule**

The NMSBIC will continue to employ the Prudent Investor Rule in evaluating loan and investment opportunities. NMSBIC loans and investments shall be underwritten in a way that balances yield, safety, diversification, and economic development.

### **Expand Lending Program**

The NMSBIC is working to expand its lending program. This expansion will, (i) provide balance for the high concentration of equity investments, (ii) provide a mix of investments with short-term to medium-term maturities, (iii) increase current income to support operating expenses, and (iv) help

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<sup>4</sup>Cambridge Associates LLC

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<sup>5</sup>Source [www.fdic.gov](http://www.fdic.gov), *Statistics on Depository Institutions*

to fill the current lending gap in New Mexico of loans to small businesses.

### **Policies and Underwriting Criteria**

The NMSBIC is evaluating lending partner policies and underwriting criteria to ensure proper controls are in place to mitigate risk related to an expansion of lending. We believe our efforts have positively influenced our lending partners to implement stronger lending policies and controls.

### **Lending Partner Agreements**

The NMSBIC is reviewing its agreements with lending partners to ensure appropriate covenants are in place that serve to protect both the NMSBIC and its lending partners, and that loan terms provide appropriate risk versus reward balance, and provide a reasonable expectation of a positive financial return and preservation of NMSBIC capital. During the past year, the NMSBIC reduced the borrowing limit of one lending agreement to \$3.5 million from \$5 million due to unused lending capacity. The borrowing limit under another lending agreement was increased to \$8.5 million from \$7.5 million due to increasing loan demand by that lending partner. The NMSBIC also added loan covenants to our agreement with that lending partner requiring the lending partner to maintain liquidity, limit leverage, diversify funding sources, and provide replacement collateral for any loans pledged to NMSBIC that become seriously delinquent.

### **Mezzanine Funding Extended**

During the fiscal year, the Board agreed to extend the date from September 2012 to February 2013 for new investments to be made by New Mexico Mezzanine Partners. This partnership is providing secured financing to new companies with established revenues and cash flow to support debt service payments. The Board extended the date for new investments to allow this partnership to more fully deploy its committed funds to growing New Mexico businesses that do not have access to lending from traditional banks.

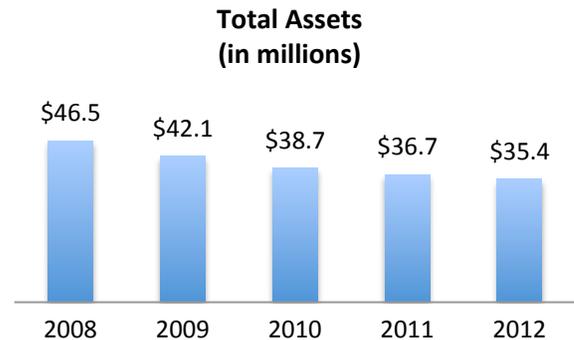
### **New Executive Director/Investment Advisor**

In May 2012, the NMSBIC engaged Russell Cummins as its new Executive Director/Investment Advisor. Mr. Cummins has 29 years of financial institution experience, including 12 years in executive management. He holds a Bachelor of Science degree from the University of Southern California in Finance and Business Economics, and a Master of Business Administration degree from the Robert O. Anderson School of Management at the University of New Mexico.

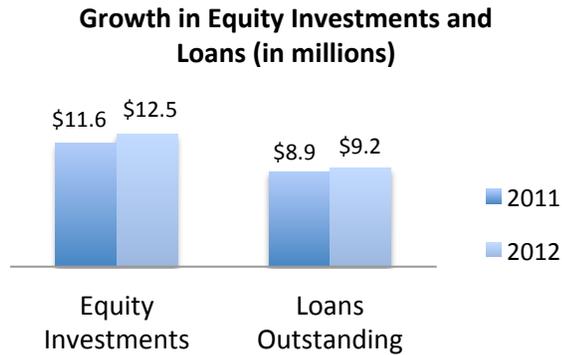
### **Financial Highlights**

Attached to this report are NMSBIC's audited financial statements for the fiscal year ended June 30, 2012. Financial highlights are provided as follows.

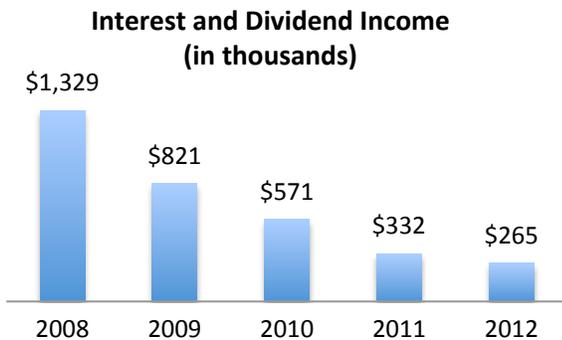
As of June 30, 2012, the NMSBIC ended its fiscal year with \$35.4 million in total assets. This was a reduction from \$36.7 million the previous year. The decrease was primarily due to venture capital investment losses and equity fund management fees.



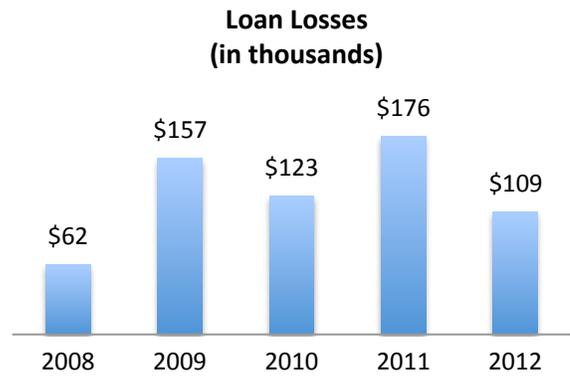
There was growth in both equity investments and loans during the fiscal year, with equity investments growing to \$12.5 million, and loans growing to \$9.2 million. The increase in equity investments was related to existing commitments from prior years.



