

**Small Business Investment Corporation
(A Component Unit of the State of New Mexico)**

FINANCIAL STATEMENTS

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Management
New Mexico Small Business Investment Corporation
Albuquerque, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation, (NMSBIC), a component unit of the State of New Mexico, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements which collectively comprise NMSBIC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions 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 of 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of NMSBIC, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2, the financial statements of NMSBIC are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of NMSBIC. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. NMSBIC's financial statements are included in the financial statements of the State of New Mexico.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise NMSBIC's basic financial statements. Supporting Schedules 1 and 2 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supporting Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedules 1 and 2 are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PULAKOS CPAs, PC

September 25, 2020

Pulakos CPAs, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Small Business Investment Corporation
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MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

The Small Business Investment Corporation, doing business as the New Mexico Small Business Investment Corporation (“NMSBIC”), was formed by the Small Business Investment Act in 2001 to create new job opportunities in communities statewide, and is funded by an allocation from the Severance Tax Permanent Fund.

This section of the NMSBIC’s annual financial report presents management’s discussion and analysis of financial position and changes in financial position for the fiscal years ended June 30, 2020 and 2019. This information is being presented to provide additional information regarding the activities of the NMSBIC and to meet the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (GASB No. 34) and GASB Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus. The NMSBIC is engaged in business-type activities and is considered a special-purpose government in accordance with GASB Statement No. 34. The financial statements present information required for enterprise funds, and report on all of the activities of the NMSBIC. This analysis should be read in conjunction with the independent auditors’ report, audited financial statements, and accompanying notes.

Overview of the Financial Statements

The basic financial statements consist of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, the Statements of Cash Flow and the notes thereto. The NMSBIC follows enterprise fund accounting. The financial statements offer information about the NMSBIC’s activities and operations.

As of and for the year ended June 30, 2019, the NMSBIC adopted the Government Accounting Standards Board (GASB) method of accounting for its financial statements. The NMSBIC had previously presented its financial statements under the Financial Accounting Standards Board (FASB) accounting method for the fiscal years ended June 30, 2002 through June 30, 2016, and the American Institute of Certified Public Accountants (AICPA) Financial Reporting Framework for Small and Medium Sized Entities (FRF for SMEs) for the fiscal years ended June 30, 2017 and 2018. With the adoption of the GASB accounting method, a key change is that equity investments are reported using the cost method (see GASB Statement No. 72 paragraph B74). The NMSBIC’s equity investments had previously been reported using fair market value under FASB, and under FRF for SMEs. See supplementary schedules to the audited financial statements for additional detail on the equity investments.

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All of the NMSBIC's current year revenues and expenses are recorded in the Statements of Revenues, Expenses, and Changes in Net Position. This statement measures the activities of the NMSBIC's operations over the past year and presents the resulting change in net position.

The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the NMSBIC's cash receipts and cash payments during the reporting period. These statements report cash receipts, cash payments and net changes in cash resulting from operating, noncapital financing, capital and related financing and investing activities. These statements also provide information regarding the sources and uses of cash and the change in the cash balance during the reporting period.

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

Required and other supplementary information is presented following the notes to financial statements to provide selected supplemental information for the NMSBIC's programs.

Management's Discussion and Analysis

This section contains our analysis of the financial position and results of operations as of, and for the years ended June 30, 2020 and 2019. The section helps the reader focus on significant financial matters and provides additional information regarding our activities. For best understanding, read this information with the Independent Auditors' Report, the audited financial statements and the accompanying notes.

Financial Highlights

The NMSBIC's total net position at June 30, 2020 and 2019 was \$96.6 million, and \$38.7 million, respectively. The change in net position for the years ended June 30, 2020 and 2019 was positive \$57.8 million, and positive \$4.5 million, respectively.

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June 30, 2020 and 2019

Financial Analysis

The following is a summary of the NMSBIC's total assets, liabilities and net position at June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Assets:		
Current assets	\$ 33,184,983	\$ 16,088,433
Noncurrent assets	<u>65,041,487</u>	<u>23,387,523</u>
Total assets	98,226,470	39,475,956
Liabilities:		
Current liabilities	<u>1,709,474</u>	<u>784,219</u>
Total liabilities	1,709,474	784,219
Net position:		
Temporarily restricted net assets	<u>96,516,996</u>	<u>38,691,737</u>
Total liabilities and net position	<u>\$ 98,226,470</u>	<u>\$ 39,475,956</u>

Current assets increased by \$17.1 million at June 30, 2020, compared to June 30, 2019, and are detailed as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 228,579	\$ 273,697
Investment held with New Mexico State Investment Council	22,826,193	12,223,034
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	10,122,122	3,580,403
Other current assets	<u>8,089</u>	<u>11,299</u>
Total current assets	<u>\$ 33,184,983</u>	<u>\$ 16,088,433</u>

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- **Cash and cash equivalents** decreased by \$45,118 during the year. Management’s target is for the balance of cash and cash equivalents to be \$500,000 or less, and to provide immediate liquidity. Funds in excess of this target balance are invested with the New Mexico State Investment Council or the State Treasurer’s Office Local Government Investment Pool.
- **Investment held with New Mexico State Investment Council** increased by \$10.6 million during the year. The increase was primarily due to part of the \$57.8 million contribution during the year from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, being invested with the New Mexico State Investment Council. These funds can be withdrawn as of the first business day of each month and are intended to provide for the NMSBIC’s liquidity needs that are greater than 30 days.
- **Investment held with New Mexico State Treasurer’s Local Government Investment Pool** increased by \$6.5 million during the year. The increase was primarily due to part of the \$57.8 million contribution during the year from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, being invested in the New Mexico State Treasurer’s Local Government Investment Pool. These funds can be withdrawn with one business day’s notice and are intended to provide for the NMSBIC’s liquidity needs from two days to thirty days.
- **Other current assets** changed by a minor amount, and is comprised of interest and dividends receivable, and prepaid expenses.

Noncurrent assets increased by \$41.7 million at June 30, 2020, compared to June 30, 2019, and are detailed as follows:

	2020	2019
Equity investments in New Mexico entities	\$ 2,490,649	\$ 3,333,531
Cooperative loan agreements, net of allowance for losses	62,550,838	20,053,992
Total noncurrent assets	\$ 65,041,487	\$ 23,387,523

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- **Equity investments in New Mexico entities** decreased by \$842,882 during the year. The change was primarily due to \$744,711 in other than temporary impairment recorded in equity investments. Equity investment balances have been declining in recent years. They were a major focus of the NMSBIC from 2001 through 2009, with total cumulative investments of over \$32 million. Equity investments are no longer an investment focus for the NMSBIC. The history of making equity investments provided valuable experience, and revealed significant challenges that included:
 - The NMSBIC's asset size, and requirement to invest in New Mexico small businesses, limited diversification;
 - High risk with limited diversification contributed to significant losses during the economic downturn;
 - Management fees paid over several years to equity fund managers reduced returns;
 - Equity investments are typically long-term, which reduces the ability to turn-over funds into new small businesses;
 - Equity investments do not provide current income to offset the NMSBIC's operating expenses;
 - Equity investments were geographically concentrated, with limited funding in rural areas of New Mexico.

