

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

**FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Audit of the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Small Business Investment Corporation, also known as the New Mexico Small Business Investment Corporation, (NMSBIC), a component unit of the State of New Mexico, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements which collectively comprise NMSBIC's basic financial statements as listed in the table of contents.

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, 2023 and 2022, 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.

### **Basis for Opinions**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NMSBIC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NMSBIC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NMSBIC's ability to continue as a going concern for a reasonable period-of-time.

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

### **Emphasis of Matter**

As discussed in Note 2, the financial statements of NMSBIC are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of its business-type activities that are attributable to the transactions of NMSBIC. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. NMSBIC's financial statements are included in the financial statements of the State of New Mexico.

### **Other Matters**

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-15 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Supplementary Information

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2023 on our consideration of NMSBIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMSBIC's internal control over financial reporting and compliance.

PULAKOS CPAs, PC

September 22, 2023

Pulakos CPAs, PC

## **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, 2023 and 2022**

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, 2023 and 2022. 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 §58-29-1 NMSA 1978 et. seq.

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.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2023 and 2022**

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, 2023 and 2022. 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, 2023 and 2022 was \$121.9 million and \$113.7 million, respectively. The change in net position for the years ended June 30, 2023 and 2022 was positive \$8.2 million and positive \$16.8 million, respectively.

**Financial Analysis**

The following is a summary of the NMSBIC’s total assets, liabilities and net position at June 30, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$ 48,363,038	\$ 68,168,559
Noncurrent assets	<u>75,473,995</u>	<u>52,084,716</u>
Total assets	<u>\$ 123,837,033</u>	<u>\$ 120,253,275</u>
Liabilities:		
Current liabilities	<u>\$ 1,958,110</u>	<u>\$ 6,594,080</u>
Total liabilities	1,958,110	6,594,080
Net position:		
Temporarily restricted net assets	<u>121,878,923</u>	<u>113,659,195</u>
Total liabilities and net position	<u>\$ 123,837,033</u>	<u>\$ 120,253,275</u>



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

**June 30, 2023 and 2022**

**Current assets** decreased by \$19.8 million at June 30, 2023, compared to June 30, 2022, and are detailed as follows:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 18,735	\$ 125,416
Investment held with New Mexico State Investment Council	9,547,232	9,457,679
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	19,341,782	58,526,105
Other investments	19,249,765	-
Other current assets	205,524	59,359
Total current assets	<b>\$ 48,363,038</b>	<b>\$ 68,168,559</b>

- **Cash and cash equivalents** decreased by \$106,681 during the year. Management’s target is for the balance of cash and cash equivalents to be \$500,000 or less, and to provide immediate liquidity. Funds in excess of this target balance are invested with the New Mexico State Investment Council or the State Treasurer’s Office Local Government Investment Pool.
- **Investment held with New Mexico State Investment Council** increased by \$89,553 during the year. The increase was due to reinvested interest income, less realized losses. Investments held with the New Mexico State Investment Council can be withdrawn as of the first business day of each month.
- **Investment held with New Mexico State Treasurer’s Local Government Investment Pool (LGIP)** decreased by \$39.2 million during the year. The decrease was primarily due to a \$23.3 million increase in cooperative loan agreements and a \$19.2 million increase in other investments. LGIP funds can be withdrawn with one business days’ notice.
- **Other investments** increased by \$19.2 million during the year. Other investments are managed by RBC Global Asset Management (RBC GAM) and include a federal money market fund, and United States Treasury securities with maturities less than one year. The increase was due to funds transferred from the Investment held with New Mexico State Treasurer’s Local Government Investment Pool (LGIP). Other investments are liquidated as RBC GAM delivers pools of Small Business Administration (SBA) loans to the NMSBIC.
- **Other current assets** changed by minor amounts, and are comprised of interest and dividends receivable, and prepaid expenses.

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

**June 30, 2023 and 2022**

**Noncurrent assets** increased by \$23.4 million during the year and are detailed as follows:

	<u>2023</u>	<u>2022</u>
Equity investments in New Mexico entities	\$ 2,275,605	\$ 2,231,223
Cooperative loan agreements, net of allowance for losses	72,594,537	49,297,302
Notes receivable including accrued interest	<u>603,853</u>	<u>556,191</u>
Total noncurrent assets	<u>\$ 75,473,995</u>	<u>\$ 52,084,716</u>

- **Equity investments in New Mexico entities** increased by \$44,382 during the year. The change was due to \$75,051 in funding provided for operating expenses, less \$30,669 in net operating expenses passed through to the NMSBIC. Equity investments are carried at cost in accordance with GASB Statement No. 72, paragraph B74. Impairment loss is recognized if the fair value of the asset has declined below the carrying value and the decline is determined not to be temporary in nature. Equity investment balances have been declining in recent years. They were a major focus of the NMSBIC from 2001 through 2009, with total cumulative investments of over \$32 million. Equity investments are no longer an investment focus for the NMSBIC. The history of making equity investments provided valuable experience, and revealed significant challenges that included:
  - The NMSBIC's asset size and requirement to invest in New Mexico small businesses resulted in limited diversification;
  - High risk with limited diversification contributed to significant losses during the 2008 economic downturn;
  - Management fees paid over several years to equity fund managers reduced returns;
  - Equity investments are typically long-term, which reduces the ability to turn-over funds into new small businesses;
  - Equity investments do not provide current income to offset the NMSBIC's operating expenses;
  - Equity investments were geographically concentrated, with limited funding in rural areas of New Mexico.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2023 and 2022**