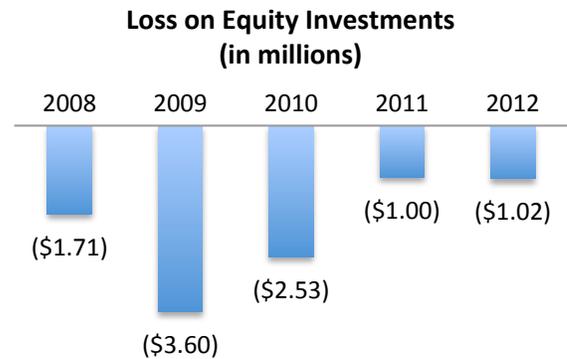
Interest and dividend income has declined in recent years due to (i) movement of funds into non-interest bearing equity investments, and (ii) a significant reduction in market interest rates paid on short-term investments.



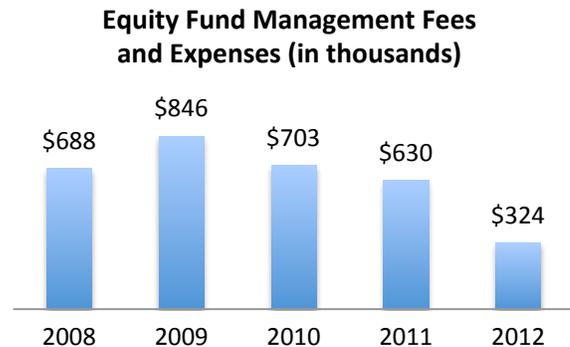
Loan losses have been relatively modest through the financial crisis. Loan losses peaked in 2011 at \$176,177, which represents 2.0% of outstanding loan balances. Loan losses declined in 2012 to \$108,984, which represents 1.2% of outstanding loans. We have been and are continuing to renegotiate agreements with lending partners to reduce NMSBIC losses associated with delinquent loans.



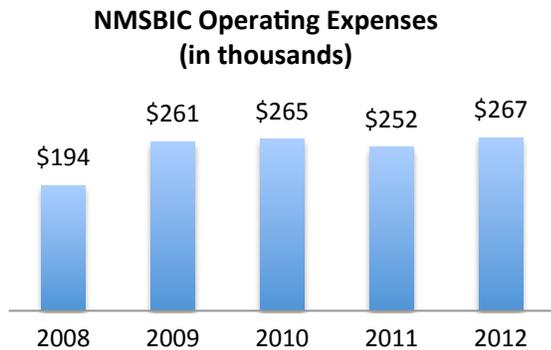
Continued losses were experienced on equity investments, albeit at lower levels than experienced after the financial crisis began in 2008. The equity losses shown below include realized losses and investment valuation adjustments.



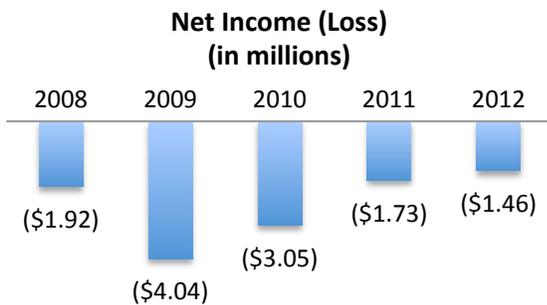
Management fees and expenses paid to equity funds have declined primarily due to some equity funds reaching the end of their fund lives.



NMSBIC's operating expenses were \$267,358 in 2012, which was slightly higher than the previous year due to the transition from our previous Investment Advisor to our current Executive Director/Investment Advisor. With \$35.4 million in total assets, operating expenses were 0.75% of total assets in 2012.



NMSBIC experienced a negative change in net assets (net loss) in 2012 of \$1.46 million. Losses are primarily due to losses on equity investments and equity fund management fees.



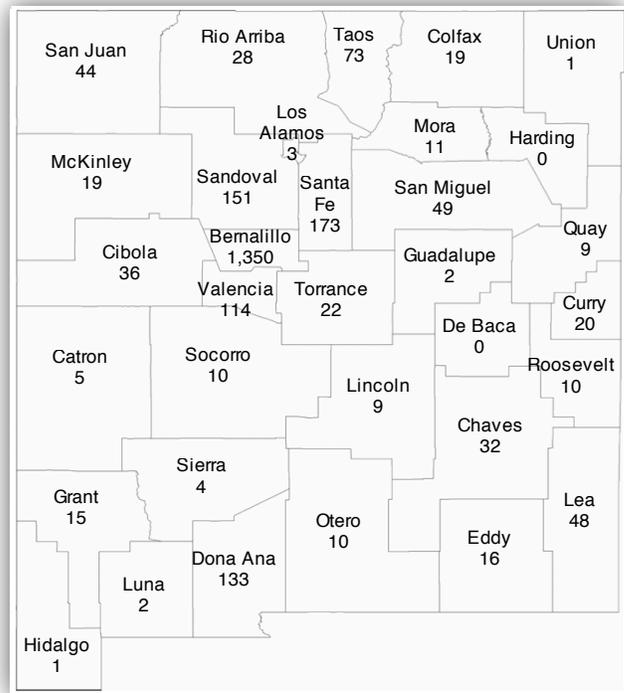
### Lending Program

The NMSBIC's Lending Program provides funding to nonprofit companies, including The Loan Fund, Accion, and WESST. Lending partners have provided over 2,400 loans to businesses in communities statewide, in many cases preserving jobs that would have been eliminated without access to capital. Through its lending program, the NMSBIC has provided over \$36 million in loans since 2001 to businesses that would likely not have had access to such loans from other sources. Loans typically range from \$2,500 to \$250,000 to small businesses

throughout New Mexico. Loans have been made in 31 of 33 New Mexico counties.

