

**New Mexico
Community Development
Loan Fund, Inc.**

Financial Statements
and
Independent Auditors' Report

December 31, 2009 and 2008

New Mexico Community Development Loan Fund, Inc.

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Independent Auditors' Report

Board of Directors
New Mexico Community Development Loan Fund, Inc.
Albuquerque, New Mexico

We have audited the accompanying statements of financial position of the New Mexico Community Development Loan Fund, Inc. (Loan Fund) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan Fund as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Nick Loftis, CPA LLC

Albuquerque, New Mexico
March 19, 2010

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Financial Statements

New Mexico Community Development Loan Fund, Inc.
Statements of Financial Position
December 31,

Assets	2009	2008
Cash and cash equivalents	\$ 1,929,385	\$ 4,843,501
Restricted cash	3,940	210,567
Grants and contracts receivable	946,132	180,869
Interest receivable	38,177	24,807
Other assets	3,553	4,555
Investments	946,190	1,068,035
Loans receivable, net	8,494,472	5,189,125
Building and equipment, net	466,099	475,016
Total assets	\$ 12,827,948	\$ 11,996,475
 Liabilities and Net Assets		
Accounts payable	\$ 4,121	\$ 3,859
Accrued liabilities	62,425	63,851
Interest payable	51,974	21,868
Deferred revenue	-	119,136
Cash held for others	3,940	210,567
Secured debt	6,199,437	4,329,628
Notes payable, net	4,592,399	5,354,466
Total liabilities	10,914,296	10,103,375
Net assets		
Unrestricted	1,786,687	1,768,100
Permanently restricted	126,965	125,000
Total net assets	1,913,652	1,893,100
Total liabilities and net assets	\$ 12,827,948	\$ 11,996,475

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statement of Activities
For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 17,668	\$ 1,965	\$ 19,633
Grants	315,221	-	315,221
Lending program interest	528,419	-	528,419
Other lending program income	87,264	-	87,264
Contracts	66,075	-	66,075
Investment income	88,941	-	88,941
Special event	17,382	-	17,382
Loan recovery	124,008	-	124,008
Total support and revenue	<u>1,244,978</u>	<u>1,965</u>	<u>1,246,943</u>
Expenses			
Program services			
Loan program	695,704	-	695,704
Technical assistance program	112,961	-	112,961
Total program services	<u>808,665</u>	<u>-</u>	<u>808,665</u>
Supporting services			
Fundraising	165,635	-	165,635
Management and general	252,091	-	252,091
Total supporting services	<u>417,726</u>	<u>-</u>	<u>417,726</u>
Total expenses	<u>1,226,391</u>	<u>-</u>	<u>1,226,391</u>
Change in net assets	18,587	1,965	20,552
Net assets, beginning of year	<u>1,768,100</u>	<u>125,000</u>	<u>1,893,100</u>
Net assets, end of year	<u>\$ 1,786,687</u>	<u>\$ 126,965</u>	<u>\$ 1,913,652</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statement of Activities
For the Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 8,206	\$ -	\$ 8,206
Grants	166,358	-	166,358
Lending program interest	463,248	-	463,248
Other lending program income	48,292	-	48,292
Contracts	149,055	-	149,055
Investment income	113,958	-	113,958
Loan recovery	20,234	-	20,234
Total support and revenue	<u>969,351</u>	<u>-</u>	<u>969,351</u>
Expenses			
Program services			
Loan program	611,693	-	611,693
Technical assistance program	97,195	-	97,195
Total program services	<u>708,888</u>	<u>-</u>	<u>708,888</u>
Supporting services			
Fundraising	108,955	-	108,955
Management and general	246,451	-	246,451
Total supporting services	<u>355,406</u>	<u>-</u>	<u>355,406</u>
Total expenses	<u>1,064,294</u>	<u>-</u>	<u>1,064,294</u>
Change in net assets	(94,943)	-	(94,943)
Net assets, beginning of year	<u>1,863,043</u>	<u>125,000</u>	<u>1,988,043</u>
Net assets, end of year	<u>\$ 1,768,100</u>	<u>\$ 125,000</u>	<u>\$ 1,893,100</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2009

