

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

FINANCIAL STATEMENTS

June 30, 2022 and 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the 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, 2022 and 2021, and the related notes to the financial statements which collectively comprise NMSBIC's basic financial statements as listed in the table of contents.

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, 2022 and 2021, 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.

Responsibilities of Management for the Audit of 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NMSBIC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NMSBIC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Emphasis of Matter

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, 2022 and 2021, 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 4-16 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 inquiries 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 audits 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 audits 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

Pulakos CPAs, PC

September 23, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2022 and 2021

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, 2022 and 2021. 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.

The Statements of Net Position include all the NMSBIC’s assets and liabilities, presented in order of liquidity. The resulting net position presented in these statements is restricted for use only as allowed by §5-29-7 NMSA 1978.

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.

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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 management's discussion and analysis of the financial position and results of operations as of, and for the years ended June 30, 2022 and 2021. 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, 2022 and 2021 was \$113.7 million and \$96.8 million, respectively. The change in net position for the years ended June 30, 2022 and 2021 was positive \$16.9 million and positive \$293,412, respectively.

Financial Analysis

The following is a summary of the NMSBIC's total assets, liabilities and net position at June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Assets:		
Current assets	\$ 68,168,559	\$ 32,694,736
Noncurrent assets	<u>52,084,716</u>	<u>64,755,243</u>
Total assets	<u>\$ 120,253,275</u>	<u>\$ 97,449,979</u>
Liabilities:		
Current liabilities	<u>\$ 6,594,080</u>	<u>\$ 639,571</u>
Total liabilities	6,594,080	639,571
Net position:		
Temporarily restricted net assets	<u>113,659,195</u>	<u>96,810,408</u>
Total liabilities and net position	<u>\$ 120,253,275</u>	<u>\$ 97,449,979</u>

Current assets increased by \$35.5 million at June 30, 2022, compared to June 30, 2021, and are detailed as follows:

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	2022	2021
Cash and cash equivalents	\$ 125,416	\$ 249,904
Investment held with New Mexico State Investment Council	9,457,679	10,703,744
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	58,526,105	11,087,281
Debt funding receivable, net	-	10,639,022
Other current assets	59,359	14,785
Total current assets	\$ 68,168,559	\$ 32,694,736

- **Cash and cash equivalents** decreased by \$124,488 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** decreased by \$1,246,065 during the year. The decrease was due to market value losses. Investments held with the New Mexico State Investment Council can be withdrawn as of the first business day of each month.

- **Investment held with New Mexico State Treasurer’s Local Government Investment Pool (LGIP)** increased by \$47.4 million during the year. The increase was primarily due to \$34.5 million in repayments of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans from DreamSpring (comprised of \$21.1 million in outstanding loan balance and \$13.4 million of debt funding receivable as of June 30, 2021), plus a \$17.9 million contribution received from the Severance Tax Permanent Fund. These increases were partially offset by withdrawals to fund growth in non-PPP cooperative loan agreements. LGIP funds can be withdrawn with one business days’ notice.

- **Debt funding receivable, net** decreased by \$10.6 million. This represents net funds due from lending partners as of the fiscal year-end primarily related to loan repayments from their customers, for which funds were paid to the NMSBIC after the fiscal year-end. As of June 30, 2022, net funds were “due to” lending partners resulting in a debt funding “payable” described below.

- **Other current assets** changed by a minor amount, and are comprised of interest and dividends receivable, and prepaid expenses.

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- **Noncurrent assets** decreased by \$12,670,527 during the year and are detailed as follows:

	2022	2021
Equity investments in New Mexico entities	\$ 2,231,223	\$ 2,201,557
Cooperative loan agreements, net of allowance for losses	49,297,302	62,041,362
Notes receivable including accrued interest	556,191	512,324
Total noncurrent assets	\$ 52,084,716	\$ 64,755,243

- **Equity investments in New Mexico entities** increased by \$29,666 during the year. The change was due to \$75,052 in funding provided for operating expenses, less \$45,386 in net operating expenses passed through to the NMSBIC. Equity investments are carried at cost in accordance with GASB Statement No. 72, paragraph B74. 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. 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 resulted in limited diversification;
 - High risk with limited diversification contributed to significant losses during the 2008 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** decreased by \$12.7 million during the year. The decrease was primarily due to repayment of PPP loans by DreamSpring, which was partially offset by growth in other cooperative agreement loans. Cooperative loan agreement activity for the year included the following:

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- The NMSBIC continued 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), Clearinghouse CDFI, DreamSpring (formerly Accion), WESST, LiftFund, Ventana Fund, Homewise, RCAC, and the New Mexico Mortgage Finance Authority. With the exception of the New Mexico Mortgage Finance Authority, the NMSBIC's lending partners 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 \$49.0 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.