- **Cooperative loan agreements, net of allowance for loan losses** increased by \$23.3 million during the year. The increase was due to the NMSBIC’s continued focus on expanding its lending program, with funds provided to New Mexico small businesses through lending partners. The NMSBIC’s lending partners include the New Mexico Community Development Loan Fund (The Loan Fund), Clearinghouse CDFI, DreamSpring (formerly Accion), RBC GAM, WESST, LiftFund, Ventana Fund, Homewise, RCAC, and the New Mexico Mortgage Finance Authority. With the exception of RBC GAM and 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 \$72.6 million. This growth has resulted in interest income from cooperative loan agreements that is greater than the NMSBIC’s economic development program expenses and other operating expenses, resulting in the NMSBIC being a self-sustaining organization.

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:

	<b>2023</b>	<b>2022</b>
NMSBIC PPP lending program	\$ 81,663	\$ 488,656
NMSBIC COVID-19 lending program	13,378,176	13,627,892
Traditional lending program, net	59,134,698	35,180,754
Total cooperative agreement loans, net	\$ 72,594,537	\$ 49,297,302

- **NMSBIC PPP lending program** provides funds to lending partners for loans originated 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 made to New Mexico businesses. No new PPP loans were originated in 2023 or 2022. The balance is declining as loans are forgiven by the SBA, repaid, or as default claims are paid by the SBA.
- **NMSBIC COVID-19 lending program** provides funds to lending partners at an interest rate of zero percent (0%) for up to five years for loans that lending partners made at a rate of three and three-quarters percent (3.75%) or less to businesses impacted by the COVID-19 crisis. The program ended on September 30, 2022, for new loan originations. Outstanding loans are scheduled to be repaid by 2027.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2023 and 2022**

- **Traditional lending program** is comprised of revolving lines-of-credit, investment in pools of SBA loans, and participation agreements with lending partners. Lending partners use the funds to make loans to New Mexico small businesses. Details of the agreements with lending partners are provided in the notes to the financial statements.
- **Notes receivable including accrued interest** increased by \$47,662 during the year, entirely due to accrued interest. This is comprised of two notes transferred to the NMSBIC related to the termination of the New Mexico Gap Fund I limited partnership in 2021. Prior to termination the NMSBIC owned 92.4% of the limited partnership. The NMSBIC purchased minority interests totaling 7.6% of the fund at a deeply discounted price of 25% to have full control of the two notes receivable that were transferred to the NMSBIC.

**Current liabilities** decreased by \$4.6 million during the year, detailed as follows:

	<b>2023</b>	<b>2022</b>
Accounts payable	\$ 25,462	\$ -
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	1,725,798	-
Debt funding payable, net	206,850	6,594,080
Total current liabilities	\$ 1,958,110	\$ 6,594,080

- **Accounts payable** increased by \$25,462.
- **Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978** increased by \$1.7 million. This is comprised of net excess funds to be returned to the State of New Mexico Severance Tax Permanent Fund. There was \$1.7 million in net excess funds as of June 30, 2023, compared with \$0 in net excess funds as of June 30, 2022.
- **Debt funding payable, net** decreased by \$6.4 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.

**Net position restricted for economic development** increased by \$8.2 million at June 30, 2023, compared to June 30, 2022.

	<b>2023</b>	<b>2022</b>
Net position restricted for economic development	\$ 121,878,923	\$ 113,659,195

- The \$8.2 increase was primarily due to a \$7.9 million contribution received from the State of New Mexico Severance Tax Permanent Fund.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2023 and 2022**

The following are the NMSBIC's operating revenues and expenses, and net nonoperating revenue for the years ended June 30, 2023 and 2022.

	<b>2023</b>	<b>2022</b>
Operating revenues:		
Interest and dividends on investments	\$ 2,043,368	\$ 366,991
Interest income on cooperative loan agreements	660,133	493,061
Interest income on notes receivable	47,662	43,868
Realized loss on investment held with New Mexico		
State Investment Council	(296,479)	(1,507,769)
Realized loss on other investments	(7,608)	-
Total operating revenues	2,447,076	(603,849)
Operating expenses:		
Equity investment operating expense, net	30,669	45,386
Provision for loan losses	29,154	32,666
Economic development program services	189,121	182,047
Other operating expenses	175,138	163,867
Total operating expenses	424,082	423,966
Operating income (expense)	2,022,994	(1,027,815)
Nonoperating revenue (expense):		
Contribution from the State of New Mexico Severance Tax		
Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	7,922,532	17,876,602
Return to the State of New Mexico Severance Tax		
Permanent Fund pursuant to §5-29-7 NMSA 1978	(1,725,798)	-
Total nonoperating revenue	6,196,734	17,876,602
Change in net position	8,219,728	16,848,787
Total net position, beginning of year	113,659,195	96,810,408
Total net position, end of year	\$ 121,878,923	\$ 113,659,195

**Operating revenues** increased by \$3.1 million during the year ended June 30, 2023, compared to June 30, 2022.

- **Interest and dividends on investments** increased by \$1.7 million primarily due to higher yields on short-term investments.

