

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

FINANCIAL STATEMENTS

June 30, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, 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 3-15 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 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

Pulakos CPAs, PC

September 24, 2021

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, 2021 and 2020

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, 2021 and 2020. 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, 2021 and 2020. 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, 2021 and 2020 was \$96.8 million, and \$96.5 million, respectively. The change in net position for the years ended June 30, 2021 and 2020 was positive \$293,412, and positive \$57.8 million, respectively.

Financial Analysis

The following is a summary of the NMSBIC's total assets, liabilities and net position at June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets	\$ 32,694,736	\$ 33,184,983
Noncurrent assets	<u>64,755,243</u>	<u>65,041,487</u>
Total assets	<u>\$ 97,449,979</u>	<u>\$ 98,226,470</u>
Liabilities:		
Current liabilities	<u>\$ 639,571</u>	<u>\$ 1,709,474</u>
Total liabilities	639,571	1,709,474
Net position:		
Temporarily restricted net assets	<u>96,810,408</u>	<u>96,516,996</u>
Total liabilities and net position	<u>\$ 97,449,979</u>	<u>\$ 98,226,470</u>

Current assets decreased by \$490,247 at June 30, 2021, compared to June 30, 2020, and are detailed as follows:

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	2021	2020
Cash and cash equivalents	\$ 249,904	\$ 228,579
Investment held with New Mexico State Investment Council	10,703,744	22,826,193
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	11,087,281	10,122,122
Debt funding receivable, net	10,639,022	-
Other current assets	14,785	8,089
Total current assets	\$ 32,694,736	\$ 33,184,983

- **Cash and cash equivalents** increased by \$21,325 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 \$12.1 million during the year. The decrease was due to an increase in outstanding cooperative loan agreement activity and the related debt funding receivable, as described below. 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 \$965,159 during the year. The increase was primarily due to the reduction in Investment held with New Mexico State Investment Council, net of funds provided to lending partners under cooperative loan agreements. LGIP funds can be withdrawn with one business day's notice.
- **Debt funding receivable, net** increased 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. For the prior year-end, 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 \$286,244 during the year and are detailed as follows:

	2021	2020
Equity investments in New Mexico entities	\$ 2,201,557	\$ 2,490,649
Cooperative loan agreements, net of allowance for losses	62,041,362	62,550,838
Notes receivable including accrued interest	512,324	-
Total noncurrent assets	\$ 64,755,243	\$ 65,041,487

- **Equity investments in New Mexico entities** decreased by \$289,092 during the year. The change was primarily due to return of capital and fund operating expenses. 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 \$509,476 during the year. The decrease was primarily due to DreamSpring's reduction in Paycheck Protection Program (PPP) 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), 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 \$62.0 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 2021, 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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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:

	2021	2020
NMSBIC PPP lending program	\$ 21,582,819	\$ 30,000,000
NMSBIC COVID-19 lending program	8,735,797	996,876
Traditional lending program, net	<u>31,722,746</u>	<u>31,553,962</u>
Total cooperative agreement loans, net	<u>\$ 62,041,362</u>	<u>\$ 62,550,838</u>

- **Notes receivable including accrued interest** increased by \$512,324 during the year. This is comprised of two notes transferred to the NMSBIC related to the termination of the New Mexico Gap Fund I limited partnership. 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 decreased by \$1.1 million during the year, detailed as follows:

	2021	2020
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	\$ 639,571	\$ -
Debt funding payable, net	<u>-</u>	<u>1,709,474</u>
Total current liabilities	<u>\$ 639,571</u>	<u>\$ 1,709,474</u>

- **Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978** increased by \$639,571. These are net excess of funds to be returned to the State of New Mexico Severance Tax Permanent Fund no later than October 31, 2021. There were no net excess funds in the prior year.
- **Debt funding payable, net** decreased by \$1.7 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, 2021, net funds were “due from” lending partners resulting in a debt funding “receivable” described above.

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Net position restricted for economic development increased by \$293,412 at June 30, 2021, compared to June 30, 2020.