- Beginning in March 2020 and continuing into 2022, 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 \$50 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

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June 30, 2022 and 2021

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. Due to active participation in the NMSBIC's COVID-19 lending program, the NMSBIC extended the interest rate reduction for The Loan Fund for an additional twenty-four months through March 2023.

Outstanding loan balances for the NMSBIC's COVID-19 Lending Program, the NMSBIC's PPP Lending Program, and the NMSBIC's traditional lending program, were as follows:

	2022	2021
NMSBIC PPP lending program	\$ 488,656	\$ 21,582,819
NMSBIC COVID-19 lending program	13,627,892	8,735,797
Traditional lending program, net	35,180,754	31,722,746
Total cooperative agreement loans, net	\$ 49,297,302	\$ 62,041,362

- **Notes receivable including accrued interest** increased by \$43,867 during the year, entirely due to accrued interest. This is comprised of two notes transferred to the NMSBIC related to the termination of the New Mexico Gap Fund I limited partnership in 2021. Prior to termination the NMSBIC owned 92.4% of the limited partnership. The NMSBIC purchased minority interests totaling 7.6% of the fund at a deeply discounted price of 25% to have full control of the two notes receivable that were transferred to the NMSBIC.

Current liabilities increased by \$6.0 million during the year, detailed as follows:

	2022	2021
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	\$ -	\$ 639,571
Debt funding payable, net	6,594,080	-
Total current liabilities	\$ 6,594,080	\$ 639,571

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- **Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978** decreased by \$639,571. These are net excess of funds to be returned to the State of New Mexico Severance Tax Permanent Fund. There were no net excess funds as of June 30, 2022, compared with \$639,571 in net excess funds as of June 30, 2021.
- **Debt funding payable, net** increased by \$6.6 million 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. As of June 30, 2022 there was a debt funding payable of \$6.5 million, whereas as of June 30, 2021, net funds were due from lending partners resulting in a \$10.6 million debt funding receivable described in the Current Assets section above.

Net position restricted for economic development increased by \$16.8 at June 30, 2022, compared to June 30, 2021.

	<u>2022</u>	<u>2021</u>
Net position restricted for economic development	<u>\$ 113,659,195</u>	<u>\$ 96,810,408</u>

- The \$16.8 increase was comprised of negative \$1,027,815 in operating income, offset by a \$17.9 million contribution received from the State of New Mexico Severance Tax Permanent Fund.

The following are the NMSBIC's operating revenues and expenses, and net nonoperating revenue for the years ended June 30, 2022 and 2021.

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June 30, 2022 and 2021

Change in Financial Position

	2022	2021
Operating revenues:		
Interest and dividends on investments	\$ 366,992	\$ 485,843
Interest income on cooperative loan agreements	493,061	418,526
Interest income on notes receivable	43,867	6,988
Realized (loss) gain on investment held with New Mexico		
State Investment Council	(1,507,769)	404,982
Total operating revenues	(603,849)	1,316,339
Operating expenses:		
Equity investment operating expense, net	45,386	29,560
Provision for loan losses	32,666	20,551
Impairment on equity investments	-	-
Economic development program services	182,047	168,489
Other operating expenses	163,867	164,756
Total operating expenses	423,966	383,356
Operating (expense) income	(1,027,815)	932,983
Nonoperating revenue (expense):		
Contribution from the State of New Mexico Severance Tax		
Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	17,876,602	-
Return to the State of New Mexico Severance Tax		
Permanent Fund pursuant to §5-29-7 NMSA 1978	-	(639,571)
Total nonoperating revenue (expense)	17,876,602	(639,571)
Change in net position	16,848,787	293,412
Total net position, beginning of year	96,810,408	96,516,996
Total net position, end of year	\$ 113,659,195	\$ 96,810,408

Operating revenues decreased by \$1.9 million during the year ended June 30, 2022, compared to June 30, 2021.

- **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 decreased by \$111,863 during the year due to lower market interest rates.