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

**June 30, 2023 and 2022**

- **Interest income on cooperative loan agreements** increased by \$167,072 during the year, due primarily to an increase in outstanding cooperative loan agreement balances.
- **Interest income on notes receivable** increased by \$3,794 during the year. This is interest income on two notes transferred to the NMSBIC in 2021, related to the termination of the New Mexico Gap Fund I limited partnership.
- **Realized loss on investment held with New Mexico State Investment Council** decreased by \$1.2 million during the year. Losses are due to changes in market value for the Credit Plus Bond Pool. Losses were primarily related to increases in market interest rates.
- **Realized loss on other investments increased** by \$7,608 during the year. The losses were due to changes in market value for short-term United States Treasury securities.

**Total operating expenses** increased by \$116 during the year ended June 30, 2023, compared to June 30, 2022.

- **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 \$14,717 during the year.
- **Provision for loan losses** decreased by \$3,512 during the year and was related to a decrease in loan balances for which loan losses are passed through to the NMSBIC.
- **Economic development program services** increased a minor amount as compared to the prior year.
- **Other operating expenses** increased a minor amount as compared to the prior year.

**Operating income** increased by \$3.1 million during the year as detailed in the operating revenue and operating expense sections above.

**Nonoperating revenue** decreased by \$11.7 million during the year, 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 \$9.95 million during the year. There was a \$7,922,532 contribution during the year ended June 30, 2023, compared to a \$17,876,602 contribution during the year ended June 30, 2022. The contribution was received from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978, which indicates the state investment officer shall make a commitment to the NMSBIC equal to two percent (2.0%) of the market value of the severance tax permanent fund. The contributions received in 2023 and 2022 were based on growth in the Severance Tax Permanent Fund during the twelve months ended June 30, 2022 and June 30, 2021, respectively.

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

**June 30, 2023 and 2022**

- **Return to the State of New Mexico severance tax permanent fund pursuant to §58-29-7 NMSA 1978** was \$1.7 million for the year ended June 30, 2023, compared to \$0 for the year ended June 30, 2022. These are net excess of funds as defined by §58-29-7 NMSA 1978 and are to be returned to the State of New Mexico severance tax permanent fund no later than October 31st of any given year. There were no net excess funds in 2022.

**Change in net position** decreased by \$8.6 million as compared to the prior year. The decrease was primarily due a reduction in the contribution from the State of New Mexico severance tax permanent fund pursuant to §7-27-5.15(F) NMSA 1978.

**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 2023.

**New Mexico Review and Outlook**

After advancing by 13,500 jobs (1.6%) in 2019, employment levels in the state shifted downward in 2020Q2 (-87,433 jobs, -10.5% year-over-year) because of the Coronavirus Pandemic. By 2020Q4, the state had clawed back some of the losses but was still down 70,000 jobs (-8.9%) compared to a year earlier, which was the final fourth quarter before the beginning of the pandemic. Fast forward to 2021Q4, there was every indication that the state was well on its way to recovery. In that quarter, the state was only down about 27,700 jobs (-3.3%) compared to the same quarter two years earlier. Now, with the fourth quarter of 2022 in the books, the state was indeed approaching pre-pandemic levels. Compared to 2019Q4 levels, 2022Q4 was only down about 3,400 jobs or down only about 0.5%. The private sector has fully recovered back to pre-pandemic levels, as it was more than 2,000 jobs (0.3%) above pre-pandemic levels. Government, however, was still in a hole, down about 5,500 jobs (-3.0%) compared to 2019Q4.

Preliminary Current Employment Statistics (CES) employer survey data, which is current through 2023Q2 suggest that the situation in New Mexico continued to improve. Estimates for the most recent month (June 2023) indicate that job levels are now nearly 1.0% higher than prior to the pandemic.

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

**June 30, 2023 and 2022**

Personal incomes saw rapid expansion during the pandemic mostly on the strength of large increases in federal transfer payments (via stimulus checks, unemployment insurance payments, and unemployment bonuses). As a result, incomes advanced by 7.8% in 2020 and then by 7.5% in 2021. Although private wages and salaries advanced 12.2% in 2022, declining transfer payments (-11.1%) caused personal income growth to be sapped and to advance only 2.5% over that period. Data is now also available for the first quarter of 2023, suggesting that personal income advanced 7.9% year-over-year. Virtually all components of income expanded nicely, with wages & salaries (10.3%); dividends, interest & rent advancing (5.5%); transfers (6.4%); nonfarm proprietors' income (6.6%); and other labor income (10.0%) all advancing.