- **Cooperative loan agreements, net of allowance for loan losses** increased by \$42.5 million during the year. This increase was due to changes that are detailed as follows:
 - The NMSBIC continues to focus on expanding its lending program, with funds provided to New Mexico small businesses through lending partners. The NMSBIC's lending partners include the New Mexico Community Development Loan Fund (The Loan Fund), DreamSpring (formerly Accion), WESST, LiftFund, Ventana Fund, Homewise, and the New Mexico Mortgage Finance Authority. The Loan Fund, DreamSpring, LiftFund, Ventana Fund, Homewise, and WESST are designated as Community Development Financial Institutions (CDFIs) by the U.S. Treasury. CDFIs have a mission of providing financing in low-income communities and to people who lack access to traditional financing. The NMSBIC began a focus of expanding its lending program in 2011. Since that time, cooperative loan agreements have increased from \$8.9 million to \$62.6 million. This growth has resulted in interest income from cooperative loan agreements that is greater than the NMSBIC's economic development program expenses, and other operating expenses, resulting in the NMSBIC being a self-sustaining organization.

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- Beginning in March 2020, the NMSBIC made the following changes to its lending program to support its lending partners and small businesses in New Mexico impacted by the COVID-19 crisis.
 1. Committed an additional \$45 million in funding to lending partners, so that lending partners could make additional funding available to small businesses in New Mexico, including businesses impacted by the COVID-19 crisis;
 2. Introduced a new COVID-19 Lending Program, under which the NMSBIC provides funds to lending partners at an interest rate of zero percent (0%) for up to thirty-six months, for loans that lending partners make at a rate of three and three-quarters percent (3.75%) or less to businesses impacted by the COVID-19 crisis;
 3. Introduced a new lending program to provide funds for the NMSBIC's lending partners to originate loans under the Small Business Administration's (SBA) Paycheck Protection Program (PPP), under which the NMSBIC provides funds to lending partners at an interest rate of zero percent (0%) for PPP loans that lending partners make to New Mexico businesses; and
 4. In order to support lending partners with loan loss reserves and with increased costs associated with originating COVID-19 Lending Program and PPP Lending Program loans, the NMSBIC lowered the interest rate by one percent (1%) for a period of twelve months on all outstanding loans originated under its traditional lending program.

As a result of the above changes, loans committed by the NMSBIC to its lending partners increased to \$78.1 million as of June 20, 2020, from \$24.6 million as of June 30, 2019. Cooperative agreement partner loans outstanding, net of allowance for loan losses, increased to \$62.6 million as of June 30, 2020, from \$20.1 million as of June 30, 2019, detailed as follows:

	<u>2020</u>	<u>2019</u>
PPP lending program	\$ 30,000,000	\$ -
COVID-19 lending program	996,876	-
Traditional lending program	<u>31,553,961</u>	<u>20,053,992</u>
Total cooperative agreement loans, net	<u>\$62,550,837</u>	<u>\$20,053,992</u>

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Other current liabilities increased by \$925,255 at June 30, 2020, compared to June 30, 2019, and are detailed as follows:

	2020	2019
Accounts payable	\$ -	\$ -
Debt funding payable, net	1,709,474	784,219
Total current liabilities	\$ 1,709,474	\$ 784,219

- **Debt funding payable, net** increased by \$925,255 during the year. This represents net funds due to lending partners as of the fiscal year-end primarily related to new loans to their customers, for which funds were drawn from the NMSBIC after the fiscal year-end.

Net position restricted for economic development increased by \$57.8 million at June 30, 2020, compared to June 30, 2019.

	2020	2019
Net position restricted for economic development	\$ 96,516,996	\$ 38,691,737

- \$57,754,768 of the increase was a contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978.
- \$70,491 was from net operating income.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

The following are the NMSBIC's operating revenues and expenses, and net nonoperating revenue for the years ended June 30, 2020 and 2019.

	2020	2019
Operating revenues:		
Interest and dividends on investments	\$ 906,106	\$ 439,607
Interest income on cooperative loan agreements	488,642	448,293
Realized (loss) gain on investment held with New Mexico State Investment Council	(119,401)	503,578
Realized gain on equity investments	-	-
Total operating revenues	1,275,347	1,391,478
Operating expenses:		
Equity investment operating expense, net	98,171	98,874
Provision for loan losses	82,958	65,430
Impairment on equity investment	744,711	-
Economic development program services	125,025	122,934
Other operating expenses	153,991	125,813
Total operating expenses	1,204,856	413,051
Operating income	70,491	978,427
Nonoperating revenue (expenses):		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	57,754,768	3,495,987
Change in net position	57,825,259	4,474,414
Total net position, beginning of year	38,691,737	34,217,323
Total net position, end of year	\$ 96,516,996	\$ 38,691,737

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Operating revenues decreased by \$116,131 during the year ended June 30, 2020, compared to June 30, 2019.

- **Interest and dividend income** includes interest from investments with the State Investment Council's Core Plus Bond Pool, and investments with the State Treasurer's Office Local Government Investment Pool. Interest and dividend income increased by \$466,499 during the year primarily due to higher average outstanding balances.
- **Interest income on cooperative loan agreements** increased by \$40,349 during the year, and reflected the following:
 - Loans outstanding under the NMSBIC's traditional lending program increased to \$31.6 million as of June 30, 2020, from \$20.1 million as of June 30, 2019, and resulted in an increase in interest income.
 - Beginning in March 2020, in order to support lending partners with loan loss reserves and with increased costs associated with originating COVID-19 Lending Program and PPP Lending Program loans, the NMSBIC lowered the interest rate it charges its lending partners by one percent (1%) for a period of twelve months on all outstanding loans originated under its traditional lending program. This reduction in interest income partially offset the increase noted above related to increased loan balances under the traditional lending program.
 - Beginning in April 2020, the NMSBIC began advancing funds to its lending partners under the PPP Lending Program and the COVID-19 Lending Program. The interest rate the NMSBIC charges its lending partners under these programs is zero percent (0%) for up to thirty-six months.
- **Realized (loss) gain on investment held with New Mexico State Investment Council** is the change in market value for the Core Plus Bond Pool. The realized loss of \$119,401 for the year ended June 30, 2020 was \$622,979 lower than the realized gain of \$503,578 for the year ended June 30, 2019.

Total operating expenses increased by \$791,805 during the year ended June 30, 2020, compared to June 30, 2019.

- **Equity investment operating expense, net** is comprised of equity investment management fees on operating expenses, net of other income from equity investments, and increased by \$703 during the year.

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- **Provision for loan losses** increased by \$17,528 during the year and was related to the probability of higher loan losses related to the COVID-19 crisis. The change reflected an increase the loan loss allowance for loan participation agreements where there are no limits on losses that can be passed through to the NMSBIC. The outstanding loan balances under a terminated loan participation agreement where there is no limit on loan losses with DreamSpring as June 30, 2020 and June 30, 2019, were \$19,057 and \$39,235, respectively. The outstanding loan balances under a loan participation agreement where there is no limit on losses with WESST as June 30, 2020 and June 30, 2019, were \$87,242 and \$51,669, respectively.
- **Impairment on equity investment.** In accordance with GASB Statement No. 72, paragraph B74, equity investments held primarily to further economic development are reported using the cost method. Equity investments are carried at cost, less capital distributions received, management fees, operating expenses, and any impairment loss. An impairment loss is recognized if the fair value of the asset has declined below the carrying value and the decline is determined not to be temporary in nature. During fiscal year ended June 30, 2020, the evaluation of the NMSBIC's investment in New Mexico Gap Fund I resulted in other than temporary impairment of \$744,711.
- **Economic development program services** were relatively unchanged from the prior year, with a minor increase of \$2,091 as compared to the prior year.
- **Other operating expenses** increased by \$28,178 during the year, primarily due to increases in legal, accounting, and other consulting expenses as compared to the prior year.

