



New Mexico
Small Business Investment Corporation

2013 Annual Report

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



September 26, 2013

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 Small Business Investment Corporation, doing business as 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, 2013 is also enclosed.

The NMSBIC Board of Directors (the "Board") is comprised of all new members (with the exception of the State Treasurer) appointed by you beginning in mid-2011. The new Board members have reviewed and learned from the organization's investment history and implemented a new strategy focused on expanding the NMSBIC's lending program. The enclosed report includes observations regarding past activities and actions taken by the Board to strengthen and grow the NMSBIC.

On behalf of the members of the Board, I am pleased to report the changes we have and 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



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



September 26, 2013

The Honorable Luciano Varela, Chairman
New Mexico Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Dear Chairman Varela:

On behalf of the members of the Board of Directors of the Small Business Investment Corporation, doing business as 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, 2013 is also enclosed.

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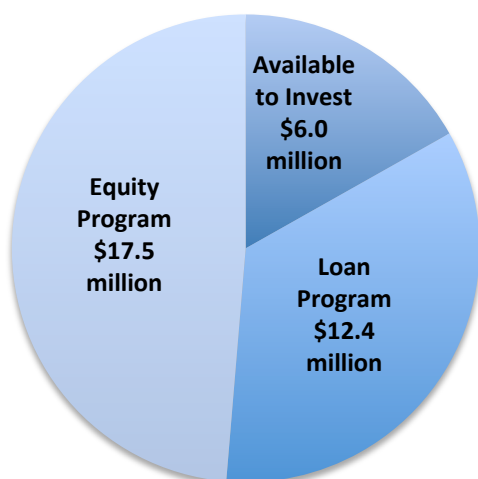
Joseph H. Badal
Chairman and President

Introduction

The Small Business Investment Corporation, doing business as the New Mexico Small Business Investment Corporation (“NMSBIC”), was formed by the Small Business Investment Act in 2001 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 and equity programs. As of June 30, 2013, the organization had \$35.9 million in total assets, in the following categories.



	Equity Program	Loan Program
Outstanding	\$15,652,488	\$9,373,623
Committed	\$1,805,497	\$3,001,377
Total	<u>\$17,457,985</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 2,690 loans to New Mexico start-up and small businesses that have provided an estimated 6,698 jobs throughout New Mexico.

2,690 loans
6,698 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 46 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 started with equity provided by NMSBIC.

Equity Investments in 46 New Mexico Companies

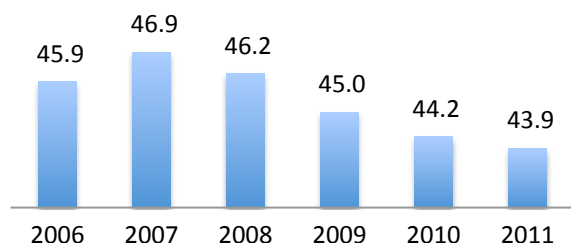
The New Mexico Economy

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 2011 from the Census Bureau’s County Business Patterns series show that the number of New Mexico business establishments fell for the fourth year in a row, with the number of

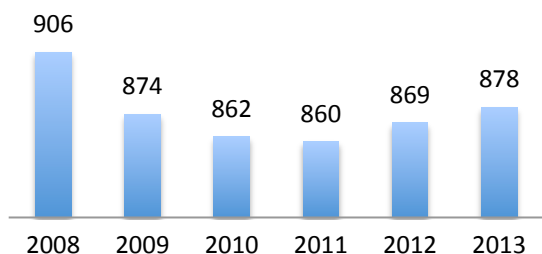
New Mexico business establishments dropping from 44,221 in 2010 to 43,860 in 2011.¹

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



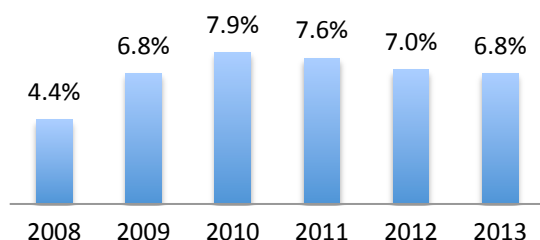
New Mexico employment increased in 2013 to 877,878, but has still not recovered to the June 2008 level of 905,398².

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



New Mexico's unemployment rate dropped from 7.0% at June 30, 2012 to 6.8% at June 30, 2013. The unemployment rate has declined from a high of 7.9% as of June 2010. However, unemployment has not returned to the June 2008 level of 4.4%³.