Since inception and through June 30, 2012, the NMSBIC funded the following volume of loans through its lending partners:

	# of <u>Loans</u>	<u>Loan Volume</u>	Jobs <u>Supported</u>
Accion	2,006	\$16,368,161	3,791
The Loan Fund	380	\$19,799,487	1,901
WESST	<u>33</u>	<u>\$322,413</u>	<u>149</u>
Totals	2,419	\$36,490,060	5,811



*Through its lending partners, the NMSBIC has provided funds for 2,419 loans in 31 of 33 counties in New Mexico.*

As of June 30, 2012, the NMSBIC had the following amounts outstanding (net of allowance for loan losses) and committed to its lending partners:

	# of <u>Loans</u>	<u>Outstanding</u>	<u>Committed</u>
Accion	372	\$2,204,548	\$3,500,000
The Loan Fund	107	\$6,983,124	\$8,500,000
WESST	<u>11</u>	<u>\$46,030</u>	<u>\$375,000</u>
Totals	490	\$9,233,802	\$12,375,000

The above figures show that nearly three times the committed capital has been loaned and recycled via repayments of interest and principal, providing tremendous leverage of the NMSBIC's capital. As noted above, loan losses to the NMSBIC were about 1.2% of the outstanding balances. Given many of the borrowers would not qualify for traditional lending, the low loan losses under this program are impressive. The NMSBIC is working with its lending partners to expand the lending program in a responsible manner, placing more emphasis on this investment mechanism.

#### NMSBIC Lending Partners



### Equity Program

Equity investments in New Mexico were virtually unheard of prior to 2000, but the efforts of the State Investment Council and the NMSBIC have attracted funds and investment professionals to New Mexico. Prior to 2004 there were no equity funds headquartered in New Mexico and no funds focused their capital and expertise exclusively on New Mexico companies. It was the NMSBIC's capital and early commitments that led to the investment in venture capital funds based in New Mexico.

Most large equity funds look to deploy \$5 to \$10 million in any one investment, whereas New Mexico had smaller, early stage companies that warranted investments of only \$250,000 to \$1 million. Few if any local companies would have been able to attract national attention and, without equity, could not have secured any credit relationships.

Beginning in 2004, the NMSBIC committed capital to Flywheel Ventures, Mesa Capital Partners, New Mexico Community Capital, New Mexico Mezzanine Partners, and Verge Fund to address the need for capital access for local start-ups, technology transfer licensees and other small businesses

looking to expand. With these five partners, NMSBIC has participated in nine venture capital partnerships. Amounts committed, funded, and the current fair values as of June 30, 2012 are as follows:

(Dollars amounts in thousands \$000)

Partner	Committed	Funded	Value
Flywheel-I NMSBIC	\$1,500	\$1,500	\$461
NM Gap Fund I	\$2,000	\$2,000	\$1,216
NM Comm. Capital	\$7,000	\$5,745	\$3,417
NM Growth Fund I	\$7,500	\$7,497	\$4
NM Growth Fund II	\$3,500	\$2,975	\$907
NM Mezzanine Ptrs	\$3,000	\$1,221	\$887
Verge I	\$1,800	\$1,701	\$1,467
Verge I.5	\$3,000	\$2,775	\$2,421
Verge II	\$3,000	\$1,687	\$1,676
Totals	\$32,300	\$27,101	\$12,455

Equity program performance has been poor over the last several years, particularly for new and relatively small funds that carry the burden of management fees and expenses. The NMSBIC has been especially adversely impacted by losses in the New Mexico Growth Funds I and II, to which NMSBIC made investment commitments in 2004 and 2007, respectively. Both funds were designed to make investments in lower risk non-tech companies that had existing clients, revenues, and profits. There was no equity capital in New Mexico that targeted these more traditional manufacturing and distribution sectors. These funds were designed to meet those needs. Approximately \$9.5 million has been lost in these two funds. Both funds are in the process of being closed with any remaining assets liquidated.

Many private equity funds go through a period called the J-Curve, with losses during the early years of a fund's life, followed by gains as companies achieve successful exits. Management fees, expenses, and early company failures result in losses in the early years. For many companies, the early stage of the J-Curve has been lengthened by the financial crisis that began in 2008. Given most of the NMSBIC's equity investments were made during a similar time period, most of the investments are experiencing the same extended J-curve environment. NMSBIC's equity partners have

experienced some profitable repayments of investments, referred to as “exits”. New Mexico Mezzanine Partners had a successful exit in a previous fiscal year. New Mexico Community Capital experienced their first successful company exit this year, with NMSBIC’s partnership share of the original investment and profits to be repaid over the next two years. While not all of the equity losses will be recovered, the NMSBIC is cautiously optimistic that a number of equity investments will begin to have successful exits, and some of the equity book losses will be recovered in the coming years.

### NMSBIC Equity Partners

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**New Mexico  
Mezzanine  
Partners**



**Verge** FUND

### Financial Education

The NMSBIC is committed to promoting financial education and financial literacy throughout New Mexico. NMSBIC’s financial education efforts are highlighted below.

#### Finance New Mexico

The NMSBIC helped to create and continues to support a statewide business financial literacy resource called Finance New Mexico (see [www.financenewmexico.org](http://www.financenewmexico.org)). The organization was selected in 2009 as the Albuquerque Chamber of Commerce Small Business Advocate of the Year. Each week, business-related articles are published in several New Mexico newspapers and also circulated electronically to businesses and economic development organizations throughout the state. Finance New Mexico has developed a business resource web site with a valuable archive

of business related articles. This organization plays an important role in publicizing the NMSBIC’s programs in all corners of the State.