	2021	2020
Net position restricted for economic development	<u>\$ 96,810,408</u>	<u>\$ 96,516,996</u>

- The \$293,412 increase was comprised of \$932,983 in operating income, less \$639,571 in net excess of funds due to 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, 2021 and 2020.

	2021	2020
Operating revenues:		
Interest and dividends on investments	\$ 485,843	\$ 906,106
Interest income on cooperative loan agreements	418,526	488,642
Interest income on notes receivable	6,988	-
Realized gain (loss) on investment held with New Mexico State Investment Council	<u>404,982</u>	<u>(119,401)</u>
Total operating revenues	1,316,339	1,275,347
Operating expenses:		
Equity investment operating expense, net	29,560	98,171
Provision for loan losses	20,551	82,958
Impairment on equity investments	-	744,711
Economic development program services	168,489	125,025
Other operating expenses	<u>164,756</u>	<u>153,991</u>
Total operating expenses	<u>383,356</u>	<u>1,204,856</u>
Operating income	932,983	70,491
Nonoperating (expense) revenue:		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	-	57,754,768
Return to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	<u>(639,571)</u>	<u>-</u>
Total nonoperating (expense) revenue	<u>(639,571)</u>	<u>57,754,768</u>
Change in net position	293,412	57,825,259
Total net position, beginning of year	<u>96,516,996</u>	<u>38,691,737</u>
Total net position, end of year	<u>\$ 96,810,408</u>	<u>\$ 96,516,996</u>

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Operating revenues increased by \$40,992 during the year ended June 30, 2021, compared to June 30, 2020.

- **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 \$420,263 during the year due to lower market interest rates and lower average outstanding balances.
- **Interest income on cooperative loan agreements** decreased by \$70,116 during the year, and reflected the following:
 - Beginning in March 2020, to support lending partners with loan loss reserves and with increased costs associated with originating COVID-19 Lending Program and PPP Lending Program loans, the NMSBIC lowered the interest rate it charges its lending partners by one percent (1%) for a period of twelve months on all outstanding loans originated under its traditional lending program. 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.
 - Beginning in April 2020, the NMSBIC began advancing funds to its lending partners under the NMSBIC COVID-19 Lending Program and the NMSBIC PPP Lending Program. The interest rate the NMSBIC charges its lending partners under these programs is zero percent (0%) for up to thirty-six months.
 - For traditional loans, an increase in the average outstanding loan balances during the twelve months ending June 30, 2021 partially offset the interest rate reductions noted above.
- **Interest income on notes receivable** increased by \$6,988 during the year. This is interest income on two notes transferred to the NMSBIC on April 30, 2020 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 gain of \$404,982 for the year ended June 30, 2021 was \$524,383 higher than the loss of \$119,401 for the year ended June 30, 2020.

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Total operating expenses decreased by \$821,500 during the year ended June 30, 2021, compared to June 30, 2020.

- **Equity investment operating expense, net** is comprised of equity investment management fees and operating expenses, net of other income from equity investments, and decreased by \$68,611 during the year.
- **Provision for loan losses** decreased by \$62,407 during the year and was related to a decrease 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, 2021 and June 30, 2020, the evaluation of the NMSBIC's equity investments resulted in other than temporary impairment of zero and \$744,711, respectively.
- **Economic development program services** increased by \$43,464 during the year primarily related to consulting, legal, and lending program promotional costs.
- **Other operating expenses** increased by \$10,765 during the year primarily related to consulting expenses.

Operating income increased by \$832,492 during the year as detailed in the operating revenue and operating expense sections above.

Nonoperating (expense) revenue was a \$639,571 expense during the year ended June 30, 2021, compared to \$57.8 million in revenue for the year ended June 30, 2020, detailed as follows:

- **Contribution received from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978** decreased by \$57.8 million during the year. There was no contribution during the year ended June 30, 2021, compared to a \$57.8 million contribution during the year ended June 30, 2020. The prior year contribution was related to a 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 equal to a percentage of the market value of the severance tax permanent fund. As a result of Senate Bill 10 that was passed in the 2019 New Mexico legislative session, beginning July 1, 2019, the commitment was increased to two percent from one percent of the market value of the severance tax permanent fund. This change, along with growth in the severance tax permanent fund during the twelve months ended June 30, 2019, resulted in a \$57.8 million contribution during the year ended June 30, 2020.