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- **Interest income on cooperative loan agreements** increased by \$74,535 during the year, due primarily to a \$3.5 million increase in traditional lending program balances.
- **Interest income on notes receivable** increased by \$36,879 during the year. This is interest income on two notes transferred to the NMSBIC on April 30, 2021, related to the termination of the New Mexico Gap Fund I limited partnership.
- **Realized gain (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 \$1,507,769 for the year ended June 30, 2022 was due to market volatility and market value changes, and was \$1,912,751 lower than the gain of \$404,982 for the year ended June 30, 2021.

Total operating expenses increased by \$40,536 during the year ended June 30, 2022, compared to June 30, 2021.

- **Equity investment operating expense, net** is comprised of equity investment management fees and operating expenses, net of other income from equity investments, and increased by \$15,826 during the year.
- **Provision for loan losses** increased by \$12,115 during the year and was related to an increase in loan balances for which loan losses are passed through to the NMSBIC.
- **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 years ended June 30, 2022, and June 30, 2021, the evaluation of the NMSBIC's equity investments resulted in other than temporary impairment of zero in each year.
- **Economic development program services** increased by \$13,558 during the year primarily related to consulting and lending program promotional costs.
- **Other operating expenses** were relatively unchanged as compared to the prior year.

Operating income decreased by \$1,953,736 during the year as detailed in the operating revenue and operating expense sections above.

Nonoperating revenue (expense) was \$17,876,602 in revenue during the year ended June 30, 2022, compared to a \$639,571 expense for the year ended June 30, 2021, detailed as follows:

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- **Contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978** increased by \$17.9 million during the year. There was a \$17,876,602 contribution during the year ended June 30, 2022, compared to no contribution during the year ended June 30, 2021. The contribution was 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 equal to two percent (2.0%) of the market value of the severance tax permanent fund. The \$17.9 million contribution was based on growth in the Severance Tax Permanent Fund during the twelve months ended June 30, 2021, and was received in February 2022.
- **Return to the State of New Mexico severance tax permanent fund pursuant to §5-29-7 NMSA 1978** was zero for the year ended June 30, 2022, compared to an expense of \$639,571 during the year ended June 30, 2021. These are net excess of funds as defined by §5-29-7 NMSA 1978 and are to be returned to the State of New Mexico severance tax permanent fund no later than October 31st of any given year. There were no net excess funds in 2022.

Change in net position increased by \$16.8 million as compared to the prior year. Of this change, \$17.9 million was due to the contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, which was offset by negative operating income of \$1,027,739.

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 *New Mexico Economic Snapshot* as of August 2022.

New Mexico Review and Outlook

After advancing by 12,000 jobs (1.6%) in 2019, the employment in the state shifted downward in 020Q2 (-87,433 jobs, -10.5% year-over-year) due to the effects of the Coronavirus Pandemic. By 020Q4, the state had clawed back some of the losses but was still down 70,000 jobs (-8.9%) compared to a year earlier, which was the final fourth quarter before the beginning of the pandemic. Fast forward to 2021Q4, which is the most recent quarter of Quarterly Census of Employment and Wages (QCEW) data available, and every indication is that things had improved. In that quarter, the state was only down about 27,700 jobs (-3.3%) compared to the same quarter two years earlier.

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Preliminary CES employer survey data, which is current through 2022Q2, suggest that the situation in New Mexico continues to improve. Estimates for the most recent month (June 2022) indicate that jobs in the state are now only about 1.0% below pre-pandemic levels.

Meanwhile, personal incomes saw rapid expansion mostly on the strength of large increases in federal transfer payments (via stimulus checks, unemployment insurance payments, and unemployment bonuses). As a result, incomes advanced 7.8% in 2020 and then by 7.0% in 2021. As transfer payment growth fell into negative territory (-30.8% year-over-year) in the first quarter of 2022 (the most recent quarter of income data available), personal income fell 5.3% year-over-year.

According to the BEA, after advancing 4.3% in 2019, New Mexico's real gross state product (GSP) fell by 2.3% in 2020, but with increasing oil price and production volume in 2021, real GSP advanced 2.5% for the year. As a result, real GSP has essentially fully recovered to pre-pandemic levels. Further, the most recent data, which is current through the first quarter of 2022, shows continued year-over-year growth as the indicator was up 1.3%. However, on a quarter-over-quarter basis, GSP actually fell about 1.2% below the high-water mark reached the previous quarter.

