



New Mexico  
Small Business Investment Corporation

2018 Annual Report

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Alan Fowler, CMB  
*Board Chair and President*  
New Mexico Small Business  
Investment Corporation



September 24, 2018

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, 2018 is also enclosed.

The NMSBIC Board of Directors (the "Board") is comprised of all new members appointed by you beginning in mid-2011, and the State Treasurer who holds a permanent seat on the Board. The new Board members have reviewed and learned from the organization's investment history and implemented a 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. Highlights of the report are as follows:

- Since inception, the NMSBIC has supported 12,323 jobs in New Mexico, with 4,528 loans to small businesses, in 223 communities throughout the State.
- In 2017 the Bureau of Business and Economic Development (BBER) completed an impact analysis. The report indicated that for every \$1 million in NMSBIC loans, 12 new jobs have been created, and 21 jobs have been saved.
- After new Board members were appointed by you in 2011, the organization changed its focus to expand its lending program. NMSBIC funds committed to the lending program have increased to \$23.4 million in 2018, from \$12.4 million in 2012; an increase to 59% of assets from 34% of assets. The focus on lending has resulted in a decline in equity investments. Funds committed to equity investments dropped to \$9.8 million in 2018, from \$17.5 million in 2012; a decrease to 24% of assets from 49% of assets.

- The change in net assets for the year was positive \$2,086,070. If we subtract the contribution of \$1,627,426 from the severance tax permanent fund, the organization had a positive return of \$458,644. This positive return is the result of the Board's strategy for the NMSBIC to achieve and maintain self-sufficiency, with interest income from loans exceeding operating expenses.

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

Respectfully submitted,

Alan Fowler, CMB  
Board Chair and President



Alan Fowler, CMB  
*Board Chair and President*  
New Mexico Small Business  
Investment Corporation



September 24, 2018

The Honorable Patricia A. Lundstrom, Chairwoman  
New Mexico Legislative Finance Committee  
325 Don Gaspar, Suite 101  
Santa Fe, NM 87501

Dear Chairwoman Lundstrom:

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, 2018 is also enclosed.

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Respectfully submitted,

Alan Fowler, CMB  
Board Chair 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

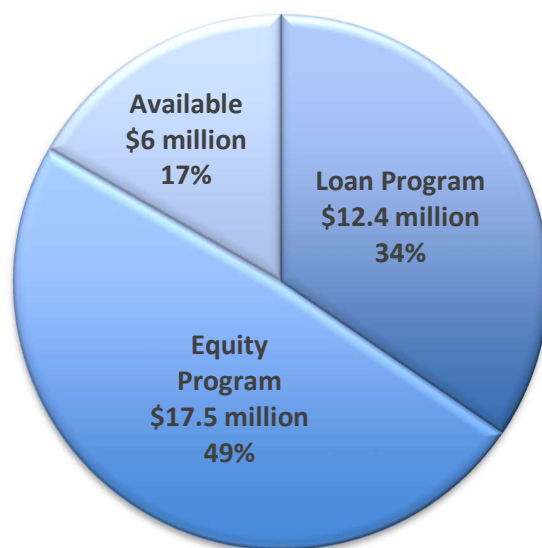
The NMSBIC invests in New Mexico businesses through its lending and equity programs.

Governor Martinez appointed new board members to the NMSBIC in 2011. The new NMSBIC Board of Directors (“Board”) changed the organization’s strategy, to focus on expanding the NMSBIC’s lending program. Reasons for expanding the NMSBIC’s Lending Program were, (i) there was a shortage of traditional bank lending available to small businesses in New Mexico, (ii) the NMSBIC had experienced significant losses from its large concentration of equity program investments, and (iii) equity program investments were concentrated primarily in the Albuquerque area, whereas the lending program provided funds to small businesses throughout New Mexico.

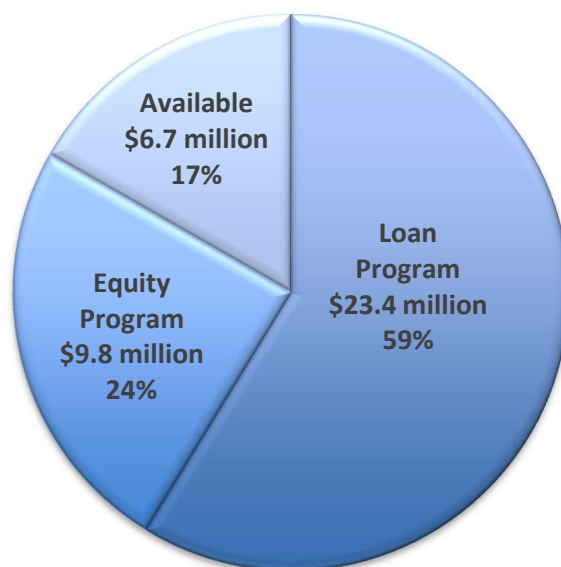
The following comparison shows the results of the NMSBIC’s strategy from 2012 to 2018:

- Loan program committed funds have increased to \$23.4 million from \$12.4 million; to 59% of assets from 34% of assets.
- Equity program committed funds have decreased to \$9.8 million from \$17.5 million; to 24% of assets from 49% of assets.

**Committed and Available Funds  
June 30, 2012**



**Committed and Available Funds  
June 30, 2018**



As of June 30, 2018, outstanding and committed balances for the lending and equity programs were as follows.

	Equity Program	Lending Program
Outstanding	\$ 9,756,090	\$ 18,527,125
Committed	\$ -	\$ 4,847,875
Total	<u>\$ 9,756,090</u>	<u>\$ 23,375,000</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”), the New Mexico Mortgage Finance Authority (“MFA”), Rio Vista Growth Capital, and WESST Corp. Since its inception, and in connection with its lending partners, the NMSBIC has funded 4,528 loans to New Mexico start-up and small businesses that have supported an estimated 12,323 jobs throughout New Mexico.

**4,528 loans**  
**12,323 jobs**

Since its inception in 2001, and in connection with its equity partners, the NMSBIC has committed \$33.3 million in equity investments to start or grow 48 New Mexico businesses. Equity partners have included Flywheel Ventures, Mesa Capital Partners, New Mexico Community Capital, New Mexico Mezzanine Partners, and Verge Fund. New Mexico businesses that are growing with equity funding from NMSBIC include Altela, Aspen Avionics, BoomTime, IntelliCyt, Wellkeeper, and Miox. These are only a few of the active companies started with equity provided by NMSBIC.

<sup>1</sup> Source: US Census Bureau, <https://factfinder.census.gov>

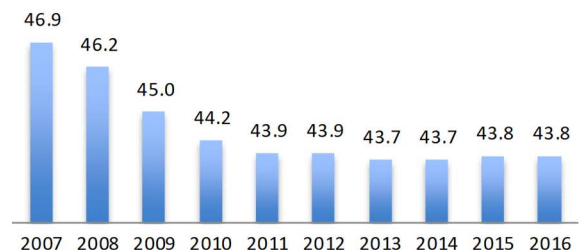
## Equity Investments in 48 New Mexico Companies

### 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 2016 (most recent data available) from the Census Bureau’s County Business Patterns series show that the number of New Mexico business establishments has decreased since 2007.<sup>1</sup>

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

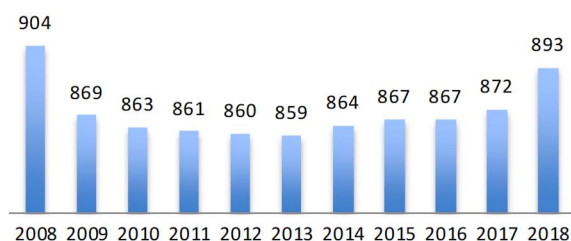


New Mexico employment increased in 2018 to 893,250, but has still not recovered to the June 2008 level of 904,430<sup>2</sup>.

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

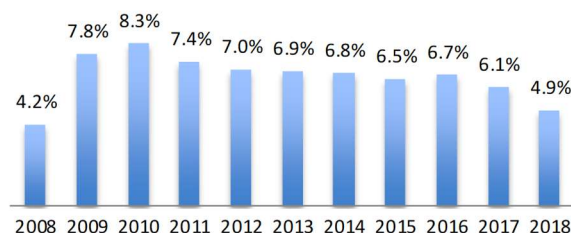


### New Mexico Employment as of June 30 (in thousands)



New Mexico's unemployment rate dropped from 6.1% at June 30, 2017, to 4.9% at June 30, 2018. The unemployment rate has declined from a high of 8.3% as of June 2010. However, unemployment has not returned to the June 2008 level of 4.2%<sup>3</sup>.