According to the BEA, after growing 4.4% in 2019, New Mexico's real gross state product (GSP) fell by 2.5% in 2020. Even with the increasing oil prices and production volumes in 2021, real GSP only advanced by 1.2% for the year. Similarly, real GSP grew 1.1% in 2022. The newest data, which are current through 2023Q1, suggest a bit of an uptick, with production advancing 2.4% in the quarter.

Oil drilling rigs active in New Mexico fell from 109 at the end of March 2020 to 48 by end-June and stayed at that level through October before firming by December 2020 to 65. Rig counts firmed further to 70 by end-April 2021 and continued to increase through the rest of the year, finishing at 94 at the end of December. Through April 2022, rigs remain just below 100, but by the end of July 2022, rig counts moved up to about 110 before pushing up to 113 by end-September. Rig activity temporarily cooled a bit, totaling 102 by end-December 2022, but increased to 105 rigs by the end of January 2023. As of the end of July 2023, rigs counts are a tad over 110.

Oil production continues to outperform expectations as it has reached all-time highs in each year from 2017 through 2022 – with production in the most recent year totaling 596 million barrels, which is an increase of 243% compared to the record production in 2017. Data through the first quarter of 2023 shows no sign of cooling as a quarterly record of 169 million barrels was produced. Natural gas production followed a similar pattern with highs coming in each of the last three years. Like oil, natural gas production came in at all-time highs in consecutive years from 2019 through 2022, with 2023Q1 also reaching a quarterly record.

**New Mexico's economic outlook**

On an annual basis, the state added 34,500 jobs (4.3%) in 2022. This level is moved up from our last estimate by about 4,000 jobs due to modest upward revisions in the historical series and strong fourth-quarter data. On average, 2022 was down by about 4,200 jobs (0.5%) compared to pre-pandemic levels in 2019.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2023 and 2022**

In 2023, several industries are primed to advance. Leading the gains will be healthcare & social assistance (3,071 jobs, 2.5%), which will return the industry to more typical rates of growth after several years of mostly substandard growth. Still digging out of a deep hole will be leisure & hospitality (which is comprised of accommodation & food services and arts, entertainment & recreation), which is projected to add about 2,600 jobs (2.8%). Despite the gains, however, the industry will still be some 2.1% below levels in 2019. Construction (1,440 jobs, 2.9%), professional & technical services (1,320 jobs, 2.1%), and mining (871 jobs, 4.1%) are all expected to advance. Although construction and professional & technical services will be fully recovered from the pandemic, mining employment will still be about 15% below where it was in 2019.

While several industries will take several years to recover all the jobs lost to the pandemic, some have fully recovered by end-2022, and the private sector overall has fully recovered. In particular, utilities; manufacturing; professional & technical services; (surprisingly) retail trade; transportation & warehousing; healthcare & social assistance; administrative & waste services; and educational services, each have fully recovered no later than end-2022. In addition, jobs will continue to be added in most of these industries throughout the forecast window. By 2028, employment in healthcare & social assistance will be 7% above 2019 levels; transportation & warehousing 32% above; and professional & technical services 14% above. However, after showing near-term resilience, retail trade will falter for the remainder of the forecast and will end 2028 about 3% below 2019 levels.

With enough time, all three government sub-sectors (state, local, and federal) should see some improvement, but not all of them will fully recover. State government, which was largely unphased by the pandemic, will end 2028 with 1,900 more jobs (4.0%) than in 2019. After losing jobs in 2021 due to the conclusion of the Decennial Census, the federal government should slowly move forward. By 2028, this industry is projected to end about 380 jobs (1.3%) above pre-pandemic levels. After declining by nearly 10,000 jobs in 2020 and 2021, local governments, which are highly dependent on GRT revenues, will fight hard to recoup losses. However, by 2028, employment in this industry will still be about 1,700 jobs (-1.6%) below pre-pandemic levels.

Driven by a surge in federal transfers, personal incomes advanced 7.8% in 2020 and then another 7.5% in 2021, as incomes continued to be bolstered not only by federal transfers but also by strong wage & salary growth. Incomes stagnated in 2022 (2.5%) as transfers were pulled back – even despite continued strength in wages and salaries. Incomes should bounce back in 2023 (5.4%) before averaging about 4.4% per year thereafter.

Real Gross State Product (GSP) had nearly recovered back to pre-pandemic levels by 2022 as it was only down about 0.2% for the year compared to where it was in 2019. Despite projected softness in the US economy over the next couple of years, real GSP is still projected to move forward – albeit slowly. This is because although much of the softness is expected to be in labor markets, real GSP should be propped up by overall productivity gains. Over the period from 2023 through 2028, real GSP is projected to advance by about 1.7% per year.

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

**June 30, 2023 and 2022**

FOR-UNM offers three alternative scenarios. The benefits of the optimistic scenario (5% probability) continue to be minor; overall, jobs end up virtually identical to the baseline scenario and incomes see a marginal boost.

