

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

**FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation, (NMSBIC), a component unit of the State of New Mexico, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements which collectively comprise NMSBIC's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to NMSBIC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NMSBIC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of NMSBIC, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 2, the financial statements of NMSBIC are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of NMSBIC. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. NMSBIC's financial statements are included in the financial statements of the State of New Mexico.

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

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

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

PULAKOS CPAs, PC

September 23, 2019

Pulakos CPAs, PC

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2019 and 2018**

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, 2019 and 2018. This information is being presented to provide additional information regarding the activities of the NMSBIC and to meet the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments (GASB No. 34) and GASB Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus. The NMSBIC is engaged in business-type activities and is considered a special-purpose government in accordance with GASB Statement No. 34. The financial statements present information required for enterprise funds, and report on all of the activities of the NMSBIC. This analysis should be read in conjunction with the independent auditors’ report, audited financial statements, and accompanying notes.

**Overview of the Financial Statements**

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

As of and for the year ended June 30, 2019, the NMSBIC adopted the Government Accounting Standards Board (GASB) method of accounting for its financial statements. The fiscal year ended June 30, 2018 has been presented using the GASB method of accounting for comparison purposes. The NMSBIC had previously presented its financial statements under the Financial Accounting Standards Board (FASB) accounting method for the fiscal years ended June 30, 2002 through June 30, 2016, and the American Institute of Certified Public Accountants (AICPA) Financial Reporting Framework for Small and Medium Sized Entities (FRF for SMEs) for the fiscal years ended June 30, 2017 and 2018. With the adoption of the GASB accounting method, a key change is that equity investments are reported using the cost method (see GASB Statement No. 72 paragraph B74). The NMSBIC’s equity investments had previously been reported using fair market value under FASB, and under FRF for SMEs. As of June 30, 2019, the NMSBIC’s equity investments had fair market value of \$6,726,403, and a balance of \$3,333,531 under the cost method. See supplementary schedules to the audited financial statements for additional detail on the equity investments.

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

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

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

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

**Management's Discussion and Analysis**

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

**Financial Highlights**

The NMSBIC's total net position at June 30, 2019 and 2018 was \$38.7 million, and \$34.2 million, respectively. The change in net position for the years ended June 30, 2019 and 2018 was positive \$4.5 million, and positive \$2.6 million, respectively.

**Financial Analysis**

The following is a summary of the NMSBIC's total assets, liabilities and net position at June 30, 2019 and 2018.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2019 and 2018**

	2019	2018
Assets:		
Current assets	\$ 16,088,433	\$ 12,343,242
Noncurrent assets	<u>23,387,523</u>	<u>21,874,461</u>
Total assets	<u>\$39,475,956</u>	<u>\$34,217,703</u>
Liabilities:		
Current liabilities	\$ 784,219	\$ 380
Noncurrent liabilities	<u>-</u>	<u>-</u>
Total liabilities	784,219	380
Net position:		
Net position restricted for economic development	<u>38,691,737</u>	<u>34,217,323</u>
Total liabilities and net position	<u>\$39,475,956</u>	<u>\$34,217,703</u>

**Current assets** increased by \$3.7 million at June 30, 2019, compared to June 30, 2018, and are detailed as follows:

	2019	2018
Cash and cash equivalents	\$ 273,697	\$ 460,071
Investment held with New Mexico State Investment Council	12,223,034	8,357,763
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	3,580,403	2,508,613
Debt funding receivable, net	-	1,014,056
Other current assets	<u>11,299</u>	<u>2,739</u>
	<u>\$16,088,433</u>	<u>\$12,343,242</u>



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2019 and 2018**

- **Cash and cash equivalents** decreased by \$186,374 during the year. Management's target is for the balance of cash and cash equivalents to be \$500,000 or less, and to provide immediate liquidity. Funds in excess of this target balance are invested with the New Mexico State Investment Council or the State Treasurer's Office Local Government Investment Pool.
- **Investment held with New Mexico State Investment Council** increased by \$3.9 million during the year. The increase was primarily due to a \$3.5 million contribution during the year from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978. These funds can be withdrawn as of the first business day of each month and are intended to provide for the NMSBIC's liquidity needs that are greater than 30 days.
- **Investment held with New Mexico State Treasurer's Local Government Investment Pool** increased by \$1.1 million during the year. These funds can be withdrawn with one business days' notice and are intended to provide for the NMSBIC's liquidity needs from two days to thirty days.
- **Debt funding receivable, net** decreased by \$1.0 million during the year. This represents net funds due from lending partners as of the fiscal year-end related to payments and payoffs from their customers, which are remitted to the NMSBIC after the fiscal year-end. For the current fiscal year-end, there were net payments due from the NMSBIC to its lending partners, resulting in a debt funding payable (see the current liabilities section).
- **Other current assets** changed by a minor amount, and is comprised of interest and dividends receivable, and prepaid expenses.