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Nonoperating revenue, contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978 increased by \$54.3 million during the year ended June 30, 2020, compared to June 30, 2019. This was related to an increase in the contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, which indicates the state investment officer shall make a commitment to the NMSBIC to a percentage of the market value of the severance tax permanent fund. As a result of Senate Bill 10 that was passed in the 2019 New Mexico legislative session, beginning July 1, 2019, the commitment was increased to two percent from one percent of the market value of the severance tax permanent fund. This change, along with growth in the severance tax permanent fund during the twelve months ended June 30, 2019, resulted in the \$54.3 million increase in funding.

Change in net position increased by \$53.4 million as compared to the prior fiscal year. Of this change, \$54.3 million was due to an increase of \$54.3 million in the contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, and \$70,491 was from net operating income.

Budgets and Budgetary Accounting

The NMSBIC's annual budget process is not subject to legal or State approval. Therefore, there is no established process for obtaining approval of the NMSBIC's annual budget from any regulatory body. Given the NMSBIC's annual budget is not subject to legal or State approval, no budgetary statements are included in Management's Discussion and Analysis.

Economic Outlook

The following New Mexico review and outlook is from the UNM Bureau of Business and Economic Research's *Economic Snapshot* as of August 2020.

New Mexico added 12,700 jobs (1.5%) in 2019, the largest gain since 2006 and by far the most balanced. Growth was less dependent on mining (1,350 jobs, 5.5%) and Eddy & Lea Counties. Seven different sectors added more than 1,000 jobs, including professional & technical services (2,695 jobs, 4.5%), construction (2,400 jobs, 5.1%), leisure & hospitality (1,625 jobs, 1.7%), administrative services (1,535 jobs, 3.5%), manufacturing (1,275 jobs, 4.7%), healthcare (1,268 jobs, 1.1%) and mining (1,350 jobs, 5.5%). Government payrolls expanded for the first time since 2009 (1,625 jobs, 0.9%).

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With strong job growth, New Mexico's labor force also grew (15,975 persons, 1.7%), the largest increase since 2005. The state's unemployment rate held steady at 4.9%, still above the national rate.

The strong labor market pushed personal incomes higher (5.7%), led by a sharp increase in wage & salaries to both private sector (6.2%) and government workers (4.7%).

Oil production also continued to surge (342 million barrels, up 34.6%). Natural gas production, though off slightly from 2018 record production, remained far above previous levels (1,700 billion cubic feet).

Residential real estate markets remained strong in 2019 (25,300 units sold), though down from 2018 record levels. Permits for the construction of housing units remained weak (4,950 units, up 2.1%).

The impact of the coronavirus on the economy job growth remained strong in January and February (1.7% according to CES employer survey data), well balanced across industries and, except for Farmington MSA, regions. March employment data showed no signs of the pending collapse; CES surveys were conducted the week of March 12, before the announcement of restrictions in New Mexico.

FOR-UNM estimates that New Mexico gained 8,725 jobs (1.1%) in the first quarter. More than one-third of the new jobs were in construction (3,300 jobs, 7.0%), most in Eddy & Lea Counties. Professional & technical services and healthcare added 1,800 jobs (3.1%) and 1,225 jobs (1.0%), respectively. Government payrolls grew by 2,900 jobs (1.6%), with gains at all levels. The state's unemployment rate held steady at 4.8% in January and February but climbed to 6.3% in March.

Personal income rose by 4.8% in the first quarter, with wage & salary disbursements to government employees up 5.5%, outpacing gains to private sector workers (3.7%). Federal transfer payments increased by 7.5%; and proprietors' income increased by 7.8%, with nearly half of the gain to farmers.

Residential sales were up from a year earlier, though growth slowed in March. The number of single-family homes permitted for construction increased by 23% from a year earlier, though permits for multifamily units were down.

Although not captured in CES employment data, the collapse of the state's economy was underway before the end of March. The first signs were cracks in global oil markets, beginning in mid-January and accelerating in mid-February. This had surprisingly little impact in New Mexico where producers pushed drill rigs to a record level (117 in the week of March 13). FOR-UNM estimates that the state produced a record 97.7 million barrels in the first quarter.

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On March 12, 2020, Governor Lujan Grisham announced the closure of public schools for three weeks and, on March 19, 2020, issued further stay-at-home orders, closing restaurants, bars and other nonessential businesses.

The impact of the restrictions were immediately evident at the New Mexico Department of Workforce Solutions. In the last two weeks of March 2020, 45,950 unemployment insurance (UI) claims were filed, 5.6% of the state's UI-eligible workforce, slightly lower 5.9% for the nation.

According to the BEA, New Mexico's gross state product fell by an annualized rate of 3.1%. This was among the smallest declines among the 50 states; it was smaller only in Nebraska, South Dakota, Texas and North Dakota.

FOR-UNM estimates that New Mexico lost 84,000 jobs (10.1% of UI-covered employment). Losses were greatest in customer-service industries, including leisure & hospitality (26,750, 27%) and retail trade (12,800, 14.4%). Due to restrictions on non-emergency services, healthcare lost 10,150 jobs (8.5%). With restrictions on non-essential business, administrative services, including temp workers, lost 6,450 jobs (14%), other services, including personal care and household services, lost 4,925 jobs (23%). As the oil & gas market collapsed, mining fell by 30% (7,850). The construction and manufacturing industries declined as well (4,450, 9% and 2,600, 9.2%).

Industries better to accommodate work from home were comparatively resilient. Professional & technical services fell by 5% (2,950) and finance & insurance fell by 3.2% (750 jobs).

Government employment, which accounts for 21.4% of total covered employment in New Mexico, is expected to post gains (2,025, 1.7%), including Census workers employed by the federal government.

New Mexico's unemployment rate shot to 11.9% in April and declined to 9.1% in May and 8.3% in June. For the quarter, the average rate was 9.8%, below the national rate of 13%.

Personal incomes surged in the second quarter, up 13.4%. The increase was due entirely to an increase in federal transfer payments (\$17.5 billion, annualized), including nearly one million stimulus checks and an average of 95,995 New Mexicans receiving \$600 weekly unemployment bonus checks. All other components of personal income fell by a total of \$5.4 billion (6.4%). Due to the surge in partially tax-free federal transfers, disposable incomes jumped by an estimated 17.8%. Drill rigs active in New Mexico fell from 109 at end-March to 48 at end-June. FOR-UNM estimates that oil production fell by about one-third (to 61.7 million barrels) and natural gas production declined by 27%, both on a quarter-over-quarter basis.

FOR-UNM estimates that New Mexico's gross state product (GSP) fell by 9.7% from a year earlier. This is a decline of about 32.6%, seasonally adjusted and annualized, nearly equal to the 32.9% decline in US GDP.