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



UNM's Bureau of Business and Economic Research provided this forecast in their report, *New Mexico Current Economic Report*, March-April 2013:

"BBER's FOR-UNM economic forecast anticipates that 2013 will be a year of transition for the New Mexico economy. Assuming no further surprises, employment growth will pick up pace from quarter to quarter and enter 2014 on stable footing. The stabilization and growth of the economy will be based on the emergence of a new, more diverse sectoral pattern of growth. Mining, which has kept the economy afloat the past couple of years, will continue to grow, but the rate of increase will slow. Construction, which was in free fall, will begin to grow again. Perhaps most importantly, local and state government may see the end of job cuts."

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 since 2010, 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 created by retrenchment in the banking community 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.

¹ Source: US Census Bureau County Business Patterns, <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl>

² Bureau of Labor Statistics, www.bls.gov

³ Bureau of Labor Statistics, www.bls.gov

Observations

The NMSBIC Board of Directors (“Board”) has reviewed and learned 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.

Venture Capital in New Mexico

NMSBIC’s investment history has provided valuable experience and revealed significant challenges regarding venture capital investing as follows:

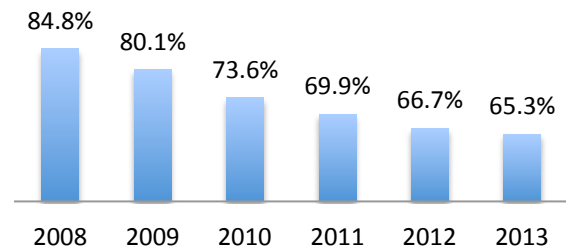
- NMSBIC’s total asset size relative to the historical amount invested in each company resulted in limited diversification;
- NMSBIC only invests in New Mexico companies, which further limits diversification;
- Limited diversification appears to have contributed to significant venture capital investment losses during the recent economic downturn;
- Management fees paid to venture capital fund managers reduces investment returns;
- Venture capital investments are typically long-term, which reduces the ability to turn over capital in additional new small businesses;
- Venture capital investments do not provide current income to offset NMSBIC’s operating expenses; and
- Venture capital investments have been geographically concentrated, with limited funding outside the Rio Grande Corridor.

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

has dropped to 65.3% in 2013 from 84.8% in 2008⁴. This tight credit market provides an opportunity for NMSBIC to expand its lending program and help fill the current lending gap, especially for start-up and small expanding businesses.

**New Mexico Banks
Net Loans and Leases to Deposits
as of June 30**



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

In 2011, the board adopted the Prudent Investor Rule as a basis for all future investments. The NMSBIC will continue to employ that 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. Advantages of the lending program include:

- Helping to fill a funding gap for small businesses in New Mexico;
- Smaller transaction size benefits more businesses;
- Shorter-term investments result in higher turnover of funds;
- No dilution from management fees;

⁴ Source www.fdic.gov, *Statistics on Depository Institutions*

- Current interest income offsets NMSBIC operating expenses;
- Borrower equity and collateral reduces risk of loss; and
- Funds are provided to communities throughout New Mexico.

Policies and Underwriting Criteria

The NMSBIC continues to evaluate 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, and to reduce risk of loan losses to the NMSBIC.

Lending Partner Agreements

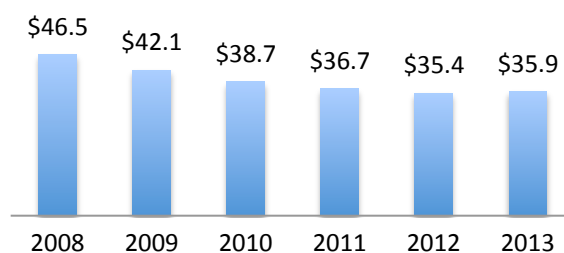
The NMSBIC continues to review its agreements with lending partners to ensure appropriate covenants are in place to protect both the NMSBIC and its lending partners, that loan terms provide appropriate risk versus reward balance, and there is a reasonable expectation of a positive financial return and preservation of NMSBIC capital. During the fiscal year, the NMSBIC added loan covenants to one of our lending agreements that now requires the lending partner to maintain liquidity, limit leverage, and provide replacement collateral for any loans pledged to NMSBIC that become more than 120 days delinquent. Efforts are continuing to review and restructure lending agreements to reduce risk of loan losses to NMSBIC.

Financial Highlights

Attached to this report are NMSBIC's audited financial statements for the fiscal year ended June 30, 2013. Financial highlights are as follows:

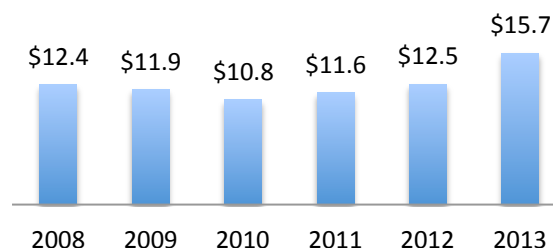
As of June 30, 2013, the NMSBIC ended its fiscal year with \$35.9 million in total assets. This was an increase from \$35.4 million the previous year. The increase was primarily due to positive investment valuation adjustments on venture capital investments.