**Noncurrent assets** increased by \$1.5 million at June 30, 2019, compared to June 30, 2018, and are detailed as follows:

	<u>2019</u>	<u>2018</u>
Equity investments in New Mexico entities	\$ 3,333,531	\$ 3,432,405
Cooperative loan agreements, net of allowance for losses	<u>20,053,992</u>	<u>18,442,056</u>
	<u>\$23,387,523</u>	<u>\$21,874,461</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2019 and 2018**

- **Equity investments in New Mexico entities** decreased by \$98,874 during the year. 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 on in New Mexico small businesses, limited diversification;
  - High risk with limited diversification contributed to significant losses during the economic downturn;
  - Management fees paid over several years to equity fund managers reduced returns;
  - Equity investments are typically long-term, which reduces the ability to turn-over funds into new small businesses;
  - Equity investments do not provide current income to offset the NMSBIC's operating expenses;
  - Equity investments were geographically concentrated, with limited funding in rural areas of New Mexico.
  
- **Cooperative loan agreements, net of allowance for loan losses** increased by \$1.6 million during the year. The NMSBIC continues to focus on expanding its lending program, with funds provided to New Mexico small businesses through lending partners. The NMSBIC's lending partners include the New Mexico Community Development Loan Fund (The Loan Fund), DreamSpring (formerly Accion), WESST, and the New Mexico Mortgage Finance Authority. The Loan Fund, DreamSpring, and WESST are designated as Community Development Financial Institutions (CDFIs) by the U.S. Treasury. CDFIs have a mission of providing financing in low-income communities and to people who lack access to traditional financing. The NMSBIC began a focus of expanding its lending program in 2011. Since that time, cooperative loan agreements have increased from \$8.9 million to \$20.1 million. This growth has resulted in interest income from cooperative loan agreements that is greater than the NMSBIC's economic development program expenses, and other operating expenses, resulting in the NMSBIC being a self-sustaining organization.

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**June 30, 2019 and 2018**

**Other current liabilities** increased by \$783,839 at June 30, 2019, compared to June 30, 2018, and are detailed as follows:

	2019	2018
Accounts payable	\$ -	\$ 380
Debt funding payable, net	784,219	-
	\$ 784,219	\$ 380

- **Accounts payable** decreased by \$380 during the year.
- **Debt funding payable, net** increased by \$784,219 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 are drawn from the NMSBIC after the fiscal year-end. For the prior fiscal year-end, there were net payments due to the NMSBIC from its lending partners, resulting in a debt funding receivable (see the current assets section).

**Net position restricted for economic development** increased by \$4.5 million at June 30, 2019, compared to June 30, 2018.

	2019	2018
Net position:		
Net position restricted for economic development	\$38,691,737	\$34,217,323

- \$3,495,987 of the increase was a contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978.
- \$978,427 of the increase was from net operating income.

The following are the NMSBIC's operating revenues and expenses, and net nonoperating revenue for the years ended June 30, 2019 and 2018.

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**June 30, 2019 and 2018**

	2019	2018
Operating revenues:		
Interest and dividends on investments	\$ 439,607	\$ 267,789
Interest income on cooperative loan agreements	448,293	489,915
Realized gain on equity investments	-	712,199
Realized gain (loss) on investment held with New Mexico State Investment Council	503,578	(160,177)
Total operating revenues	1,391,478	1,309,726
Operating expenses:		
Equity investment operating expense, net	98,874	88,269
Provision for loan losses	65,430	1,548
Economic development program services	122,934	120,913
Other operating expenses	125,813	122,698
Total operating expenses	413,051	333,428
Operating income	978,427	976,298
Nonoperating revenue:		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	3,495,987	1,627,426
Change in net position	4,474,414	2,603,724
Total net position, beginning of year	34,217,323	31,613,599
Total net position, end of year	\$38,691,737	\$34,217,323

**Operating revenues** increased by \$81,752 during the year ended June 30, 2019, compared to June 30, 2018.

- **Interest and dividend income** includes interest from investments with the State Investment Council's Core Plus Bond Pool, and investments with the State Treasurer's Office Local Government Investment Pool. Interest and dividend income increased by \$171,818 during the year.

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- **Interest income on cooperative loan agreements** decreased by \$41,622 during the year. Although the balance of cooperative loan agreements was higher at June 30, 2019 as compared the June 30, 2018, the average balance of loans outstanding was higher during the fiscal year ended June 30, 2018. This was in-part due to a payoff in-full received in May 2018 from a prior cooperative agreement lending partner, Rio Vista Growth Capital, LLC.
- **Realized gain (loss) on investment held with New Mexico State Investment Council** is the change in market value for the Core Plus Bond Pool. The realized gain of \$503,578 for the year ended June 30, 2019 was \$663,755 higher than the realized loss of \$160,177 for the year ended June 30, 2018.
- **Realized gain on equity investments** decreased by \$712,199 during the year. There were no realized gains for the year ended June 30, 2019. The \$712,199 gain in the prior fiscal year was related to a distribution received from the NMSBIC's equity investment in New Mexico Community Capital Fund I, Limited Partnership.

