



New Mexico
Small Business Investment Corporation

June 30, 2024
Annual Report

September 19, 2024

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Joshua L. Smith
Board Chair and President
New Mexico Small Business
Investment Corporation



September 19, 2024

The Honorable Michelle Lujan Grisham
Office of the Governor
490 Old Santa Fe Trail, Suite 400
Santa Fe, New Mexico 87501

Dear Governor Lujan Grisham:

On behalf of the members of the Board of Directors of the Small Business Investment Corporation, doing business as the New Mexico Small Business Investment Corporation (“NMSBIC”), I want to thank you for entrusting us to represent this important organization and giving us the opportunity to serve our state.

The NMSBIC was formed in 2001 by the Small Business Investment Act, NMSA 58-29-1 et. seq., to create new job opportunities and to support the small business community statewide and is funded by an allocation from the Severance Tax Permanent Fund pursuant to NMSA 7-27-5.15. Upon receipt of the independent audited financial statements, the NMSBIC Board of Directors is charged with reporting the organization’s financial results to you in accordance with the provisions of the Act. The enclosed report is intended to serve that purpose. A copy of the independent auditors’ report, including a Report on Internal Controls over Financial Reporting and Other Matters, for the NMSBIC’s fiscal year ended June 30, 2024, is also enclosed.

The NMSBIC Board of Directors (the “Board”) is appointed by the Governor and confirmed by the State Senate, except for the State Treasurer who holds a permanent seat on the Board. Three members were appointed in 2022 (Joshua Smith, Anne Beckett, and Robert Valdiviez), two members were appointed in 2023 (Sayuri Yamada and Kristina Alley), and one member was appointed in 2024 (Joshua Grassham). Treasurer Laura M. Montoya began serving on the Board at the beginning of 2023. The Board members have reviewed the organization’s investment history and implemented a strategy focused on expanding the NMSBIC’s lending program. The enclosed report includes observations regarding past activities and actions taken by the Board to strengthen and grow the NMSBIC. Highlights of the report are as follows:

- The organization continues to focus on expanding its lending program. Through its lending partners, the NMSBIC delivers proven results in creating new jobs, as reported in a 2017 impact analysis report from the Bureau of Business and Economic Research. As loans are repaid, the funds are recycled and loaned to other small businesses, which, in turn, create more new jobs.
- Since inception, the NMSBIC has supported 25,018 jobs in New Mexico, with 7,212 loans to small businesses, in 31 out of 33 New Mexico counties.

- During the most recent twelve months, 57% of the NMSBIC's loans were made to minority-owned businesses, and 45% were made to women-owned businesses.
- The change in net assets for the year was a positive \$30.5 million comprised of:
 - \$30.2 million contribution from the severance tax permanent fund; plus
 - \$3.4 million operating income; less
 - \$3.1 million in net excess funds, which will be returned to the severance tax permanent fund no later than October 31, 2024.
- The NMSBIC Board has been successful in implementing a strategy to achieve and maintain self-sufficiency through expanding its lending program, with interest income from loans exceeding operating expenses, as evidenced by \$3.4 million in operating income noted above.
- The NMSBIC's funding is based on 2% of the balance of the severance tax permanent fund. Growth in the severance tax permanent fund will result in growth of the NMSBIC's assets. The Board is being proactive in making plans to deploy additional funding in a responsible manner that will continue to stimulate the economy and support the growth of small businesses and jobs in New Mexico.

On behalf of the members of the Board, I am pleased to report on the actions we have taken to continue to move the organization forward in a positive direction. We are committed to building a viable and sustainable structure to enable the NMSBIC to fulfill its mission of stimulating the state's economy and sustaining and creating jobs throughout New Mexico, while preserving the NMSBIC's capital.

Respectfully submitted,

Joshua L. Smith
Board Chair and President



Joshua L. Smith
Board Chair and President
New Mexico Small Business
Investment Corporation



September 19, 2024

Mr. Charles Sallee, Director
New Mexico Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Dear Director Sallee:

On behalf of the members of the Board of Directors of the Small Business Investment Corporation, doing business as the New Mexico Small Business Investment Corporation (“NMSBIC”), I want to express our appreciation for having the opportunity to serve our state.

The NMSBIC was formed in 2001 by the Small Business Investment Act, NMSA 58-29-1 et. seq., to create new job opportunities and to support the small business community statewide and is funded by an allocation from the Severance Tax Permanent Fund pursuant to NMSA 7-27-5.15. Upon receipt of the independent audited financial statements, the NMSBIC Board of Directors is charged with reporting the organization’s financial results to you in accordance with the provisions of the Act. The enclosed report is intended to serve that purpose. A copy of the independent auditors’ report, including a Report on Internal Controls over Financial Reporting and Other Matters, for the NMSBIC’s fiscal year ended June 30, 2024, is also enclosed.

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Respectfully submitted,

Joshua L. Smith
Board Chair and President

NMSBIC HIGHLIGHTS

2024 FISCAL YEAR

JOB'S SUPPORTED

25,018

LIFE-TO-DATE

588

YEAR-TO-DATE

57%

LOANS TO
MINORITY-OWNED
BUSINESSES

45%

LOANS TO
WOMEN-OWNED
BUSINESSES

31

OUT OF 33
NEW MEXICO
COUNTIES SERVED

INCREASED FROM
\$73M TO

\$97M

LOANS
OUTSTANDING

LOANS ORIGINATED

\$254M

LIFE-TO-DATE

\$34M

YEAR-TO-DATE

INCREASED FROM
\$124M TO

\$157M

TOTAL ASSETS

\$30.5M

INCREASE IN NET
POSITION

RETURN TO
SEVERANCE TAX
PERMANENT FUND

\$3.1M

NET EXCESS FUNDS

Small Business Success Stories

The NMSBIC, through its lending partners, made 120 loans to small businesses throughout the state during the 2024 fiscal year, totaling \$34 million and supporting 588 jobs. The following are examples of New Mexico small businesses that benefited from working with the NMSBIC's lending partners.