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- **Return to the State of New Mexico severance tax permanent fund pursuant to §5-29-7 NMSA 1978** was an expense of 639,571 during the year ended June 30, 2021, compared with zero the prior year. 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 31, 2021. There were no net excess funds in the prior year.

Change in net position decreased by \$57.5 million as compared to the prior year. Of this change, \$57.8 million was due to the contribution in the prior year from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978, plus the current year return of \$639,571 to the State of New Mexico severance tax permanent fund pursuant to §5-29-7 NMSA 1978. These amounts were offset by an increase of \$862,494 in 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 *New Mexico Economic Snapshot* as of August 2021.

New Mexico Review and Outlook

After modest employment growth in 2019 (12,700 jobs, 1.5%), the state moved solidly ahead in the first quarter of 2020 (14,200 jobs, 1.7%) before plummeting in the second quarter (-87,433 jobs, -10.5%) as the effects of the pandemic took hold. The third and fourth quarters performed relatively better, though employment was still down 74,996 jobs (-9.0%) and 71,887 jobs (-.5%) year-over-year, respectively.

Preliminary CES [Bureau of Labor Statistics, Current Employer Statistics] employer survey data provides insight into the first and second quarters of 2021. Data for the first quarter continued to be weak as employment was down 8.9% year-over-year – a similar rate of contraction to 2020Q3 and 2020Q4. Data for the second quarter of 2021 suggests a year-over-year expansion of 4.2%. Despite the return to positive growth, total employment in June 2021 was only about 93% of the level seen in March 2020, the final month before the pandemic-related declines fully took effect. FOR-UNM [UNM Bureau of Business and Economic Research, New Mexico Economic Forecast] projects that the first and second quarters performed slightly better than the CES data suggest: - 7.3% in 2021Q1 and 4.8% in 2021Q2.

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Largely on the strength of 12.3% year-over-year growth in 2020Q2, personal income advanced 6.2% in 2020 and then by 17.9% year-over-year in the first quarter of 2021. Incomes were bolstered by the rapid expansion of transfer payments (\$6.3 billion, 29.3% in 2020 & \$17.6 billion annualized in 2021Q1, 78.1% year-over-year) principally from stimulus checks, unemployment insurance payments, and unemployment bonuses.

According to the BEA [Bureau of Economic Analysis], after advancing 5.2% in 2019, New Mexico's real gross state product fell by 3.1% in 2020, and then fell 1.3% year-over-year in 2020Q1. Only four states performed worse in the most recent quarter: Oklahoma (-1.9%); New York (-2.1%); Wyoming (-3.1%); and Hawaii (-5.2%).

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 for the remainder of the year. By the end of December, rig counts rose to 65 and then firmed further to about 70 as of end-April 2021. Rigs continued to increase through the summer and registered 74 at the end of July. New data suggest that oil production fell by about 14.4% quarter-over-quarter (to 85.8 million barrels) in 2020Q2 before increasing 9.8% quarter-over-quarter (to 94.2 million barrels) in 2020Q3, and then by another 7.2% in 2020Q4 (to a new record high of 100.9 million barrels). Production slowed slightly on a quarter-over-quarter basis to 98.7 million barrels (-2.2%) in 2021Q1. Natural gas production followed a similar pattern, declining by 5.0% quarter-over-quarter in 2020Q2, increasing 9.0% in the third quarter, and 5.6% in the fourth quarter. Production then fell 1.6% in the first quarter of 2021.