**Total Assets
(in millions)**



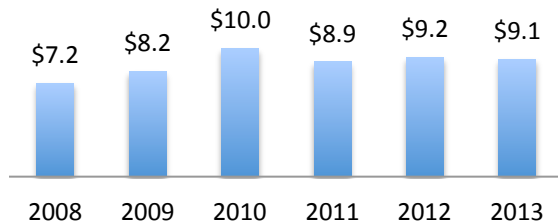
Equity investments increased to \$15.7 million from \$12.5 million the previous year, primarily due to funding of investment commitments already in place, and positive investment valuation adjustments. Equity commitments funded were all related to commitments made in 2009 or prior. The NMSBIC has not made any new equity commitments since 2009.

**Equity Investments
(in millions)**



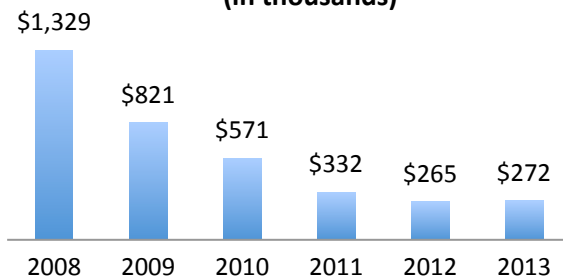
Loans outstanding dropped to \$9.1 million from \$9.2 million the previous year. The NMSBIC's lending partners continued to experience good loan demand. However, loan repayments exceeded new loans during the fiscal year ended June 30, 2013, resulting in a small decline in outstanding loan balances. In some cases the loan payoffs were related to small businesses that were able to improve their financial position, which allowed them to obtain bank financing.

**Loans Outstanding
(in millions)**



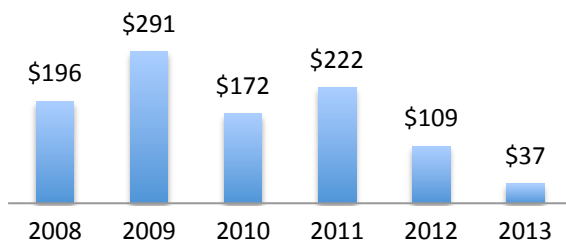
Interest and dividend income has declined in recent years due to (i) a significant reduction in market interest rates paid on short-term investments, and (ii) movement of funds into non-interest bearing equity investments.

**Interest and Dividend Income
(in thousands)**



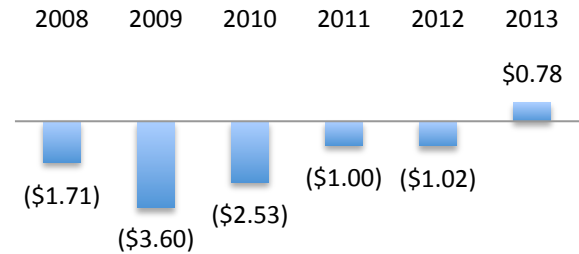
Loan charge-offs were relatively modest throughout the financial crisis. Loan charge-offs peaked in 2009 at \$290,600, which represented 2.6% of outstanding loan balances. Loan losses declined in 2013 to \$37,084, which represented 0.4% of outstanding loans. Efforts are continuing to renegotiate agreements with lending partners to reduce NMSBIC exposure associated with delinquent loans.

**Loan Charge Offs
(in thousands)**



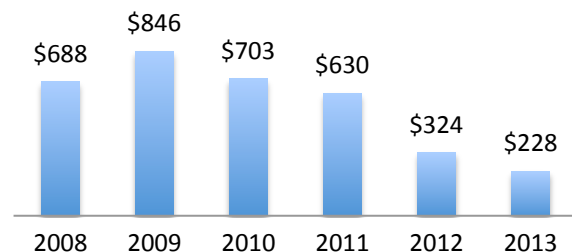
A trend of several years of losses on equity investments reversed in 2013. The net gain of \$784,930 was comprised of \$509,721 in realized losses, and \$1,294,652 in positive investment valuation adjustments.

**Gain (Loss) on Equity Investments
(in millions)**



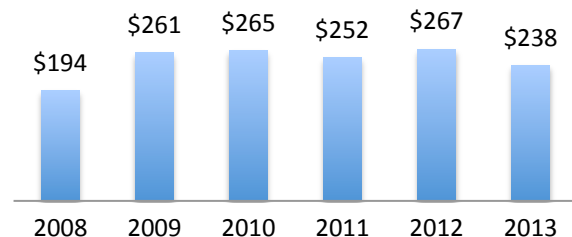
Management fees and expenses paid to equity funds have declined primarily due to some equity funds reaching the end of their fund lives.