Oil drilling rigs active in New Mexico fell from 109 at end-March 2020 to 48 at end-June and stayed at that level through October before firming by December 2020 to 65. Rig counts firmed further to 70 by end-April 2021 and continued to increase through the rest of the year, finishing at 94 at the end of December. Through April 2022, rigs remain in a band between 95 and 100 and as of the end of July 2022, rig counts have averaged about 110.

Oil production continues to outperform expectations as it has reached all-time highs in each year from 2017 through 2021 – with production in 2021 totaling 467 million barrels. The data suggest continued strength as production in the most recent quarter reached a single quarter high above 131 million barrels. Natural gas production followed a similar pattern with highs coming in each of the last three years. Like oil, natural gas production came in at an all-time high in 2021.

New Mexico's Economic Outlook

FOR-UNM's outlook for the New Mexico economy with regard to employment continues to follow the general shape of IHS's projection. However, the recovery is slower in New Mexico in the near term (specifically in 2022) but is more persistent as growth in New Mexico is faster beginning in 2023. In this forecast, total employment returns to pre-pandemic levels by late-2023 or early-2024, which is similar to our last forecast. Very near-term expectations are still informed by strong high frequency state-level data; however, soft national employment projections operate to dampen growth over the medium-to-long term.

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On an annual basis, FOR-UNM estimates that the state will add about 29,000 jobs (3.9%) in 2022. This is a hair slower than our last forecast, but an upward revision to 2021 data, which pushed employment levels up some 3,200 jobs for the year compared to our last report, keeps near-term levels relatively elevated in this forecast. Somewhat more dower projections beginning 2023, however, slow growth thereafter. In this forecast, FOR-UNM projects that the state will add 9,800 jobs (1.3%) in 2023 and then will add about 7,500 jobs per year thereafter.

Leisure & hospitality, the sector that lost the greatest number of jobs in the second quarter of 2020 is still well below pre-pandemic levels (about 7,500 jobs or 7.6%). However, the industry on its way to recovery. In this forecast, the industry will match 2019 employment levels in 2025, and then will end 2027 with about 1,700 jobs (1.7%) above 2019 levels.

Mining also lost a large number of jobs in 2020Q2. Structural change will keep employment in the industry soft in the coming years as producers are expected to turn to less labor-intensive drilling & extraction methods. Payrolls are now projected to end in 2027 some 3,800 jobs below (-14.8%) levels seen pre-COVID, despite the fact that every indication suggests that oil production levels will be robust throughout the forecast.

While the economy will take several years to recover all the jobs lost to the pandemic, several industries have already fully recovered or are projected to recover by 2022. In particular, professional & technical services, construction, transportation & warehousing, manufacturing, healthcare & social assistance, and surprisingly retail trade, are each projected to be fully recovered no later than end-2022. In addition, jobs will continue to be added in most of these industries throughout the forecast window. By 2027, employment in construction will be 5.4% above 2019 levels; healthcare & social assistance, 7.6% above; transportation & warehousing, a staggering 28.7% above; and professional & technical services, 15.3% above. However, after showing near-term resilience, retail trade will falter for the remainder of the forecast and will end 2027 about 0.5% below 2019 levels.

With better funding outlooks and enough time, all three government sub-sectors (state, local, and federal) should see some improvement, but not all of them will recover all pandemic-era losses. State government, which was largely unphased by the pandemic, will end 2027 with 1,900 more jobs than in 2019 (4.2%). After declining by about 10,000 jobs in 2020 and 2021, local governments, which are highly dependent on GRT revenues, will fight hard to recoup losses. However, by 2027, employment in this industry will still be about 620 jobs (-0.6%) below pre-pandemic levels. After losing jobs in 2021 due to the conclusion of the Decennial Census, the federal government should slowly move forward. By 2027, this industry is projected to end about 580 jobs (2.0%) above pre-pandemic levels.

**Small Business Investment Corporation
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MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2022 and 2021

Driven by a surge in federal transfers, personal incomes advanced 7.8% in 2020 and then another 7.0% in 2021, as it continues to be bolstered by federal transfers but also by strong wage & salary growth. Incomes will stagnate in 2022 (0.3%) as transfers are pulled back – even in spite of continued wage & salary growth. Incomes should bounce back in 2023 (4.5%) before averaging about 4.7% per year thereafter.

Real Gross State Product (GSP), like US GDP, returned to pre-pandemic levels in 2021. After growing at 2.5% in 2021, GSP growth should slow to 1.8% in 2022 before averaging 2.2% over the longer term.