**Operating expenses** increased by \$79,623 during the year ended June 30, 2019, compared to June 30, 2018.

- **Equity investment operating expense, net** is comprised of equity investment management fees on operating expenses, net of other income from equity investments. Equity investment operating expense, net, increased by \$10,605 during the year, primarily due a reduction in other income from equity partners.
- **Provision for loan losses** increased by \$63,882 during the year. The change was primarily due to a reversal of provision for loans in the prior fiscal year related to the payoff in-full received from a prior cooperative agreement lending partner, Rio Vista Growth Capital, LLC. There were no loan losses charged against the allowance for loan loss related to the loan to Rio Vista Growth Capital, LLC, resulting in a reversal of provision for loan loss.
- **Economic development program services** were relatively unchanged from the prior year, with a minor increase of \$2,021 as compared to the prior year.
- **Other operating expenses** were relatively unchanged from the prior year, with a minor increase of \$3,115 as compared to the prior year.

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**Nonoperating revenue, contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978** increased by \$1.9 million during the year ended June 30, 2019, compared to June 30, 2018. This was related to an increase in the contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, which indicates the state investment officer shall make a commitment to the NMSBIC to invest one percent of the market value of the severance tax permanent fund. Beginning July 1, 2019, the commitment was increased to two percent of the market value of the severance tax permanent fund, which will result in approximately \$50 million in additional funding to be received in January 2020, after completion of the severance tax permanent fund's annual audit.

- **Change in net position** increased by \$1.8 as compared to the prior fiscal year. Of the \$4.5 million positive change in net position as of June 30, 2019, \$3,495,987 was a contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, and \$978,427 was from net operating income.

### **Budgets and Budgetary Accounting**

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

### **Economic Outlook**

The following New Mexico review and outlook is from the UNM Bureau of Business and Economic Research's *Economic Snapshot* as of August 2019.

New Mexico added 11,350 jobs (1.4%) in 2018, by far the strongest growth since the Great Recession. More than half of all new jobs were in Eddy and Lea Counties (6,100 jobs, 10.9%). Employment in all metro areas except Farmington grew by at least 1%. Farmington lost 700 jobs (-1.5%), and non-metro counties other than Eddy and Lea lost 425 jobs (-0.2%).

According to CES [Center for Economic Studies] data, statewide employment growth held steady from January through May 2019 (11,900 jobs, 1.4%), though the performance in metro areas was off significantly, implying an even greater dependence on oil & gas producing non-metro areas. Informed in part by CES data, FOR-UNM estimates that in the first half of 2019 mining added 2,850 jobs (12%); construction 1,350 jobs (2.8%) and transportation 900 jobs (4.7%), with the majority of these jobs tied to the oil & gas industry.

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Leisure & hospitality is projected to have added 1,800 jobs (1.9%), the majority in Albuquerque and Santa Fe. Professional & technical services, which has now grown at a steady clip for most of three years, is estimated to have added 1,375 jobs (2.4%), also with most jobs located in central corridor. With strong residential sales, financial activities expanded (425 jobs, 1.4%).

Healthcare, which experienced an unprecedented period of stagnation following the implementation of ACA-funded Medicaid expansion, began its slow recovery in 2018 and is estimated to have added another 1,450 jobs (1.2%) in the first half of 2019.

Growth of the surprisingly robust manufacturing sector is expected to have slowed in early 2019 (360 jobs, 1.4%). After steep losses in 2017, wholesale and retail trade stabilized in 2018 but is expected to have lost some ground in the first half of 2019 (-250 jobs, -0.2%).

Since the beginning of the recession, government payrolls were cut by 12,000 (6.3%). In late-2018, the pattern began to shift, as gains in local government (which include public schools) offset losses in State and federal government. With improved finances, the State government is expected to have resumed hiring in 2019Q2, with stronger numbers to follow as we move into the new fiscal year.

In 2018, New Mexico's labor force expanded by 10,500 persons (1.1%), with many seeking jobs in Eddy and Lea Counties (4,400 persons, 7.7%). According to the BLS [Bureau of Labor Statistics], growth of the state's labor force accelerated in the first half of 2019 (17,075 persons, 1.8%). The state's unemployment rate dipped to 4.9% in June, remaining third highest among the 50 states.

Personal incomes were up 4.5% in 2019Q1, slightly below the 4.7% (revised) increase in 2018Q4. Growth of wage & salary disbursements to private sector workers slowed (5.0%, down from 6.3% in 2018Q4), while disbursements to government workers continued to improve, up 2.9%. Federal transfer payments increased sharply (7.2%), accounting for more than one third of the total increase. Interestingly, growth of social security and Medicare payments, up 8.3%, paced transfer growth. Farm proprietors' income, which fell sharply during the dry 2018 growing season, rebounded in 2019Q1, while growth of nonfarm proprietors' income, which is tied to the oil & gas industry, eased as the sector entered the third year of the boom.