#### Hobbs Community Meeting:

##### Accessing Capital in New Mexico

NMSBIC’s August 2012 Board meeting was held in Hobbs, New Mexico. In connection with its Board meeting, the NMSBIC organized and presented a community meeting in Hobbs entitled, *Accessing Capital in New Mexico*. The meeting included presentations from representatives of the Lea County Economic Development Corporation, the Small Business Development Center at New Mexico Junior College, the Hobbs Chamber of Commerce, The Loan Fund, Accion, WESST Corp., and NMSBIC. The meeting was well attended with active audience participation during the question and answer session. This meeting continued the tradition of holding community outreach meetings throughout the state. In prior years the Board has held community outreach meetings in Taos, Farmington, Las Cruces, and Santa Fe. It is the Board’s intention to continue to hold at least one of its meetings in communities around New Mexico each year.

### Board Engagement

NMSBIC Board members have actively engaged in various activities to support the organization. Board members have attended numerous community events, attended meetings with existing and potential equity and lending partners, and performed detailed loan and operational reviews at lending partner offices. The NMSBIC Board members are qualified professionals who are applying their collective and diverse business experience in reviewing activities and making sound decisions. The Board members have demonstrated their dedication and commitment to strengthening and improving the NMSBIC.

#### Board Strategic Planning Meeting

In November 2011, the NMSBIC Board held a strategic planning meeting. Key initiatives from that meeting included:

- De-emphasizing equity investments for the short term, but reserving the opportunity for viable future opportunities;
- Exploring opportunities to partner with the banking industry in New Mexico;
- Establishing communications with key individuals around the state to identify funding gaps and needs for capital;
- Consideration of funding models that balance flexibility, delivery of capital, and safety of investment;
- Establish new position of Executive Director/Investment Advisor.

### **Statutory Requirements**

The following information is provided in accordance with NMSA 58-29-6(B) and 58-29-7(A).

#### **Audited Financial Statements**

NMSBIC independently audited financial statements for the years ended June 30, 2011 and 2012 are attached to this report.

#### **Rate of Return**

For the fiscal year ended June 30, 2012, investment valuation adjustments of negative \$1,019,181 and equity fund management fees of \$323,696 along with other operating expenses were partially offset by interest and dividend income of \$265,351, resulting in a net loss of \$1,458,710. This represented a reduction of 3.97% in net assets.

#### **Desired Changes in the Corporation**

The NMSBIC Board has no recommendations regarding desired changes to the corporation.

#### **Continued Operation of the Corporation**

The NMSBIC Board recommends continued operation of the corporation with a focus on expanding lending programs to address a gap in available bank financing as described in this report. We are having on-going discussions about our role in partnering with equity/venture partners, in order to avoid the losses experienced in the past.

#### **Severance Tax Fund Distribution**

The NMSBIC is charged with making a distribution of net excess income to the Severance Tax Permanent Fund; however, based on the reported performance, there will be no distribution of funds to the Severance Tax Permanent Fund for the fiscal year ended June 30, 2012.

### **Conclusion**

The NMSBIC is grateful for the support of the Governor, State Legislators, the State Investment Council, and its financial partners. Through the creation and expansion of the NMSBIC, New Mexico has created a unique delivery system of loans and investment capital for new and growing businesses.

Lending partners have provided over 2,400 loans to businesses in communities statewide, in many cases preserving jobs that would have been damaged or eliminated without access to capital. Through its lending program, the NMSBIC has provided over \$36 million in loans to businesses that would likely not have had access to capital.

Equity investment losses have continued, but have declined from the losses experienced during the financial crisis that began in 2008. While losses since 2008 have been substantial, there are several new companies that are growing and prospering with equity provided by NMSBIC. We feel that the impact the NMSBIC has had on helping to create an equity/venture community has been positive, but the role the NMSBIC has been asked to play in this arena was, in some instances, ill-conceived. We will continue to look for viable opportunities to invest in equity/venture opportunities, but will only do so in the most judicious fashion.

With the reduction in traditional lending activity and heightened regulatory constraints being imposed on banks, access to loans is even more challenging for New Mexico small businesses. The NMSBIC, through its lending and equity partners, plays a significant role in helping to fill that void. This program, created by the legislature, has been and continues to be a valuable State resource for

investing taxpayer dollars in New Mexico businesses.

Going forward, the NMSBIC plans to reduce the concentration of equity investments, and increase the level of lending activities to achieve a more balanced level of risk for the organization, while delivering much needed funding for loans to New Mexico businesses.

Respectfully Submitted,

Joseph H. Badal  
Board Chairman & President

## **NMSBIC Board of Directors**

Joseph Badal  
NMSBIC Board Chair and President  
President and CEO, Joseph Badal & Associates  
Sandia Park, New Mexico

Roxanna Meyers  
NMSBIC Vice Chair and Vice President  
President/Owner, Century Sign Builders  
Albuquerque, New Mexico

Alan Fowler, CMB  
NMSBIC Secretary/Treasurer  
Executive Vice President, First Mortgage Company  
Albuquerque, New Mexico

Sam Cobb  
Mayor, City of Hobbs  
President, RMS Foods, Inc.  
Hobbs, New Mexico

Lupe Garcia  
Owner, Garcia's Tires  
Santa Cruz, New Mexico

Launa Waller  
Regulatory Manager, Plateau  
Clovis, New Mexico

The Honorable James B. Lewis, State Treasurer  
Clarence L. Smith, Chief Operations Officer  
State of New Mexico Office of the Treasurer  
Designate for Treasurer Lewis  
Santa Fe, New Mexico

## **NMSBIC Executive Director/Investment Advisor**

Russell Cummins  
Owner, RDC Advisors LLC  
Tijeras, New Mexico



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EXHIBIT A

**Small Business Investment Corporation**

**FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
The Small Business Investment Corporation

We have audited the accompanying statements of financial position of the Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation (NMSBIC), as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the NMSBIC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NMSBIC as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 and Note 6, these financial statements include investments in partnerships valued by the general partner of each partnership in the absence of readily ascertainable market values. At June 30, 2012 and 2011, that portion of NMSBIC's investments was \$12,455,423 and \$11,568,599, respectively, which represents 35% and 32% of NMSBIC's net assets at those dates. Because of the inherent uncertainty of valuation of these investments, the estimate by each general partner of these values may differ significantly from values that would have been used had a ready market for those investments existed, and the difference could be material.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of NMSBIC taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the 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.

