

**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.



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/>
	\$ 40,541,388	\$ 38,870,665
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 <b><u>Liabilities and Net Assets</u></b>  		
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
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	\$ 40,541,388	\$ 38,870,665
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## 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

	2018	2017
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)
	925,563	1,315,944
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
	711,304	(3,152,175)
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	1,331,817	3,168,048
Cash and cash equivalents, end of year	\$ 2,968,684	\$ 1,331,817

# 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>Description</u>	<u>Assets at Fair Value</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. NMCDFL	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**

	<u>Loan Commitments</u>	<u>Beginning Gross Loan Balance</u>	<u>Loan Funding Net of Repayments</u>	<u>Realized Loan Loss</u>	<u>Ending Gross Loan Balance</u>	<u>Allowance for Loan Losses</u>	<u>Ending Net Loan Balance</u>
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.

**Small Business Investment Corporation**

**SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS**

**Years Ended June 30, 2018 and 2017**

	<u>Investment Capital Commitments</u>	<u>Beginning Investment Fair Value</u>	<u>Cumulative Capital Calls and Redemptions</u>	<u>Realized (Loss) Gain on Investments</u>	<u>Investment Valuation Adjustments</u>	<u>Operating (Expense) Income, net</u>	<u>Ending Investment Fair Value</u>
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