FOR-UNM offers three alternative scenarios. The benefits of the optimistic scenario (5% probability) are minor; overall, jobs end up slightly higher and incomes see a marginal boost. Under this scenario, the state has about 2,000 more jobs in 2027 compared to the baseline scenario and incomes are about 1.2% higher.

There are two pessimistic scenarios. The first pessimistic scenario (35% probability) follows the “swoosh” trend of the baseline scenario but is a bit worse. Under IHS Markit’s pessimistic scenario, there is a weaker recovery in consumer spending and GDP growth than in the baseline forecast. In addition, the Russia-Ukraine conflict intensifies, leading to higher price paths for energy commodities, other industrial commodities and grains. In addition, a slower correction of supply-chain issues prolongs delays in the production and shipment of goods. When applying this scenario to New Mexico, the state ends 2027 with 5,000 fewer jobs (-0.9%) than in the baseline. The failure of the economy to initially gain its footing depresses personal incomes, and a recovery driven by low-wage industries is insufficient to recover the losses. In 2027, incomes in the pessimistic scenario are 4.2% below baseline.

The worst-case pessimistic scenario (10% probability) describes a shallow double-dip recession and, although not a perfect analog, it is aptly compared to New Mexico’s experience after the Great Recession. In this scenario, geopolitical uncertainty, inflationary pressures, as well as post-COVID fatigue, operate to constrain business investment and dampen consumer spending. What begins as short-term lay-offs, particularly in customer-service industries during the pandemic, results in permanent loss. In other industries, aggressive consolidation reduces labor demand. In this scenario, New Mexico ends 2027 with 29,000 jobs less than the baseline. Income levels end 2027 sat 7.9% below the baseline.

FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

June 30, 2022 and 2021

<u>Assets</u>	2022	2021
Current assets		
Cash and cash equivalents	\$ 125,416	\$ 249,904
Investment held with NM State Investment Council	9,457,679	10,703,744
Investment held with NM State Treasurer's Office - LGIP	58,526,105	11,087,281
Debt funding receivable, net	-	10,639,022
Interest and dividends receivable	44,853	516
Prepaid expenses	14,506	14,269
Total current assets	68,168,559	32,694,736
Noncurrent assets		
Notes receivable including accrued interest	556,191	512,324
Equity investments in New Mexico entities	2,231,223	2,201,557
Cooperative loan agreements, net of allowance for loan losses	49,297,302	62,041,362
Total noncurrent assets	52,084,716	64,755,243
Total assets	\$ 120,253,275	\$ 97,449,979
 <u>Liabilities</u>		
Current liabilities		
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	\$ -	\$ 639,571
Debt funding payable, net	6,594,080	-
Total current liabilities	6,594,080	639,571
Total liabilities	6,594,080	639,571
Net position		
Restricted for:		
Economic development	113,659,195	96,810,408
Total net position	113,659,195	96,810,408
Total liabilities and net position	\$ 120,253,275	\$ 97,449,979

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Interest and dividends on investments	\$ 410,859	\$ 492,831
Interest income on cooperative loan agreements	493,061	418,526
Realized (loss) gain on investment held with New Mexico State Investment Council	<u>(1,507,769)</u>	<u>404,982</u>
Total operating revenues	(603,849)	1,316,339
Operating expenses		
Equity investment operating expense, net	45,386	29,560
Provision for loan losses	32,666	20,551
Economic development program services	182,047	168,489
Other operating expenses	<u>163,867</u>	<u>164,756</u>
Total operating expenses	<u>423,966</u>	<u>383,356</u>
Operating (expense) income	(1,027,815)	932,983
Nonoperating revenue (expense)		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	17,876,602	-
Return to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	<u>-</u>	<u>(639,571)</u>
Total nonoperating revenue (expense)	<u>17,876,602</u>	<u>(639,571)</u>
Change in net position	16,848,787	293,412
Net position - beginning of year	<u>96,810,408</u>	<u>96,516,996</u>
Net position - end of year	<u>\$ 113,659,195</u>	<u>\$ 96,810,408</u>