October 16, 2012

  
Pulakos CPAs, PC

# Small Business Investment Corporation

## STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b><u>Assets</u></b>		
Current assets		
Cash and cash equivalents	\$ 1,096,079	\$ 967,365
Certificates of deposit	12,520,678	14,799,024
Interest and dividends receivable	9,522	1,266
Prepaid expenses	10,359	11,945
Debt funding receivable	95,609	457,495
	<hr/>	<hr/>
Total current assets	13,732,247	16,237,095
Equity investments in New Mexico entities	12,455,423	11,568,599
Cooperative loan agreements, net of allowance for losses	9,233,802	8,912,968
	<hr/>	<hr/>
	<u>\$ 35,421,472</u>	<u>\$ 36,718,662</u>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities		
Debt funding payable	\$ 161,520	\$ -
	<hr/>	<hr/>
Total current liabilities	161,520	-
	<hr/>	<hr/>
Temporarily restricted net assets	35,259,952	36,718,662
	<hr/>	<hr/>
	<u>\$ 35,421,472</u>	<u>\$ 36,718,662</u>

## Small Business Investment Corporation

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2012 and 2011

	<u>2012</u>			<u>2011</u> <u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
Revenues:				
Interest and dividend income	\$ -	\$ 265,351	\$ 265,351	\$ 331,558
Realized loss on investments	-	(4,842)	(4,842)	(1,684,400)
Investment valuation adjustments	-	(1,019,181)	(1,019,181)	689,158
Other realized loss	-	-	-	(10,658)
Net assets released from restrictions	<u>700,038</u>	<u>(700,038)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>700,038</u>	<u>(1,458,710)</u>	<u>(758,672)</u>	<u>(674,342)</u>
Expenses:				
Management and general	267,358	-	267,358	252,432
Provision for loan losses	108,984	-	108,984	176,177
Equity investment management and operating fees	<u>323,696</u>	<u>-</u>	<u>323,696</u>	<u>629,655</u>
Total expenses	<u>700,038</u>	<u>-</u>	<u>700,038</u>	<u>1,058,264</u>
Change in net assets	-	(1,458,710)	(1,458,710)	(1,732,606)
Net assets at beginning of year	<u>-</u>	<u>36,718,662</u>	<u>36,718,662</u>	<u>38,451,268</u>
Net assets at end of year	<u><u>\$ -</u></u>	<u><u>\$ 35,259,952</u></u>	<u><u>\$ 35,259,952</u></u>	<u><u>\$ 36,718,662</u></u>

# Small Business Investment Corporation

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,458,710)	\$ (1,732,606)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Provision for loan losses	108,984	176,177
Net loss on investments and investment fees	1,347,719	1,638,980
Changes in operating assets and liabilities		
Interest and dividends receivable	(8,256)	79,396
Debt funding receivable	361,886	(242,323)
Prepaid expenses	1,586	(11,945)
Accounts payable	-	(30,728)
Debt funding payable	161,520	-
	<u>514,729</u>	<u>(123,049)</u>
Cash provided (used) by operating activities		
Cash flows from investing activities:		
Maturity of certificates of deposit	2,278,346	1,958,504
Investments in New Mexico entities	(2,664,361)	(1,685,736)
	<u>(386,015)</u>	<u>272,768</u>
Cash (used) provided by investing activities		
Change in cash and cash equivalents	128,714	149,719
Cash and cash equivalents, beginning of year	<u>967,365</u>	<u>817,646</u>
Cash and cash equivalents, end of year	<u>\$ 1,096,079</u>	<u>\$ 967,365</u>

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation (NMSBIC), is a nonprofit, independent, public corporation established by the New Mexico Small Business Investment Act, §58-29-1 et. Seq., NMSA1978, as amended (the "Act"). NMSBIC was formed to create new job opportunities by making equity investments in land, buildings or infrastructure for facilities to support new or expanding businesses in the State of New Mexico and to otherwise make debt investments and equity investments to create new job opportunities to support new or expanding businesses. NMSBIC's sole funding source is the New Mexico Severance Tax Permanent Fund.

NMSBIC seeks to establish programmatic, contractual relationships with existing and newly created providers of financial services to efficiently and effectively deliver capital for the purpose of creating new job opportunities and economic growth in the State of New Mexico. NMSBIC accomplishes this by providing capital for equity investments or loans for land, buildings or infrastructure to support new or expanded businesses, or equity investments or loans to New Mexico small businesses, to help support economic growth and job creation, and to otherwise enhance economic development objectives of the State of New Mexico.

#### 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates. The most significant estimates involve the fair value of debt and equity securities. Because of inherent uncertainty in valuing these investments, the estimated fair value may differ from the values that would have been used had a ready market for the investments existed.

#### Financial Statement Presentation

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with NMSBIC's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Certain reclassifications were made to the 2011 financial statements to conform with the 2012 presentation.

#### Cash Equivalents

Cash and cash equivalents at June 30, 2012 and 2011, consist of demand deposits held at New Mexico branches of state and national banks.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Investments

NMSBIC reports gains and losses on investments in the Statements of Activities as increases or decreases in temporarily restricted net assets unless their use is permanently restricted by explicit donor stipulations or by law.

For purposes of making equity investments in accordance with the Act, NMSBIC enters into limited partnership agreements (Cooperative Agreements) as a limited partner. Investments are carried at market value as determined in good faith by the general partner of each such limited partnership, in accordance with Cooperative Agreements. The general partners of these limited partnerships determine market value based upon fair value of the underlying investments of the limited partnerships, as there is no ready market for these investments. Realized gains and losses are recorded on a specific identification method upon the sale or write off of investment assets of the limited partnerships. Investment valuation adjustments are determined by general partners based on an increase or impairment in value in underlying investments during the investment-holding period. Management and operating fees of equity investments are determined by the general partners in accordance with the Cooperative Agreements and are reflected as a decrease in partner capital accounts.