Residential sales in the past six months were well short of 2018 records, but they remain well above earlier peaks. Yet, it is now obviously there is little connection between residential sales and new homebuilding. In the first half of 2019, 2,500 new homes were permitted for construction, slightly more than in the same period in 2018 but less than in 2017.

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Crude oil production in New Mexico continued to surge in 2019Q1 (77.5 million barrels, up 45%), following a similar increase in 2018. A record 107.5 rigs were active in New Mexico during the quarter, though activity has been a bit lighter since (102.5 through mid-July). Currently, 10.6% of all rigs active in the US are operating in New Mexico, up from 4.2% in early-2016. As of July 29, the WTI crude oil price is \$57.05 per barrel, up 10% since early-June but down 14% since late-April.

FOR-UNM's near-term outlook for the New Mexico economy, based on IHS Global Insight July 2019 national forecast, is slightly stronger than in April, though the longer-term outlook is a bit weaker.

FOR-UNM forecasts that New Mexico will add 12,500 jobs (1.5%) in 2019, up from 10,325 anticipated in April; and 13,275 jobs (1.6%) in 2020, up from 12,700 jobs (1.5%) forecast in April. In the out years, 2021-2024, we expect average annual employment growth of 8,275 jobs (1.0%), down slightly from the April forecast.

Through mid-2020, job growth will be strongest in the Oil Patch, but State spending will result in a more balanced pattern of regional growth thereafter. Mining is forecast to add 2,050 jobs (8.2%) in the second half of 2019, slowing to 1,150 jobs (4.2%) in 2020 and 625 jobs (2.2%) thereafter. Transportation will add 725 jobs (3.7%) in late-2019, slowing to just 260 jobs (1.3%) in 2020, as pipelines come online in the southeast. Nearly \$1 billion in FY2020 State capital projects that are scheduled to break ground in FY2020, and we expect similar or larger investments in FY2021. Combined with ongoing spending in the oil & gas sector, we anticipate 2,500 new construction jobs (5.2%) per year through mid-2021, slowing to 850 jobs (1.6%) thereafter.

While there are a few bright spots for manufacturing, such as the stabilization of Intel and hopes for possible plans for petrochemical industries in the southeast, FOR-UNM anticipates a gradual loss of jobs (-175 jobs, -0.7% per year through 2024).

Professional and technical services is a mixed bag and is expected to continue to expand at a modest clip (1,250 jobs, 2.1% per year), mostly in civil engineering but also in tech businesses in Albuquerque and Santa Fe. The information sector, which includes film production, is expected to be more stable because of the expansion of the film rebate program but we do not expect rapid job growth (150 jobs, 1.2% per year). New Mexico's large but low-wage leisure & hospitality sector may be the principal beneficiary of increased public subsidies (1,600 jobs, 1.6% per year).

Growth of financial activities will remain sluggish due to long-term consolidation. Growth of administrative services will be trimmed as the State withdraws support for call centers, which have been the only source of growth in past years.



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Retail and especially wholesale trade face mounting competition from internet sellers such as Amazon, and it is unlikely that legislation to tax these sales will alter consumer behavior, particularly in rural areas with few nearby stores. FOR-UNM expects a loss of 200 jobs (-0.2%) per year over the forecast period.

Payrolls in the large healthcare industry are again expanding, but with slow population growth and limited federal funding available, expansion will be much slower than in the past, adding about 2,500 jobs (2.0%) per year.

Oil & gas revenues pouring into public coffers will curb cuts to government payrolls, but we do not anticipate a large and sustained surge in hiring. In the near-term, the State will seek to fill existing vacancies and hire pre-K teachers and aides but hiring will be limited by the number of qualified applicants, despite higher wages. FOR-UNM anticipates payrolls of State and local governments to expand by an average of 1,100 (0.7%) per year.

Federal employment will spike briefly in 2020Q2 to conduct the Decennial Census.

Personal income is forecast to increase by 4.8% in 2019, 4.0% in 2020, and by an average of 4.5% thereafter. Initially, income growth will be the result of continued job growth in high-wage industries, including mining and construction, and higher government salaries. Increased Social Security and Medicare transfer payments will also add to income growth.

The outlook for oil & gas production is stronger than in April but remains below industry estimates. FOR-UNM anticipates oil production to grow by 10% per year, reaching 435 million barrels by 2024. Growth will be strongest in the next two years, then slow as production exceeds domestic demand and transportation constraints limit export growth.