### New Mexico Unemployment Rate as of June 30



UNM's Bureau of Business and Economic Research provided the following in their report, *FOR-UNM Summer 2018 Forecast*:

#### New Mexico Review and Outlook

According to the BLS Quarterly Census of Employment and Wages (QCEW), New Mexico created 5,500 jobs (0.7%) in the final quarter of 2017, pushing the annual increase to 0.4%. The 2017Q4 performance was the strongest since 2015Q3, before the downturn following the collapse of oil prices. Preliminary CES survey data indicate that employment growth accelerated in the first half of 2018 to 1.3%. FOR-UNM estimates for this period are more modest (1.1%, 9,175 jobs), but still strong by recent standards. Growth was strongest in non-metro areas, including the booming oil patch, but also strong in Albuquerque.

In 2017Q4 job growth was led by mining, including oil & gas (2,957 jobs, 15.3%) and construction (3,025 jobs, 7.0%). A year earlier, these two sectors lost more than 5,000 jobs (7.4%). Transportation and warehousing, also related to oil & gas, gained 550 jobs (3.0%). Financial activities and professional & business services added 3,750 jobs (2.6%).

Conversely, healthcare, which accounted for nearly two-thirds of all new jobs in 2015 and 2016, lost jobs for the first time since at least 1990 (-35 jobs). The trade sectors continued to retrench (-2,100 jobs, -2.0%) for the eighth consecutive quarter. The highly erratic information sector, which includes movie and television production, fell sharply (-1,550 jobs, -11.4%). A year earlier, the sector added 1,250 jobs (10%).

Government payrolls (-2,200, -1.2%) were trimmed at all levels and in all regions, though overall losses were smaller than in preceding quarters. Cuts were deepest in state government (-730 jobs, -1.5%) and in non-metro areas (-1,050 jobs, -1.5%).

Current total personal income grew by just 2.0% (\$1.6 billion), lagging behind the 2.2% increase in the consumer prices. Wage & salary disbursements to private sector workers grew by 3.3% (\$925 million) and government sector earnings rose just 0.4% (\$40 million). Non-farm proprietors' income increased by 4.8% (\$200 million) and investment earnings were up 3.5% (\$530 million). In 2017, federal contributions to New Mexico's Medicaid expansion program declined from 100% to 95%, resulting in a 1.1% decline in transfer payments to the state.

Residential markets continue to set records, with 9,109 homes sold in the second quarter of 2018, up 50.4% from a year earlier. Sales were strong in all regions of the state. Strong sales pushed up median values by 6.5%, which topped \$200,000 for the first time. After a long delay, the uptick in sales is resulting in an increase in homebuilding. In the first half of 2018, permits were issued for the construction of 2,860 housing units, 22.1% more than a year earlier.

The growth of oil production in the Permian continues to outpace even the most bullish expectations. New Mexico produced 173.2 million barrels of oil in 2017, up 25.9 million barrels or 18% from 2016 levels. During the period January-May 2018, production totaled 87.5 million barrels, up 31%

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

from a year earlier. On July 30, 2018, the price of West Texas Intermediate oil topped \$70/barrel, the highest level since November 2014. The production of natural gas was up 2.1% in 2017, and 10.8% in the first five months of 2018.

FOR-UNM expects that New Mexico will add 9,635 jobs (1.2%) in 2018, up from 7,900 (1.0%) forecast in April, and an average of 9,900 jobs per year (1.2%) through 2023, up from 9,150 (1.1%) in the April forecast. The slight improvement in the forecast is due to more bullish outlook for oil production and state finances.

Mining and construction will continue to lead employment growth in 2018. FOR-UNM anticipates that employment in the two sectors will increase by 4.2% in 2018, 2.6% in 2019 and by an average of 2.1% through 2023. The high-wage professional & technical services sector will continue to expand (1,400 jobs, 2.5% in 2018, 1.9% per year thereafter), accounting for 13% of new jobs over the forecast period.

Under any scenario, sustained employment growth in New Mexico will depend on the recovery of healthcare and leisure & hospitality, the two largest sectors in the state economy. Healthcare is forecast to add 1,750 jobs (1.5%) per year in 2018 and 2019, and an average of 3,250 jobs (2.6%) per year for the remainder of the forecast period. Leisure & hospitality will grow by 1,650 jobs (1.6%) over the forecast period. Constrained by the growth of online commerce, employment in retail trade will remain sluggish.

Higher oil & gas revenues, a change in leadership and the recent court ruling mandating that the State increase school funding is expected to result in a small expansion in government payrolls, but we do not expect that hiring will return to pre-Recession levels. FOR-UNM anticipates that State government employment will grow by 0.7% (350 jobs) per year; and local governments will expand by 0.6% (600 jobs) per year, most in State-funded public schools.

Stronger employment numbers are yet to impact personal incomes, though we expect an improvement with time. FOR-UNM anticipates total personal income growth of 3.3% (\$2.7 billion) in the latter half of 2018, 4.1% (\$3.4 billion) in 2019 and an average annual increase of 4.4% (\$4.1 billion) for the remainder of the forecast period. In the next couple of years, income growth will be the result of higher

wage & salary disbursements to private sector workers, particularly in high-wage industries such as mining, transportation, professional services and construction. After 2021, personal income growth will improve when federal funding for Medicaid expansion stabilizes at 90% of total costs.

Recent data and reports of huge investments suggest that the oil & gas industry in New Mexico has entered a new phase of expansion. FOR-UNM now anticipates that oil production will exceed 223 million barrels in 2018, up nearly 30% from 2017, and increase to more than 300 million barrels by 2022, 75% more than last year's record output. This forecast is significantly stronger than in April, and reflects two factors that signal long-term trends. The first is the growing presence of 'supermajor' producers in New Mexico, most notably ExxonMobil and Chevron. The second is the surge in investment in midstream infrastructure serving New Mexico, including pipelines and processing plants.

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 the continued 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. Continued expansion of our lending program enables the NMSBIC to better preserve capital and to increase the turnover of that capital, thereby benefitting more small businesses in our state.

## Observations

The NMSBIC Board of Directors has reviewed and learned from the organization's investment history. The following are the Board's observations.

## Concentrations

Beginning in 2001, the NMSBIC committed \$33.3 million to equity capital investments. While these investments resulted in the establishment and growth of several New Mexico businesses, this was a high concentration of dollars in high-risk investment

vehicles. When the financial crisis began in 2008, this high concentration of high-risk investments resulted in significant losses.

### Equity Investments in New Mexico

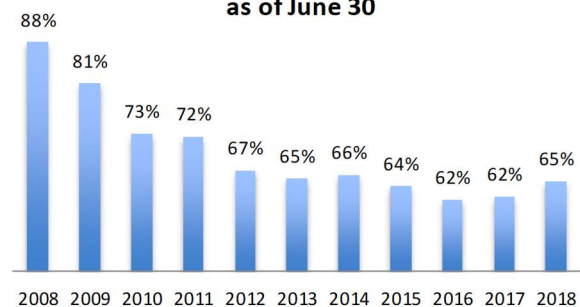
NMSBIC's investment history has provided valuable experience and revealed significant challenges regarding venture capital investing as follows:

- NMSBIC's total asset size relative to the historical amount invested in each company resulted in limited diversification;
- NMSBIC can only invest in New Mexico companies, which further limits diversification;
- High risk and limited diversification appear to have contributed to significant venture capital investment losses during the economic downturn;
- Management fees paid to equity fund managers have reduced investment returns;
- Equity investments are typically long-term, which reduces the ability to turn over capital in additional new small businesses;
- Equity investments do not provide current income to offset NMSBIC's operating expenses; and
- Equity 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 improved from 62% at June 30, 2017, to 65% at June 30, 2018, but is still well below the June 2008 level of 88%. <sup>4</sup> 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.

#### Expansion of Lending Program

The NMSBIC has been and is continuing 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, and results in broader diversification of the NMSBIC's risk;
- Shorter-term investments result in higher turnover of funds;
- No dilution from management fees;
- Current interest income offsets NMSBIC operating expenses;
- Borrower equity and collateral reduces risk of loss;
- Funds are provided to communities throughout all of New Mexico; and

<sup>4</sup> Source [www.fdic.gov](http://www.fdic.gov), *Statistics on Depository Institutions*

## Policies and Underwriting Criteria

The NMSBIC continues to evaluate lending partner policies and underwriting criteria to ensure proper controls are in place to mitigate loan loss risk related to an expansion of lending.