There are two pessimistic scenarios. The first pessimistic scenario (35% probability) grows a bit slower than the baseline in 2023, falls into negative territory in 2024, flattens in 2025, and then grows faster than the baseline and optimistic scenarios in the out-years. Under S&P Global's pessimistic scenario, the economy experiences weaker consumer spending and a two-quarter recession with a peak-to-trough decline in GDP of 0.3% compared to a growth slowdown in the baseline. This scenario assumes that the recent turmoil in the banking sector leads financial institutions to severely tighten lending standards and curtail credit expansion. As a result, credit-dependent consumer spending and small business activity suffer the most. Moreover, higher energy prices due to an intensification of the Russia-Ukraine conflict continue to weigh heavily on businesses and households. When applying this scenario to New Mexico, the state ends 2028 with nearly 9,000 fewer jobs (-1.0%) than in the baseline. The failure of the economy to initially gain its footing depresses personal incomes and a recovery driven by low-wage industries is insufficient to recover the losses. In 2028, incomes in the pessimistic scenario are 2.8% below baseline.

The worst-case pessimistic scenario (5% probability) describes a deeper and longer recession with essentially no growth in 2023, contraction in both 2024 and 2025, and then growth similar to the baseline (but well below the first pessimistic scenario) beginning in 2026. In this scenario, geopolitical uncertainty, inflationary pressures, as well as post-COVID fatigue, operate to constrain business investment and dampen consumer spending. What begins as short-term layoffs, particularly in customer-service industries during the pandemic, results in permanent loss. In other industries, aggressive consolidation reduces labor demand. In this scenario, New Mexico ends 2028 with 29,000 jobs less than the baseline. Employment finally equals pre-pandemic levels by 2028. Income levels end 2028 at 6.4% below the baseline.

## **FINANCIAL STATEMENTS**

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

**STATEMENTS OF NET POSITION**

**June 30, 2023 and 2022**

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 18,735	\$ 125,416
Investment held with NM State Investment Council	9,547,232	9,457,679
Investment held with NM State Treasurer's Office - LGIP	19,341,782	58,526,105
Other investments	19,249,765	-
Interest and dividends receivable	189,760	44,853
Prepaid expenses	15,764	14,506
Total current assets	48,363,038	68,168,559
Noncurrent assets		
Notes receivable including accrued interest	603,853	556,191
Equity investments in New Mexico entities	2,275,605	2,231,223
Cooperative loan agreements, net of allowance for loan losses	72,594,537	49,297,302
Total noncurrent assets	75,473,995	52,084,716
Total assets	\$ 123,837,033	\$ 120,253,275
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 25,462	\$ -
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	1,725,798	-
Debt funding payable, net	206,850	6,594,080
Total current liabilities	1,958,110	6,594,080
Total liabilities	1,958,110	6,594,080
Net position		
Restricted for:		
Economic development	121,878,923	113,659,195
Total net position	121,878,923	113,659,195
Total liabilities and net position	\$ 123,837,033	\$ 120,253,275

**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, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
Operating revenues		
Interest and dividends on investments	\$ 2,091,030	\$ 410,859
Interest income on cooperative loan agreements	660,133	493,061
Realized loss on investment held with New Mexico State Investment Council	(296,479)	(1,507,769)
Realized loss on other investments	(7,608)	-
Total operating revenues	2,447,076	(603,849)
Operating expenses		
Equity investment operating expense, net	30,669	45,386
Provision for loan losses	29,154	32,666
Economic development program services	189,121	182,047
Other operating expenses	175,138	163,867
Total operating expenses	424,082	423,966
Operating income (expense)	2,022,994	(1,027,815)
Nonoperating revenue (expense)		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	7,922,532	17,876,602
Return to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	(1,725,798)	-
Total nonoperating revenue	6,196,734	17,876,602
Change in net position	8,219,728	16,848,787
Net position - beginning of year	113,659,195	96,810,408
Net position - end of year	\$ 121,878,923	\$ 113,659,195

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

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (340,055)	\$ (346,151)
Net cash used by operating activities	(340,055)	(346,151)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	7,922,532	17,876,602
Net cash provided by noncapital financing activities	7,922,532	17,876,602
Cash flows from investing activities:		
Purchase of other investments	(19,257,373)	-
Liquidation (purchase) of investment held with NM State Treasurer's Office	39,184,323	(47,438,824)
Investments in NM economic development activities under Cooperative Agreements, net	(27,616,108)	29,783,885
Net cash used by investing activities	(7,689,158)	(17,654,939)
Net decrease in cash and cash equivalents	(106,681)	(124,488)
Cash and cash equivalents - beginning of year	125,416	249,904
Cash and cash equivalents - end of year	\$ 18,735	\$ 125,416
Reconciliation of operating income to net cash used by operating activities:		
Operating income (expense)	\$ 2,022,994	\$ (1,027,815)
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for loan losses	29,154	32,666
Equity investment operating expense, net	30,670	45,386
Non-cash investment (gains) losses, net	(2,302,170)	648,186
Interest and dividends receivable	(144,907)	(44,337)
Changes in assets and liabilities:		
Prepaid expenses	(1,258)	(237)
Accounts payable	25,462	-
Net cash used by operating activities	\$ (340,055)	\$ (346,151)

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Financial Reporting Entity – Continued

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.

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.



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

**June 30, 2023 and 2022**

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

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.

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.

