

New Mexico Community Capital

Consolidated Financial Statements

December 31, 2006 and 2005

New Mexico Community Capital

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Overview Statement

The accompanying consolidated statements of financial position of New Mexico Community Capital (NMCC), a nonprofit organization, and subsidiaries as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the year ended December 31, 2006 and the period from inception (September 21, 2004) through December 31, 2005 have been derived from NMCC's audited financial statements. Management is responsible for the objectivity and integrity of the accompanying financial statements which have been prepared in conformity with accounting principles generally accepted in the United States. The financial statements, of necessity, include management's estimates and judgments relating to matters not concluded by year-end.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting, a process designed under the supervision of the NMCC's CFO to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and preparation of the financial statements.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of non-management Board members. Our independent accountants and have full and free access to the Audit Committee. The Audit Committee meets periodically with the independent accountants and the CFO, both privately and with members of management. present.

Consolidated Financial Statements

New Mexico Community Capital
Consolidated Statements of Financial Position
December 31,

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$ 447,279	\$ 36,525
Grants and contribution pledges receivable	52,050	213,000
Prepays and other	6,011	4,435
Total current assets	505,340	253,960
Investment in private debt and equity securities	953,147	330,646
Fixed assets, net	8,082	8,950
Deposits	1,350	3,000
Total assets	\$ 1,467,919	\$ 596,556
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 60,800	\$ 19,742
Accrued compensation	49,225	-
Line of credit	50,000	-
Total current liabilities	160,025	19,742
Limited partner capital investment in subsidiary	1,223,277	346,604
Unrestricted net assets of NMCC	84,617	230,210
Total liabilities and net assets	\$ 1,467,919	\$ 596,556

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

New Mexico Community Capital
Consolidated Statements of Activities
For the Year Ended December 31, 2006 and For the Period from Inception
(September 21, 2004) through December 31, 2005

	<u>2006</u>	<u>2005</u>
Support and Revenues		
Grant and contribution support	\$ 227,933	\$ 464,200
Interest income	-	913
Service revenues	<u>5,500</u>	<u>-</u>
Total support and revenues	<u>233,433</u>	<u>465,113</u>
Unrealized investment loss	<u>190,000</u>	<u>-</u>
Expenses		
Salaries and benefits	536,446	355,047
Professional fees	114,673	92,370
Gross receipts tax	56,300	-
Office and utilities	53,708	55,911
Marketing and public relations	26,941	23,668
Travel expenses	26,911	17,042
Dues, conferences and board meetings	14,291	10,635
Information technology	<u>5,150</u>	<u>12,355</u>
Total expenses	<u>834,420</u>	<u>567,028</u>
Total decrease in net assets	<u>(790,987)</u>	<u>(101,915)</u>
Loss allocable to limited partners of subsidiary	<u>(645,394)</u>	<u>(332,125)</u>
Increase (decrease) in unrestricted net assets of NMCC	(145,593)	230,210
Unrestricted net assets of NMCC, beginning of period	<u>230,210</u>	<u>-</u>
Unrestricted net assets of NMCC, end of period	<u>\$ 84,617</u>	<u>\$ 230,210</u>

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

New Mexico Community Capital
Consolidated Statements of Cash Flows
For the Year Ended December 31, 2006 and For the Period from Inception
(September 21, 2004) through December 31, 2005

	2006	2005
Cash flows from operating activities		
Decrease in unrestricted net assets	\$ (790,987)	\$ (101,915)
Depreciation	4,802	3,854
Unrealized investment loss	190,000	-
Changes in assets and liabilities		
Grants and contribution pledges receivable	160,950	(213,000)
Prepays and other assets	(1,576)	(4,435)
Accounts payable and accrued liabilities	90,283	19,742
Investment in private debt and equity securities	<u>(812,501)</u>	<u>(330,646)</u>
Net cash used in operating activities	<u>(1,159,029)</u>	<u>(626,400)</u>
Cash flows from investing activities		
Deposits	1,650	(3,000)
Purchase of fixed assets	<u>(3,934)</u>	<u>(12,804)</u>
Net cash used in investing activities	<u>(2,284)</u>	<u>(15,804)</u>
Cash flows from financing activities		
Proceeds from line of credit	50,000	-
Cash contribution from partners	<u>1,522,067</u>	<u>678,729</u>
Net cash provided by financing activities	<u>1,572,067</u>	<u>678,729</u>
Net increase in cash and cash equivalents	410,754	36,525
Cash and cash equivalents, beginning of period	<u>36,525</u>	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 447,279</u>	<u>\$ 36,525</u>
Supplemental information		
Cash received from interest	<u>\$ -</u>	<u>\$ 913</u>

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

New Mexico Community Capital
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

1) Organization and Presentation

New Mexico Community Capital (NMCC) is a not-for-profit 501(c)(3) New Mexico corporation formed September 21, 2004, to provide equity capital and management resources to qualifying businesses throughout New Mexico, particularly in under-invested areas. NMCC seeks foundation and other grants to support its work. NMCC is not a private foundation.