## Lending Partner Agreements

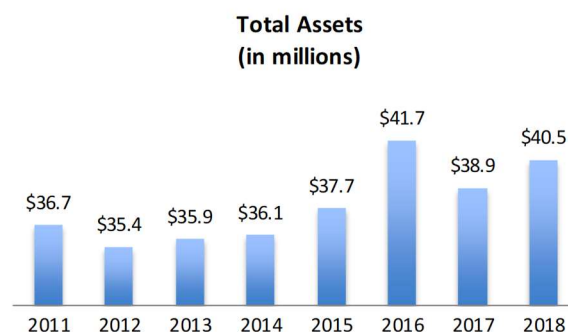
The NMSBIC continues to review its agreements with lending partners to ensure that appropriate covenants are in place to protect both the NMSBIC and its lending partners, loan terms provide appropriate risk versus reward balance, and there is a reasonable expectation of a positive financial return and preservation of NMSBIC capital. During the fiscal year the NMSBIC made the following changes:

- The NMSBIC extended the maturity date of its \$13 million revolving line of credit with The Loan Fund, to January 2029. The NMSBIC earns interest of 2.0% annually, and no loan losses are passed through to the NMSBIC.
- The NMSBIC extended the maturity date of its \$1.5 million revolving line of credit with the New Mexico Mortgage Finance Authority to November 2023. The NMSBIC earns interest of 2.0% annually, and no loan losses are passed through to the NMSBIC.

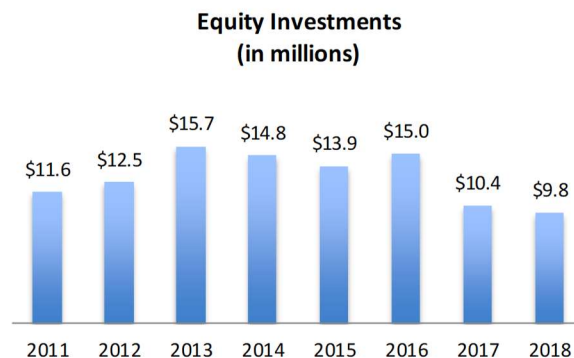
## Financial Highlights

Attached to this report are NMSBIC's audited financial statements for the fiscal years ended June 30, 2018 and 2017. Financial highlights are as follows:

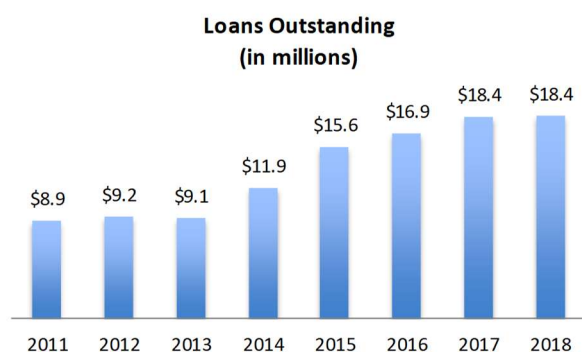
As of June 30, 2018, the NMSBIC ended its fiscal year with \$40.5 million in total assets, an increase from \$38.9 million the previous year. The increase was primarily due to, (i) a \$1.6 million contribution received from the severance tax permanent fund, and (ii) interest income of \$757,702, which exceeded total expenses of \$325,090.



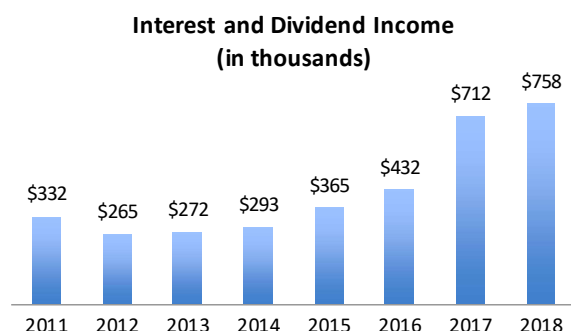
Equity investments decreased to \$9.8 million from \$10.4 million the previous year. The reduction was primarily due to a distribution received from New Mexico Community Capital, after the successful sale of one of their portfolio companies, Armed Response Team.



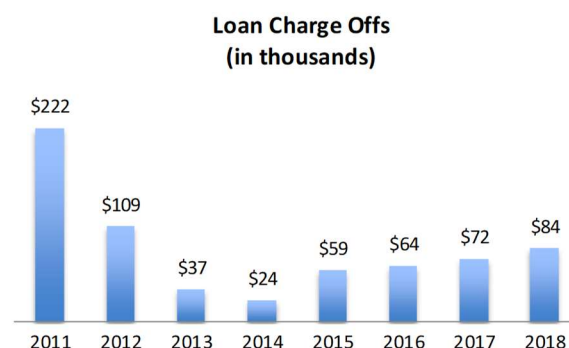
Loans, net of allowance for loan losses, were flat, at \$18.4 million. About \$904,000 in net growth from the New Mexico Community Development Loan Fund was offset by a successful payoff of \$750,000 from Rio Vista Growth Capital, and other reductions in balances for Accion, WESST, and MFA. Since 2013, new loan demand has outpaced payoffs, resulting in good net growth in outstanding loans.



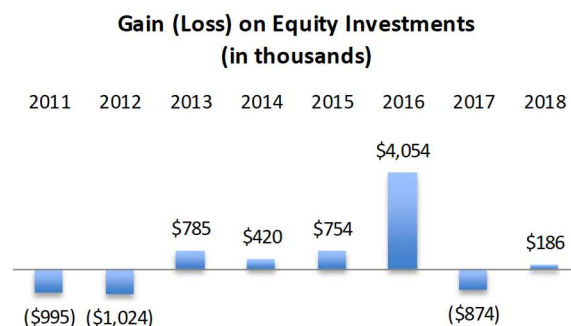
Interest and dividend income increased to \$757,702 in 2018, from \$711,570 the previous year, primarily due to increases in the average outstanding balances for loans and investments.



Loan charge-offs have declined since 2011, in-part due to the NMSBIC's restructuring of its participation agreement with Accion, under which loan losses passed through to the NMSBIC are now limited to 1% of the outstanding loan balance. Loan charge-offs increased in 2018 to \$84,016, from \$72,328 the previous year. Loan charge-offs as a percentage of outstanding loans increased to 0.46% in 2018, from 0.39% in 2017. Loan charge-offs for banks in New Mexico were 0.11%, in both 2018 and 2017.



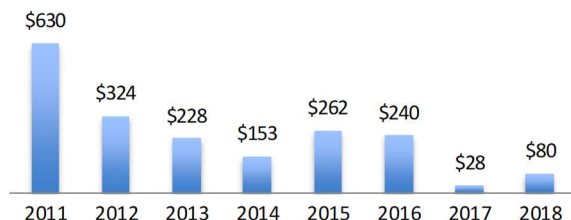
The \$186,209 net gain on equity investments in 2018 was comprised of positive equity investment valuation adjustments of \$605,695, which were offset by net equity realized losses of \$419,486. New Mexico Community Capital reported \$265,272 in positive investment valuation adjustments, primarily related to the sale of one of its portfolio companies, Armed Response Team. Flywheel I-NMSBIC was closed in 2017, resulting in about \$342,000 in investment valuation losses being reclassified to realized losses. The remaining activity was spread over several different companies.





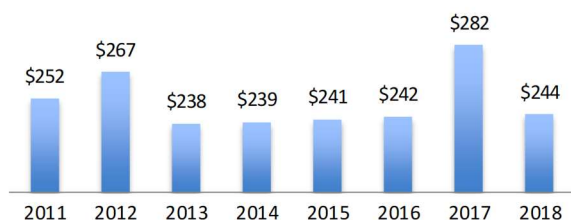
Management fees and expenses paid to equity funds, net of other income from equity funds, have declined since 2011, as equity funds have reached the end of their fund lives, and due to declines in outstanding fund investments. Management fees are offset with equity fund other income, resulting in year-to-year fluctuations in the net cost.

**Equity Fund Management Fees, Operating Expense, and Other Income  
(in thousands)**

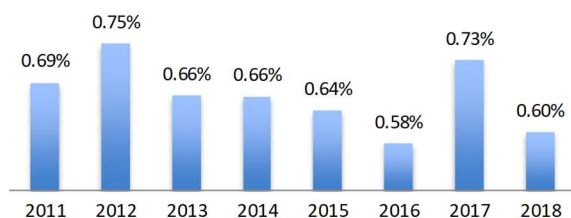


NMSBIC's direct operating expenses of \$243,608 in 2018, declined from \$282,465 in 2017. The decline was primarily due to an impact analysis performed by the Bureau of Business and Economic Research in 2017. The 2018 direct operating expenses were comprised of \$120,913 in other program services, and \$122,695 in management and general expenses. With \$40.5 million in total assets, operating expenses were 0.60% of total assets in 2018.

**NMSBIC Operating Expense  
(in thousands)**

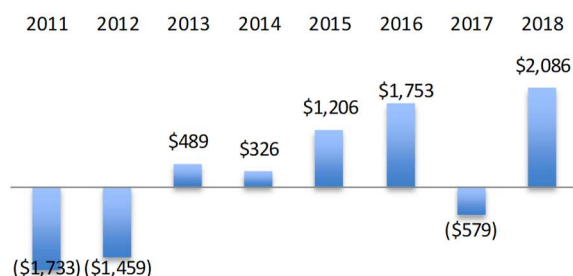


**NMSBIC Operating Expense  
as a percent of Total Assets**



The NMSBIC had a positive change in net assets in 2018 of \$2.1 million. A contribution of \$1.6 million from the severance tax permanent, plus \$757,702 in interest income, and \$186,209 in equity valuation changes, were offset by total expenses of \$325,090, and a market valuation adjustment of \$160,177 for the investment held with the New Mexico State Investment Council. The net loss of in 2017 was primarily due to equity investment valuation changes. Equity investments are likely to continue creating volatility in the NMSBIC's net income through 2022.