	<u>Loan Program</u>	<u>Technical Assistance Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries and benefits	\$ 251,783	\$ 87,831	\$ 87,831	\$ 158,098	\$ 585,543
Professional fees	7,577	-	3,031	19,700	30,308
Provision for loan loss	26,717	-	-	-	26,717
Interest	228,904	-	-	7,080	235,984
Office	19,680	2,186	2,187	19,680	43,733
Travel	8,156	1,883	1,882	627	12,548
Payroll taxes	15,098	5,266	5,267	9,480	35,111
Outreach	99,168	7,083	28,334	7,083	141,668
Telephone	4,013	1,337	892	2,675	8,917
Loan	12,211	-	-	-	12,211
Depreciation	9,798	3,418	3,418	6,152	22,786
Insurance	-	-	-	5,116	5,116
Training	3,622	966	241	3,219	8,048
Supplies	2,750	306	917	2,139	6,112
Vehicle	3,519	2,111	-	1,408	7,038
Repairs and maintenance	612	-	-	5,505	6,117
Rent	1,723	574	383	1,149	3,829
Miscellaneous	373	-	372	2,980	3,725
Special events	-	-	30,880	-	30,880
	<u>\$ 695,704</u>	<u>\$ 112,961</u>	<u>\$ 165,635</u>	<u>\$ 252,091</u>	<u>\$ 1,226,391</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2008

	Loan Program	Technical Assistance Program	Fundraising	Management and General	Total
Salaries and benefits	\$ 235,321	\$ 82,089	\$ 82,089	\$ 147,760	\$ 547,259
Professional fees	4,342	-	1,737	11,289	17,368
Provision for loan loss	23,287	-	-	-	23,287
Interest	223,019	-	-	6,897	229,916
Office	17,760	-	1,973	19,734	39,467
Travel	6,418	1,481	1,481	494	9,874
Payroll taxes	14,751	5,146	5,146	9,262	34,305
Outreach	49,547	3,539	14,156	3,539	70,781
Telephone	3,933	1,311	874	2,622	8,740
Loan	21,893	-	-	-	21,893
Depreciation	-	-	-	24,610	24,610
Insurance	-	-	-	4,275	4,275
Training	4,914	1,310	328	4,368	10,920
Supplies	1,780	198	593	1,385	3,956
Vehicle	3,310	1,986	-	1,324	6,620
Repairs and maintenance	525	-	-	4,726	5,251
Rent	405	135	90	270	900
Miscellaneous	488	-	488	3,896	4,872
	<u>\$ 611,693</u>	<u>\$ 97,195</u>	<u>\$ 108,955</u>	<u>\$ 246,451</u>	<u>\$ 1,064,294</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statements of Cash Flows
For the Years Ended December 31,

Cash flows from operating activities	2009	2008
Cash received from grants and contracts	\$ 151,330	\$ 399,335
Cash received from contributions	19,633	8,206
Other program receipts	228,654	68,526
Cash paid to employees and suppliers	(941,067)	(840,916)
Interest paid	(205,878)	(230,068)
Interest and investment receipts	603,990	608,629
Net cash provided (used) by operating activities	(143,338)	13,712
 Cash flows from investing activities		
Purchase of property and equipment	(13,869)	(10,044)
Loan repayments	1,687,463	2,317,037
Loans issued	(5,019,527)	(2,460,750)
Proceeds from sale of investments	138,452	-
Purchase of investments	(16,607)	(30,237)
Net cash used by investing activities	(3,224,088)	(183,994)
 Cash flows from financing activities		
Other secured borrowings	1,215,377	(151,852)
Principal payments on notes payable	(797,067)	(1,440,912)
Proceeds from acquisition of notes payable	35,000	1,458,580
Net cash provided (used) by financing activities	453,310	(134,184)
Net decrease in cash and cash equivalents	(2,914,116)	(304,466)
Cash and cash equivalents, beginning of year	4,843,501	5,147,967
Cash and cash equivalents, end of year	\$ 1,929,385	\$ 4,843,501