The alternative scenarios are deeply asymmetric, both in terms of probability and impact. The costs of the pessimistic scenario, a 35% probability (compared to 30% in April), are substantial and sustained in New Mexico, while the benefits of the optimistic scenario, a 10% probability, are meager. The pessimistic scenario takes hold in mid-2020 and remains in force through 2021, when the state's unemployment rate reaches a high of 6.9%. At the end of the forecast period, in 2024, the state has 14,250 (1.6%) fewer jobs, and 7,750 (25%) fewer new homes than in the baseline scenario. Under the optimistic scenario, the state ends the forecast period with just 2,500 (0.3%) more jobs and 1,000 (3.0%) more new homes than in the baseline scenario.

## **FINANCIAL STATEMENTS**

**Small Business Investment Corporation**  
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**STATEMENTS OF NET POSITION**

**June 30, 2019 and 2018**

<u>Assets</u>	<b>2019</b>	<b>2018</b>
Current assets		
Cash and cash equivalents	\$ 273,697	\$ 460,071
Investment held with NM State Investment Council	12,223,034	8,357,763
Investment held with NM State Treasurer's Office - LGIP	3,580,403	2,508,613
Debt funding receivable, net	-	1,014,056
Interest and dividends receivable	7,046	1,725
Prepaid expenses	4,253	1,014
	16,088,433	12,343,242
Noncurrent assets		
Equity investments in New Mexico entities	3,333,531	3,432,405
Cooperative loan agreements, net of allowance for loan losses	20,053,992	18,442,056
	23,387,523	21,874,461
Total noncurrent assets	23,387,523	21,874,461
Total assets	\$ 39,475,956	\$ 34,217,703
 <u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ -	\$ 380
Debt funding payable, net	784,219	-
	784,219	380
Total current liabilities	784,219	380
Total liabilities	784,219	380
Net position		
Restricted for:		
Economic development	38,691,737	34,217,323
	38,691,737	34,217,323
Total net position	38,691,737	34,217,323
Total liabilities and net position	\$ 39,475,956	\$ 34,217,703

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Operating revenues		
Interest and dividends on investments	\$ 439,607	\$ 267,789
Interest income on cooperative loan agreements	448,293	489,915
Realized gain on equity investments	-	712,199
Realized gain (loss) on investment held with New Mexico State Investment Council	503,578	(160,177)
Total operating revenues	1,391,478	1,309,726
Operating expenses		
Equity investment operating expense, net	98,874	88,269
Provision for loan losses	65,430	1,548
Economic development program services	122,934	120,913
Other operating expenses	125,813	122,698
Total operating expenses	413,051	333,428
Operating income	978,427	976,298
Nonoperating revenue		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to SS 7-27-5.15(F) NMSA 1978	3,495,987	1,627,426
Total nonoperating revenue	3,495,987	1,627,426
Change in net position	4,474,414	2,603,724
Net position - beginning of year	34,217,323	31,613,599
Net position - end of year	\$ 38,691,737	\$ 34,217,323

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

**STATEMENTS OF CASH FLOWS**

**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (252,366)	\$ (243,611)
Net cash used by operating activities	(252,366)	(243,611)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	3,495,987	1,627,426
Net cash provided by noncapital financing activities	3,495,987	1,627,426
Cash flows from investing activities:		
Purchase of investments held with NM State Treasurer's Office - LGIP	(1,000,000)	(2,508,613)
Purchase of investment held with NM State Investment Council	(3,000,000)	-
Investments in NM economic development activities under Cooperative Loan Agreements, net	570,005	253,052
Net cash used by investing activities	(3,429,995)	(2,255,561)
Net (decrease) increase in cash and cash equivalents	(186,374)	(871,746)
Cash and cash equivalents - beginning of year	460,071	1,331,817
Cash and cash equivalents - end of year	273,697	460,071
Reconciliation of operating income to net cash used by operating activities:		
Operating income	978,427	976,298
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Provision for loan losses	65,430	1,548
Equity investment operating expense, net	98,874	88,269
Non-cash investment gains, net	(1,386,157)	(1,365,952)
Changes in assets and liabilities:		
Interest and dividends receivable	(5,321)	52,621
Prepaid expenses	(3,239)	3,225
Accounts payable and due to others	(380)	380
Net cash used by operating activities	\$ (252,366)	\$ (243,611)

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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:

During the year ended June 30, 2019, NMSBIC adopted GASB Statements No. 83, *Certain Asset Retirement Obligations*, No. 84, *Fiduciary Activities*, No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* as required by GAAP. None of these new pronouncements have a significant impact on the NMSBIC's financial statements.

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, 2019 and 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Financial Reporting Entity

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

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

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

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

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

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

Basis of Presentation

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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 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  
(A Component Unit of the State of New Mexico)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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, 2019 and 2018, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2019</u>	<u>2018</u>
Allowance for loan losses, beginning	\$ 85,069	\$ 167,537
Loan losses incurred in current period	(67,145)	(84,016)
Provision for loan losses	<u>65,429</u>	<u>1,548</u>
Allowance for loan losses, ending	<u>\$ 83,353</u>	<u>\$ 85,069</u>

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  
(A Component Unit of the State of New Mexico)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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, 2019 or 2018.