**Net Income (Loss)  
(in thousands)**



## NMSBIC Lending Partners



**ACCION**

**WESST**

**Rio Vista Growth Capital**

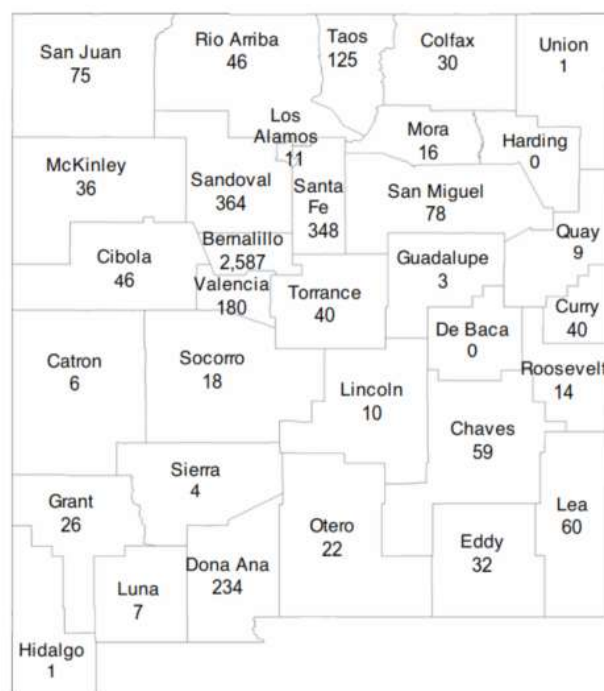
### Lending Program

The NMSBIC's lending program provides funding to Accion, The Loan Fund, MFA, Rio Vista Growth Capital, and WESST.

### Community Development Financial Institutions

Accion, The Loan Fund, and WESST, are designated as Community Development Financial Institutions (CDFIs) by the U.S. Department of the Treasury. CDFIs have a mission of providing financing in low-income communities and to people who lack access to financing.

The NMSBIC's lending partners have provided 4,528 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 \$81 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 4,528 loans in 31 of 33 counties in New Mexico.*

Since inception and through June 30, 2018, the NMSBIC funded the following volume of loans through its lending partners:

	# of Loans	Jobs Supported	Loan Volume
The Loan Fund	637	3,858	\$40,555,771
Accion	3,833	7,856	\$36,841,451
MFA	5	318	\$3,000,000
RVGC	1	16	\$750,000
WESST	<u>52</u>	<u>275</u>	<u>\$618,628</u>
	4,528	12,323	\$81,765,851

As of June 30, 2018, the NMSBIC had the following amounts outstanding from, and committed to, its lending partners. Figures shown below for Accion are combined for the prior and new loan participation agreements.

	# of		
	<u>Loans</u>	<u>Outstanding</u>	<u>Committed</u>
The Loan Fund	123	\$10,277,692	\$13,000,000
Accion	564	\$7,485,459	\$7,750,000
MFA	1	\$700,000	\$1,500,000
RVGC	0	\$0	\$750,000
WESST	<u>6</u>	<u>\$63,974</u>	<u>\$375,000</u>
Totals	694	\$18,527,125	\$23,375,000

The above figures show over \$81 million in loans have been funded with \$23.4 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 0.46% 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 continue expanding the lending program in a responsible manner.

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 eleven venture capital partnerships. Two of the partnerships that were managed by Mesa Capital Partners, and the Flywheel I-NMSBIC partnership, are now closed.

Cash invested (contributions made less distributions received) and current fair values as of June 30, 2018 are as follows:

#### NMSBIC Equity Partners



**New Mexico  
Mezzanine  
Partners**

(Dollars amounts in thousands \$000)

	Cash	Current
<u>Partner</u>	<u>Invested</u>	<u>Value</u>
NM Gap Fund I	\$1,912	\$3,402
NM Comm. Capital	\$1,604	\$1,250
NM Mezzanine Ptrs	\$1,689	\$1,011
Verge I	\$431	\$469
Verge I.5	\$929	\$967
Verge II	\$483	\$1,432
Verge II.5	<u>\$864</u>	<u>\$1,225</u>
Totals	\$7,912	\$9,756

### 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

### Equity Program Activity

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

- The Flywheel I-NMSBIC limited partnership reached its termination date in the prior fiscal year. Final accounting for the fund was completed in 2018. The fund reported a \$1.5 million loss over the life of the fund.



- For New Mexico Community Capital, the limited partners approved an 18-month extension of the fund's termination date, with management fees of \$10,000 per month (NMSBIC's 47.78% share is \$4,778 per month).
- For New Mexico Gap Fund I, the NMSBIC approved a two-year extension of the fund's termination date, with the NMSBIC's share of management fees at \$50,000 per year, and up to \$16,000 in annual fund expenses.
- For New Mexico Mezzanine Partners (NMMP), the limited partners agreed to extend the fund to October 2019, with management fees equal 3% of payments received, which provided the potential for \$60,008 in management fees (NMSBIC's 48% share is \$32,164 for the eighteen-month period).
- For the Verge I, the limited partners approved a one-year extension, with annual management fees of \$30,000 (NMSBIC's 11.8% share \$3,540).
- For the Verge I.5, the limited partners approved a two-year extension, with annual management fees of \$20,000 for the first year, and \$15,000 for the second year (NMSBIC's 56.57% share is \$11,314, and \$8,486, respectively). There are possible reductions in the management fee based on conditions in the extension agreement.

## NMSBIC Impact

The following provides information regarding the impact of NMSBIC's lending and equity programs on New Mexico small businesses and jobs, and costs of delivering these services.

### The Importance of Small Businesses

The NMSBIC's lending program supports small businesses in New Mexico. Small businesses are considered to be vitally important to both the New Mexico and national economies.

According to the Small Business Administration, a small business has 500 or fewer employees. In New Mexico, small business employment accounts for 54% of total employment. In 2015 there were 28,663 (87%) New Mexico small businesses with 1-20 employees, and 4,315 (13%) small businesses with 21-500 employees.<sup>5</sup>

According to the National Small Business Association, 73% of small firms used financing in the last 12 months. Small business financing needs vary greatly. About one-quarter use no financing, and for others, the lack of capital causes difficulties growing the business, financing future sales, and keeping adequate inventory.<sup>6</sup>

Nationally, small businesses comprise<sup>7</sup>:

- 99.9% of all firms
- 99.7% of firms with paid employees
- 97.6% of exporting firms (287,835 small exporters)
- 32.9% of known export value (\$440 billion out of \$1.3 trillion)
- 47.5% of private sector employees (59 million out of 124 million employees)
- 40.8% of private-sector payroll

Nationally, small businesses accounted for 65.9% of net new jobs from 2000 to 2017.<sup>8</sup>

### Jobs Supported

A common measure used by CDFI's and by the Small Business Administration (SBA) is total jobs at the time a loan is originated, referred to as "jobs supported." In the table below, *Equity and Lending Programs Costs and Benefits*, information is provided regarding New Mexico jobs supported by the NMSBIC's equity and lending programs. For the equity program, jobs supported are the number of jobs as of June 30, 2018, or as of the date when the company exited from the NMSBIC's investment portfolio. For the lending program, jobs supported are the total jobs when the loan was originated. Jobs supported are self-reported by the NMSBIC's equity and lending partners.

<sup>5</sup> *New Mexico Small Business Profile 2018*, U.S. Small Business Administration Office of Advocacy

<sup>6</sup> *Frequently Asked Questions About Small Business Finance*, July 2016, U.S. Small Business Administration Office of Advocacy

<sup>7</sup> *Frequently Asked Questions About Small Business*, August 2018, U.S. Small Business Administration Office of Advocacy

<sup>8</sup> *Frequently Asked Questions About Small Business*, August 2018, U.S. Small Business Administration Office of Advocacy

- Equity program life-to-date results are a loss of \$9.9 million, with 344 jobs reported at June 30, 2018, resulting in an estimated cost per job of \$28,747. Equity investments are long-term in nature, therefore year-to-date results are not considered meaningful.
- Lending program life-to-date results are a net interest income (after loan losses) of \$2,192,657, with 12,323 jobs reported, for an estimated *profit* per job of \$178. For the twelve months ended June 30, 2018, net interest income was \$405,897, with 890 jobs reported, for an estimated *profit* per job of \$456.