NMCC is the sole member of New Mexico Community Capital Management, LLC (GP), which acts as the general partner of New Mexico Community Capital Fund I, LP (Partnership). The GP and the Partnership were formed on March 10, 2005. Under a services agreement, between the GP and NMCC, NMCC provides services to the Partnership for a fee. As of December 31, 2006, the Partnership had obtained limited partner funding commitments totaling \$9.0 million which is and will be the source of funds used for investing and operation of the Partnership. In January 2007, the partnership obtained an additional \$2.5 million of funding commitments bringing capital total commitments to \$11.5 million. The Partnership will terminate on June 30, 2015, unless earlier terminated pursuant to certain defined conditions or unless extended for up to three additional one-year periods with the consent of the GP and approval by at least 72% of the interests of limited partners. When the majority of the limited partner capital has been committed to investments, efforts to seek additional Partnership funding will commence for the next investment fund.

The accompanying financial statements reflect the consolidated financial position, activities and cash flows of NMCC, the GP and the Partnership. All material inter-company transactions have been eliminated in consolidation. The consolidated entities may be referred to as NMCC herein.

2) Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

NMCC uses the accrual method of accounting. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates involve the fair value of debt and equity investments in private entities. Because of the inherent uncertainty of valuing these securities, the estimated fair value of investments may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

New Mexico Community Capital
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

2) Summary of Significant Accounting Policies — continued

Investments

The GP has a Fund Advisory Board, consisting of individuals who are not members of the GP, who serve in an advisory capacity with respect to investments. This board meets at least four times per year to review the Partnership's portfolio and evaluate all investments recommended by the GP. Investments are only made if not denied by the Fund Advisory Board. Committed limited partner capital is drawn on an "as needed" basis to fund investments and working capital requirements. Through December 31, 2006, the Partnership has made nine capital calls on the limited partners representing approximately 19.1% of committed limited partner capital at January 2007.

NMCC follows investment company accounting whereby investments are carried at estimated fair value. As of December 31, 2006 and 2005, NMCC had made investments in three private companies. These investments have been in the form of convertible debt, convertible preferred stock and common stock.

Investments are valued at fair value as determined in good faith by the GP. At December 31, 2006, NMCC carried two of its investments at cost because no factors were evident to increase or decrease the carrying value of the investments to a different fair value, the third investment has been valued at \$190,000 less than cost.

Management Agreement

During the first two years after initial closing of limited partner funding, the Partnership pays management fees of 3.5% per annum of the amount of aggregate committed capital to NMCC upon closing and thereafter semi-annually in advance. The management fee is reduced to 3% per annum of committed capital in years three and four and 2.5% per annum in subsequent years. If the GP forms another fund of at least \$7.5 million during the life of the Partnership, the management fee may be further reduced to a minimum of 2% per annum. Under these terms, the Partnership incurred management fees totaling \$319,411 and \$194,082 during the periods ended December 31, 2006 and 2005, respectively.

Fund I Limited Partnership Agreement

The limited partnership agreement specifies that the GP serves as general partner of the Partnership. The limited partners have limited liability with respect to the Partnership's activities and do not have management responsibilities or voting rights within the Partnership. The partnership agreement specifies detailed procedures for allocating partnership income and partner distributions. Partnership losses are allocated to the limited partners in proportion to their capital balances relative to total limited partner capital commitments.

New Mexico Community Capital
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

2) Summary of Significant Accounting Policies — continued

Fund I Limited Partnership Agreement — continued

The limited partnership agreement defines certain expenses of the Partnership that are the responsibility of the GP. These are referred to as General Partner Expense in the agreement. They are principally related to those associated with maintaining an office for the Partnership and compensation of GP's employees. Under the agreement the partnership is to bear all of its expenses not considered to be General Partner Expenses. In addition, the Partnership is to be charged with the first \$40,000 per fiscal year of General Partner Expenses. Organization expenses of up to \$100,000 are borne by the limited partners. The expenses discussed in this paragraph are reflected as partnership expenses in the accompanying financial statements.

The Partnership incurred partnership expenses totaling \$135,983 and \$138,043 (including \$98,043 of organizational expenses) as of December 31, 2006 and 2005, respectively.

Cash and Cash Equivalents

For purposes of presenting cash flows, NMCC considers all interest-bearing deposits with an original maturity of three months or less to be cash equivalents, which at times may exceed the federally insured limits. NMCC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

Fixed Assets

Fixed assets are carried at cost. Depreciation is computed using primarily the straight-line method over the assets' estimated useful lives ranging from 3 to 5 years. Depreciation was charged to office and utilities expense.