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New Mexico's Economic Outlook

FOR-UNM's outlook for the New Mexico economy follows a 'swoosh' trend line. Of the estimated 84,000 jobs lost in 2020Q2, we expect New Mexico to reclaim about 31,000 in 2020Q3 and another 19,700 in 2020Q4, with the state closing the year with 46,450 fewer jobs (-8.2%) than in 2019Q4. Recovery will be gradual in 2021 and 2022, with job growth of just 1.3% and 1.2%. At the close of 2025, employment in New Mexico will be just shy of pre-COVID levels.

Compared to April, the estimated number of jobs lost in the second quarter is greater, though the number regained in the third and fourth quarters more than offsets the steeper decline.

The sectors that lost the most jobs in the second quarter, such as leisure & hospitality and retail, will gain back the most jobs in the third and fourth quarters. However, gains will not be enough to make the industries whole in the near term. Leisure & hospitality will recover to pre-COVID levels by the end of the forecast period, but the challenges facing brick & mortar retail are structural, and it is expected that it will end the forecast still further behind.

Mining lost the greatest share of jobs in 2020Q2 but because of uncertainty facing the oil & gas industry and the development of more labor-efficient technologies, job recovery will be slow. At the end of the forecast period payrolls are expected to be 20% below 2019 levels.

Governments are expected to maintain payrolls in the near-term but by 2021 severe fiscal challenges will require deep cuts. State and local government payrolls are forecast to end 2025 down 3.8% (5,725 jobs) from 2019.

Healthcare, professional & technical services, finance, real estate, construction and transportation are forecast to be back to pre-Covid employment levels by mid-2022.

Because job growth will be led by higher wage industries, the outlook for personal incomes is more favorable. FOR-UNM expects 4.6% growth in personal income in 2020, a 2.7% decline in 2021 as transfers are withdrawn, and 3.8% per year growth thereafter.

Gross State Product (GSP) is forecast to end 2020 down 6.3%, grow by 2.6% and 2.9% in 2021 and 2022, and recover to the pre-Covid level in 2023.

FOR-UNM offers three alternative scenarios. The benefits of the optimistic scenario (10% probability) are more of timing than overall strength, with a stronger initial recovery but weaker growth thereafter. The state has only 2,900 (0.3%) more jobs than under the baseline scenario.

Small Business Investment Corporation
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2020 and 2019

There are two pessimistic scenarios, each a 20% probability. In the first, a failure to control the spread of the coronavirus causes the economy to falter until late-2021. However, from that point, growth is much stronger than in the baseline, in part because of faster growth in lower-wage industries. The state ends 2025 with 3,100 fewer jobs than in the baseline. The failure of the economy to initially gain its footing severely depresses personal incomes, and a recovery driven by low-wage industries is insufficient to recover the losses. In 2025, incomes in the pessimistic scenario are 8.5% below baseline.

The worst-case scenario describes an 'L-shaped' recession and recovery, similar to New Mexico's experience following the Great Recession. Through 2021, the economy follows the path of the first pessimistic scenario, losing ground because of a failure to control the virus. But in this case, the prolonged shutdown results in wide-spread bankruptcy of small businesses and households without stable employment. What begins as a temporary shutdown becomes permanent loss. Also, a weak global recovery depresses the demand for oil, deepening the State's fiscal crisis. New Mexico ends 2025 with 830,000 jobs, 51,500 (6.2%) fewer than in 2019. Many of the additional losses are in low-wage industries, especially retail, but because of this the impact on personal incomes, relative to other scenarios, is less severe. Incomes end 2025 9% below baseline, not much lower than the first pessimistic scenario.

FINANCIAL STATEMENTS

Small Business Investment Corporation
(A Component Unit of the State of New Mexico)

STATEMENTS OF NET POSITION

June 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 228,579	\$ 273,697
Investment held with NM State Investment Council	22,826,193	12,223,034
Investment held with NM State Treasurer's Office - LGIP	10,122,122	3,580,403
Interest and dividends receivable	2,830	7,046
Prepaid expenses	5,259	4,253
Total current assets	33,184,983	16,088,433
Noncurrent assets		
Equity investments in New Mexico entities	2,490,649	3,333,531
Cooperative loan agreements, net of allowance for loan losses	62,550,838	20,053,992
Total noncurrent assets	65,041,487	23,387,523
Total assets	\$ 98,226,470	\$ 39,475,956
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ -	\$ -
Debt funding payable, net	1,709,474	784,219
Total current liabilities	1,709,474	784,219
Total liabilities	1,709,474	784,219
Net position		
Restricted for:		
Economic development	96,516,996	38,691,737
Total net position	96,516,996	38,691,737
Total liabilities and net position	\$ 98,226,470	\$ 39,475,956

Small Business Investment Corporation
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

June 30, 2020 and 2019

	2020	2019
Operating revenues		
Interest and dividends on investments	\$ 906,106	\$ 439,607
Interest income on cooperative loan agreements	488,642	448,293
Realized (loss) gain on investment held with New Mexico State Investment Council	(119,401)	503,578
Total operating revenues	1,275,347	1,391,478
Operating expenses		
Equity investment operating expense, net	98,171	98,874
Provision for loan losses	82,958	65,430
Impairment on equity investment	744,711	-
Economic development program services	125,025	122,934
Other operating expenses	153,991	125,813
Total operating expenses	1,204,856	413,051
Operating income	70,491	978,427
Nonoperating revenue		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to SS 7-27-5.15(F) NMSA 1978	57,754,768	3,495,987
Total nonoperating revenue	57,754,768	3,495,987
Change in net position	57,825,259	4,474,414
Net position - beginning of year	38,691,737	34,217,323
Net position - end of year	\$ 96,516,996	\$ 38,691,737

Small Business Investment Corporation
(A Component Unit of the State of New Mexico)

STATEMENTS OF CASH FLOWS

June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (280,022)	\$ (252,366)
Net cash used by operating activities	(280,022)	(252,366)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	57,754,768	3,495,987
Net cash provided by noncapital financing activities	57,754,768	3,495,987
Cash flows from investing activities:		
Purchase of investments held with NM State Treasurer's Office - LGIP	(6,354,768)	(1,000,000)
Purchase of investment held with NM State Investment Council	(10,000,000)	(3,000,000)
Investments in NM economic development activities under Cooperative Loan Agreements, net	(41,165,096)	570,005
Net cash used by investing activities	(57,519,864)	(3,429,995)
Net decrease in cash and cash equivalents	(45,118)	(186,374)
Cash and cash equivalents - beginning of year	273,697	460,071
Cash and cash equivalents - end of year	\$ 228,579	\$ 273,697
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 70,491	\$ 978,427
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for loan losses	82,958	65,430
Equity investment operating expense, net	98,171	98,874
Non-cash investment gains, net	(1,279,563)	(1,386,157)
Impairment on equity investment	744,711	-
Changes in assets and liabilities:		
Interest and dividends receivable	4,216	(5,321)
Prepaid expenses	(1,006)	(3,239)
Accounts payable and due to others	-	(380)
Net cash used by operating activities	\$ (280,022)	\$ (252,366)

**Small Business Investment Corporation
(A Component Unit of the State of New Mexico)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 1 – DEFINITION OF REPORTING ENTITY

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for NMSBIC have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The following is a summary of the more significant policies:

The accompanying financial statements present NMSBIC as a business-type activity, stand-alone, special purpose government. The Board of NMSBIC is appointed by the Governor of the State of New Mexico and has the power to make and alter bylaws or rules and regulations for the management and operation of the work of NMSBIC and the control and conduct of its business and affairs, including the ability to approve its own budget.