A loan receivable is considered to be past due if any portion of the receivable balance is unpaid and outstanding for more than one month. For the years ended June 30, 2012 and 2011, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2012</u>	<u>2011</u>
Allowance for loan losses, beginning	\$ 196,189	\$ 241,747
Loan losses incurred in current period	(109,463)	(221,735)
Provision for loan losses	<u>108,984</u>	<u>176,177</u>
Allowance for loan losses, ending	<u>\$ 195,710</u>	<u>\$ 196,189</u>

Certificates of deposit are carried at their face value.

NMSBIC may only make debt and equity investments in New Mexico businesses and in accordance with restrictions imposed by the Act.

#### Net Asset Classifications

NMSBIC classifies net assets and revenues, expenses, gains and losses based on the existence, or absence, of donor-imposed restrictions. Unrestricted net assets have no donor-imposed restrictions. Revenues that are donor restricted are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Income Taxes

NMSBIC is a nonprofit charitable corporation and has been recognized as tax-exempt under Section 501(c)(4) of the Internal Revenue Code. NMSBIC has adopted accounting principles generally accepted in the United States of America as they relate to uncertain tax positions, and has evaluated its tax positions taken for open tax years. Currently, the 2009, 2010 and 2011 tax years are open and subject to examination by the Internal Revenue Service and New Mexico Taxation and Revenue Department. Management believes that the activities of NMSBIC are within their tax-exempt purpose, and that there are no uncertain tax positions.

#### Financial Instruments

The carrying amounts of cash, receivables, payables, and other liabilities approximate fair value due to the short maturity periods of these instruments.

#### Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2012 and through October 16, 2012, which is the date that the financial statements were issued. Management believes all such events have been appropriately disclosed in the accompanying financial statements.

### NOTE 2 – CONCENTRATIONS

#### Concentration of Funding

NMSBIC receives 100% of its funding from the New Mexico Severance Tax Permanent Fund.

#### Concentration of Credit Risk

NMSBIC maintains its cash balances in branches of state and national financial institutions. The amounts on deposit with these financial institutions are insured by the Federal Deposit Insurance Corporation. NMSBIC has placed Certificates of Deposit into a CDARS® program where certificate of deposits were placed with a number of FDIC-insured depository institutions in amounts fully insured by the FDIC. The remaining Certificates of Deposit and a money market account are 100% collateralized by government-backed securities. In addition, the demand deposits are fully insured under the FDIC Transaction Account Guarantee Program. NMSBIC has not experienced, and believes it is not exposed, to significant credit risk from these deposits.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 2 – CONCENTRATIONS - CONTINUED

#### Concentration of Credit Risk - Continued

NMSBIC enters into Cooperative Agreements with parties that have demonstrated the ability to provide business assistance to new and expanding businesses and that are primarily engaged in the business of providing business services and debt and equity capital to new and expanding businesses. Under Cooperative Agreements with lenders, the lenders use their own funds and funds provided by NMSBIC to make loans to new and expanding businesses. Concentrations of credit risk arise from a number of loans made by such third parties utilizing NMSBIC funds to start up businesses. The lenders with which NMSBIC has entered into Cooperative Agreements have discretion as to whether or not to require, and the amount of, collateral taken, on the loans.

### NOTE 3 – FAIR VALUE MEASUREMENT

NMSBIC holds certain assets at fair value using a fair value hierarchy prioritizing the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Investment Entity has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 3 – FAIR VALUE MEASUREMENT - CONTINUED

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used.

*Debt Cooperative Agreements:* Valued at the net asset value of debt investment at year-end.

*Equity Cooperative Agreements:* Valued at market value as determined in good faith by the general partner of each such limited partnership.

*Certificates of Deposit:* Valued at face value plus accrued earnings, which approximate fair value

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

<b><u>Assets at Fair Value</u></b>				
<b><u>Description</u></b>	<b><u>Total</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Debt Cooperative Agreements	\$ 9,233,802	\$ -	\$ 9,233,802	\$ -
Equity Cooperative Agreements	12,455,423	-	-	12,455,423
Certificates of deposit	12,520,678	-	12,520,678	-
	<u>\$ 34,209,903</u>	<u>\$ -</u>	<u>\$ 21,754,480</u>	<u>\$ 12,455,423</u>

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 3 - FAIR VALUE MEASUREMENT - CONTINUED

#### Level 3 Assets Year ended June 30, 2012

	<u>Equity Cooperative Agreements</u>
Balance, beginning of year	\$ 11,568,599
Total gains or losses (realized/unrealized) included in earnings	(1,024,023)
Operating expenses and management fees	(323,696)
Purchases and settlements, net	<u>2,234,543</u>
Balance, end of year	<u>\$ 12,455,423</u>

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2011:

#### Assets at Fair Value

Description	Total	Level 1	Level 2	Level 3
Debt Cooperative Agreements	\$ 8,912,968	\$ -	\$ 8,912,968	\$ -
Equity Cooperative Agreements	11,568,599	-	-	11,568,599
Certificates of deposit	14,799,024	-	14,799,024	-
	<u>\$ 35,280,591</u>	<u>\$ -</u>	<u>\$ 23,711,992</u>	<u>\$ 11,568,599</u>

	<u>Equity Cooperative Agreements</u>
Balance, beginning of year	\$ 10,836,504
Total gains or losses (realized/unrealized) included in earnings	(995,242)
Operating expenses and management fees	(629,655)
Purchases and settlements, net	<u>2,356,992</u>
Balance, end of year	<u>\$ 11,568,599</u>

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for funding debt or equity investments in accordance with the Act.