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

**June 30, 2023 and 2022**

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

Investments – Continued

In accordance with GASB Statement No. 72, paragraph B74, debt and equity investments held primarily to further economic development are reported using the cost method. Debt and 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, 2023 and 2022, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2023</u>	<u>2022</u>
Allowance for loan losses, beginning	\$ 52,167	\$ 58,948
Loan losses incurred in current period	(34,324)	(39,447)
Provision for loan losses	<u>29,154</u>	<u>32,666</u>
Allowance for loan losses, ending	<u>\$ 46,997</u>	<u>\$ 52,167</u>

Debt Funding Receivables and Payables

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

Prepaid Expenses

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

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, 2023 or 2022.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Net Position/Fund Equity – Continued

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, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Cumulative severance tax permanent fund capital contributions	\$ 136,359,888	\$ 128,437,356
Cumulative return of net excess funds	(4,556,930)	(2,831,132)
Cumulative expenses in excess of other revenues	(9,924,035)	(11,947,029)
	<b>\$ 121,878,923</b>	<b>\$ 113,659,195</b>

Severance Tax Permanent Fund Proceeds

Prior to July 1, 2007, Section 7-27-5.15 NMSA 1978 required that the State Investment Officer make a commitment to NMSBIC pursuant to the Act to invest three-fourths of one percent of the market value of the New Mexico Severance Tax Permanent Fund. If at any time the commitment fell below that level, further commitments must be made until the invested capital is equal to three-fourths one percent of the market value of the fund. Effective July 1, 2007, the commitment was increased to one percent. 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 \$7,922,532 and \$17,876,602 in 2023 and 2022, respectively.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Pensions and OPEB

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

Subsequent Events

NMSBIC has evaluated all events occurring subsequent to June 30, 2023 and through September 22, 2023, which is the date that the financial statements were issued and believes that any such events occurring during this period have been either recognized or disclosed in the accompanying financial statements.

**NOTE 3 – DEPOSITS**

State statutes authorize the investment of NMSBIC's funds in a wide variety of instruments including certificates-of-deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of NMSBIC properly followed State investment requirements as of June 30, 2023 and 2022, respectively.

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.

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

**June 30, 2023 and 2022**

**NOTE 3 – DEPOSITS – CONTINUED**

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, 2023 and 2022, all of NMSBIC’s deposits were fully insured. New Mexico State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to NMSBIC for a least one half of the amount on deposit with the institution.

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

	<b>2023</b>	<b>2022</b>
Amount of deposits	\$ 18,735	\$ 125,416
FDIC Insurance	(18,735)	(125,416)
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.

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

**June 30, 2023 and 2022**

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

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

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

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

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

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

The methods described below 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.

The following tables presents the fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2023 and 2022:

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

<u>Assets at Fair Value</u>				
<u>Description – 2023</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	\$ 72,594,537	\$ -	\$ 72,594,537	\$ -
Other investments Investment held with NM State Investment Council	19,341,782	-	19,341,782	-
	19,249,765	19,249,765	-	-
	9,547,232	-	9,547,232	-
	<u>\$ 120,733,316</u>	<u>\$19,249,765</u>	<u>\$ 101,483,551</u>	<u>\$ -</u>
<u>Description – 2022</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	\$ 49,297,302	\$ -	\$ 49,297,302	\$ -
Other investments Investment held with NM State Investment Council	58,526,105	-	58,526,105	-
	9,457,679	-	9,457,679	-
	<u>\$ 117,281,086</u>	<u>\$ -</u>	<u>\$ 117,281,086</u>	<u>\$ -</u>

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

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

*Other investments:* Valued at unadjusted quoted prices in active markets for identical investments. Other investments are comprised of a federal money market fund and United States Treasury securities with maturities less than one year.

*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 statements of net position date.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of NMSBIC’s investments. As a means of limiting its exposure to fair value risk arising from rising interest rates, the NMSBIC’s investment policy requires investment of currently available funds to have a maturity of no greater than three years, with the exception of the investment in the Credit 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:

**2023**

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Credit Plus Bond	Level 2	100.00%	\$9,547,232	Not available



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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Investment in NM State Investment Council – Continued

**2022**

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

NM Local Government Investment Pool

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

**2023**

Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer’s Office – LGIP	\$ 19,341,782	AAAm	22 Days (r) ; 86 Days (F)

**2022**

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

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**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, 2023 and 2022, interest income of \$78,650 and \$162,433, 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 then extended to August 31, 2022; 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, as of September 1, 2022, the NMSBIC reduced the interest rate of the loan to 0.50% through June 30, 2025, and extended the term for COVID-19 loans to up to sixty months. The COVID-19 Lending Program ended on September 30, 2022, for new or modified loans. The COVID-19 Lending Program will remain active for existing loans through September 30, 2027. 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, 2023 and 2022, interest income of \$3,196 and \$1,909, 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, 2023 and 2022**

**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, 2023 and 2022, interest income of \$102,969 and \$118,341, 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, 2023 and 2022**

**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, 2023 and 2022, interest income of zero and \$15,222, 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, 2023 and 2022, interest income of \$236,384 and \$166,849, respectively, was recognized related to this investment.
  