**Small Business Investment Corporation
(A Component Unit of the State of New Mexico)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity

In evaluating how to define NMSBIC, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39 and GASB Statement No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility.

The most significant manifestation of this ability is financial interdependency. Other manifestation of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate the potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, NMSBIC has no component units, and is a component unit of the State of New Mexico. NMSBIC is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, but would be included in a state-wide Comprehensive Annual Financial Report (CAFR) as a component unit with the criteria set forth in GASB No. 14 (as amended by GASB No. 39 and No. 61) for determining component units.

Basis of Presentation

NMSBIC is engaged in business-type activities only and is considered a special-purpose government in accordance with GASB Statement No. 34. The financial statements (the statements of net position, statements of revenues, expenses and changes in net position and the statements of cash flows) present only the financial statements required for enterprise funds, and report information on all of the activities of NMSBIC.

**Small Business Investment Corporation
(A Component Unit of the State of New Mexico)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation – Continued

Operating revenue consists of investment earnings, interest and dividends. Non-operating revenue consists of funding received from the New Mexico severance tax permanent fund. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the statements of net position.

NMSBIC reports all direct expenses by program in the statements of revenues, expenses and changes in net position. Direct expenses are those clearly identifiable with a function. NMSBIC does not currently employ indirect cost allocation systems.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statements of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. The statements of cash flows provide information about how NMSBIC finances and meets the cash flow needs of its proprietary activity.

Revenues, expenses, gains, losses, assets, deferred outflows of resources resulting from exchange and nonexchange like transactions are recognized when the exchange takes place.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is NMSBIC's policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is NMSBIC's policy to spend committed resources first.

Budgets and Budgetary Accounting

NMSBIC's annual budget process is not subject to legal or State approval, and therefore, there is no established process for obtaining approval of NMSBIC's annual budget from any regulatory bodies. In addition, NMSBIC does not have a legally adopted budget and therefore, no budgetary statements are included in these financial statements.

Cash and Equivalents

NMSBIC's cash and cash equivalents consist of checking and money market accounts that are completely liquid and have no maturity dates.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

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

Certain investments for NMSBIC are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The State Treasurer’s Investment Pool (Pool) operates in accordance with appropriate state laws and regulations. The reported value of the Pool is the same as the fair value of the Pool shares.

In accordance with GASB Statement No. 72, paragraph B74, equity investments held primarily to further economic development are reported using the cost method. Equity investments are carried at cost, less capital distributions received, management fees, operating expenses, and any impairment loss. An impairment loss is recognized if the fair value of the asset has declined below the carrying value and the decline is determined not to be temporary in nature.

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, 2020 and 2019, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	2020	2019
Allowance for loan losses, beginning	\$ 83,353	\$ 85,068
Loan losses incurred in current period	(71,879)	(67,145)
Provision for loan losses	82,958	65,430
Allowance for loan losses, ending	\$ 94,432	\$ 83,353

Debt Funding Receivables and Payables

Debt funding receivables and payables are the currently due or owed settlements for debt investments made under Cooperative Agreements.

Prepaid Expenses

Prepaid balances are for payments made by NMSBIC in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position/Fund Equity

The statements of net position consists of three components: net investment in capital assets; restricted; and unrestricted. NMSBIC had no net investment in capital assets or unrestricted activities as of June 30, 2020 or 2019.

Net position is reported as restricted when constraints placed on net position use are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be only for the specific purposes stipulated in the legislation.

Legal enforceability means the government can be impelled by an external party - such as citizens, public interest groups or the judiciary - to use resources for the purposes specified by the legislation.

These resources remaining in net position were received or earned with the explicit understanding between NMSBIC and the resource provider (grantor, contributor, other government or enabling legislation) that the funds would be used for a specific purpose. NMSBIC has presented restricted net position as follows as of June 30, 2020 and 2019:

	2020	2019
Cumulative severance tax permanent fund capital contributions	\$ 110,560,754	\$ 52,805,986
Cumulative return of net excess funds	(2,191,561)	(2,191,561)
Cumulative expenses in excess of other revenues	(11,852,197)	(11,922,688)
	\$ 96,516,996	\$ 38,691,737

Severance Tax Permanent Fund Proceeds

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. Effective July 1, 2019, the commitment was increased to two percent. Funding received from the State Investment Officer due to the net market value of the New Mexico Severance Tax Permanent Fund was \$57,754,768 and \$3,495,987 in 2020 and 2019, respectively.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Program Services

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

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.

Pensions and OPEB

NMSBIC, as part of the primary government of the State of New Mexico, is included in the State's CAFR, however, does not have any employees. Thus, NMSBIC is not a contributing employer to the cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Association (PERA) or New Mexico Retiree Health Care Authority (NMRHCA). No disclosures are required for these stand-alone financial statements and all disclosures pertaining to these plans will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of the State Controller, Room 166, Bataan Memorial Building 407 Galisteo Street, Santa Fe, New Mexico, 87501.

COVID-19 Pandemic

The Secretary for the New Mexico Department of Health has mandated temporary closing of businesses that were deemed non-essential and requested citizens of the State to adopt behavioral changes in response to the COVID-19 outbreak in the State. At a national and international level, government restrictions on travel and the behavioral changes by the public due to COVID-19 outbreaks across the globe are negatively impacting various industries and the related world markets. While the disruption is expected to be temporary, there is considerable uncertainty around the duration and ultimate financial impact of these actions.

Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2020 and through September 25, 2020, which is the date that the financial statements were issued and believes that any such events occurring during this period have been either recognized or disclosed in the accompanying financial statements.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 3 – DEPOSITS

State statutes authorize the investment of NMSBIC's funds in a wide variety of instruments including certificates-of-deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of NMSBIC properly followed State investment requirements as of June 30, 2020 and 2019.

Deposits of funds may be made in interest or non-interest-bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of NMSBIC. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case, shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

The types of collateral allowed are limited to direct obligations of the United States Government and all bonds issued by any agency, district or political subdivision of the State of New Mexico.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest-bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution.

Deposits:

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure, NMSBIC's deposits may not be returned to it. NMSBIC does not have a deposit policy for custodial credit risk, other than the following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978.) As of June 30, 2020 and 2019, zero and \$23,697 of NMSBIC's deposits were uninsured, but were fully collateralized. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to NMSBIC for a least one half of the amount on deposit with the institution.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 3 – DEPOSITS – CONTINUED

All deposits are held with First National 1870, a division of Sunflower Bank N.A., as follows:

	2020	2019
Amount of deposits	\$ 228,579	\$ 273,697
FDIC Insurance	(228,579)	(250,000)
Uninsured deposits	-	23,697
Collateral from financial institution	-	(23,697)
Total uninsured and uncollateralized deposits	\$ -	\$ -

NOTE 4 – FAIR VALUE MEASUREMENT

NMSBIC accounts for certain investments in accordance with Governmental Accounting Standards Board Statement No. 72 Fair Value Measurements and Application (GASB 72), which establishes fair value standards for certain investments held by governmental entities. GASB 72 requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This pronouncement 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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

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.