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (346,151)	\$ (342,255)
Net cash used by operating activities	(346,151)	(342,255)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	17,876,602	-
Net cash provided by noncapital financing activities	17,876,602	-
Cash flows from investing activities:		
Purchase of investments held with NM State		
Treasurer's Office - LGIP	-	(950,000)
(Purchase) liquidation of investment held with NM State Investment Council	(47,438,824)	13,000,000
Acquisition of notes receivable	-	(505,337)
Investments in NM economic development activities under Cooperative Agreements, net	29,783,885	(11,181,083)
Net cash (used) provided by investing activities	(17,654,939)	363,580
Net decrease in cash and cash equivalents	(124,488)	21,325
Cash and cash equivalents - beginning of year	249,904	228,579
Cash and cash equivalents - end of year	\$ 125,416	\$ 249,904
Reconciliation of operating income to net cash used by operating activities:		
Operating (expense) income	\$ (1,027,815)	\$ 932,983
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for loan losses	32,666	20,551
Equity investment operating expense, net	45,386	29,560
Non-cash investment losses (gains), net	648,186	(1,318,653)
Interest and dividends receivable	(44,337)	2,314
Changes in assets and liabilities:		
Prepaid expenses	(237)	(9,010)
Net cash used by operating activities	\$ (346,151)	\$ (342,255)

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021

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
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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	2022	2021
Allowance for loan losses, beginning	\$ 58,948	\$ 94,432
Loan losses incurred in current period	(39,447)	(56,035)
Provision for loan losses	32,666	20,551
Allowance for loan losses, ending	\$ 52,167	\$ 58,948

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, 2022 and 2021

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, 2022 or 2021.

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, 2022 and 2021:

	2022	2021
Cumulative severance tax permanent fund capital contributions	\$ 128,437,356	\$ 110,560,754
Cumulative return of net excess funds	(2,831,132)	(2,831,132)
Cumulative expenses in excess of other revenues	(11,947,029)	(10,919,214)
	\$ 113,659,195	\$ 96,810,408

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 \$17,876,602 and zero in 2022 and 2021, respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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

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, 2022 and through September 23, 2022, 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.

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, 2022 and 2021, respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 3 – DEPOSITS – CONTINUED

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, 2022 and 2021, all of NMSBIC’s deposits were fully insured. 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.

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

	2022	2021
Amount of deposits	\$ 125,416	\$ 249,904
FDIC Insurance	(125,416)	(249,904)
Uninsured deposits	-	-
Collateral from financial institution	-	-
Total uninsured and uncollateralized deposits	\$ -	\$ -

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

The following tables presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2022 and 2021:

<u>Assets at Fair Value</u>				
<u>Description – 2022</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 49,297,302	\$ -	\$ 49,297,302	\$ -
Investment held with NM State Treasurer’s Office – LGIP	58,526,105	-	58,526,105	-
Investment held with NM State Investment Council	9,457,679	-	9,457,679	-
	<u>\$ 117,281,086</u>	<u>\$ -</u>	<u>\$ 117,281,086</u>	<u>\$ -</u>

<u>Assets at Fair Value</u>				
<u>Description – 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 62,041,362	\$ -	\$ 62,041,362	\$ -
Investment held with NM State Treasurer’s Office – LGIP	11,087,281	-	11,087,281	-
Investment held with NM State Investment Council	10,703,744	-	10,703,744	-
	<u>\$ 83,832,387</u>	<u>\$ -</u>	<u>\$ 83,832,387</u>	<u>\$ -</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used.

Cooperative loan agreements: Valued at the net asset value of debt investment at year-end.

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 net 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

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:

2022

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Core Plus Bond	Level 2	100.00%	\$9,457,679	Not available

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NOTES TO FINANCIAL STATEMENTS

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

2021

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Core Plus Bond	Level 2	100.00%	\$10,703,744	Not available

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.

2022

Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer's Office – LGIP	\$ 58,526,105	AAAm	43 Days (r) ; 88 Days (F)

2021

Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer's Office – LGIP	\$ 11,087,281	AAAm	48 Days (r) ; 78 Days (F)

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NOTES TO FINANCIAL STATEMENTS

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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, 2022 and 2021, interest income of \$162,433 and \$173,527, 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. Due to The Loan Fund's active participation in the NMSBIC's COVID-19 Lending Program, the NMSBIC extended the reduction of the interest rate of the loan to 1.0% to 2.0% through March 24, 2023 and extended the period for The Loan Fund to originate NMSBIC COVID-19 Lending Program loans through February 28, 2022. 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, 2022 and 2021, interest income of \$1,909 and \$2,345, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- 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 average 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, 2022 and 2021, interest income of \$118,341 and \$137,041, respectively, was recognized related to this investment.