**Equity Fund Management Fees and
Operating Expenses
(in thousands)**

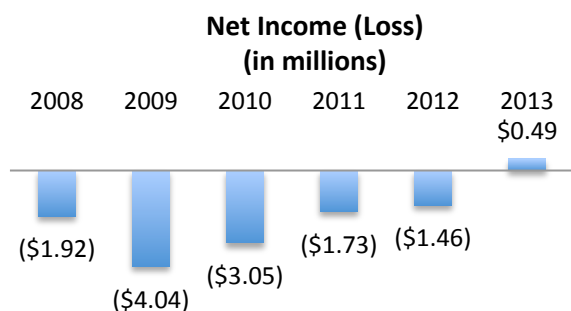


NMSBIC's operating expenses were \$238,392 in 2013, which was slightly lower than the previous year. With \$35.9 million in total assets, operating expenses were 0.66% of total assets in 2013.

**NMSBIC Operating Expense
(in thousands)**



A trend of several years of losses reversed in 2013 with a positive change in net assets (net income) in 2013 of \$488,895. The positive change in net assets was primarily due to positive investment valuation adjustments on equity investments.

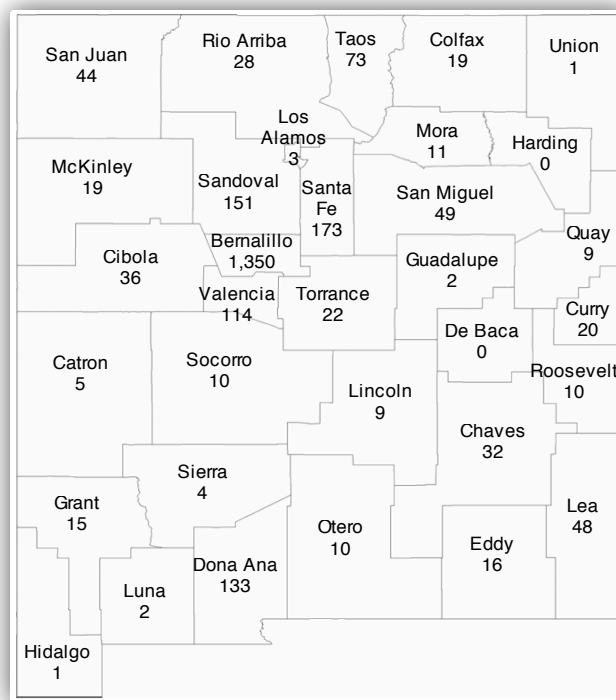


NMSBIC Lending Partners



Lending Program

The NMSBIC's lending program provides funding to nonprofit companies, including The Loan Fund, Accion, and WESST. Lending partners have provided nearly 2,700 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 \$40 million in loans since 2001 to businesses that would likely not have had access to such loans from other sources. Loans typically range in size from \$2,500 to \$250,000 to small businesses throughout New Mexico. Loans have been made in 31 of 33 New Mexico counties.



Through its lending partners, the NMSBIC has provided funds for 2,690 loans in 31 of 33 counties in New Mexico.

Since inception and through June 30, 2013, the NMSBIC funded the following volume of loans through its lending partners:

	# of Loans	Jobs Supported	Loan Volume
Accion	2,245	4,288	\$18,731,654
NMCDLF	407	2,222	\$21,336,386
WESST	38	188	\$386,208
Totals	2,690	6,698	\$40,454,248

As of June 30, 2013, the NMSBIC had the following amounts outstanding (net of allowance for loan losses) and committed to its lending partners:

	# of Loans	Outstanding	Committed
Accion	399	\$2,931,630	\$3,500,000
The Loan Fund	88	\$6,118,196	\$8,500,000
WESST	11	\$63,363	\$375,000
Totals	498	\$9,113,189	\$12,375,000

The above figures show over \$40 million in loans have been funded with \$12.375 million of committed funds. Over 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 0.4% 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.

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. One partnership, Mesa New Mexico Growth Fund I, reached final termination date of the partnership and was closed as of November 30, 2012.

Amounts committed, funded, and the current fair values as of June 30, 2013 are as follows:

NMSBIC Equity Partners



**New Mexico
Mezzanine
Partners**



Verge FUND

(Dollars amounts in thousands \$000)

Partner	Committed	Funded	Value
Flywheel-I NMSBIC	\$1,500	\$1,500	\$429
NM Gap Fund I	\$2,000	\$2,000	\$1,963
NM Comm. Capital	\$7,000	\$6,377	\$3,697
NM Growth Fund II	\$3,500	\$2,988	\$404
NM Mezzanine Ptrs	\$3,000	\$2,487	\$1,853
Verge I	\$1,800	\$1,800	\$1,620
Verge I.5	\$3,000	\$3,000	\$2,715
Verge II	\$3,000	\$2,843	\$2,972
Totals	\$24,800	\$22,995	\$15,653

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

As noted above, a trend of several years of losses on equity investments was reversed in 2013. Nevertheless, equity program performance was poor for several years, particularly for new and relatively small funds that carry the burden of management fees and expenses. The NMSBIC was 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 \$10.1 million was lost in these two funds.