The following tables presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2020 and 2019:

<u>Assets at Fair Value</u>				
<u>Description – 2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements Investment held with NM State Treasurer's Office – LGIP	\$ 62,550,838	\$ -	\$ 62,550,838	\$ -
Investment held with NM State Investment Council	10,122,122	-	10,122,122	-
	<u>22,826,193</u>	<u>-</u>	<u>22,826,193</u>	<u>-</u>
	<u>\$ 95,499,153</u>	<u>\$ -</u>	<u>\$ 95,499,153</u>	<u>\$ -</u>
<u>Description – 2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements Investment held with NM State Treasurer's Office – LGIP	\$ 20,053,992	\$ -	\$ 20,053,992	\$ -
Investment held with NM State Investment Council	3,580,403	-	3,580,403	-
	<u>12,223,034</u>	<u>-</u>	<u>12,223,034</u>	<u>-</u>
	<u>\$ 35,857,429</u>	<u>\$ -</u>	<u>\$ 35,857,429</u>	<u>\$ -</u>

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

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.

Investment held with NM State Treasurer’s Office - LGIP and 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.

NOTE 5 – INVESTMENTS IN NM STATE INVESTMENT COUNCIL AND NM LOCAL GOVERNMENT INVESTMENT POOL

NMSBIC’s investments are governed by state law, as well as a formal investment policy. The policy permits investments which are within New Mexico constitutional and statutory law; however, the policy does stipulate that asset-backed or collateralized securities must be rated AA or better. NMSBIC invests through the New Mexico State Treasurer’s Local Government Investment Pool, and the New Mexico State Investment Council, which utilizes a list of legal investments per the State of New Mexico.

NMSBIC reports gains and losses on investments as increases or decreases in restricted net assets unless their use is permanently restricted by explicit donor stipulations or by law.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 5 – INVESTMENTS IN NM STATE INVESTMENT COUNCIL AND NM LOCAL GOVERNMENT INVESTMENT POOL – CONTINUED

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of NMSBIC’s investments. As a means of limiting its exposure to fair value risk arising from rising interest rates, the NMSBIC’s investment policy requires investment of currently available funds to have a maturity of no greater than three years, with the exception of the investment in the Core Plus Bond pool held with the New Mexico State Investment Council.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of NMSBIC’s investment in a single issuer. NMSBIC’s investments held with the NM State Investment Council and the NM Local Government Investment Pool are collateralized by the State of New Mexico.

Investment in NM State Investment Council

NMSBIC holds investments in NM State Investment Council and the make up the portfolio is the following:

2020

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Core Plus Bond	Level 2	100.00%	\$22,826,193	Not available

2019

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Core Plus Bond	Level 2	100.00%	\$12,223,034	Not available

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 5 – INVESTMENTS IN NM STATE INVESTMENT COUNCIL AND NM LOCAL GOVERNMENT INVESTMENT POOL – CONTINUED

NM Local Government Investment Pool

The New MexiGROW Local Government Investment Pool’s (LGIP) investments are valued at fair value based on quoted market prices as of the valuation date. The LGIP is not SEC registered. The New Mexico State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10(I) through 6-10-10(P) and Sections 6-10-10.1(A) and (E), NMSA 1978. The LGIP’s investments are monitored by the same policies and procedures that apply to all other state investments. The pool does not have unit shares. Per Section 6-10-10.1(F), NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary.

2020			
Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer’s Office – LGIP	\$ 10,122,122	AAAm	25 Days (r) ; 77 Days (F)
2019			
Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer’s Office – LGIP	\$ 3,580,403	AAAm	35 Days (r) ; 112 Days (F)

Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES

Cooperative Loan Agreements

NMSBIC is party to Cooperative Loan Agreements as follows:

- New Mexico Community Development Loan Fund (“NMCDLF” or “The Loan Fund”). NMSBIC is party to a revolving loan Cooperative Agreement with The Loan Fund, a non-profit Community Development Financial Institution (CDFI). Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits the maximum loan size and the number of modifications allowed on nonperforming loans, and requires the corporation to maintain certain levels of liquidity, leverage, and net assets. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. 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 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, 2020 and 2019, interest income of \$264,245 and \$212,510, respectively, was recognized related to this investment.

As of March 2020, in order to support its lending partners and small businesses impacted by the COVID-19 crisis, changes were made to the agreement that included: (i) the interest rate on the loan was reduced to 1.0% from 2.0% for a period of twelve months ending February 28, 2021; and (ii) the NMSBIC added a new COVID-19 Lending Program under which the interest rate charged by the NMSBIC is zero percent for up to thirty-six months, provided corporation’s loan is to a business impacted by the COVID-19 crisis and the interest rate to the business is at 3.75% or less. See supplementary schedules for detail on this agreement.

- DreamSpring (formerly ACCION). NMSBIC is party to a loan participation Cooperative Agreement with DreamSpring, a non-profit CDFI. Under the agreement DreamSpring provides 25% of the funding and the NMSBIC provides the remaining 75%. NMSBIC shares in 75% of loan losses. In November 2013, the NMSBIC terminated the original participation agreement with outstanding loans handled in the ordinary course of business. In November 2013 the NMSBIC entered into new participation agreement with DreamSpring, referred to as the 2013 Lending Program. Under the 2013 Lending Program loan losses that can be passed through to the NMSBIC are limited to 1% of the outstanding loan balance during any fiscal year. The agreement limits the maximum loan size and the number of modifications allowed on nonperforming loans. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. Loans are serviced by the corporation, with monthly reports and principal and interest remittances provided to NMSBIC. Either party can terminate the agreement with 90 days written notice, with outstanding loans handled in the ordinary course of business. During the years ended June 30, 2020 and 2019, interest income of \$207,466 and \$220,411, respectively, was recognized related to this investment.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

As of April 2020 and May 2020, in order to support its lending partners and small businesses impacted by the COVID-19 crisis, a series of changes were made to the agreement that included: (i) the interest rate received by the NMSBIC was reduced to 2.0% from 3.0% for a period of twelve months ending March 31, 2021, which resulted in the net interest rate after loan losses being reduced to 1% from 2%; (ii) the NMSBIC added a new COVID-19 Lending Program under which the interest rate charged by the NMSBIC is zero percent for up to thirty-six months, provided DreamSpring's loan is to a business impacted by the COVID-19 crisis and the interest rate to the business is at 3.75% or less, and with no losses passed through to the NMSBIC on the COVID-19 Lending Program; and (iii) the NMSBIC added a new PPP Lending Program for DreamSpring to originate loans under the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The PPP loans are guaranteed by the SBA, and the interest rate charged by the NMSBIC is zero percent on funds used to originate PPP loans. See supplementary schedules for detail on this agreement.