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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Cumulative severance tax permanent fund capital contributions	\$ 52,805,986	\$ 49,309,999
Cumulative return of net excess funds	(2,191,561)	(2,191,561)
Cumulative expenses in excess of other revenues	(11,922,688)	(12,901,115)
	<b>\$ 38,691,737</b>	<b>\$ 34,217,323</b>

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. Funding received from the State Investment Officer due to the net market value of the New Mexico Severance Tax Permanent Fund was \$3,495,987 and \$1,627,426 in 2019 and 2018, respectively.

Subsequent to June 30, 2019, the commitment from the New Mexico Severance Tax Permanent Fund was increased to two percent of the market value of the fund.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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.

Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2019 and through September 23, 2019, 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, 2019 and 2018.

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.

**Small Business Investment Corporation  
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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 3 – DEPOSITS – CONTINUED**

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, 2019 and 2018, \$23,697 and \$210,071 of NMSBIC’s deposits were uninsured, but were fully collateralized. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to NMSBIC for a least one half of the amount on deposit with the institution.

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

	<b>2019</b>	<b>2018</b>
Amount of deposits	\$ 273,697	\$ 460,071
FDIC Insurance	(250,000)	(250,000)
Uninsured deposits	23,697	210,071
Collateral from financial institution	(23,697)	(210,071)
Total uninsured and uncollateralized deposits	\$ -	\$ -

**NOTE 4 – FAIR VALUE MEASUREMENT**

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED**

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.

The following tables presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

<b><u>Assets at Fair Value</u></b>				
<b><u>Description – 2019</u></b>	<b><u>Total</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Cooperative loan agreements	\$ 20,053,992	\$ -	\$ 20,053,992	\$ -
Investment held with NM LGIP	3,580,403	-	3,580,403	-
Investment held with NM State Investment Council	<u>12,223,034</u>	<u>-</u>	<u>12,223,034</u>	<u>-</u>
	<b><u>\$ 35,857,429</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 35,857,429</u></b>	<b><u>\$ -</u></b>

**Small Business Investment Corporation  
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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED**

<u>Assets at Fair Value</u>				
<u>Description – 2018</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 18,442,056	\$ -	\$ 18,442,056	\$ -
Investment held with NM LGIP	2,508,613	-	2,508,613	-
Investment held with NM State Investment Council	<u>8,357,763</u>	<u>-</u>	<u>8,357,763</u>	<u>-</u>
	<u>\$ 29,308,432</u>	<u>\$ -</u>	<u>\$ 29,308,432</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 LGIP and NM State Investment Council:* Valued at NMSBIC's percentage share in the pooled fund in which the pooled securities are measured using the closing price of the traded security at the statement of financial position date.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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

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

**Small Business Investment Corporation  
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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

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

Interest Rate Risk

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

Concentration of Credit Risk

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

Investment in NM State Investment Council

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

**2019**

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

**2018**

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Core Plus Bond	Level 2	100.00%	\$8,357,763	Not available

**Small Business Investment Corporation  
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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

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

NM Local Government Investment Pool

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

<b>2019</b>			
Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM LGIP	\$ 3,580,403	AAAm	35 Days (r) ; 112 Days (F)
<b>2018</b>			
Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM LGIP	\$ 2,508,613	AAAm	50 Days (r) ; 100 Days (F)

**NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES**

Cooperative Loan Agreements

NMSBIC is party to two loan participation Cooperative Agreements with New Mexico non-profit corporations, DreamSpring (formerly ACCION) and WESST Corp. Under these agreements, NMSBIC has made capital commitments to provide revolving funding for loans to be made by these corporations to New Mexico small businesses. For each loan made, these corporations provide 25% of the funding and NMSBIC provides the remaining 75%. Under the participation agreement with WESST Corp., the NMSBIC shares in 75% of loan losses and recoveries. In November 2013, NMSBIC terminated its loan participation agreement with DreamSpring and entered into a new participation agreement. Loans outstanding under the terminated participation agreement will run off in the normal course of business. The NMSBIC shares in 75% of loan losses and recoveries under the terminated participation agreement. The new agreement limits loan losses that can be passed through to NMSBIC to 1% of the outstanding loan balance during any fiscal year. The terms, pricing, and size of any loan are subject to the discretion of these corporations. These corporations make non-traditional loans. Collateral for the loans may also be non-traditional, or in some cases no collateral at all.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED**

Cooperative Loan Agreements – Continued

The loans are considered risky and may have a higher rate of default than traditional loans. Loan amounts made under the program are limited under the agreements. These corporations undertake good faith efforts to make loans outside the Albuquerque metropolitan area. Loans are serviced by these corporations, with monthly reports and principal and interest remittances provided to NMSBIC. NMSBIC's agreements with these corporations have no maturity date but may be terminated by either party upon ninety days written notice, with any loans outstanding at the time of termination handled in the ordinary course of business until the loans are collected or written off. During the years ended June 30, 2019 and 2018, interest income of \$221,589 and \$226,867, respectively, was recognized related to these investments. See supplementary schedules for detail on these agreements.