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Statements of Cash Flows - continued
For the Years Ended December 31,

Reconciliation of change in net assets to net cash provided (used) by operating activities	2009	2008
Change in net assets	<u>\$ 20,552</u>	<u>\$ (94,943)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	22,786	24,610
Unrealized loss on investments	-	34,150
Provision for loan losses	26,717	23,287
Changes in assets and liabilities		
Grants and contracts receivable	(110,831)	(35,213)
Interest receivable	(13,370)	(2,727)
Other assets	1,002	494
Accounts payable	262	(4,279)
Accrued liabilities	(1,426)	(50,650)
Deferred revenue	(119,136)	119,135
Interest payable	30,106	(152)
Total adjustments	<u>(163,890)</u>	<u>108,655</u>
Net cash provided (used) by operating activities	<u>\$ (143,338)</u>	<u>\$ 13,712</u>

The accompanying notes are an integral part of these financial statements.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

1) The Organization

The New Mexico Community Development Loan Fund, Inc. (Loan Fund) was formed to encourage and facilitate the investment of capital in low income New Mexico communities through individuals, religious and community organizations, foundations, governmental entities, financial institutions and a variety of others. As the primary source of funding is borrowings, the Loan Fund also accepts contributions and receives grants on several levels. The Loan Fund utilizes these funds to assist businesses and nonprofits; providing positive social benefits such as creating and preserving jobs that pay sustainable wages and benefits, providing basic services and affordable housing in disadvantaged communities, preserving and advancing traditional communities, cultures and ways of life, and contributing to the revitalization of urban and rural communities. The Loan Fund places particular emphasis on assisting low-income, minority and women-owned businesses and those who meet other special requirements and are unable to access affordable loans from traditional sources, such as banks.

2) Summary of Significant Accounting Policies

Income Taxes

The Loan Fund is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as an organization that is not a private foundation.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The allowance for loan losses is a significant estimate in these financial statements. It is reasonably possible that actual loan losses could differ from management's estimates of loan losses.

Donated Services and Materials

The Loan Fund recognizes contributed services if the services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Recognized contributed services are recorded at the fair value of the services on the date of donation. Donated materials are recorded at fair value on the date of donation.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Support

The Loan Fund reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or specify the time period for which the assets may be expended. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits at banks, money market funds and savings accounts at financial institutions.

In accordance with certain agreements, the Loan Fund maintained separate cash and cash equivalent accounts for the United States Department of Agriculture (USDA) and the Santa Fe Revolving Loan Fund programs.

Restricted Cash

Restricted cash is cash that the Loan Fund has received from the City of Santa Fe for the Santa Fe Revolving Loan Fund program and for the Southeast Team for Entrepreneurial Success (STEPS) program. The Loan Fund provides contract administration services related to those funds.

Loans Receivable

Loans receivable are carried at fair value, adjusted by an allowance for loan losses. The Loan Fund classifies loans receivable as current if maturity is one year or less. Interest income on loans receivable is recorded monthly. Related loan fees required at closing are recorded as income when the loan is disbursed unless the loan term is longer than one year in which case the related fees are amortized over the life of the loan.

Loans are collateralized by any combination of the following: deposit accounts, real estate, inventory, accounts receivable, furniture, equipment, vehicles, and assignment of contracts and life insurance policies. The Loan Fund's access to collateral is determined by legal collection proceedings.

Loans are recorded when funds are disbursed. Collectibility of loans receivable is evaluated monthly and the loan loss reserve is adjusted accordingly.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Loans Receivable - continued

The accrual of interest is discontinued on loans evaluated to be potentially uncollectible. Interest accrual resumes when certainty of repayment is determined. Loans are written off as uncollectible only after collateral has been satisfied and all legal action for recovery is exhausted. Loans are determined to be delinquent based on the number of days required payments are past due.