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." Exits might be a sale of the company or new funding that pays off existing investors. Management fees, expenses, and early company failures result in losses in the early years. For many companies, the early stage of the J-Curve was lengthened by the financial crisis that began in 2008. Given that 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.

Equity Program Activity

The following is a recap of equity fund activity during the past year:

- As noted above, New Mexico Growth Fund I was closed as of November 30, 2012.
- New Mexico Growth Fund II has one remaining active company investment and is in the process of winding down the fund and selling remaining assets. Some of the assets being liquidated have been sold on payment terms. The limited partners have agreed to extend the termination date of the partnership by ten months, from November 30, 2014 to September 30, 2015, to allow time for the payment terms related to asset sales. The one remaining active company completed a restructuring of its debt and equity that resulted in a loss in NMSBIC's investment value of approximately \$395,000.
- New Mexico Mezzanine Partners had a successful loan repayment and distributed \$210,024 to NMSBIC in November 2012.
- New Mexico Gap Fund I had its first successful company exit in March 2013 and distributed \$64,658 to NMSBIC. This was a relatively small investment, but it had a positive internal rate of return of about 9% before management fees and expenses.
- New Mexico Community Capital had a successful company exit in 2012, and distributed quarterly payments to NMSBIC related to that exit totaling \$370,507 during the fiscal year ended June 30, 2013.

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). 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. Also, in 2013, Finance New Mexico introduced its "Grow It!" program in partnership with the New Mexico Municipal League. When a business registers in their local community, a Grow It! package is delivered to the business with information about financial resources and services available to small businesses in New Mexico. Finance New Mexico plays an important role in publicizing the NMSBIC's programs in all corners of the State.

Española Community Meeting:

Accessing Capital in New Mexico

NMSBIC's August 2013 Board meeting was held in Española, New Mexico. In connection with its Board meeting, the NMSBIC organized and presented a community meeting in Española entitled, *Accessing Capital in New Mexico*. The meeting included presentations from representatives of the Regional Development Corporation, the Small Business Development Center at Northern New Mexico College, the Technology Transfer Division of Los Alamos National Laboratory, the Española Valley Chamber of Commerce, The Loan Fund, Accion, WESST Corp., and the NMSBIC. The meeting was well attended with active audience participation during a 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 Hobbs, 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 January 2013, the NMSBIC Board held a strategic planning meeting. Key initiatives from that meeting included plans to:

- Continue to focus on expanding our lending program with existing and potential new partners;
- Increase loan balances to achieve organizational self-sufficiency where interest income from loans and other interest earning assets exceeds operational expenses; and
- Investigate the possibility of selling all or a portion of the NMSBIC's equity investments to provide additional funding for expansion of the lending program.

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, 2013 and 2012 are attached to this report.

Rate of Return

For the fiscal year ended June 30, 2013, the NMSBIC's realized losses on investments of \$509,721 and equity fund management fees of \$228,121, along with other operating expenses, were offset by positive investment valuation adjustments of \$1,294,652 and interest and dividend income of \$272,284. The result was a positive change in net assets of \$488,895, which was an increase of 1.39% in net assets.

Desired Changes in the Corporation

Opportunities to expand the lending program will likely exhaust NMSBIC's available funds in the next 12 to 18 months. The NMSBIC Board recommends NMSA 7-27-5.15 be amended so that the State Investment Officer would increase the invested capital in the NMSBIC to one and one-half percent (1½%), from one percent (1%), of the Severance Tax Permanent Fund.

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. The NMSBIC Board is having on-going discussions about the NMSBIC's role in partnering with equity/venture partners, in order to avoid the type of losses experienced in the past.

Severance Tax Fund Distribution

Under NMSA 58-29-7, the NMSBIC is charged with making a distribution of net excess funds to the Severance Tax Permanent Fund, calculated as return on investments to the corporation in the amount of dividends and interest actually received plus any capital gains actually realized, less the operating expenses of the corporation and less amounts reasonably reserved for losses. For the fiscal year ended June 30, 2013, the net excess funds calculation is as follows:

Dividends and interest received	\$272,284
Capital gains realized	(509,721)
Less: operating expenses	(467,513)
Less: amounts reserved for losses	<u>(101,807)</u>
Total	\$ (806,757)

Investment valuation adjustments are not capital gains actually realized, and are excluded from the above calculation. The sum of the figures shown above is negative \$806,757, and results in no net excess funds. Based on the reported performance, there is no distribution of funds to the Severance Tax Permanent Fund for the fiscal year ended June 30, 2013.