Income Taxes

Based on a determination letter received November 29, 2005, from the Internal Revenue Service, NMCC is a tax-exempt 501(c)(3) organization. Accordingly, it only has taxable income to the extent of unrelated business income, of which there has been none through December 31, 2006.

Gross Receipts Taxes

The GP is a single member LLC whose only member is NMCC. In February of 2007 NMCC filed under the State of New Mexico's Managed Audit Program to determine whether fees and expenses paid to NMCC from the Partnership are subject to New Mexico's gross receipts tax. Fees and expenses are paid to NMCC under the various agreements in place between NMCC, GP and Partnership. At question is whether payments made directly to NMCC by Partnership at the direction of GP are in fact receipts of GP as defined under the governing regulations. NMCC does not believe the payments qualify as such and accordingly has submitted a filing disputing any liability. Should GP be found liable, a tax in the amount of \$56,300 will be due within 30 days of a

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2) Summary of Significant Accounting Policies — continued

Gross Receipts Taxes — continued

final ruling. Amounts paid, if any, would be billed by NMCC to the Partnership. The accompanying financial statements reflect a total accrual for \$56,300. Should NMCC prevail in its position, this transaction will be reversed in the period during which a final ruling is made.

Financial Instruments

NMCC believes the carrying amount of its cash and cash equivalents, grants and contribution pledges receivable, prepaid and other assets and accounts payable and accrued liabilities approximates fair value due to their short maturity.

Grants and Contributions

During the year ended December 31, 2006, NMCC recognized \$227,933 of contributions and grant funding, of which \$146,000 is restricted. Grant funding received under a Professional Service contract from the State of New Mexico for \$141,000 and a contribution in the amount of \$5,000 are restricted for use under NMCC's programmatic activity. All 2006 restricted grants and contributions received were expended in the same period. Therefore, NMCC had no restricted net assets at December 31, 2006.

Contributions of \$5,050 were carried as a receivable at December 31, 2006 and received in January 2007. Management believes that all grants and contribution pledges receivable are fully collectible and an allowance is not considered necessary.

3) **Fixed Assets**

A summary of fixed assets at December 31, 2006 and 2005, follows:

	2006	2005
Furniture and equipment	\$ 15,450	\$ 2,206
Software and computer systems	1,288	10,598
	16,738	12,804
Accumulated depreciation	(8,656)	(3,854)
	\$ 8,082	\$ 8,950

Depreciation expense for the period ending December 31, 2006 and 2005 was \$4,802 and \$3,854, respectively.

New Mexico Community Capital
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

4) Line of Credit

NMCC opened an unsecured \$50,000 line of credit with First Community Bank on November 30, 2005 with a maturity date of November 30, 2007. The line of credit carried a variable interest rate of 7.25% (prime) and had an outstanding balance of \$50,000 and \$0 as of December 31, 2006 and 2005, respectively.

5) Investment in Private Debt and Equity Securities

NMCC had made investment in three (3) companies as of December 31, 2006, all located in New Mexico. The cost basis and fair value of these investments amounted to \$1,143,147 and \$953,147 respectively, reflecting an unrealized loss of \$190,000 recognized during 2006.

As of December 31, 2005 NMCC had invested in two (2) of these companies. As of that date both the cost basis and fair value of these investments amounted to \$330,646.

New Mexico Community Capital
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6) Related Party Transactions

NMCC has a receivable of \$88,498 from the Partnership and \$1,100 from the GP and \$5,803 from the Partnership and \$1,000 from the GP as of December 31, 2006 and 2005, respectively. A majority of these amounts represent organizational and partnership expenses NMCC has incurred on behalf of the Partnership and GP.

7) Expenses by Functional Allocation

The following is a summary of expenses by functional classification for NMCC for the period December 31:

	<u>2006</u>	<u>2005</u>
General partner management	\$ 593,306	\$ 291,939
Fundraising	152,325	64,820
Programmatic	146,257	-
Management and general	132,532	182,679
Start up costs	-	27,590
	<u>\$ 1,024,420</u>	<u>\$ 567,028</u>

8) Commitments and Contingencies

NMCC has entered into employment contracts with two of its officers. These agreements expire December 31, 2007 and automatically renew for one year terms unless either party notifies the other of its intent not to renew at least 90 days prior to the extension period. In addition to base compensation, the agreements provide for bonuses as declared by the NMCC board of directors and participation in the GP's carried interest in earnings received from the Partnership. Bonuses totaling \$31,500 to various employees were accrued but not paid at December 31, 2006.

NMCC entered into a facility lease calling for rental payments of \$1,350 per month. The lease expires February 28, 2007 and provides for extension of the lease term. NMCC subleased a portion of the facility to a third party through March 31, 2006; rental income under this arrangement was \$1,000 per month.

9) Subsequent Event

In January of 2007 the Partnership issued a capital call in the amount of \$248,000 and invested \$500,000 in the equity securities of a private, New Mexico based corporation