- 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, 2023 and 2022, interest income of zero was recognized related to this investment.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Cooperative Loan Agreements – Continued

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

- **Homewise.** As of March 2020, NMSBIC entered into a new revolving loan Cooperative Agreement with Homewise, a non-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits loan size, limits the term that loans are eligible as collateral to no more than five years, limits the maximum loan-to-value for NMSBIC funds, and requires the corporation to maintain certain levels of leverage and net assets. The corporation undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. NMSBIC does not share in any loan losses or recoveries. Loans are serviced by the corporation, with quarterly reports and principal and interest remittances provided to NMSBIC. The outstanding principal balance of the revolving loan matures in March 2025. During the years ended June 30, 2023 and 2022, interest income of \$59,928 and \$28,301, respectively, was recognized related to this investment.
- **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, 2023 and 2022, interest income of zero was recognized related to this investment.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

Cooperative Loan Agreements – Continued

- Clearinghouse CDFI. As of April 2022, NMSBIC entered into a new revolving loan Cooperative Agreement with Clearinghouse CDFI, a for-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits the maximum loan size and the number of modifications allowed on nonperforming loans, and requires the corporation to maintain certain levels of leverage and net assets. The corporation also undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. NMSBIC does not share in any loan losses or recoveries. Loans are serviced by the corporation, with quarterly reports and principal and interest remittances provided to NMSBIC. The outstanding principal balance of the revolving loan matures in April 2032. During the years ended June 30, 2023 and 2022, interest income of \$173,333 and zero, respectively, was recognized related to this investment.
  
- RBC Global Asset Management. As of September 9, 2022, NMSBIC entered into an Investment Advisory Agreement with RBC Global Asset Management (RBC GAM). Under this agreement RBC GAM sources Small Business Administration (SBA) loans that are focused on BIPOC (black, indigenous, and people of color) areas and BIPOC owned small businesses in New Mexico. The guaranteed portion of the SBA loans are aggregated into SBA pools that are delivered to the NMSBIC. The NMSBIC committed \$25 million which was initially invested in short-term investments comprised of a federal money market fund and United States Treasury securities with maturities of twelve months or less. The short-term investments are liquidated and used to fund the SBA pools as they are delivered to the NMSBIC. The NMSBIC's SBA pool investments are guaranteed by the SBA. During the years ended June 30, 2023 and 2022, interest income of \$5,673 and zero, respectively, was recognized related to this investment.

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.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

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

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 \$1,725,798 and zero as of June 30, 2023 and 2022, 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.

	<b>2023</b>	<b>2022</b>
Interest and dividends received, cash basis	\$ 2,471,807	\$ 815,886
Operating expenses, net of loan losses	(394,925)	(391,303)
Accumulated reserve for debt and equity losses	(46,997)	(52,167)
Fair value change, investment with New Mexico State Investment Council	(296,479)	(1,507,769)
Fair value change, other investments	(7,608)	-
Net excess (deficient) funds	\$ 1,725,798	\$ (1,135,353)

**NOTE 8 – CAPITAL COMMITMENTS**

As of June 30, 2023 and 2022, total remaining commitments under debt cooperative agreements and equity cooperative agreements were \$37,065,129 and zero, respectively. See supplementary schedules for details of these remaining commitments.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023 and 2022**

**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 2023 and 2022 were \$7,922,532 and \$17,876,602, respectively. Details of these distributions are as follows:

<u>2023</u>			
<u>Agency</u>	<u>Number</u>	<u>Amount</u>	<u>Purpose</u>
DFA	34100	\$ 7,922,532	Severance Tax Permanent Fund Proceeds
<u>2022</u>			
<u>Agency</u>	<u>Number</u>	<u>Amount</u>	<u>Purpose</u>
DFA	34100	\$ 17,876,602	Severance Tax Permanent Fund Proceeds

**NOTE 10 – CONCENTRATIONS**

Concentration of Funding

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

Concentration of Credit Risk

NMSBIC enters into Cooperative Agreements with parties that have demonstrated the ability to provide business assistance to new and expanding businesses and that are primarily engaged in the business of providing business services and debt and equity capital to new and expanding businesses. Under Cooperative Agreements with lenders, the lenders use their own funds and funds provided by NMSBIC to make loans to new and expanding businesses. Concentrations of credit risk arise from a number of loans made by such third parties utilizing NMSBIC funds to startup businesses. The lenders with which NMSBIC has entered into Cooperative Agreements have discretion as to whether or not to require, and the amount of, collateral taken, on the loans.