Allowance for Loan Losses

The Loan Fund provides a valuation allowance for estimated losses on loans when a significant and permanent decline in value occurs or is anticipated. The allowance for loan losses is based on established guidelines for loan grades, which specify reserve requirements. The factors that influence reserve requirements include available borrower financial information, period of payment delinquency, and borrower responsiveness. Loan Fund management provides an estimate for loan losses based on these factors.

Property and Equipment

Purchased property and equipment is stated at cost. Property and equipment received by donation is recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Loan Fund reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Loan Fund reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property in excess of \$500 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from three to thirty-nine years.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

2) Summary of Significant Accounting Policies — continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Loan Fund considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants and Contracts Receivable

Grants and contracts receivable were deemed to be fully collectible, therefore no allowance has been recorded.

Investments

Investments in equity securities with readily determinable fair values are measured at fair value in the financial statements. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Advertising Costs

The Loan Fund expenses marketing and public relations costs as incurred.

Financial Instruments

The Loan Fund's financial instruments include cash and cash equivalents, restricted cash, receivables, accounts payable, accrued liabilities, interest payable, deferred revenue, secured debt, and notes payable. The Loan Fund estimates that the fair value of all financial instruments at December 31, 2009 and 2008, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying financial statements.

3) **Loans Receivable**

The Loan Fund had loans receivable of approximately \$8,494,000 and \$5,189,000, net of allowance for loan losses, at December 31, 2009 and 2008, respectively.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

3) Loans Receivable — continued

Changes in the allowance for loan losses for the years ended December 31, are as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 442,174	\$ 474,747
Loans charged-off	(21,148)	(55,860)
Provision for loan losses	<u>26,717</u>	<u>23,287</u>
Balance at end of year	<u>\$ 447,743</u>	<u>\$ 442,174</u>

Loan balances of approximately \$213,000 and \$165,000 had loan payments past due more than 31 days as of December 31, 2009 and 2008, respectively. Additionally, loans of approximately \$1,575,000 and \$1,052,000 had original principal repayment terms modified during 2009 and 2008, respectively.

There were no loan balances on nonaccrual status as of December 31, 2009 and loan balances of approximately \$124,000 were on nonaccrual status as of December 31, 2008. Loan balances past due more than ninety days and still accruing interest were approximately \$109,000 and \$96,000 at December 31, 2009 and 2008, respectively.

Because of the inherent uncertainties in estimating the allowance for doubtful loans and accounts, it is at least reasonably possible that the estimates used will change within the near term.

4) **Building and Equipment**

Building and equipment consists of the following at December 31:

	<u>2009</u>	<u>2008</u>
Building	\$ 378,932	\$ 366,000
Furniture and equipment	110,584	109,647
Vehicles	22,200	22,200
Land	<u>91,500</u>	<u>91,500</u>
	603,216	589,347
Less accumulated depreciation	<u>(137,117)</u>	<u>(114,331)</u>
Net building and equipment	<u>\$ 466,099</u>	<u>\$ 475,016</u>

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

5) City of Santa Fe Revolving Loan Fund Program

In 2003, the Loan Fund entered into a renewable contract with the City of Santa Fe, New Mexico, to administer and service a Community Development Block Grant (CDBG) Revolving Loan Fund (RLF). The contract expired on June 30, 2008, it was operated on a month-to-month basis until 2009, at which time it was terminated.

The purpose of this contract is to provide loans to start-up or existing businesses and/or expand business development activity, particularly for low or moderate income and minority persons within the city limits of Santa Fe. These loans are not Loan Fund assets and therefore are not included in the Loan Fund's financial statements.

6) Related Party Transactions

Loan Fund policy requires that representatives from its client base serve on its board. Certain members of the board are associated with certain lenders and donors. Certain Loan Fund management personnel are also members of certain Loan Fund lender and borrower board of directors. The terms and conditions of related party loans are comparable with terms and conditions of other loans serviced by the Loan Fund. There were no related party loans at December 31, 2009, and the balance of related party loans at December 31, 2008, was approximately \$14,000. Interest income on related party loans was approximately \$100 and \$200 for the years ended December 31, 2009 and 2008, respectively.