Beginning in April 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- 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, 2022 and 2021, interest income of \$15,222 and \$14,333, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

- 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, 2022 and 2021, interest income of \$166,849 and \$87,071, 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- **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, 2022 and 2021, 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.

- **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, 2022 and 2021, interest income of \$28,301 and \$4,209, respectively, was recognized related to this investment.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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.

- RCAC. As of October 2020, NMSBIC entered into a new revolving loan Cooperative Agreement with RCAC, 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 October 2025. During the years ended June 30, 2022 and 2021, interest income of zero was recognized related to this investment.

In order to support its lending partners and small businesses impacted by the COVID-19 crisis, the loan to RCAC included the following: (i) the interest rate on the loan was reduced to 1.0% from 2.0% for a period of twelve months ending September 30, 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.

- Clearinghouse CDFI. As of April 2022, NMSBIC entered into a new revolving loan Cooperative Agreement with Clearinghouse CDFI, a for-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 April 2032. During the years ended June 30, 2022 and 2021, interest income of zero was recognized related to this investment.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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. The New Mexico Gap Fund I Limited Partnership terminated in May 2021, with two notes receivable transferred to the NMSBIC prior to termination of the limited partnership. The New Mexico Community Capital Fund I Limited Partnership, and the New Mexico Mezzanine Partner Limited Partnership, have passed the fund termination dates, and are both in winding-up periods. The NMSBIC's investments in Verge I L.P., Verge I.5 L.P., Verge II L.P., and Verge II.5 L.P., were combined into Verge I II Combined L.P. as of January 1, 2021. Verge I II Combined L.P. has a termination date of December 31, 2025. See supplementary schedules for detail on these agreements.

Notes Receivable

NMSBIC acquired two promissory notes from the New Mexico Gap Fund I, L.P. in April 2021, prior to termination of the fund in May 2021. Prior to termination of the fund the NMSBIC owned 92.4% of the limited partnership. The NMSBIC purchased minority interests totaling 7.6% of the fund at a deeply discounted price of 25% of the value to have full control of the two promissory notes that were transferred to the NMSBIC.

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 and \$639,571 as of June 30, 2022 and 2021, 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.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND – CONTINUED

	<u>2022</u>	<u>2021</u>
Interest and dividends received, cash basis	\$ 815,886	\$ 864,128
Operating expenses, net of loan losses	(391,303)	(362,805)
Accumulated reserve for debt and equity losses	(52,167)	(58,948)
Fair value change, investment with NMSIC	(1,507,769)	404,982
Capital loss realized	<u>-</u>	<u>-</u>
Net excess funds	(1,135,353)	847,357
Cumulative overpayment of net excess funds	<u>-</u>	<u>(207,786)</u>
Net (deficient) excess funds	<u>\$ (1,135,353)</u>	<u>\$ 639,571</u>

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 subsequent fiscal years, results in a credit to apply against net excess fund amounts calculated as due in the fiscal year ended June 30, 2021. As of June 30, 2021, all of the remaining credit was applied against net excess funds amount calculated, thereby reducing the credit to zero.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 8 – CAPITAL COMMITMENTS

As of June 30, 2022, total remaining commitments under debt cooperative agreements and equity cooperative agreements were \$23,091,037 and \$75,052, respectively. See supplementary schedules for details of these remaining commitments.

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 2022 and 2021 were \$17,876,602 and zero, respectively. Details of these distributions are as follows:

<u>2022</u> Agency	Number	Amount	Purpose
DFA	34100	\$ 17,876,602	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, 2022 and 2021

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 December 15, 2021. 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 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 its financial statements.

In May 2020, GASB Statement No. 96 Subscription-Based Information Technology Arrangements, was issued. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

SUPPLEMENTAL INFORMATION

Small Business Investment Corporation
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SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2022 and 2021