**NOTE 11 – RISK MANAGEMENT**

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

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



## **SUPPLEMENTAL INFORMATION**

**Small Business Investment Corporation**  
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**SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS**

Years Ended June 30, 2023 and 2022

	<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, 2023							
1. RBC SBA Loan Pool	\$ 25,000,000	\$ -	\$ 6,361,453	\$ -	\$ 6,361,453	\$ -	\$ 6,361,453
2. DreamSpring #2	7,750,000	3,439,797	(151,635)	(34,323)	3,253,839	(32,538)	3,221,301
3. DreamSpring #3**	81,663	488,656	(406,993)	-	81,663	-	81,663
4. NMCDFL	35,000,000	28,742,784	1,543,596	-	30,286,380	-	30,286,380
5. WESST Corp	375,000	111,059	(20,687)	-	90,372	(14,459)	75,913
6. NMMFA	2,500,000	-	-	-	-	-	-
7. Ventana Fund	15,000,000	9,640,074	3,671,232	-	13,311,306	-	13,311,306
8. Homewise	7,000,000	1,905,673	2,341,693	-	4,247,366	-	4,247,366
9. Lift Fund	1,000,000	21,426	(12,271)	-	9,155	-	9,155
10. RCAC	1,000,000	-	-	-	-	-	-
11. Clearinghouse CDFI	15,000,000	5,000,000	10,000,000	-	15,000,000	-	15,000,000
	<u>\$ 109,706,663</u>	<u>\$ 49,349,469</u>	<u>\$ 23,326,388</u>	<u>\$ (34,323)</u>	<u>\$ 72,641,534</u>	<u>\$ (46,997)</u>	<u>\$ 72,594,537</u>
For the year ended June 30, 2022							
1. DreamSpring #1*	\$ -	\$ 592	\$ (592)	\$ -	\$ -	\$ -	\$ -
2. DreamSpring #2	7,750,000	4,934,724	(1,455,480)	(39,447)	3,439,797	(34,398)	3,405,399
3. DreamSpring #3**	815,506	21,582,819	(21,094,163)	-	488,656	-	488,656
4. NMCDFL	35,000,000	26,543,780	2,199,004	-	28,742,784	-	28,742,784
5. WESST Corp	375,000	59,415	51,644	-	111,059	(17,769)	93,290
6. NMMFA	2,500,000	1,000,000	(1,000,000)	-	-	-	-
7. Ventana Fund	15,000,000	7,373,127	2,266,947	-	9,640,074	-	9,640,074
8. Homewise	4,000,000	572,608	1,333,065	-	1,905,673	-	1,905,673
9. Lift Fund	1,000,000	33,245	(11,819)	-	21,426	-	21,426
10. RCAC	1,000,000	-	-	-	-	-	-
11. Clearinghouse CDFI	5,000,000	-	5,000,000	-	5,000,000	-	5,000,000
	<u>\$ 72,440,506</u>	<u>\$ 62,100,310</u>	<u>\$ (12,711,394)</u>	<u>\$ (39,447)</u>	<u>\$ 49,349,469</u>	<u>\$ (52,167)</u>	<u>\$ 49,297,302</u>

\*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, 2023 and 2022**

	<b>Investment Activity, Cost Method of Accounting</b>						<b>Ending Investment Fair Value*</b>
	<b>Investment Capital Commitments</b>	<b>Beginning Investment Cost Method</b>	<b>Capital Calls and Redemptions</b>	<b>Other Than Temporary Impairment</b>	<b>Operating Expense</b>	<b>Ending Investment Cost Method</b>	
For the year ended June 30, 2023							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,162,857
2. NM Mezzanine Fund	3,000,000	688,800	-	-	-	688,800	902,226
3. Verge I II Combined	9,025,155	1,542,423	75,051	-	(30,669)	1,586,805	1,960,078
	<u>\$ 19,025,155</u>	<u>\$ 2,231,223</u>	<u>\$ 75,051</u>	<u>\$ -</u>	<u>\$ (30,669)</u>	<u>\$ 2,275,605</u>	<u>\$ 4,025,161</u>
For the year ended June 30, 2022							
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,172,579
2. NM Mezzanine Fund	3,000,000	688,800	-	-	-	688,800	885,890
3. Verge I II Combined	9,025,156	1,512,757	75,052	-	(45,386)	1,542,423	3,857,073
	<u>\$ 19,025,156</u>	<u>\$ 2,201,557</u>	<u>\$ 75,052</u>	<u>\$ -</u>	<u>\$ (45,386)</u>	<u>\$ 2,231,223</u>	<u>\$ 5,915,542</u>

\*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.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America, the 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 June 30, 2023 and the related notes to the financial statements, which collectively comprise NMSBIC's basic financial statements, and have issued our report thereon dated September 22, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NMSBIC's internal control over financial reporting (internal control) to determine the 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 the NMSBIC's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the NMSBIC's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NMSBIC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NMSBIC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NMSBIC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PULAKOS CPAs, PC

September 22, 2023

Pulakos CPAs, PC

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

**SCHEDULE OF FINDINGS AND RESPONSES –  
CURRENT AND PRIOR YEAR**

**June 30, 2023**

**FINANCIAL FINDINGS:**

**Current Year:**

**NONE**

**Prior Year:**

**NONE**

**Small Business Investment Corporation**

**COMMUNICATION OF  
NO MATERIAL WEAKNESSES**

**June 30, 2023**

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, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered NMSBIC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMSBIC's internal control. Accordingly, we do not express an opinion on the effectiveness of NMSBIC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NMSBIC's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Directors, and others within NMSBIC, and is not intended to be, and should not be, used by anyone other than these specified parties.

*PULAKOS CPAs, PC*

September 22, 2023

Pulakos CPAs, PC