New Mexico's economic outlook

FOR-UNM's outlook for the New Mexico economy follows a "swoosh" trend line. After losing nearly 90,000 jobs quarter-over-quarter in 2020Q2, New Mexico reclaimed about 13,000 jobs in 2020Q3 and an additional 15,000 jobs in the fourth quarter. Accounting for seasonal trends and moving to a year-over-year description of job gains/losses, the state ended the year with nearly 72,000 fewer jobs (-8.5%) in the fourth quarter compared to a year earlier.

A full year after the start of the pandemic, we anticipate that the state will slowly begin to add jobs on a year-over-year basis in the second quarter of 2021 such that average job levels for the year will increase by 7,200 jobs (0.9%) before adding 22,000 jobs (2.8%) in 2022 and an additional 15,000 jobs (1.9%) in 2023. Thereafter, job gains should slow to about 1.4% per year; employment levels will end in 2026 at about 24,500 jobs (2.9%) above 2019 levels.

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The sectors that lost the greatest number of jobs in the second quarter of 2020, such as leisure & hospitality and retail gained back many of the lost jobs in the third and fourth quarters. However, gains would not be enough to make the industries whole in the near or medium term as leisure & hospitality will only exceed pre-pandemic levels around the end of the forecast window; we project that these industries will exceed 2019 levels by about 0.6% by 2026. Employment in retail will fare worse as the industry is projected to never regain its footing over the entirety of the forecast as individuals have increasingly turned to online shopping. We project that employment in this industry will fall 5.8% by 2026 compared to pre-pandemic levels.

Mining also lost a large number of jobs in 2020Q2. Like retail trade, structural change within the industry will keep the industry soft in the coming years. In this case, producers are turning to less labor-intensive drilling & extraction methods. Payrolls are now projected to end in 2026 some 21% below levels seen pre-COVID, despite the fact that every indication suggests that oil production levels will experience year-over-year increases.

Professional & technical services and finance & insurance industries are forecast to be back to (or continue to remain above) pre-COVID employment levels by end-2021. Meanwhile, healthcare, construction, and transportation will exceed 2019 levels by 2022.

Governments are expected to slide in the near-term as new fiscal challenges present themselves. However, as budgets improve, hiring will resume. As such, by 2026, state and local government payrolls are forecast to end about 2.6% above 2019 levels at right about 153,250 jobs. The federal government will not fare as well as payrolls are projected by the end of 2026 down 1.1% compared to 2019 levels.

After experiencing a 6.3% growth in personal income in 2020, FOR-UNM projects that income will advance 6.6% in 2021 as it continues to be bolstered by federal transfers in the first half of the year. Incomes will retreat 5.5% in 2022 as the transfers are pulled back. Thereafter, growth should average about 4.7% per year.

Real Gross State Product (GSP), like US GDP [Gross Domestic Product], is forecast to equal pre-pandemic levels by 2021. For the year, GSP should advance 4.4% and then again by 4.4% in 2022 before slowing to about 2.2% per year thereafter.

FOR-UNM offers three alternative scenarios. The benefits of the optimistic scenario (10% probability) are barely perceptible, though incomes do see a sustained boost. Under this scenario, the state has about 2,500 more jobs in 2026 compared to the baseline scenario and incomes are about 1.8% higher.

Small Business Investment Corporation
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2021 and 2020

There are two pessimistic scenarios. The first pessimistic scenario (20% probability) follows the “swoosh” trend of the baseline scenario but is ever-so-slightly worse. Under this scenario, slowing in the rate of vaccination delays the approach of herd immunity, and more contagious strains of the virus shake consumer confidence. This slows GDP growth to about 5.5% in the second half of 2021, compared to 7.9% in the baseline and 4.4% in 2022 (versus 5.0% in the baseline). For the remainder of the forecast, growth is generally faster or on par with the baseline scenario. When applying this scenario to New Mexico, the state ends 2026 with 5,800 fewer jobs (-0.7%) than in the baseline. The failure of the economy to initially gain its footing severely depresses personal incomes, and a recovery driven by low-wage industries is insufficient to recover the losses. In 2026, incomes in the pessimistic scenario are 4.7% below baseline.