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 nearly 2,700 loans to businesses in communities statewide, in many cases preserving jobs that would have been eliminated without access to capital, and creating jobs that would have never been birthed with NMSBIC funds. Through its lending program, the NMSBIC has provided over \$40 million in loans to businesses that would likely not have had access to capital.

A trend of several years of losses on equity investments reversed in 2013. While equity investment losses since 2008 have been substantial, there are several new companies that are growing and prospering with equity provided by NMSBIC. The impact NMSBIC has had in 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. The NMSBIC Board will continue to evaluate potential investments in equity/venture opportunities, but will invest only in the most judicious fashion.

With the reduction in traditional lending activity and heightened regulatory constraints imposed on banks, access to loans continues to be 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 in investing taxpayer dollars in New Mexico businesses, in creating jobs for New Mexicans, and in having a positive impact on our State's economic health.

Going forward, the NMSBIC plans to reduce the concentration of equity investments and increase the level of its 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

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

Lupe Garcia
Owner, Garcia's Tires
Santa Cruz, 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

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

Steven Morgan
President, Bosque Consulting Group
Bosque Farms, New Mexico

Launa Waller
Regulatory Manager, Plateau
Clovis, New Mexico

NMSBIC Executive Director/Investment Advisor

Russell Cummins
Owner, RDC Advisors LLC
Tijeras, New Mexico



New Mexico Small Business Investment Corporation
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EXHIBIT A

Independently Audited Financial Statements
as of and for the years ended
June 30, 2013 and June 30, 2012

Small Business Investment Corporation

FINANCIAL STATEMENTS

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Small Business Investment Corporation

We have audited the accompanying financial statements of Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation (NMSBIC), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

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 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 auditors' 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 NMSBIC'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 NMSBIC'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 opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Investments

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, 2013 and 2012, that portion of NMSBIC's investments was \$15,652,588 and \$12,455,423, respectively, which represents 44% and 35% 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 opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of activity of debt cooperative agreements and the schedule of activity of equity cooperative agreements on pages 15 and 16 are presented for purposes of additional analysis and are not a required part of the 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 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 financial statements as a whole.

September 20, 2013


Pulakos CPAs, PC

Small Business Investment Corporation

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 6,219,243	\$ 1,096,079
Certificates of deposit	4,004,808	12,520,678
Interest and dividends receivable	630	9,522
Prepaid expenses	3,923	10,359
Debt funding receivable	874,466	95,609
Total current assets	11,103,070	13,732,247
Equity investments in New Mexico entities	15,652,588	12,455,423
Cooperative loan agreements, net of allowance for losses	9,113,189	9,233,802
	<u>\$ 35,868,847</u>	<u>\$ 35,421,472</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Capital calls payable	\$ 120,000	\$ -
Debt funding payable	-	161,520
Total current liabilities	120,000	161,520
Temporarily restricted net assets	35,748,847	35,259,952
	<u>\$ 35,868,847</u>	<u>\$ 35,421,472</u>

Small Business Investment Corporation

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Interest and dividend income	\$ -	\$ 272,284	\$ 272,284	\$ -	\$ 265,351	\$ 265,351
Realized loss on investments	-	(509,721)	(509,721)	-	(4,842)	(4,842)
Investment valuation adjustments	-	1,294,652	1,294,652	-	(1,019,181)	(1,019,181)
Net assets released from restrictions	568,320	(568,320)	-	700,038	(700,038)	-
Total revenues and other support	568,320	488,895	1,057,215	700,038	(1,458,710)	(758,672)
Expenses:						
Program services						
Equity investment management and operating fees	228,121	-	228,121	323,696	-	323,696
Provision for loan losses	101,807	-	101,807	108,984	-	108,984
Other program services	117,469	-	117,469	122,161	-	122,161
Total program services	447,397	-	447,397	554,841	-	554,841
Management and general	120,923	-	120,923	145,197	-	145,197
Total expenses	568,320	-	568,320	700,038	-	700,038
Change in net assets	-	488,895	488,895	-	(1,458,710)	(1,458,710)
Net assets at beginning of year	-	35,259,952	35,259,952	-	36,718,662	36,718,662
Net assets at end of year	\$ -	\$ 35,748,847	\$ 35,748,847	\$ -	\$ 35,259,952	\$ 35,259,952