### **BBER Impact Analysis**

The NMSBIC engaged the Bureau of Business and Economic Research (BBER) to conduct an impact analysis. There were four proposed phases, of which the first phase was completed in 2018. The number of jobs were independently measured by BBER. The BBER analysis indicated the NMSBIC's equity and lending programs resulted in the creation of 646 "new" jobs in New Mexico during the five-year period from July 1, 2010 to June 30, 2015. Additionally, the BBER study estimated an additional 750 jobs would have been lost during this time period, in the absence of the NMSBIC's lending program.

The BBER analysis included a supplement that calculated the cost per new job, based on an opportunity cost of funds using the severance tax permanent fund's target return of 6.75%. The BBER analysis reported an equity program opportunity cost per new job of \$29,085, and a lending program opportunity cost per new job of \$4,717.

The lending program cost per new job of \$4,717 compares favorably with cost per job figures (also five-year averages) for the state's Job Training Incentive Program (JTIP) and Local Economic Development Act (LEDA) program, which were \$5,941 and \$4,255, respectively, during the same time-period, as noted in the BBER impact analysis.

The BBER analysis also indicated that during the five-year period, the NMSBIC's programs were

responsible for \$69 million in economic output, and \$23.9 million of labor income in New Mexico.

The BBER analysis appears to support the NMSBIC board's strategy to focus on expanding the NMSBIC's lending program. The full BBER report is available at [www.nmsbic.org](http://www.nmsbic.org).

### **Small Business Administration Job Study**

A study was conducted in August 2013 by the US Census Bureau and the Institute for the Study of Labor, on new jobs created by the Small Business Administration (SBA)<sup>9</sup>. The study noted that SBA has historically reported a performance indicator which is the number of "jobs supported" by its lending program. The purpose of the study was to measure the number of new jobs created by the SBA's lending program. The study found that 5.4 new jobs were created for each \$1 million loaned by the SBA, from 1976 to 2010.

Based on the recent BBER impact analysis performed for the NMSBIC, \$35.6 million of NMSBIC loans were originated from 2011 to 2015 resulting in 426 new jobs, or 12.0 new jobs for each \$1 million in loans, which appears to compare favorably to the SBA's ratio of 5.4 new jobs for each \$1 million in loans.

Stated another way, according to the BBER impact analysis, for every \$1 million in loans originated under the NMSBIC's lending program, 12 new jobs are created in New Mexico, plus 21 jobs are saved that otherwise might have been lost.

### **Minority and Women-Owned Businesses**

Of the loans originated in 2018 with NMSBIC funds:

- 82% of the loans were made to minority-owned small businesses.
- 48% were made to women-owned small businesses.

The sum of the above percentages is greater than 100% because of businesses that are both minority-owned and women-owned.

### **Impact on New Mexico Small Businesses**

As noted above, the BBER impact analysis estimated that during a five-year period, 750 jobs would have been lost, if not for the NMSBIC's lending program.

<sup>9</sup> *Do SBA Loans Create Jobs?*, J. David Brown and John S. Earle, August 2013

The following are excerpts from interviews with small business owners in New Mexico, regarding the impact of funding provided by the NMSBIC's lending program partners, as published by [www.financenewmexico.org](http://www.financenewmexico.org):

*"The Loan Fund has been a lifesaver ... They kept me afloat."*

- Christina Montoya of Montoya Bus Company. Montoya continues to work with The Loan Fund to finance new buses as needed. Today her company is the largest bus company in the Silver City/Bayard area, with 16 full-time, and 5 part-time employees.

*"If it wasn't for Accion, we wouldn't be here."*

- Mauro Nava of Clínica la Esperanza, a health clinic that serves Albuquerque's South Valley.

*"We went to a lot of banks for financing, but [other lenders] didn't have a lot of appetite for startups. Most didn't even look at our numbers."*

- Daniel Romero and Lori Griego worked hard to get the right ingredients to finance their Frost Gelato Shoppe, with help from **The Loan Fund**.

*"It wasn't a big loan, maybe \$20,000. But it enabled me to get over the hump ... Accion is critical, because the (business) failure rate for zero to five years — especially for restaurants — is ginormous."*

- Nico Ortiz, owner of Turtle Mountain Brewing in Rio Rancho. Accion helped to sustain his business until its fifth birthday, when traditional lenders were willing to lend. Today the company employs nearly three times as many people as it did in 1999, and its gross revenue has quadrupled.

*"We could not have grown as aggressively as we did during a recession if we didn't have financing to support it."*

- Peter Sanchez, Atrisco Heritage Foundation, speaking about his relationship with **The Loan Fund**.

*"I would not be able to bid on these extra projects if I didn't have [the loan from Accion] ... They're really a key component of my growth."*

- Gary Peterson, One Community Auto, speaking about the Accion loan that enabled him to bid on government contracts. Peterson's company purchases old vehicles that are used to train firefighters how to extract accident victims in emergency situations.

*"A traditional lender wasn't interested in lending to a startup with no experience in the industry; at the time, breweries were lumped into the 'restaurant' (category) — a much riskier segment to finance."*

- Gabe Jensen, co-owner of Bosque Brewing speaking about his **Accion** \$100,000 loan.

*"(Accion) gave me the leg-up I needed ... It will help my business grow in ways it (otherwise) couldn't have."*

- Cathy Schueler, executive director of Bosque Mental Health, a business that employs 14 people and provides a vital, and often life-changing, service to Individuals and Families across Albuquerque.

*"Our partnership with and support by The Loan Fund has meant the growth of our business ... Without (it), we would not have been able to grow, provide a greater array of services, keep pace with technological developments in our industry and hire additional people. The Loan Fund is more flexible about what constitutes collateral, and it understands the hurdles faced by rural or high-tech or unusual businesses."*

- Tami Wiggins CEO Blue Skies Consulting, on her relationship with The Loan Fund

*“If I hadn’t gotten the loan, I wouldn’t be here ... It’s paying itself off quite nicely.”*

- Lyndseyanne Wilken, Run as One Tack and Equine. A loan officer at an area bank referred Wilken to **Accion**, thinking the nonprofit lender would be a good fit for her home-based venture. Even if the bank had been able to finance a startup like Run as One, it would have had to classify her loan as a machine loan, Wilken said, and the minimum for that loan type is \$10,000. Wilken obtained a \$5,000 loan from Accion to cover the costs of a leather sewing machine and other essential startup materials.

*“The trust they have had in us is something for which we will always be grateful.”*

- Julianna Garcia, co-owner of Pet Planet, a client of **The Loan Fund**.

## Equity and Lending Programs, Jobs Supported and Cost per Job

### Equity Program Costs and Benefits, Life-to-Date, June 30, 2018 (1):

	Net	Estimated		Jobs	Estimated
	<u>Investment</u>	<u>Value</u>	<u>Gain (Loss)</u>	<u>Supported (2)</u>	<u>Profit (Cost)</u> <u>per Job</u>
1 Santa Fe Windows and Doors (3)	(\$25,000)	\$0	\$25,000	n/a	n/a
2 Flywheel Ventures (2 funds)	\$3,411,989	\$3,402,293	(\$9,696)	35	(\$277)
3 NM Community Capital	\$1,604,078	\$1,250,246	(\$353,832)	209	(\$1,693)
4 Mesa NM Growth Funds (2 Funds)	\$10,257,750	\$0	(\$10,257,750)	18	(\$569,875)
5 NM Mezzanine Ptrs	\$1,688,976	\$1,010,929	(\$678,047)	22	(\$30,820)
6 Verge Funds (4 funds)	\$2,707,106	\$4,092,622	\$1,385,516	128	\$10,824
7 Adjustment for multiple funds invested in the same company (4 companies)				-68	
8 Total Equity Program	<u>\$19,644,899</u>	<u>\$9,756,090</u>	<u>(\$9,888,809)</u>	<u>344</u>	<u>(\$28,747)</u>

(1) Equity fund investments are long-term investments. Life-to-date results are considered more meaningful than year-to-date information.

(2) Jobs reported at June 30, 2018, plus jobs reported as of the date when a company was sold.

(3) Santa Fe Windows and Doors was originated in 2003 and repaid in full in 2007. This was the only direct investment made by the NMSBIC.