The worst-case pessimistic scenario (10% probability) describes an “L-shaped” recession and recovery similar to New Mexico’s experience following the Great Recession. Through 2021, the economy follows the path of the first pessimistic scenario, losing ground because of a failure to control the virus. But in this case, the prolonged shutdown results in widespread bankruptcy of small businesses and households without stable employment. What begins as a temporary shutdown becomes a permanent loss. Also, a weak global recovery depresses the demand for oil, deepening the State’s fiscal crisis. In this scenario, New Mexico ends 2026 with 34,000 jobs less than the baseline. Incomes end 2026 at 11.5% below the baseline.

FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

June 30, 2021 and 2020

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 249,904	\$ 228,579
Investment held with NM State Investment Council	10,703,744	22,826,193
Investment held with NM State		
Treasurer's Office - LGIP	11,087,281	10,122,122
Debt funding receivable, net	10,639,022	-
Interest and dividends receivable	516	2,830
Prepaid expenses	14,269	5,259
	32,694,736	33,184,983
Total current assets	32,694,736	33,184,983
Noncurrent assets		
Notes receivable including accrued interest	512,324	-
Equity investments in New Mexico entities	2,201,557	2,490,649
Cooperative loan agreements, net of allowance for loan losses	62,041,362	62,550,838
	64,755,243	65,041,487
Total noncurrent assets	64,755,243	65,041,487
Total assets	\$ 97,449,979	\$ 98,226,470
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ -	\$ -
Due to the State of New Mexico Severance Tax		
Permanent Fund pursuant to §5-29-7 NMSA 1978	639,571	-
Debt funding payable, net	-	1,709,474
	639,571	1,709,474
Total current liabilities	639,571	1,709,474
Total liabilities	639,571	1,709,474
Net position		
Restricted for:		
Economic development	96,810,408	96,516,996
	96,810,408	96,516,996
Total net position	96,810,408	96,516,996
Total liabilities and net position	\$ 97,449,979	\$ 98,226,470

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, 2021 and 2020

	2021	2020
Operating revenues		
Interest and dividends on investments	\$ 492,831	\$ 906,106
Interest income on cooperative loan agreements	418,526	488,642
Realized gain (loss) on investment held with New Mexico State Investment Council	404,982	(119,401)
Total operating revenues	1,316,339	1,275,347
Operating expenses		
Equity investment operating expense, net	29,560	98,171
Provision for loan losses	20,551	82,958
Impairment on equity investment	-	744,711
Economic development program services	168,489	125,025
Other operating expenses	164,756	153,991
Total operating expenses	383,356	1,204,856
Operating income	932,983	70,491
Nonoperating (expense) revenue		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	-	57,754,768
Return to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	(639,571)	-
Total nonoperating (expense) revenue	(639,571)	57,754,768
Change in net position	293,412	57,825,259
Net position - beginning of year	96,516,996	38,691,737
Net position - end of year	\$ 96,810,408	\$ 96,516,996

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (342,255)	\$ (280,022)
Net cash used by operating activities	(342,255)	(280,022)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	-	57,754,768
Net cash provided by noncapital financing activities	-	57,754,768
Cash flows from investing activities:		
Purchase of investments held with NM State		
Treasurer's Office - LGIP	(950,000)	(6,354,768)
Liquidation (purchase) of investment held with NM State Investment Council	13,000,000	(10,000,000)
Acquisition of notes receivable	(505,337)	-
Investments in NM economic development activities under Cooperative Agreements, net	(11,181,083)	(41,165,096)
Net cash provided (used) by investing activities	363,580	(57,519,864)
Net decrease in cash and cash equivalents	21,325	(45,118)
Cash and cash equivalents - beginning of year	228,579	273,697
Cash and cash equivalents - end of year	\$ 249,904	\$ 228,579
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 932,983	\$ 70,491
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for loan losses	20,551	82,958
Equity investment operating expense, net	29,560	98,171
Non-cash investment gains, net	(1,318,653)	(1,279,563)
Interest and dividends receivable	2,314	4,216
Impairment on equity investment	-	744,711
Changes in assets and liabilities:		
Prepaid expenses	(9,010)	(1,006)
Net cash used by operating activities	\$ (342,255)	\$ (280,022)

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	2021	2020
Allowance for loan losses, beginning	\$ 94,432	\$ 83,353
Loan losses incurred in current period	(56,035)	(71,879)
Provision for loan losses	20,551	82,958
Allowance for loan losses, ending	\$ 58,948	\$ 94,432

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, 2021 and 2020

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, 2021 or 2020.