7) Notes Payable and Secured Debt

The Loan Fund has notes payable and secured debt with various banks, governmental entities, individuals, and not-for-profit organizations. Interest rates on these notes payable range from 0% to 4%. Maturity dates range from January 2010 to September 2036. These notes payable are primarily collateralized by loans receivable, the building and equipment. Approximately \$316,000 of the notes payable were acquired for operating purposes and are not related to the lending program.

Notes payable and secured debt was approximately \$10,792,000 and \$9,684,000 as of December 31, 2009 and 2008, respectively.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

7) Notes Payable and Secured Debt — continued

Future principal payments on the notes payable and secured debt as of December 31, 2009, are as follows:

<u>Year ending December 31</u>	
2010	\$ 2,056,052
2011	1,102,916
2012	766,627
2013	436,296
2014	107,445
Thereafter	<u>6,322,500</u>
Total	<u>\$10,791,836</u>

Some of the Loan Fund's notes payable and secured debt agreements include financial covenants relating to delinquency rate, loan loss rate, current ratio, net worth, and reporting requirements.

8) **Secured Debt**

The Loan Fund has an agreement with a third party to provide up to \$7,500,000 in revolving funds for loans made by the Loan Fund. In accordance with applicable accounting standards this agreement is accounted for as secured debt. The Loan Fund must repay the secured debt as the Loan Fund collects principal payments on these loans.

9) **Investments**

At December 31, 2009 and 2008, the Loan Fund invested in certificates of deposit of approximately \$932,000 and \$1,057,000, respectively. As of December 31, 2009, certificates of deposit interest rates ranged from 1% to 4.75% and maturity dates ranged from January 2010 to November 2011. The Loan Fund also held equity investments with a fair value of approximately \$14,000 and \$11,000 as of December 31, 2009 and 2008, respectively.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

10) Deferred Revenue

At December 31, 2009, there was no deferred revenue. At December 31, 2008, deferred revenue related to two technical assistance grants that were received but not completed as of December 31, 2008.

11) Permanently Restricted Net Assets

Permanently restricted net assets of \$125,000 consist of permanent lending capital for loans to third parties as of December 31, 2009 and 2008. In addition, during 2009 permanently restricted contributions of \$1,965 were received for the Sister Marie fund.

12) Retirement Plan

The Loan Fund maintains a tax-free annuity plan for employees who have completed one year of service. Contributions to the New Mexico Community Development Loan Fund Retirement Plan are at the discretion of the board. The board elected to contribute 3% of eligible employee's salaries during 2009 and 2008. Employer contributions for 2009 and 2008, were approximately \$7,100 and \$9,000, respectively.

13) Concentrations of Cash Deposits

The Loan Fund maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times these cash balances may exceed the insured limits of the FDIC. The Loan Fund has not experienced any losses in these cash accounts and believes it is not exposed to any significant credit risk related to uninsured cash balances.

New Mexico Community Development Loan Fund, Inc.
Notes to Financial Statements
December 31, 2009 and 2008

14) Concentrations of Notes Payable and Secured Debt

The Loan Fund has a note payable of approximately \$6,199,000 at December 31, 2009, which represents approximately 57% of total notes payable and secured debt and is a significant source of funding for its lending program. This loan matures in June 2017.

15) Commitments

The Loan Fund was committed to borrowers for credit lines or loans of approximately \$1,270,000 and \$515,000 as of December 31, 2009 and 2008, respectively.

16) Fair Value Measurement

The Loan Fund has various investments measured at fair value of approximately \$946,000 and \$1,068,000 at December 31, 2009 and 2008, respectively. Fair value of these assets is determined by a quoted price in an active market for identical assets (Level 1) for all assets in footnote 9.