### Lending Program Costs and Benefits:

	Interest	Loan Charge	Net Interest	Jobs	Profit (Cost)
	<u>Income</u>	<u>Offs</u>	<u>Income (Loss)</u>	<u>Supported (6)</u>	<u>per Jobs</u> <u>Reported</u>
18 <u>Since Inception</u>					
19 ACCION 2003 Participation Agreement (4)	\$1,010,285	(\$1,280,742)	(\$270,457)	4,516	(\$60)
20 ACCION 2013 Participation Agreement	\$629,053	(\$161,145)	\$467,908	3,340	\$140
21 New Mexico Mortgage Finance Authority	\$59,864	\$0	\$59,864	318	\$188
22 THE LOAN FUND Participation Agreement (5)	\$77,631	(\$11,518)	\$66,113	-	-
23 THE LOAN FUND Line of Credit	\$1,706,119	\$0	\$1,706,119	3,858	\$442
24 Rio Vista Growth Capital Line of Credit	\$155,217	\$0	\$155,217	16	\$9,701
25 WESST Participation Program	\$28,874	(\$20,981)	\$7,893	275	\$29
26 Total Lending Program	<u>\$3,667,043</u>	<u>(\$1,474,386)</u>	<u>\$2,192,657</u>	<u>12,323</u>	<u>\$178</u>

### 12 months ended June 30, 2018

29 ACCION 2003 Participation Agreement (4)	\$6,015	(\$8,003)	(\$1,988)	-	-
30 ACCION 2013 Participation Agreement	\$218,182	(\$72,727)	\$145,455	550	\$264
31 New Mexico Mortgage Finance Authority	\$22,678	\$0	\$22,678	73	\$311
32 THE LOAN FUND Line of Credit	\$199,538	\$0	\$199,538	245	\$814
33 Rio Vista Growth Capital Line of Credit	\$40,830	\$0	\$40,830	-	-
34 WESST Participation Program	\$2,670	(\$3,286)	(\$616)	22	(\$28)
35 Total Lending Program	<u>\$489,913</u>	<u>(\$84,016)</u>	<u>\$405,897</u>	<u>890</u>	<u>\$456</u>

(4) The ACCION 2003 participation agreement was terminated as of November 1, 2013. Loans outstanding as of the termination date will run off in the normal course of business.

(5) THE LOAN FUND 2004 participation agreement was terminated as of July 13, 2007.

(6) Jobs reported at the time the loan was originated.

## **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 circulated electronically to businesses and economic development organizations throughout the state. 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, Grow It! 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.

### **Community Outreach:**

#### **Inventors and Entrepreneurs Conference**

In April 2018, the NMSBIC was a sponsor for, and made a presentation to the Inventors and Entrepreneurs Conference, in Socorro, New Mexico. This continued the tradition of community outreach throughout the state. In prior years the Board has held community outreach meetings in Albuquerque, Los Lunas, Clovis, Española, Hobbs, Taos, Farmington, Las Cruces, and Santa Fe. It is the Board's intention to continue its community outreach to areas 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 Plan**

The NMSBIC's strategic plan is to continue creating and supporting jobs in New Mexico, by expanding the lending program throughout the entire state of New Mexico with existing and potential new partners, and maintaining the NMSBIC's organizational self-sufficiency where interest income from loans exceeds operational expenses.

## **Statutory Requirements**

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

### **Audited Financial Statements**

NMSBIC independently audited financial statements for the years ended June 30, 2018 and 2017 are attached to this report.

### **Rate of Return**

For the fiscal year ended June 30, 2018, the NMSBIC had a positive change in net assets of \$2,086,070. After subtracting the contribution from the severance tax permanent fund of \$1,627,426, the result was \$458,644, or a return 1.19% based on \$38,454,938 in net assets from the beginning of the fiscal year.

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

The NMSBIC Board recommends NMSA 58-29-7 be repealed, thereby removing the requirement that "net excess funds" be returned to the severance tax permanent fund. The effect of this change would be to help the NMSBIC self-fund the future expansion of its lending program, which is providing much needed capital to small businesses, and protecting and supporting jobs throughout New Mexico.

### **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.

**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, 2018, this calculation resulted in a negative number (see detail below) resulting in no distribution of funds to the severance tax permanent fund.

Interest and dividends received, cash basis	\$ 807,236
Operating expenses, net of loan losses	(323,545)
Accumulated reserve for debt and equity losses	(1,109,155)
Capital gains realized	<u>(419,485)</u>
Net excess funds	<u>\$ (1,044,949)</u>

**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 4,528 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 not exist without NMSBIC funds. Through its lending program, the NMSBIC has provided over \$81 million in loans to businesses that would likely not have had access to capital.

While equity program losses since the NMSBIC’s inception 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 plans to continue to decrease the investment concentration in these high-risk investments.

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 partners, plays an important 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 continue reducing the concentration of equity investments, and to continue increasing 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,

Alan Fowler, CMB  
Board Chair & President

## **NMSBIC Board of Directors**

Alan Fowler, CMB  
NMSBIC Board Chair and President  
Executive Vice President, MBSI Lending  
Albuquerque, New Mexico

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

Roxanna Meyers  
NMSBIC Secretary/Treasurer  
President/Owner, Century Sign Builders  
Albuquerque, New Mexico

Steven Morgan  
President, Bosque Consulting Group  
Conchas Dam, New Mexico

The Honorable Tim Eichenberg, State Treasurer  
State of New Mexico Office of the Treasurer  
Santa Fe, New Mexico

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

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

Russell Cummins  
Owner, RDC Advisors LLC  
Tijeras, New Mexico



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## **EXHIBIT A**

Independently Audited Financial Statements  
as of and for the years ended  
June 30, 2018 and 2017

**Small Business Investment Corporation**

**FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
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 – American Institute of Certified Public Accountants Financial Reporting Framework for Small and Medium-sized Entities (AICPA FRF for SMEs) as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets – AICPA FRF for SMEs, and cash flows – AICPA FRF for SMEs, 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 the AICPA FRF for SMEs, as described in Note 1; this includes determining that the basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with the AICPA FRF for SMEs, as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA FRF for SMEs, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

**Emphasis-of-Matter Regarding Investments**

As discussed in Note 1 and Note 7, 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, 2018 and 2017, that portion of NMSBIC's investments was \$9,756,090 and \$10,426,049, respectively, which represents 24% and 27% 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activity of debt cooperative agreements and the schedules of activity of equity cooperative agreements on pages 17 and 18 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.

PULAKOS CPAs, PC

September 24, 2018

Pulakos CPAs, PC

# Small Business Investment Corporation

## STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 2,968,684	\$ 1,331,817
Investment held with NM State Investment Council	8,357,763	8,262,462
Debt funding receivable, net	1,014,056	-
Interest and dividends receivable	1,725	-
Equity fund receivable	-	413,078
Prepaid expenses	1,014	4,239
	<hr/>	<hr/>
Total current assets	12,343,242	10,011,596
Deferred interest receivable	-	54,346
Equity investments in New Mexico entities	9,756,090	10,426,049
Cooperative loan agreements, net of allowance for losses	18,442,056	18,378,674
	<hr/>	<hr/>
	<u>\$ 40,541,388</u>	<u>\$ 38,870,665</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 380	\$ -
Debt funding payable, net	-	415,727
	<hr/>	<hr/>
Total current liabilities	380	415,727
Temporarily restricted net assets	40,541,008	38,454,938
	<hr/>	<hr/>
	<u>\$ 40,541,388</u>	<u>\$ 38,870,665</u>

## Small Business Investment Corporation

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Interest and dividend income	\$ -	\$ 757,702	\$ 757,702	\$ -	\$ 711,570	\$ 711,570
Severance tax permanent fund capital contribution	-	1,627,426	1,627,426	-	-	-
Realized (losses) gains on investments	-	(419,486)	(419,486)	-	184,713	184,713
Investment valuation adjustments	-	445,518	445,518	-	(1,100,578)	(1,100,578)
Net assets released from restrictions	325,090	(325,090)	-	374,283	(374,283)	-
Total revenues and other support	325,090	2,086,070	2,411,160	374,283	(578,578)	(204,295)
Expenses:						
Program services						
Equity investment operating expense, net	79,934	-	79,934	28,336	-	28,336
Provision for loan losses	1,548	-	1,548	63,482	-	63,482
Other program services	120,913	-	120,913	118,973	-	118,973
Total program services	202,395	-	202,395	210,791	-	210,791
Management and general	122,695	-	122,695	163,492	-	163,492
Total expenses	325,090	-	325,090	374,283	-	374,283
Change in net assets	-	2,086,070	2,086,070	-	(578,578)	(578,578)
Net assets at beginning of year	-	38,454,938	38,454,938	-	39,033,516	39,033,516
Net assets at end of year	\$ -	\$ 40,541,008	\$ 40,541,008	\$ -	\$ 38,454,938	\$ 38,454,938

See Notes to Financial Statements and Independent Auditors' Report.