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, 2021 and 2020:

	2021	2020
Cumulative severance tax permanent fund capital contributions	\$ 110,560,754	\$ 110,560,754
Cumulative return of net excess funds	(2,831,132)	(2,191,561)
Cumulative expenses in excess of other revenues	(10,919,214)	(11,852,197)
	\$ 96,810,408	\$ 96,516,996

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 zero and \$57,754,768 in 2021 and 2020, respectively.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Other Program Services

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Pensions and OPEB

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

COVID-19 Pandemic

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

Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2021 and through September 24, 2021, which is the date that the financial statements were issued and believes that any such events occurring during this period have been either recognized or disclosed in the accompanying financial statements.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020.

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, 2021 and 2020, 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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 3 – DEPOSITS – CONTINUED

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

	2021	2020
Amount of deposits	\$ 249,904	\$ 228,579
FDIC Insurance	(249,904)	(228,579)
Uninsured deposits	-	-
Collateral from financial institution	-	-
Total uninsured and uncollateralized deposits	\$ -	\$ -

NOTE 4 – FAIR VALUE MEASUREMENT

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

This pronouncement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical investments that NMSBIC has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, inputs other than observable quoted prices, or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2021 and 2020:

<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 Investment held with NM State Treasurer's Office – LGIP	\$ 62,041,362	\$ -	\$ 62,041,362	\$ -
Investment held with NM State Investment Council	11,087,281	-	11,087,281	-
	<u>10,703,744</u>	<u>-</u>	<u>10,703,744</u>	<u>-</u>
	<u>\$ 83,832,387</u>	<u>\$ -</u>	<u>\$ 83,832,387</u>	<u>\$ -</u>

<u>Assets at Fair Value</u>				
<u>Description – 2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements Investment held with NM State Treasurer's Office – LGIP	\$ 62,550,838	\$ -	\$ 62,550,838	\$ -
Investment held with NM State Investment Council	10,122,122	-	10,122,122	-
	<u>22,826,193</u>	<u>-</u>	<u>22,826,193</u>	<u>-</u>
	<u>\$ 95,499,153</u>	<u>\$ -</u>	<u>\$ 95,499,153</u>	<u>\$ -</u>

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

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

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

Investment held with NM State Treasurer’s Office - LGIP and NM State Investment Council: Valued at NMSBIC’s percentage share in the pooled fund in which the pooled securities are measured using the closing price of the traded security at the statement of financial position date.

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

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

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

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

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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:

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

2020

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

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

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

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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, 2021 and 2020, interest income of \$173,527 and \$264,245, 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, 2021 and 2020, interest income of \$2,345 and \$2,626, 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, 2021 and 2020

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, 2021 and 2020, interest income of \$137,041 and \$207,466, 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, 2021 and 2020

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, 2021 and 2020, interest income of \$14,333 and \$7,156, 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, 2021 and 2020, interest income of \$87,071 and \$7,149, 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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, interest income of \$4,209 and zero, respectively, was recognized related to this investment.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020, 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.