	<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, 2022							
1. DreamSpring #1*	\$ -	\$ 592	\$ (592)	\$ -	\$ -	\$ -	\$ -
2. DreamSpring #2	7,750,000	4,934,724	(1,455,480)	(39,447)	3,439,797	(34,398)	3,405,399
3. DreamSpring #3**	815,506	21,582,819	(21,094,163)	-	488,656	-	488,656
4. NMCDLF	35,000,000	26,543,780	2,199,004	-	28,742,784	-	28,742,784
5. WESST Corp	375,000	59,415	51,644	-	111,059	(17,769)	93,290
6. NMMFA	2,500,000	1,000,000	(1,000,000)	-	-	-	-
7. Ventana Fund	15,000,000	7,373,127	2,266,947	-	9,640,074	-	9,640,074
8. Homewise	4,000,000	572,608	1,333,065	-	1,905,673	-	1,905,673
9. Lift Fund	1,000,000	33,245	(11,819)	-	21,426	-	21,426
10. RCAC	1,000,000	-	-	-	-	-	-
11. Clearinghouse CDFI	5,000,000	-	5,000,000	-	5,000,000	-	5,000,000
	<u>\$ 72,440,506</u>	<u>\$ 62,100,310</u>	<u>\$ (12,711,394)</u>	<u>\$ (39,447)</u>	<u>\$ 49,349,469</u>	<u>\$ (52,167)</u>	<u>\$ 49,297,302</u>
For the year ended June 30, 2021							
1. DreamSpring #1*	\$ -	\$ 22,687	\$ (27,802)	\$ 5,707	\$ 592	\$ (95)	\$ 497
2. DreamSpring #2	7,750,000	7,418,518	(2,422,052)	(61,742)	4,934,724	(49,347)	4,885,377
3. DreamSpring #3**	35,000,000	30,000,000	(8,417,181)	-	21,582,819	-	21,582,819
4. NMCDLF	27,500,000	19,800,854	6,742,926	-	26,543,780	-	26,543,780
5. WESST Corp	375,000	103,859	(44,444)	-	59,415	(9,506)	49,909
6. NMMFA	2,500,000	-	1,000,000	-	1,000,000	-	1,000,000
7. Ventana Fund	10,500,000	5,151,731	2,221,396	-	7,373,127	-	7,373,127
8. Homewise	4,000,000	-	572,608	-	572,608	-	572,608
9. Lift Fund	3,000,000	147,621	(114,376)	-	33,245	-	33,245
10. RCAC	1,000,000	-	-	-	-	-	-
	<u>\$ 91,625,000</u>	<u>\$ 62,645,270</u>	<u>\$ (488,925)</u>	<u>\$ (56,035)</u>	<u>\$ 62,100,310</u>	<u>\$ (58,948)</u>	<u>\$ 62,041,362</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.

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SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2022 and 2021

	Investment Capital Commitments	Investment Activity, Cost Method of Accounting				Ending Investment Cost Method	Ending Investment Fair Value*
		Beginning Investment Cost Method	Capital Calls and Redemptions	Other Than Temporary Impairment	Operating Expense		
For the year ended June 30, 2022							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,172,579
2. Verge I**	-	-	-	-	-	-	-
3. Verge I.5**	-	-	-	-	-	-	-
4. NM Gap Fund I	2,000,000	-	-	-	-	-	-
5. NM Mezzanine Fund	3,000,000	688,800	-	-	-	688,800	885,890
6. Verge II**	-	-	-	-	-	-	-
7. Verge II.5**	-	-	-	-	-	-	-
8. Verge I II Combined	9,025,156	1,512,757	75,052	-	(45,386)	1,542,423	3,857,073
	<u>\$ 21,025,156</u>	<u>\$ 2,201,557</u>	<u>\$ 75,052</u>	<u>\$ -</u>	<u>\$ (45,386)</u>	<u>\$ 2,231,223</u>	<u>\$ 5,915,542</u>
For the year ended June 30, 2021							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 525,765
2. Verge I**	-	69,315	(66,881)	-	(2,434)	-	-
3. Verge I.5**	-	254,425	(253,592)	-	(833)	-	-
4. NM Gap Fund I	2,000,000	460,811	(455,235)	-	(5,576)	-	-
5. NM Mezzanine Fund	3,000,000	688,800	-	-	-	688,800	858,492
6. Verge II**	-	203,194	(203,194)	-	-	-	-
7. Verge II.5**	-	814,104	(793,387)	-	(20,717)	-	-
8. Verge I II Combined	9,025,156	-	1,512,757	-	-	1,512,757	5,391,155
	<u>\$ 21,025,156</u>	<u>\$ 2,490,649</u>	<u>\$ (259,532)</u>	<u>\$ -</u>	<u>\$ (29,560)</u>	<u>\$ 2,201,557</u>	<u>\$ 6,775,412</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.

**Consolidated into Verge I II Combined in 2021, investment capital commitment included in Verge I II Combined.

Small Business Investment Corporation

**COMMUNICATION OF
NO MATERIAL WEAKNESSES**

June 30, 2022

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, 2022, 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 23, 2022

Pulakos CPAs, PC