# Small Business Investment Corporation

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,086,070	\$ (578,578)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in provision for loan losses	1,548	63,482
Net (gain) loss on investments and investment fees	(201,576)	944,202
Changes in operating assets and liabilities		
Interest and dividends receivable	(1,725)	-
Debt funding receivable	(1,014,056)	-
Equity fund receivable	413,078	3,123,152
Prepaid expenses	3,225	-
Deferred interest receivable	54,346	(21,900)
Accounts payable	380	(4,000)
Debt funding payable	(415,727)	(18,853)
Due to severance tax permanent fund	-	(2,191,561)
	<u>925,563</u>	<u>1,315,944</u>
Cash provided by operating activities		
Cash flows from investing activities:		
Purchase of investment held with NM State Investment Council	-	(5,252,837)
Investments in New Mexico entities	711,304	2,100,662
	<u>711,304</u>	<u>(3,152,175)</u>
Cash provided (used) by investing activities		
Change in cash and cash equivalents	1,636,867	(1,836,231)
Cash and cash equivalents, beginning of year	<u>1,331,817</u>	<u>3,168,048</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,968,684</u></u>	<u><u>\$ 1,331,817</u></u>

# **Small Business Investment Corporation**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

### **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 2014, 2015 and 2016 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 and cash equivalents, receivables, payables, and other liabilities approximate fair value due to the short maturity periods of these instruments.



# **Small Business Investment Corporation**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

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

#### Financial Reporting Framework

A financial reporting framework is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. The choice of a financial reporting framework rests with the owners and managers of an entity, in consideration of their needs and the needs of the users of their financial information. Certain frameworks constitute accounting principles generally accepted in the United States of America (GAAP), while others are non-GAAP ‘special purpose’ frameworks. Because its Board of Directors is appointed by the Governor of the State of New Mexico, NMSBIC is considered to be a governmental entity under GAAP.

The accompanying financial statements have been prepared using the Financial Reporting Framework for Small and Medium-Sized Businesses (FRF for SMEs), a special purpose framework developed by the American Institute of Certified Public Accountants (AICPA). The FRF for SMEs reporting option is intended for management, owners, and others who require financial statements that are prepared in a consistent and reliable manner in accordance with a non-GAAP framework that has undergone public comment and professional scrutiny. The accounting principles comprising it are appropriate for small and medium-sized entities, based on the needs of the financial statement users and cost and benefit considerations.

NMSBIC selected the FRF for SME’s because, as a business entity, the information provided by the governmental framework is not best suited to the needs of the users of NMSBIC’s financial statements. Management and the Board of Directors of NMSBIC believe that the GASB framework is not appropriate for NMSBIC and that GASB-based financial statements would be less informative than financial statements based on the FASB framework. However, use of the FASB framework would result in an ‘adverse’ auditors’ opinion because NMSBIC is considered governmental for purposes of accounting and financial reporting.

#### Cash Equivalents

Cash and cash equivalents at June 30, 2018 and 2017, consist of demand deposit accounts and money market deposit accounts held at New Mexico branches of state, national banks, and a Local Government Investment Pool account with the New Mexico State Treasurer’s Office.

#### 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, 2018 and 2017

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

#### Investments

NMSBIC reports gains and losses on investments 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, 2018 and 2017, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2018</u>	<u>2017</u>
Allowance for loan losses, beginning	\$ 167,537	\$ 176,383
Loan losses incurred in current period	(84,016)	(72,328)
Provision for loan losses	<u>1,548</u>	<u>63,482</u>
Allowance for loan losses, ending	<u>\$ 85,069</u>	<u>\$ 167,537</u>

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

#### Other Program Services

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

# **Small Business Investment Corporation**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

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

#### 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.

#### Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2018 and through September 24, 2018, which is the date that the financial statements were issued and believes that no 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, 2018 and 2017

### 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, and a Local Government Investment Pool (LGIP) account with the New Mexico State Treasurer's Office. The deposits in state and national financial institutions are insured by the Federal Deposit Insurance Corporation or are 102% collateralized by government-backed securities. NMSBIC has not experienced, and believes it is not exposed to significant credit risk from these deposits. The LGIP account is comprised of short-term, highly liquid investments that are rated AAAm by Standard and Poor's and are readily convertible to cash. NMSBIC believes it is not exposed to significant credit risk or interest rate risk from its cash or cash equivalent balances.

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 startup 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, 2018:

<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	\$ 18,442,056	\$ -	\$ 18,442,056	\$ -
Equity investments in New Mexico entities	9,756,090	-	-	9,756,090
Investment held with NM State Investment Council	8,357,763	-	8,357,763	-
	<u>\$ 36,555,909</u>	<u>\$ -</u>	<u>\$ 26,799,819</u>	<u>\$ 9,756,090</u>

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### 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, 2017:

<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	\$ 18,378,674	\$ -	\$ 18,378,674	\$ -
Equity investments in New Mexico entities	10,426,049	-	-	10,426,049
Investment held with NM State Investment Council	<u>8,262,462</u>	<u>-</u>	<u>8,262,462</u>	<u>-</u>
	<u>\$ 37,067,185</u>	<u>\$ -</u>	<u>\$ 26,641,136</u>	<u>\$ 10,426,049</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.

*Investment held with NM State Investment Council:* Valued at NMSBIC's percentage share in the pooled fund in which the pooled securities are measured using the closing price of the traded security at the statement of financial position date.

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.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 3 – FAIR VALUE MEASUREMENT – CONTINUED

#### 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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 10,426,049	\$ 14,994,617
Total gains or losses (realized/unrealized) included in earnings	186,209	(874,012)
Operating income and expenses, net	(79,934)	(28,336)
Cash calls and redemptions, net	<u>(776,234)</u>	<u>(3,666,220)</u>
Balance, end of year	<u>\$ 9,756,090</u>	<u>\$ 10,426,049</u>

### 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>2018</u>	<u>2017</u>
Cumulative severance tax permanent fund capital contributions	\$ 49,309,999	\$ 47,682,573
Cumulative return of net excess funds	(2,191,561)	(2,191,561)
Cumulative expenses in excess of other revenues	<u>(6,577,430)</u>	<u>(7,036,074)</u>
	<u>\$ 40,541,008</u>	<u>\$ 38,454,938</u>

Temporarily restricted net assets were released as follows:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions	<u>\$ 325,090</u>	<u>\$ 374,283</u>

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### 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. Funding received from the State Investment Officer due to the net market value of the New Mexico Severance Tax Permanent Fund was \$1,627,426 and zero in 2018 and 2017, respectively.

### NOTE 6 – NET EXCESS FUNDS

Pursuant to Section 58-29-7 NMSA 1978, the NMSBIC shall return to the Severance Tax Permanent Fund an amount equal to the net excess funds held by the NMSBIC. “Net excess funds” are calculated as the return on investments to the corporation in the amounts of dividends and interest actually received plus any capital gains actually realized, less the operating expenses of the NMSBIC and less amounts reasonably reserved for losses. NMSBIC had excess funds of zero as of June 30, 2018 and 2017, respectively, that are required to be returned to the Severance Tax Permanent Fund. The net excess funds are reflected as a liability in the accompanying financial statements.

NMSBIC’s calculations of net excess fund balances as of June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends received, cash basis	\$ 807,236	\$ 686,567
Operating expenses, net of loan losses	(323,545)	(310,804)
Accumulated reserve for debt and equity losses	(1,109,155)	(1,496,422)
Capital gains realized	<u>(419,485)</u>	<u>184,713</u>
Net deficient funds	<u>\$ (1,044,949)</u>	<u>\$ (935,946)</u>

# **Small Business Investment Corporation**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

### **NOTE 7 – 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%. Under the participation agreement with WESST Corp., the NMSBIC shares in 75% of loan losses and recoveries. In November 2013, NMSBIC terminated its loan participation agreement with ACCION and entered into a new participation agreement. Loans outstanding under the terminated participation agreement will run off in the normal course of business. The NMSBIC shares in 75% of loan losses and recoveries under the terminated participation agreement. The new agreement limits loan losses that can be passed through to NMSBIC to 1% of the outstanding loan balance during any fiscal year. 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.

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, 2018 and 2017, interest income of \$226,867 and \$199,949, respectively, was recognized related to these investments. See supplementary schedules for detail on these agreements.

In December 2013, NMSBIC entered into an unsecured line-of-credit agreement with a New Mexico nonprofit corporation (New Mexico Mortgage Finance Authority, or NMMFA) to provide funds for the development of affordable housing in areas of New Mexico where job growth is restricted by a shortage of such housing. Under this agreement, NMSBIC provides a revolving, unsecured loan to this corporation, which matures in November 2023. NMSBIC does not share in any loan losses or recoveries. Loans are serviced by the corporation, with quarterly reports and principal and interest remittances provided to NMSBIC. The agreement contains provisions that the corporation agrees to maintain a certain level of net assets, and agrees to undertake good faith efforts to make loans outside the Albuquerque metropolitan area.