In December 2013, NMSBIC entered into an unsecured line-of-credit agreement with a New Mexico nonprofit corporation (New Mexico Mortgage Finance Authority, or NMMFA) to provide funds for the development of affordable housing in areas of New Mexico where job growth is restricted by a shortage of such housing. Under this agreement, NMSBIC provides a revolving, unsecured loan to this corporation, which matures in November 2023. 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 agreement contains provisions that the corporation agrees to maintain a certain level of net assets and agrees to undertake good faith efforts to make loans outside the Albuquerque metropolitan area.

During the years ended June 30, 2019 and 2018, interest income of \$14,194 and \$22,678, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

NMSBIC is party to a revolving loan Cooperative Agreement with a New Mexico nonprofit corporation (New Mexico Community Development Loan Fund, or NMCDLF). Under this agreement, NMSBIC provides a revolving loan to this corporation, which in turn is fully collateralized by pledged loans. Certain delinquent loans are not eligible to be used as collateral. NMSBIC does not share in any loan losses or recoveries. The agreement includes other provisions under which the corporation has agreed to:

- Maintain certain levels of liquidity, leverage, and net assets
- Limit the maximum loan size under the program
- Restrict loan modifications on nonperforming loans
- Undertake good faith efforts to make loans outside the Albuquerque metropolitan area

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED**

Cooperative Loan Agreements – Continued

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, 2019 and 2018, interest income of \$212,510 and \$199,538, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.

In September 2014, NMSBIC entered into a line-of-credit agreement with a New Mexico limited liability company (Rio Vista Growth Capital, LLC or RVGC). Funds provided to RVGC under the terms of the loan agreement will be used to make, acquire, or maintain loans with New Mexico businesses in accordance with the mission and purpose of NMSBIC. Loans are serviced by RVGC, with monthly reports and principal and interest remittances provided to NMSBIC. During the years ended June 30, 2019 and 2018, interest income of zero and \$40,830, respectively, was recognized related to this investment. Part of the interest is paid quarterly, and the balance is deferred until received by RVGC. This line-of-credit agreement was terminated during 2019. See supplementary schedules for detail on this agreement.

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 limited partnerships have termination dates through 2019. Under the terms of the limited partnership agreements, the partnerships may be extended to dates through 2022. See supplementary schedules for detail on these agreements.

**NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND**

Pursuant to Section 58-29-7 NMSA 1978, the NMSBIC shall revert to the Severance Tax Permanent Fund an amount equal to the net excess funds held by the NMSBIC. “Net excess funds” are calculated as the return on investments to the corporation in the amounts of dividends and interest actually received plus any capital gains actually realized, less the operating expenses of the NMSBIC and less amounts reasonably reserved for losses. NMSBIC had excess funds of zero as of June 30, 2019 and 2018, 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, 2019 and 2018**

**NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND – CONTINUED**

	<u>2019</u>	<u>2018</u>
Interest and dividends received, cash basis	\$ 888,203	\$ 807,236
Operating expenses, net of loan losses	(347,621)	(331,878)
Accumulated reserve for debt and equity losses	(83,352)	(85,069)
Fair value change, investment with NMSIC	503,578	(160,177)
Capital gains realized	<u>-</u>	<u>712,199</u>
Net excess funds	960,808	942,311
Cumulative overpayment of net excess funds	<u>(1,249,250)</u>	<u>(2,191,561)</u>
Net deficient funds	<u>\$ (288,442)</u>	<u>\$ (1,249,250)</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 fiscal years ended June 30, 2017, and June 30, 2018, result in a credit to apply against net excess fund amounts calculated as due in the fiscal year ended June 30, 2019 and later years.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**NOTE 8 – CAPITAL COMMITMENTS**

As of June 30, 2019, all capital for all equity cooperative agreements had been called in full, and therefore no capital commitments remained. As of June 30, 2019, total remaining commitments under debt cooperative agreements was \$4,487,655. 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 2019 and 2018 were \$3,495,987 and \$1,627,426, respectively. Details of these distributions are as follows:

<b><u>2019</u></b>			
<b><u>Agency</u></b>	<b><u>Number</u></b>	<b><u>Amount</u></b>	<b><u>Purpose</u></b>
DFA	34100	\$ 3,495,987	Severance Tax Permanent Fund Proceeds
<b><u>2018</u></b>			
<b><u>Agency</u></b>	<b><u>Number</u></b>	<b><u>Amount</u></b>	<b><u>Purpose</u></b>
DFA	34100	\$ 1,627,426	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.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2019 and 2018**