- WESST Corp. (WESST). NMSBIC is party to a loan participation Cooperative Agreement with WESST, a non-profit CDFI. Under the agreement, WESST provides 25% of the funding and the NMSBIC provides the remaining 75%. NMSBIC shares in 75% of loan losses. The agreement limits the maximum loan size. Loans are serviced by the corporation, with monthly reports and principal and interest remittances provided to NMSBIC. Either party can terminate the agreement with 90 days written notice, with the outstanding balance repaid in the normal course of business. During the years ended June 30, 2020 and 2019, interest income of \$2,626 and \$1,178, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.
- New Mexico Mortgage Finance Authority (NMMFA). NMSBIC is party to a revolving loan Cooperative Agreement with NMMFA, a public body politic and corporate, separate and apart from but constituting a governmental instrumentality of the state of New Mexico. Under this agreement, the NMSBIC provides an unsecured revolving loan to this corporation. The agreement limits the maximum loan size, and requires the corporation to maintain certain levels of leverage and net assets. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. 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 outstanding principal balance of the revolving loan matures in November 2023. During the years ended June 30, 2020 and 2019, interest income of \$7,156 and \$14,194, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- **Ventana Fund.** As of December 2019, NMSBIC entered into a revolving loan Cooperative Agreement with Ventana Fund, a non-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits the term that loans are eligible as collateral to no more than five years, and limits the maximum loan-to-value for NMSBIC funds. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. NMSBIC does not share in any loan losses or recoveries. NMSBIC has the right to reduce the maximum funding amount by the amount of any funds not used in the previous twelve months. 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 December 2029. During the years ended June 30, 2020 and 2019, interest income of \$7,149 and zero, respectively, was recognized related to this investment.

As of March 2020, in order to support its lending partners and small businesses impacted by the COVID-19 crisis, changes were made to the agreement that included: (i) the interest rate on the loan was reduced to 1.0% from 2.0% for a period of twelve months ending February 28, 2021; and (ii) the NMSBIC added a new COVID-19 Lending Program under which the interest rate charged by the NMSBIC is zero percent for up to thirty-six months, provided the corporation's loan is to a business impacted by the COVID-19 crisis and the interest rate to the business is at 3.75% or less. See supplementary schedules for detail on this agreement.

- **LiftFund.** As of March 2020, NMSBIC entered into a new revolving loan Cooperative Agreement with LiftFund, a non-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits the maximum loan size and the number of modifications allowed on nonperforming loans, and requires the corporation to maintain certain levels of leverage and net assets. The corporation also undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. 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 outstanding principal balance of the revolving loan matures in March 2025. During the years ended June 30, 2020 and 2019, interest income of zero was recognized related to this investment.

Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

As of March 2020, in order to support its lending partners and small businesses impacted by the COVID-19 crisis, changes were made to the agreement that included: (i) the interest rate on the loan was reduced to 1.0% from 2.0% for a period of twelve months ending February 28, 2021; and (ii) the NMSBIC added a new COVID-19 Lending Program under which the interest rate charged by the NMSBIC is zero percent for up to thirty-six months, provided the corporation's loan is to a business impacted by the COVID-19 crisis and the interest rate to the business is at 3.75% or less. See supplementary schedules for detail on this agreement.

- Homewise. As of March 2020, NMSBIC entered into a new revolving loan Cooperative Agreement with Homewise, a non-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits loan size, limits the term that loans are eligible as collateral to no more than five years, limits the maximum loan-to-value for NMSBIC funds, and requires the corporation to maintain certain levels of leverage and net assets. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. 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 outstanding principal balance of the revolving loan matures in March 2025. During the years ended June 30, 2020 and 2019, interest income of zero was recognized related to this investment.

As of March 2020, in order to support its lending partners and small businesses impacted by the COVID-19 crisis, changes were made to the agreement that included: (i) the interest rate on the loan was reduced to 1.0% from 2.0% for a period of twelve months ending February 28, 2021; and (ii) the NMSBIC added a new COVID-19 Lending Program under which the interest rate charged by the NMSBIC is zero percent for up to thirty-six months, provided the corporation's loan is to a business impacted by the COVID-19 crisis and the interest rate to the business is at 3.75% or less. See supplementary schedules for detail on this agreement.

- Rio Vista Growth Capital LLC (RVGC). In September 2014, NMSBIC entered into a line-of-credit agreement with RVGC, a New Mexico limited liability company. 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, 2020 and 2019, interest income of zero, was recognized related to this investment. Part of the interest is paid quarterly, and the balance is deferred until received by RVGC. This line-of-credit agreement was terminated during 2019. See supplementary schedules for detail on this agreement.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

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. 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.

NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND

Pursuant to Section 58-29-7 NMSA 1978, the NMSBIC shall revert 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, 2020 and 2019, respectively, that are required to be returned to the Severance Tax Permanent Fund. Any net excess funds are reflected as a liability in the accompanying financial statements.

	2020	2019
Interest and dividends received, cash basis	\$ 1,416,388	\$ 888,203
Operating expenses, net of loan losses	(377,186)	(347,621)
Accumulated reserve for debt and equity losses	(94,433)	(83,352)
Fair value change, investment with NMSIC	(119,401)	503,578
Capital loss realized	(744,711)	-
Net excess funds	80,657	960,808
Cumulative overpayment of net excess funds	(288,442)	(1,249,250)
Net deficient funds	\$ (207,785)	\$ (288,442)

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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND – CONTINUED

The NMSBIC’s adoption of the GASB reporting framework affects the capital gains component of the net excess of funds formula. Beginning with the NMSBIC audited financial statements for the fiscal year end June 30, 2019, the value of NMSBIC equity investments in limited partnerships will be reported at the investment’s original, historic cost on an “entity” or “fund by fund” basis rather than on a “aggregate” portfolio company basis as was the case in prior fiscal years and as was required under the prior reporting framework. As a result, solely because of the accounting change and not due to any economic activity, for the fiscal year ended June 30, 2019 and subsequent years, capital gains aren’t recognized until the NMSBIC recovers its entire original, historic cost basis in a limited partnership investment, rather than recognizing capital gains on individual portfolio company transactions within the limited partnership as was the case under the prior reporting framework. The amount of “capital gains actually realized” is different under the GASB financial reporting method than it was under prior reporting methodologies. The change results in gains being recognized in later years, because the entire historic investment cost in a limited partnership investment has to be recovered first, rather than the just the internal investment cost of the limited partnership in a specific individual portfolio company. Absent an adjustment in the calculation of net excess funds to reflect the change in accounting methodologies, the NMSBIC would include gain in the calculations twice, in years prior to the fiscal year ended June 30, 2019 on an “aggregate” portfolio company by portfolio company basis, and again in the fiscal year ended June 30, 2019 and subsequent years on an “entity” basis. Thus, the excess net excess of funds payment the NMSBIC made in the fiscal year ended June 30, 2016, after reducing that amount for net excess of funds amounts that would have been payable in fiscal years ended June 30, 2017, and June 30, 2018, result in a credit to apply against net excess fund amounts calculated as due in the fiscal year ended June 30, 2019 and later years.