Temporarily restricted net assets are restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Cumulative severance tax permanent fund capital contributions	\$ 47,042,781	\$ 47,042,781
Cumulative expenses in excess of other revenues	<u>(11,782,829)</u>	<u>(10,324,119)</u>
	<u>\$ 35,259,952</u>	<u>\$ 36,718,662</u>

Temporarily restricted net assets were released as follows:

	<u>2012</u>	<u>2011</u>
Satisfaction of purpose restrictions	<u>\$ 700,038</u>	<u>\$ 1,058,264</u>

### NOTE 5 – STATE INVESTMENT OFFICER COMMITMENT

Prior to July 1, 2007, Section 7-27-5.15 NMSA 1978 required that the State Investment Officer make a commitment to NMSBIC pursuant to the Act to invest three-fourths of one percent of the market value of the New Mexico Severance Tax Permanent Fund. If at any time the commitment fell below that level, further commitments must be made until the invested capital is equal to three-fourths one percent of the market value of the fund. Effective July 1, 2007, the commitment was increased to one percent. However, during fiscal years 2012 and 2011 no funding was received from the State Investment Officer due to the net market value of the New Mexico Severance Tax Permanent Fund.

### NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES

#### Debt Cooperative Agreements

NMSBIC is party to two loan participation Cooperative Agreements with New Mexico non-profit corporations (ACCION and WESST Corp.). Under these agreements, NMSBIC has made capital commitments to provide revolving funding for loans to be made by these corporations to New Mexico small businesses. For each loan made, these corporations provide 25% of the funding and NMSBIC provides the remaining 75%, and NMSBIC shares in the 75% of loan losses and recoveries. The terms, pricing, and size of any loan are subject to the discretion of these corporations. These corporations make non-traditional loans. Collateral for the loans may also be non-traditional, or in some cases no collateral at all.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES - CONTINUED

#### Debt Cooperative Agreements - Continued

The loans are considered risky and may have a higher rate of default than traditional loans. Loan amounts made under the program are limited under the agreements. These corporations undertake good faith efforts to make loans outside the Albuquerque metropolitan area. Loans are serviced by these corporations, with monthly reports and principal and interest remittances provided to NMSBIC. NMSBIC's agreements with these corporations have no maturity date, but may be terminated by either party upon ninety days written notice, with any loans outstanding at the time of termination handled in the ordinary course of business until the loans are collected or written off. During the years ended June 30, 2012 and 2011, \$65,587 and \$73,296, respectively, of interest income was recognized related to these investments. See supplementary schedules for detail on these agreements.

NMSBIC is party to a revolving loan Cooperative Agreement with a New Mexico non-profit corporation (NMCDLF). Under this agreement, NMSBIC provides a revolving loan to this corporation, which in turn is fully collateralized by pledged loans. Certain delinquent loans are not eligible to be used as collateral. NMSBIC does not share in any loan losses or recoveries. The agreement includes other provisions under which the corporation has agreed to:

- Pledge other loans and cash as additional collateral
- Maintain certain levels of liquidity, leverage, and net assets
- Limit the maximum loan size under the program
- Diversify sources of funding
- Restrict loan modifications on nonperforming loans
- Undertake good faith efforts to make loans outside the Albuquerque metropolitan area

Loans are serviced by the corporation, with quarterly reports and principal and interest remittances provided to NMSBIC. The outstanding principal balance of the revolving loan matures as follows:

<u>Years ending June 30:</u>	<u>Amount</u>
2018	\$5,500,000
2020	\$2,000,000
2022	\$1,000,000

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES - CONTINUED

During the years ended June 30, 2012 and 2011, \$169,349 and \$180,529 of interest income was recognized related to this investment. During the year ended June 30, 2012, NMSBIC recognized a loan recovery of \$2,739 from the corporation related to a prior agreement that was terminated in 2007. See supplementary schedules for detail on this agreement.

#### Equity Cooperative Agreements

NMSBIC is party to several Subscription Agreements and Limited Partnership Agreements under which it has acquired interests during calendar years from 2004 to 2009 as a limited partner in various limited partnerships. Under these agreements, NMSBIC has made capital contribution commitments to provide funding to these limited partnerships to be used for debt or equity investments made in New Mexico small businesses. The limited partnerships have termination dates that range from 2012 to 2019. Under the terms of the limited partnership agreements, the partnerships may be extended to dates that range from 2014 to 2022. See supplementary schedules for detail on these agreements.

### NOTE 7 – CAPITAL COMMITMENTS

At June 30, 2012, NMSBIC had committed approximately \$44,675,000 of capital through its various Debt and Equity Agreements, of which \$36,530,704 has been called, leaving a remaining commitment of \$8,144,296. NMSBIC has approximately \$1,093,000 of cash on hand to immediately handle capital calls and an additional \$12,521,000 in Certificates of Deposit, of which \$6,021,000 and \$6,500,000 are available within 90 and 270 days, respectively, from the end of its fiscal year. NMSBIC's investment policy allows for capital commitments in excess of capital.

The following table presents capital commitments for each Debt and Equity Agreement as of June 30, 2012:

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

### NOTE 7 – CAPITAL COMMITMENTS – CONTINUED

	<u>Loan and Equity Capital Commitments</u>	<u>Outstanding Loan Balance, Life-to-Date Equity Capital Funded</u>	<u>Remaining Loan and Equity Capital Commitments</u>
<b>Debt Cooperative Agreements</b>			
1. ACCION	\$ 3,500,000	\$ 2,396,356	\$ 1,103,644
2. NMCDLF	8,500,000	6,983,125	1,516,875
3. WESST CORP	<u>375,000</u>	<u>50,031</u>	<u>324,969</u>
	<u>12,375,000</u>	<u>9,429,512</u>	<u>2,945,488</u>
<b>Equity Cooperative Agreements</b>			
1. Flywheel	1,500,000	1,500,000	-
2. NMGF I	7,500,000	7,497,288	2,712
3. NMCCF	7,000,000	5,744,775	1,255,225
4. Verge 1	1,800,000	1,701,000	99,000
5. Verge 1.5	3,000,000	2,775,000	225,000
6. NM Gap Fund I	2,000,000	2,000,000	-
7. NMGF II	3,500,000	2,974,629	525,371
8. NM Mezzanine Fund	3,000,000	1,221,000	1,779,000
9. Verge II	<u>3,000,000</u>	<u>1,687,500</u>	<u>1,312,500</u>
	<u>32,300,000</u>	<u>27,101,192</u>	<u>5,198,808</u>
	<u>\$ 44,675,000</u>	<u>\$ 36,530,704</u>	<u>\$ 8,144,296</u>