**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.

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 August 2018, the GASB issued Statement No. 90, Majority Interests in an amendment of GASB Statements No. 14 and No. 6. The requirements of this statement are effective for periods beginning after December 15, 2018. Earlier application is encouraged. This statement is not applicable to the NMSBIC.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This statement is not applicable to the NMSBIC.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

**SUPPLEMENTAL INFORMATION**

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**SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS**

**Years Ended June 30, 2019 and 2018**

	<u>Loan Commitments</u>	<u>Beginning Gross Loan Balance</u>	<u>Loan Funding Net of Repayments</u>	<u>Realized Loan Loss</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, 2019							
1. DreamSpring #1*	\$ -	\$ 72,797	\$ (35,740)	\$ 5,590	\$ 42,647	\$ (3,412)	\$ 39,235
2. DreamSpring #2	7,750,000	7,412,662	204,849	(72,735)	7,544,776	(75,448)	7,469,328
3. NMCDLF	14,000,000	10,277,692	1,516,068	-	11,793,760	-	11,793,760
4. WESST CORP	375,000	63,974	(7,812)	-	56,162	(4,493)	51,669
5. NMMFA	2,500,000	700,000	-	-	700,000	-	700,000
	<u>\$ 24,625,000</u>	<u>\$ 18,527,125</u>	<u>\$ 1,677,365</u>	<u>\$ (67,145)</u>	<u>\$ 20,137,345</u>	<u>\$ (83,353)</u>	<u>\$ 20,053,992</u>
For the year ended June 30, 2018							
1. DreamSpring #1*	\$ -	\$ 280,710	\$ (199,910)	\$ (8,003)	\$ 72,797	\$ (5,824)	\$ 66,973
2. DreamSpring #2	7,750,000	7,237,086	248,303	(72,727)	7,412,662	(74,127)	7,338,535
3. NMCDLF	13,000,000	9,373,903	903,789	-	10,277,692	-	10,277,692
4. WESST CORP	375,000	104,512	(37,252)	(3,286)	63,974	(5,118)	58,856
5. NMMFA	1,500,000	800,000	(100,000)	-	700,000	-	700,000
6. Rio Vista Growth Capital**	750,000	750,000	(750,000)	-	-	-	-
	<u>\$ 23,375,000</u>	<u>\$ 18,546,211</u>	<u>\$ 64,930</u>	<u>\$ (84,016)</u>	<u>\$ 18,527,125</u>	<u>\$ (85,069)</u>	<u>\$ 18,442,056</u>

\*The DreamSpring #1 commitment was terminated in 2014 and replaced by DreamSpring #2. Active loans under the DreamSpring #1 agreement will run off under their normal course.

\*\*The Rio Vista Growth Capital fund was terminated during fiscal year 2019.

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**SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS**

Years Ended June 30, 2019 and 2018

	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, 2019							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 605,295
2. Verge I	1,800,000	78,535	-	-	(7,340)	71,195	353,119
3. Verge I.5	3,000,000	288,535	-	-	(24,593)	263,942	720,810
4. NM Gap Fund I	2,000,000	1,320,001	-	-	(27,705)	1,292,296	1,804,594
5. NM Mezzanine Fund	2,491,881	688,800	-	-	-	688,800	843,969
6. Verge II	3,000,000	225,701	-	-	(22,507)	203,194	1,370,912
7. Verge II.5	1,000,000	830,833	-	-	(16,729)	814,104	1,027,704
	<u>\$ 20,291,881</u>	<u>\$ 3,432,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (98,874)</u>	<u>\$ 3,333,531</u>	<u>\$ 6,726,403</u>
For the year ended June 30, 2018							
1. NMCCF	\$ 7,000,000	\$ 243,415	\$ (243,415)	\$ -	\$ -	\$ -	\$ 1,250,246
2. Verge I	1,800,000	130,067	(45,733)	-	(5,799)	78,535	468,515
3. Verge I.5	3,000,000	379,764	(68,229)	-	(23,000)	288,535	966,664
4. NM Gap Fund I	2,000,000	1,344,926	-	-	(24,925)	1,320,001	3,402,293
5. NM Mezzanine Fund	2,491,881	688,800	-	-	-	688,800	1,010,929
6. Verge II	3,000,000	362,201	(117,692)	-	(18,808)	225,701	1,432,170
7. Verge II.5	1,000,000	848,616	(2,046)	-	(15,737)	830,833	1,225,273
	<u>\$ 20,291,881</u>	<u>\$ 3,997,789</u>	<u>\$ (477,115)</u>	<u>\$ -</u>	<u>\$ (88,269)</u>	<u>\$ 3,432,405</u>	<u>\$ 9,756,090</u>

\*Fair values are provided for informational purposes only. These investments are recorded on the cost basis for financial reporting purposes.

See note 2 to the financial statements for more information on valuation methodology.

See Independent Auditors' Report.