Small Business Investment Corporation

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 488,895	\$ (1,458,710)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Provision for loan losses	101,807	108,984
Net (gain) loss on investments and investment fees	(556,809)	1,347,719
Changes in operating assets and liabilities		
Interest and dividends receivable	8,892	(8,256)
Debt funding receivable	(778,857)	361,886
Prepaid expenses	6,436	1,586
Debt funding payable	(161,520)	161,520
Capital call payable	120,000	-
	<u>(771,156)</u>	<u>514,729</u>
Cash (used) provided by operating activities		
Cash flows from investing activities:		
Maturity of certificates of deposit	8,515,870	2,278,346
Investments in New Mexico entities	(2,621,550)	(2,664,361)
	<u>5,894,320</u>	<u>(386,015)</u>
Cash provided (used) by investing activities		
Change in cash and cash equivalents	5,123,164	128,714
Cash and cash equivalents, beginning of year	<u>1,096,079</u>	<u>967,365</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,219,243</u></u>	<u><u>\$ 1,096,079</u></u>

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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.

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 2010, 2011 and 2012 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.

Cash Equivalents

Cash and cash equivalents at June 30, 2013 and 2012, consist of demand deposit accounts and money market deposit accounts held at New Mexico branches of state and national banks.

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

NMSBIC reports gains and losses on investments in the Statements of Activities and Changes in Net Assets 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, 2013 and 2012, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2013</u>	<u>2012</u>
Allowance for loan losses, beginning	\$ 195,710	\$ 196,189
Loan losses incurred in current period	(37,083)	(109,463)
Provision for loan losses	<u>101,807</u>	<u>108,984</u>
Allowance for loan losses, ending	<u>\$ 260,434</u>	<u>\$ 195,710</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, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Other Program Services

Other program services are comprised of an allocation of management and general expenses directly related to delivery of program services.

Fair Value Measurements

Accounting Standards Codification Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that NMSBIC has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

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.

Financial Instruments

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

Financial Statement Presentation

Certain reclassifications were made to the 2012 financial statements to conform with the 2013 presentation.

Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2013 and through September 20, 2013, which is the date that the financial statements were issued, and does not believe that any events occurring during this period require either recognition or disclosure in the accompanying financial statements.

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 and cash equivalent balances in New Mexico branches of state and national financial institutions. The amounts on deposit with these financial institutions are insured by the Federal Deposit Insurance Corporation, are 100% collateralized by government-backed securities, or are 100% secured by a letter of credit from the Federal Home Loan Bank of Cincinnati. In 2011, NMSBIC had 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. In 2012, these CDARS® accounts were transferred into CDs that are 100% collateralized by government-backed securities. NMSBIC has not experienced, and believes it is not exposed, to significant credit risk from these deposits.

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

The following table presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2013:

<u>Assets at Fair Value</u>				
<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 9,113,189	\$ -	\$ 9,113,189	\$ -
Equity investments in New Mexico entities	15,652,588	-	-	15,652,588
Certificates of deposit	4,004,808	-	4,004,808	-
	<u>\$ 28,770,585</u>	<u>\$ -</u>	<u>\$ 13,117,997</u>	<u>\$ 15,652,588</u>

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 3 – FAIR VALUE MEASUREMENT - CONTINUED

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

<u>Assets at Fair Value</u>				
<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 9,233,802	\$ -	\$ 9,233,802	\$ -
Equity investments in New Mexico entities	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>

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

Cooperative loan agreements: Valued at the net asset value of debt investment at year-end.

Equity investments in New Mexico entities: 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.

Level 3 Investments

The following tables present NMSBIC's activities for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 12,455,423	\$ 11,568,599
Total gains or losses (realized/unrealized) included in earnings	784,930	(1,024,023)
Operating expenses and management fees	(228,121)	(323,696)
Purchases and settlements, net	<u>2,640,356</u>	<u>2,234,543</u>
Balance, end of year	<u>\$ 15,652,588</u>	<u>\$ 12,455,423</u>

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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>2013</u>	<u>2012</u>
Cumulative severance tax permanent fund capital contributions	\$ 47,042,781	\$ 47,042,781
Cumulative expenses in excess of other revenues	<u>(11,293,934)</u>	<u>(11,782,829)</u>
	<u>\$ 35,748,847</u>	<u>\$ 35,259,952</u>

Temporarily restricted net assets were released as follows:

	<u>2013</u>	<u>2012</u>
Satisfaction of purpose restrictions	<u>\$ 568,320</u>	<u>\$ 700,038</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 2013 and 2012, 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

Cooperative Loan 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, 2013 and 2012

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES - CONTINUED

Cooperative Loan 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, 2013 and 2012, \$77,793 and \$65,587, 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 nonprofit corporation (NM Community Development Loan Fund). 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, 2013 and 2012

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES - CONTINUED

Cooperative Loan Agreements - Continued

During the years ended June 30, 2013 and 2012, \$148,836 and \$169,349 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 through 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. In November 2012 the NM Growth Fund I closed down per the terms of the equity cooperative agreement. The final cash was distributed to partners during 2013.