## **SUPPLEMENTARY SCHEDULES**

## Small Business Investment Corporation

### SCHEDULE OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2012 and 2011

	Loan Commitments	Beginning Gross Loan Balance	Loan Funding Net of Repayments	Loan Recovery (Loss), Realized	Ending Gross Loan Balance	Allowance for Loan Losses	Ending Net Loan Balance
For the year ended June 30, 2012							
1. ACCION	\$ 3,500,000	\$ 2,356,644	\$ 144,594	\$ (104,882)	\$ 2,396,356	\$ (191,708)	\$ 2,204,648
2. NMCDFL	8,500,000	6,656,796	323,590	2,739	6,983,125	-	6,983,125
3. WESST CORP	375,000	95,717	(38,366)	(7,320)	50,031	(4,002)	46,029
	<u>\$ 12,375,000</u>	<u>\$ 9,109,157</u>	<u>\$ 429,818</u>	<u>\$ (109,463)</u>	<u>\$ 9,429,512</u>	<u>\$ (195,710)</u>	<u>\$ 9,233,802</u>
For the year ended June 30, 2011							
1. ACCION	\$ 4,929,864	\$ 2,916,455	\$ (338,076)	\$ (221,735)	\$ 2,356,644	\$ (188,532)	\$ 2,168,112
2. NMCDFL	7,500,000	7,180,307	(523,511)	-	6,656,796	-	6,656,796
3. WESST CORP	375,000	105,394	(9,677)	-	95,717	(7,657)	88,060
	<u>\$ 12,804,864</u>	<u>\$ 10,202,156</u>	<u>\$ (871,264)</u>	<u>\$ (221,735)</u>	<u>\$ 9,109,157</u>	<u>\$ (196,189)</u>	<u>\$ 8,912,968</u>

See Independent Auditors' Report.

## Small Business Investment Corporation

### SCHEDULE OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2012 and 2011

	Investment Capital Commitments	Beginning Investment Fair Value	Cumulative Capital Calls and Redemptions	Realized Gain (Loss) on Investments	Investment Valuation Adjustments	Operating Expenses and Management Fees	Ending Investment Fair Value
For the year ended June 30, 2012							
1. Flywheel	\$ 1,500,000	\$ 584,144	\$ -	\$ -	\$ (90,042)	\$ (33,101)	\$ 461,001
2. NMGF I	7,500,000	43,411	10,311	(46,136)	-	(3,857)	3,729
3. NMCCF	7,000,000	3,422,107	490,585	191,126	(621,161)	(65,607)	3,417,050
4. Verge I	1,800,000	1,659,144	63,001	-	(228,044)	(26,857)	1,467,244
5. Verge I.5	3,000,000	2,510,966	90,000	-	(146,475)	(33,568)	2,420,923
6. NM Gap Fund I	2,000,000	1,435,114	-	(65,789)	(146,612)	(7,081)	1,215,632
7. NMGF II	3,500,000	968,606	62,825	(84,043)	-	(40,008)	907,380
8. NM Mezzanine Fund	3,000,000	241,882	690,000	-	-	(45,314)	886,568
9. Verge 2	3,000,000	703,225	827,821	-	213,153	(68,303)	1,675,896
	<u>\$ 32,300,000</u>	<u>\$ 11,568,599</u>	<u>\$ 2,234,543</u>	<u>\$ (4,842)</u>	<u>\$ (1,019,181)</u>	<u>\$ (323,696)</u>	<u>\$ 12,455,423</u>
For the year ended June 30, 2011							
1. Flywheel	\$ 1,500,000	\$ 861,461	\$ 135,150	\$ (382,223)	\$ (5,117)	\$ (25,127)	\$ 584,144
2. NMGF I	7,500,000	1,353,763	-	(1,134,260)	-	(176,092)	43,411
3. NMCCF	7,000,000	3,091,168	525,051	-	-	(194,112)	3,422,107
4. Verge I	1,800,000	1,290,468	37,527	(1,701)	329,781	3,069	1,659,144
5. Verge I.5	3,000,000	2,047,758	58,570	(3,161)	410,415	(2,616)	2,510,966
6. NM Gap Fund I	2,000,000	727,869	911,647	(121,091)	(45,921)	(37,390)	1,435,114
7. NMGF II	3,500,000	953,543	89,367	(41,964)	-	(32,340)	968,606
8. NM Mezzanine Fund	3,000,000	13,022	315,000	-	-	(86,140)	241,882
9. Verge 2	3,000,000	497,452	284,680	-	-	(78,907)	703,225
	<u>\$ 32,300,000</u>	<u>\$ 10,836,504</u>	<u>\$ 2,356,992</u>	<u>\$ (1,684,400)</u>	<u>\$ 689,158</u>	<u>\$ (629,655)</u>	<u>\$ 11,568,599</u>

See Independent Auditors' Report.

October 16, 2012

To the Board of Directors  
New Mexico Small Business Investment Corporation

In planning and performing our audit of the financial statements of Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation (NMSBIC) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered NMSBIC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMSBIC's internal control. Accordingly, we do not express an opinion on the effectiveness of NMSBIC'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 NMSBIC's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, the Board of Directors, and others within NMSBIC, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

  
Pulakos CPAs, PC