# **Small Business Investment Corporation**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018 and 2017**

### **NOTE 7 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED**

During the years ended June 30, 2018 and 2017, interest income of \$22,678 and \$18,561, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

NMSBIC is party to a revolving loan Cooperative Agreement with a New Mexico nonprofit corporation (New Mexico Community Development Loan Fund, or 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:

- Maintain certain levels of liquidity, leverage, and net assets
- Limit the maximum loan size under the program
- 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 in January 2029. Either party can terminate the agreement with 90 days written notice, with the outstanding balance repaid based on balances of collateralized loans. During the years ended June 30, 2018 and 2017, interest income of \$199,538 and \$187,248, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

In September 2014, NMSBIC entered into a line-of-credit agreement with a New Mexico limited liability company (Rio Vista Growth Capital, LLC or RVGC). Funds provided to RVGC under the terms of the loan agreement will be used to make, acquire, or maintain loans with New Mexico businesses in accordance with the mission and purpose of NMSBIC. Loans are serviced by RVGC, with monthly reports and principal and interest remittances provided to NMSBIC. During the years ended June 30, 2018 and 2017, interest income of \$40,830 and \$44,399, respectively, was recognized related to this investment. Part of the interest is paid quarterly, and the balance is deferred until received by RVGC. Deferred interest receivable was zero and \$54,346 at June 30, 2018 and 2017, respectively. 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 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 through 2022. See supplementary schedules for detail on these agreements.

# Small Business Investment Corporation

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### NOTE 8 – CAPITAL COMMITMENTS

At June 30, 2018, NMSBIC had committed \$45,451,795 of capital through its various debt and equity agreements, of which \$40,603,920 has been called, leaving a remaining commitment of \$4,847,875. The Verge II and Verge II.5 limited partnerships have provisions that allow capital to be re-called in an amount up to the life-to-date management fees and expenses. A total of \$284,914 has been re-called by Verge II, resulting in life-to-date capital funded of \$3,284,914 versus the original capital commitment of \$3 million. The general partner of Verge II and Verge II.5 has indicated they do not intend to re-call any additional capital. At June 30, 2018, NMSBIC has approximately \$2,969,000 of cash-on-hand to immediately handle capital calls. Additionally, NMSBIC has approximately \$8,358,000 invested with the NM State Investment Council in a liquid bond pool as of June 30, 2018. 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, 2018:

	<b>Loan and Equity Capital Commitments</b>	<b>Outstanding Loan Balance, Life-to-Date Equity Capital Funded</b>	<b>Remaining Loan and Equity Capital Commitments</b>
<b>Debt Cooperative Agreements</b>			
1. ACCION	\$ 7,750,000	\$ 7,485,459	\$ 264,541
2. NMCDLF	13,000,000	10,277,692	2,722,308
3. WESST CORP	375,000	63,974	311,026
4. NMMFA	1,500,000	700,000	800,000
5. RVGC	750,000	-	750,000
	<u>23,375,000</u>	<u>18,527,125</u>	<u>4,847,875</u>
<b>Equity Cooperative Agreements</b>			
1. Flywheel	1,500,000	1,500,000	-
2. NMCCF	7,000,000	7,000,000	-
3. Verge I	1,800,000	1,800,000	-
4. Verge I.5	3,000,000	3,000,000	-
5. NM Gap Fund I	2,000,000	2,000,000	-
6. NM Mezzanine Fund	2,491,881	2,491,881	-
7. Verge II	3,284,914	3,284,914	-
8. Verge II.5	1,000,000	1,000,000	-
	<u>22,076,795</u>	<u>22,076,795</u>	<u>-</u>
	<u>\$ 45,451,795</u>	<u>\$ 40,603,920</u>	<u>\$ 4,847,875</u>

## **SUPPLEMENTARY SCHEDULES**

## Small Business Investment Corporation

## SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2018 and 2017

	Loan Commitments	Beginning Gross Loan Balance	Loan Funding Net of Repayments	Realized Loan Loss	Ending Gross Loan Balance	Allowance for Loan Losses	Ending Net Loan Balance
For the year ended June 30, 2018							
1. ACCION #1*	\$ -	\$ 280,710	\$ (199,910)	\$ (8,003)	\$ 72,797	\$ (5,824)	\$ 66,973
2. ACCION #2	7,750,000	7,237,086	248,303	(72,727)	7,412,662	(74,127)	7,338,535
3. NMCDLF	13,000,000	9,373,903	903,789	-	10,277,692	-	10,277,692
4. WESST CORP	375,000	104,512	(37,252)	(3,286)	63,974	(5,118)	58,856
5. NMMFA	1,500,000	800,000	(100,000)	-	700,000	-	700,000
6. Rio Vista Growth Capital	750,000	750,000	(750,000)	-	-	-	-
	<u>\$ 23,375,000</u>	<u>\$ 18,546,211</u>	<u>\$ 64,930</u>	<u>\$ (84,016)</u>	<u>\$ 18,527,125</u>	<u>\$ (85,069)</u>	<u>\$ 18,442,056</u>
For the year ended June 30, 2017							
1. ACCION #1*	\$ -	\$ 678,490	\$ (386,943)	\$ (10,837)	\$ 280,710	\$ (22,457)	\$ 258,253
2. ACCION #2	7,750,000	5,247,993	2,050,584	(61,491)	7,237,086	(72,371)	7,164,715
3. NMCDLF	13,000,000	9,388,652	(14,749)	-	9,373,903	-	9,373,903
4. WESST CORP	375,000	87,846	16,666	-	104,512	(8,361)	96,151
5. NMMFA	1,500,000	900,000	(100,000)	-	800,000	-	800,000
6. Rio Vista Growth Capital	750,000	750,000	-	-	750,000	(64,348)	685,652
	<u>\$ 23,375,000</u>	<u>\$ 17,052,981</u>	<u>\$ 1,565,558</u>	<u>\$ (72,328)</u>	<u>\$ 18,546,211</u>	<u>\$ (167,537)</u>	<u>\$ 18,378,674</u>

\*The ACCION #1 commitment was terminated in 2014 and replaced by ACCION #2. Active loans under the ACCION #1 agreement will run off under their normal course.

See Independent Auditors' Report.

# Small Business Investment Corporation

## SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2018 and 2017

	Investment Capital Commitments	Beginning Investment Fair Value	Cumulative Capital Calls and Redemptions	Realized (Loss) Gain on Investments	Investment Valuation Adjustments	Operating (Expense) Income, net	Ending Investment Fair Value
For the year ended June 30, 2018							
1. Flywheel	\$ 1,500,000	\$ -	\$ -	\$ (366,357)	\$ 342,650	\$ 23,707	\$ -
2. NMCCF	7,000,000	2,030,957	(955,614)	5,729	265,272	(96,098)	1,250,246
3. Verge I	1,800,000	515,998	16,995	8,312	(66,991)	(5,799)	468,515
4. Verge I.5	3,000,000	1,079,064	24,326	17,855	(131,581)	(23,000)	966,664
5. NM Gap Fund I	2,000,000	3,302,233	-	(106,072)	231,057	(24,925)	3,402,293
6. NM Mezzanine Fund	2,491,881	930,203	-	-	-	80,726	1,010,929
7. Verge II	3,000,000	1,417,429	119,697	18,736	(104,884)	(18,808)	1,432,170
8. Verge II.5	1,000,000	1,150,165	18,362	2,311	70,172	(15,737)	1,225,273
	<u>\$ 21,791,881</u>	<u>\$ 10,426,049</u>	<u>\$ (776,234)</u>	<u>\$ (419,486)</u>	<u>\$ 605,695</u>	<u>\$ (79,934)</u>	<u>\$ 9,756,090</u>

For the year ended June 30, 2017

1. Flywheel	\$ 1,500,000	\$ 37,940	\$ -	\$ (87,158)	\$ 82,456	\$ (33,238)	\$ -
2. NMCCF	7,000,000	2,299,090	56,900	(162,155)	(105,895)	(56,983)	2,030,957
3. Verge I	1,800,000	1,369,540	(626,772)	92,906	(302,587)	(17,089)	515,998
4. Verge I.5	3,000,000	2,807,414	(1,332,259)	199,840	(577,448)	(18,483)	1,079,064
5. NM Gap Fund I	2,000,000	3,235,906	-	-	42,228	24,099	3,302,233
6. NM Mezzanine Fund	2,491,881	855,006	-	-	-	75,197	930,203
7. Verge II	3,000,000	3,344,726	(1,610,487)	141,280	(452,091)	(5,999)	1,417,429
8. Verge II.5	1,000,000	1,044,995	(153,602)	-	254,612	4,160	1,150,165
	<u>\$ 21,791,881</u>	<u>\$ 14,994,617</u>	<u>\$ (3,666,220)</u>	<u>\$ 184,713</u>	<u>\$ (1,058,725)</u>	<u>\$ (28,336)</u>	<u>\$ 10,426,049</u>

See Independent Auditors' Report.

**Small Business Investment Corporation**

**COMMUNICATION OF  
NO MATERIAL WEAKNESSES**

**June 30, 2018**

To the Board of Directors  
Small Business Investment Corporation

In planning and performing our audit of the financial statements of the Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation (NMSBIC) as of and for the year ended June 30, 2018, 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.

*PULAKOS CPAs, PC*

September 24, 2018

Pulakos CPAs, PC