

**MINUTES OF THE**

**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**

**September 20, 2013**

A meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. in the conference room of WESST Enterprise Center, 609 Broadway Boulevard, N.E., Albuquerque, New Mexico.

A quorum was present:

**Members Attending by Telephone:**

Mr. Joseph H. Badal, Chair

Mr. Alan Fowler, Secretary/Treasurer

Mr. Lupe Garcia

Mr. Steven E. Morgan

Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]

**Members Excused**

Ms. Roxanna Meyers, Vice Chair

Ms. Launa Waller

**Financial Adviser to Board**

Mr. Russell Cummins

**Board Legal Counsel:**

Mr. Randy McDonald

**Contract CFO:**

Ms. Dee Brescia [by telephone]

**Recording Secretary:**

Ms. Judith Beatty [by telephone]

**Guests Present:**

Mr. Brad Steward, Pulakos CPAs

Mr. Jake Dopson, Pulakos CPAs

**REVIEW AND ACCEPTANCE OF AGENDA**

**Mr. Morgan moved approval of the agenda, as presented. Mr. Fowler seconded the motion, which passed unanimously by voice vote.**

**NMSBIC AUDITED FINANCIAL STATEMENTS, PULAKOS CPAS:  
BRAD STEWARD, MANAGING SHAREHOLDER, ASSURANCE;  
JAKE DOPSON, ASSURANCE SENIOR MANAGER**

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Mr. Dopson presented an audit overview, with the following highlights:

- No instances of fraud, opinion shopping or improper activity noted during audit
- No audit adjustments
- No new accounting policies in 2013
- No management letter issued for June 30, 2013; a “No Material Weaknesses” letter will be issued upon request
- Full and complete cooperation by NMSBIC representatives
- Unqualified (“clean”) opinion
- Supplementary information, i.e., investment activity of debt and equity investments for 2012 and 2013
- Emphasis paragraph included in the opinion mentioning the inherent uncertainties of the valuation of the equity investments that the NMSBIC holds

Mr. Cummins referred to the Statements of Financial Position for June 30, 2013 and 2012. He noted that cash and cash equivalents at the end of 2013 reflect a substantial increase (\$6.2 million versus \$1.1 million), the majority of which is invested and earning interest in money market accounts.

Mr. Cummins referred to Statements of Activities and Changes in Net Assets for 2013 and noted that a new category, “Other program services,” in the amount of \$93,803, has been separated out from management and general expenses. He stated that CPA Robert DePasquale, who completed the SBIC’s 2011 tax return, recommended this new category to reflect activities included in management and general expenses that are related to program services. Mr. Cummins said he used the IRS Form 990 definitions of program services to develop a breakdown of his activities and time spent in each activity, and allocated an appropriate amount from management and general expense into other program services. He stated that, after the allocation, \$423,000 of total program services out of \$568,000 of total expenses is roughly 75 percent of expenses in program services, which is a reasonable percentage for what program services should be for a nonprofit organization, and is also more accurate.

Ms. Brescia suggested the Holly Company would also fall under the program services category, and Mr. Dopson agreed.

Mr. Cummins said he would move the Holly Company's annual contract amount of approximately \$18,000 from the management and general category into program services.

**Mr. Cummins asked the Board to take action on three items: acceptance of audited financial statements, reflecting the change to move the Holly Company expenses into program services; direction to Pulakos to issue a "No Material Weaknesses" letter; and, as done in the previous year, direction to Pulakos to independently send audited financial statements under separate cover to the Governor, Legislative Finance Committee, and NMSIC.**

**Mr. Fowler so moved. Mr. Garcia seconded the motion, which passed unanimously by voice vote.**

### **NMSBIC 2013 ANNUAL REPORT**

Chairman Badal stated that Mr. Cummins has done an excellent job in putting this year's annual report together, which he has reviewed in great detail and made a few changes. He said the format has been vastly improved. In a couple of instances, the report makes very clear that the current Board has made policy changes that have had a salutary effect on the organization's performance, and the hope is that they will provide better safeguards for the taxpayer's money that the board has been entrusted with.

Mr. Cummins highlighted two items in the report: 1) recommendation by the Board that statute be amended such that the State Investment Officer would increase invested capital in the SBIC to 1.5%; and 2) a section explaining that, while the SBIC had net income in 2013, the result of the net excess funds calculation reflects no distribution of funds to the Severance Tax Permanent Fund for the fiscal year ended June 30, 2013.

**Mr. Fowler moved to accept the 2013 Annual Report, as presented. Mr. Morgan seconded the motion, which passed unanimously by voice vote.**

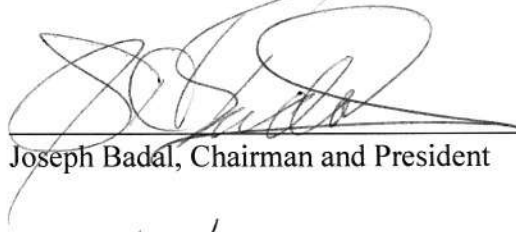
### **CHAIRMAN'S COMMENTS**

Mr. Cummins said the Verge Fund annual meeting will be held on October 17 from 8:30 a.m. to 1:00 p.m. Chairman Badal encouraged Board members to attend, if possible.

Chairman Badal commented that, over the last three to four months, he and Mr. Cummins have made presentations to the LFC and IPOC and have had several meetings with cooperative agreement partners on the equity side and the loan side. Their message has been that the SBIC has been putting more emphasis on the lending side rather than the equity side, as well as improving the security of the loan funds by making changes in the agreements with its cooperative partners. He said the October board meeting will include discussion on the status of the SBIC's relationships with its cooperative partners and how it can deploy money more efficiently and effectively.

**ADJOURNMENT**

Its business completed, the NMSBIC Board adjourned the meeting at 10:00 a.m.



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Joseph Badal, Chairman and President

10/14/2013

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Date