NOTE 7 – CAPITAL COMMITMENTS

At June 30, 2013, NMSBIC had committed approximately \$37,175,000 of capital through its various Debt and Equity Agreements, of which \$32,265,914 has been called, leaving a remaining commitment of \$4,909,086. NMSBIC has approximately \$6,219,000 of cash-on-hand to immediately handle capital calls. Additionally, NMSBIC has staggered the maturity dates of its four certificates of deposit such that \$1,000,000 matures every 90 days. NMSBIC's investment policy allows for capital commitments in excess of capital.

Small Business Investment Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 7 – CAPITAL COMMITMENTS – CONTINUED

The following table presents capital commitments for each Debt and Equity Agreement as of June 30, 2013:

	Loan and Equity Capital Commitments	Outstanding Loan Balance, Life-to-Date Equity Capital Funded	Remaining Loan and Equity Capital Commitments
Debt Cooperative Agreements			
1. ACCION	\$ 3,500,000	\$ 3,186,554	\$ 313,446
2. NMCDLF	8,500,000	6,118,196	2,381,804
3. WESST CORP	375,000	68,873	306,127
	<u>12,375,000</u>	<u>9,373,623</u>	<u>3,001,377</u>
Equity Cooperative Agreements			
1. Flywheel	1,500,000	1,500,000	-
2. NMGF I	-	Investment Closed in 2012	-
3. NMCCF	7,000,000	6,376,954	623,046
4. Verge 1	1,800,000	1,800,000	-
5. Verge 1.5	3,000,000	3,000,000	-
6. NM Gap Fund I	2,000,000	2,000,000	-
7. NMGF II	3,500,000	2,987,837	512,163
8. NM Mezzanine Fund	3,000,000	2,385,000	615,000
9. Verge II	3,000,000	2,842,500	157,500
	<u>24,800,000</u>	<u>22,892,291</u>	<u>1,907,709</u>
	<u>\$ 37,175,000</u>	<u>\$ 32,265,914</u>	<u>\$ 4,909,086</u>

SUPPLEMENTARY SCHEDULES

Small Business Investment Corporation

SCHEDULE OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2013 and 2012

	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, 2013							
1. ACCION	\$ 3,500,000	\$ 2,396,356	\$ 827,281	\$ (37,083)	\$ 3,186,554	\$ (254,924)	\$ 2,931,630
2. NMCDLF	8,500,000	6,983,125	(864,929)	-	6,118,196	-	6,118,196
3. WESST CORP	375,000	50,031	18,842	-	68,873	(5,510)	63,363
	<u>\$ 12,375,000</u>	<u>\$ 9,429,512</u>	<u>\$ (18,806)</u>	<u>\$ (37,083)</u>	<u>\$ 9,373,623</u>	<u>\$ (260,434)</u>	<u>\$ 9,113,189</u>
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. NMCDLF	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>

See Independent Auditors' Report.

Small Business Investment Corporation

SCHEDULE OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2013 and 2012

	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, 2013							
1. Flywheel	\$ 1,500,000	\$ 461,001	\$ -	\$ -	\$ -	\$ (31,934)	\$ 429,067
2. NMGF I	-	3,729	(2,842)	-	-	(887)	-
3. NMCCF	7,000,000	3,417,050	261,672	-	111,664	(93,224)	3,697,162
4. Verge 1	1,800,000	1,467,244	99,000	-	83,286	(29,921)	1,619,609
5. Verge 1.5	3,000,000	2,420,923	225,000	-	121,378	(52,300)	2,715,001
6. NM Gap Fund I	2,000,000	1,215,632	(64,658)	-	787,498	24,138	1,962,610
7. NMGF II	3,500,000	907,380	13,208	(509,721)	-	(7,251)	403,616
8. NM Mezzanine Fund	3,000,000	886,568	953,976	-	-	12,432	1,852,976
9. Verge 2	3,000,000	1,675,896	1,155,000	-	190,825	(49,174)	2,972,547
	<u>\$ 24,800,000</u>	<u>\$ 12,455,423</u>	<u>\$ 2,640,356</u>	<u>\$ (509,721)</u>	<u>\$ 1,294,651</u>	<u>\$ (228,121)</u>	<u>\$ 15,652,588</u>
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 1	1,800,000	1,659,144	63,001	-	(228,044)	(26,857)	1,467,244
5. Verge 1.5	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>

See Independent Auditors' Report.

September 20, 2013

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) for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered New Mexico Small Business Investment Corporation'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 the NMSBIC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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