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NOTES TO FINANCIAL STATEMENTS

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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 \$639,571 and zero as of June 30, 2021 and 2020, 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

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NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND – CONTINUED

	<u>2021</u>	<u>2020</u>
Interest and dividends received, cash basis	\$ 864,128	\$ 1,416,388
Operating expenses, net of loan losses	(362,805)	(377,187)
Accumulated reserve for debt and equity losses	(58,948)	(94,432)
Fair value change, investment with NMSIC	404,982	(119,401)
Capital loss realized	<u>-</u>	<u>(744,711)</u>
Net excess funds	847,357	80,657
Cumulative overpayment of net excess funds	<u>(207,786)</u>	<u>(288,442)</u>
Net excess (deficient) funds	<u>\$ 639,571</u>	<u>\$ (207,785)</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, 2021 and 2020

NOTE 8 – CAPITAL COMMITMENTS

As of June 30, 2021, total remaining commitments under debt cooperative agreements and equity cooperative agreements were \$29,524,690 and \$150,104, 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 2021 and 2020 were zero and \$57,754,768, respectively. Details of these distributions are as follows:

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

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, 2021 and 2020

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 June 2018, GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, was issued. The provisions of this Statement are effective for reporting periods beginning after December 15, 2020. The standard will be implemented during the fiscal year ended June 30, 2022. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

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

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

In March 2020, GASB Statement No. 93 Replacement of Interbank Offered Rates, was issued. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on 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. 95 Postponement of the Effective Dates of Certain Authoritative Guidance, was issued. The provisions of this Statement are effective immediately. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 12 – RECENT PRONOUNCEMENTS – CONTINUED

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.

In June 2020, GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-and amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, was issued. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. NMSBIC does not expect this pronouncement to have a material effect on its financial statements.

SUPPLEMENTAL INFORMATION

Small Business Investment Corporation
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SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2021 and 2020

	<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, 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. NMCDFL	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>
For the year ended June 30, 2020							
1. DreamSpring #1*	\$ -	\$ 42,647	\$ (23,093)	\$ 3,133	\$ 22,687	\$ (3,630)	\$ 19,057
2. DreamSpring #2	7,750,000	7,544,776	(51,247)	(75,011)	7,418,518	(74,185)	7,344,333
3. DreamSpring #3**	30,000,000	-	30,000,000	-	30,000,000	-	30,000,000
4. NMCDFL	25,000,000	11,793,760	8,007,094	-	19,800,854	-	19,800,854
5. WESST Corp	375,000	56,162	47,697	-	103,859	(16,617)	87,242
6. NMMFA	2,500,000	700,000	(700,000)	-	-	-	-
7. Ventana Fund	5,500,000	-	5,151,731	-	5,151,731	-	5,151,731
8. Homewise	4,000,000	-	-	-	-	-	-
9. Lift Fund	3,000,000	-	147,621	-	147,621	-	147,621
	<u>\$ 78,125,000</u>	<u>\$ 20,137,345</u>	<u>\$ 42,579,803</u>	<u>\$ (71,878)</u>	<u>\$ 62,645,270</u>	<u>\$ (94,432)</u>	<u>\$ 62,550,838</u>

*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, 2021 and 2020

Investment Activity, Cost Method of Accounting

	<u>Investment Capital Commitments</u>	<u>Beginning Investment Cost Method</u>	<u>Capital Calls and Redemptions</u>	<u>Other Than Temporary Impairment</u>	<u>Operating Expense</u>	<u>Ending Investment Cost Method</u>	<u>Ending Investment Fair Value*</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>
For the year ended June 30, 2020							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 525,765
2. Verge I	1,800,000	71,195	-	-	(1,880)	69,315	260,927
3. Verge I.5	3,000,000	263,942	-	-	(9,517)	254,425	517,226
4. NM Gap Fund I	2,000,000	1,292,296	-	(744,711)	(86,774)	460,811	790,260
5. NM Mezzanine Fund	2,491,881	688,800	-	-	-	688,800	843,969
6. Verge II	3,000,000	203,194	-	-	-	203,194	848,109
7. Verge II.5	1,000,000	814,104	-	-	-	814,104	572,084
	<u>\$ 20,291,881</u>	<u>\$ 3,333,531</u>	<u>\$ -</u>	<u>\$ (744,711)</u>	<u>\$ (98,171)</u>	<u>\$ 2,490,649</u>	<u>\$ 4,358,340</u>

*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, 2021

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, 2021, 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.

September 24, 2021

PULAKOS CPAs, PC

Pulakos CPAs, PC