NOTE 8 – CAPITAL COMMITMENTS

As of June 30, 2020, all capital for all equity cooperative agreements had been called in full, and therefore no capital commitments remained. As of June 30, 2020, total remaining commitments under debt cooperative agreements was \$15,479,730. See supplementary schedules for details of these remaining commitments.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 9 – TRANSFERS FROM OTHER AGENCIES

NMSBIC’s sole source of funding are distributions from the New Mexico Severance Tax Permanent Fund. The amounts of these distributions for 2020 and 2019 were \$57,754,768 and \$3,495,987, respectively. Details of these distributions are as follows:

<u>2020</u>			
Agency	Number	Amount	Purpose
DFA	34100	\$ 57,754,768	Severance Tax Permanent Fund Proceeds
<u>2019</u>			
Agency	Number	Amount	Purpose
DFA	34100	\$ 3,495,987	Severance Tax Permanent Fund Proceeds

NOTE 10 – CONCENTRATIONS

Concentration of Funding

NMSBIC receives 100% of its funding from the New Mexico Severance Tax Permanent Fund.

Concentration of Credit Risk

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 11 – RISK MANAGEMENT

NMSBIC is exposed to various risk of loss related to torts, theft, and errors and omissions. NMSBIC insures against certain possible losses with a non-profit management liability insurance policy issued by Admiral Insurance Company that includes directors, officers and organization liability insurance, employment practices liability insurance, and third-party wrongful acts liability insurance. NMSBIC has no employees, no real property interests, and no significant tangible personal property.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 11 – RISK MANAGEMENT – CONTINUED

For the last three years, NMSBIC has not filed any claims on its insurance policy. There have been no significant reductions in major risk categories or insurance coverage during the past year.

NOTE 12 – RECENT PRONOUNCEMENTS

In June 2017, GASB Statement No. 87 Leases, was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

In June 2018, GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, was issued. The provisions of this Statement are effective for reporting periods beginning after December 15, 2020. The standard will be implemented during the fiscal year ended June 30, 2021. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

In August 2019, GASB Statement No. 90 Majority Equity Interests—an amendment of GASB Statements No.14 and No. 61, was issued. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

In May 2020, GASB Statement No. 91, Conduit Debt Obligations, was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

In January 2020, GASB Statement No. 92 Omnibus, was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

In March 2020, GASB Statement No. 93 Replacement of Interbank Offered Rates, was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on the financial statements.

In March 2020, GASB Statement No. 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements, was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2022. NMSBIC does not expect this pronouncement to have a material effect on the financial statements.

SUPPLEMENTAL INFORMATION

Small Business Investment Corporation
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SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2020 and 2019

	<u>Loan Commitments</u>	<u>Beginning Gross Loan Balance</u>	<u>Loan Funding Net of Repayments</u>	<u>Realized Loan (Loss) Recovery</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, 2020							
1. DreamSpring #1*	\$ -	\$ 42,647	\$ (23,093)	\$ 3,133	\$ 22,687	\$ (3,630)	\$ 19,057
2. DreamSpring #2	7,750,000	7,544,776	(51,247)	(75,011)	7,418,518	(74,185)	7,344,333
3. DreamSpring #3	30,000,000	-	30,000,000	-	30,000,000	-	30,000,000
4. NMCDFL	25,000,000	11,793,760	8,007,094	-	19,800,854	-	19,800,854
5. WESST CORP	375,000	56,162	47,697	-	103,859	(16,617)	87,242
6. NMMFA	2,500,000	700,000	(700,000)	-	-	-	-
7. VENTANA	5,500,000	-	5,151,731	-	5,151,731	-	5,151,731
8. HOMEWISE**	4,000,000	-	-	-	-	-	-
9. LIFT FUND	3,000,000	-	147,621	-	147,621	-	147,621
	<u>\$ 78,125,000</u>	<u>\$ 20,137,345</u>	<u>\$ 42,579,803</u>	<u>\$ (71,878)</u>	<u>\$ 62,645,270</u>	<u>\$ (94,432)</u>	<u>\$ 62,550,838</u>
For the year ended June 30, 2019							
1. DreamSpring #1*	\$ -	\$ 72,797	\$ (35,740)	\$ 5,590	\$ 42,647	\$ (3,412)	\$ 39,235
2. DreamSpring #2	7,750,000	7,412,662	204,849	(72,735)	7,544,776	(75,448)	7,469,328
3. NMCDFL	14,000,000	10,277,692	1,516,068	-	11,793,760	-	11,793,760
4. WESST CORP	375,000	63,974	(7,812)	-	56,162	(4,493)	51,669
5. NMMFA	2,500,000	700,000	-	-	700,000	-	700,000
	<u>\$ 24,625,000</u>	<u>\$ 18,527,125</u>	<u>\$ 1,677,365</u>	<u>\$ (67,145)</u>	<u>\$ 20,137,345</u>	<u>\$ (83,353)</u>	<u>\$ 20,053,992</u>

*The DreamSpring #1 commitment was terminated in 2013 and replaced by DreamSpring #2. Active loans under the DreamSpring #1 agreement will run off under their normal course. The DreamSpring #3 is used to fund Small Business Administration (SBA) Paycheck Protection Program (PPP) loans.

**The Homewise Loan Fund had no activity during fiscal year 2020.

Small Business Investment Corporation
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SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2020 and 2019

	Investment Activity, Cost Method of Accounting						Ending Investment Fair Value*
	Investment Capital Commitments	Beginning Investment Cost Method	Capital Calls and Redemptions	Other Than Temporary Impairment	Operating Expense	Ending Investment Cost Method	
For the year ended June 30, 2020							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 525,765
2. Verge I	1,800,000	71,195	-	-	(1,880)	69,315	260,927
3. Verge I.5	3,000,000	263,942	-	-	(9,517)	254,425	517,226
4. NM Gap Fund I	2,000,000	1,292,296	-	(744,711)	(86,774)	460,811	790,260
5. NM Mezzanine Fund	2,491,881	688,800	-	-	-	688,800	843,969
6. Verge II	3,000,000	203,194	-	-	-	203,194	848,109
7. Verge II.5	1,000,000	814,104	-	-	-	814,104	572,084
	<u>\$ 20,291,881</u>	<u>\$ 3,333,531</u>	<u>\$ -</u>	<u>\$ (744,711)</u>	<u>\$ (98,171)</u>	<u>\$ 2,490,649</u>	<u>\$ 4,358,340</u>
For the year ended June 30, 2019							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 605,295
2. Verge I	1,800,000	78,535	-	-	(7,340)	71,195	353,119
3. Verge I.5	3,000,000	288,535	-	-	(24,593)	263,942	720,810
4. NM Gap Fund I	2,000,000	1,320,001	-	-	(27,705)	1,292,296	1,804,594
5. NM Mezzanine Fund	2,491,881	688,800	-	-	-	688,800	843,969
6. Verge II	3,000,000	225,701	-	-	(22,507)	203,194	1,370,912
7. Verge II.5	1,000,000	830,833	-	-	(16,729)	814,104	1,027,704
	<u>\$ 20,291,881</u>	<u>\$ 3,432,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (98,874)</u>	<u>\$ 3,333,531</u>	<u>\$ 6,726,403</u>

*Fair values are provided for informational purposes only. These investments are recorded on the cost basis for financial reporting purposes.
See note 2 to the financial statements for more information on valuation methodology.

See Independent Auditors' Report.

Small Business Investment Corporation

**COMMUNICATION OF
NO MATERIAL WEAKNESSES**

June 30, 2020

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, 2020, 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 25, 2020

Pulakos CPAs, PC