Growing home, auto insurance in Spanish-speaking communities



Justa Chaz (left bottom), owner of Justa Chaz Insurance Agency with employees.

She began her career as a realtor and ran a cleaning business. She later transitioned into banking, helping clients with credit cards and managing customer accounts. After a decade in personal banking, Justa Chaz shifted into insurance, becoming an agent with Farmers. After working with Farmers for two years, she branched out on her own and founded the Justa Chaz Insurance Agency.

The tough part was the state insurance licensing exam.

“You had to take a test, which wasn’t easy because it was in English,” said Chaz, who was born in Argentina. She needed the license before opening the business. She took the state-mandated test three times, and passing it on the third attempt.

Chaz, who has been in the insurance industry for 16 years, said she wanted to start a career in insurance because she wasn’t seeing many offering this service in Spanish. Her business on Central Avenue in Northwest Albuquerque is one of two she owns in the city, and Chaz also has an agency in Los Lunas. Chaz also has a contract with the New Mexico Motor Vehicle Division and offers auto emissions, state license plates, and vehicle registration, in addition to tax preparation services in Spanish.

“Clients always look for people who speak their language so they can feel more comfortable communicating,” she said, adding that many of her 12 employees are from various countries in Latin America, including Peru, Venezuela, Mexico, Ecuador and Colombia.

Education is key when potential customers come to the agency, which offers classes on how insurance works and how it protects personal and commercial properties, including mobile homes. “Not many counties in Latin America

require insurance,” Chaz said. “You have to really take your time to explain that insurance is a requirement and show the benefits of it.”

The idea to purchase her own building came when she had been renting three suites in a building in Northwest Albuquerque for 10 years. She decided to move when the building owner rented to a cannabis outlet. Not only was the smell unbearable, it was also a reminder of what she had been wanting to do for more than a decade. “I wasn’t paying attention to my goal, which was to own a building, something I had been wanting to do for a long time,” she said.

She found The Loan Fund through an acquaintance who now works at the agency. He had a friend who took out a loan for a restaurant.

“It’s been very easy working with The Loan Fund,” Chaz said. “They liked what we did in the community. We didn’t have any debt, and although we had to wait, we knew it was going to happen.”

Find Justa Chaz insurance at <https://justachaz.com/>. Learn more about The Loan Fund at www.loanfund.org.

Rosemary Lonewolf, Santa Clara Pueblo Artist

When artist and Santa Clara pueblo tribal member Rosemary Lonewolf began developing commissioned public artwork, she soon found that she needed support to fill in the gaps. Public art commissions can take several years, and payments to artists are generally delivered at project milestones. During the long months when she didn’t receive a paycheck, Rosemary resorted to credit cards while applying for loans.



Rosemary discovered that she was unable to secure traditional financing because the assets she would normally use as collateral — her home and property — were on tribal land and held in trust by the federal government. “It gets extremely difficult for a Native person to get a loan through a traditional bank,” she says. Yet her public art commissions were growing.

So when Rosemary needed a studio and storage space to create a 30-foot glass artwork piece for the Heard Museum in Phoenix, she turned to DreamSpring. The artwork was so huge that her small studio wasn’t sufficient. DreamSpring extended a \$20,000 loan to help Rosemary secure a storage space she could also use as a studio.

DreamSpring capital offered the physical and mental space Rosemary needed to focus on her work. “You can work with your mind clear, and that’s extremely important for an artist.”

Learn more about DreamSpring at www.DreamSpring.org.

Villanueva General Store serves Northern New Mexico since 1912

Along a windy two-lane highway in Northern New Mexico just south of the Sangre de Cristo Mountain range lies a small rural village with a store that has been in this bloodline for more than a century.

Daniel Torrez's family opened the Villanueva General Store in 1912 in this farm-rich valley carved by the Pecos River. Founded in 1808 and originally called La Cuesta, which is Spanish for hill or slope, this colonial village was one of the communities located within the San Miguel del Vado Land Grant. La Cuesta was later renamed Villanueva after a prominent family.

The general store now provides food and some essential goods for the town of about 200-plus residents, and is the only store in about a 30-mile radius. Las Vegas, N.M., is located about 25 miles north of the village, with Santa Fe about 50 miles away and Albuquerque at more than 90 miles. Over the decades the store has also added fishing and camping supplies to serve visitors going to Villanueva State Park adjacent to the Pecos River.



Daniel Torrez and Doug Viltz in front of the Villanueva General Store

The restaurant is named after Mr. Torrez' mother's family. Josie Lucero Torrez ran the store after husband passed.

"It's interesting being from a small community," said Torrez, who was a retired probation officer in Rio Rancho before taking over the store from his mother, Josie, who ran the store until 2012, just a few years after his father passed away. "They know you and they like you or don't like you, but understand your personality ... It feels like family."

Torrez, who now has a partner, Doug Viltz, added an eatery and ice cream shop in November 2023, utilizing space adjacent to the store that once was used for storage. La Cocina Lucero restaurant, named after his mother's maiden name, offers comfort meals of Frito pies, burritos, tacos, burgers and chicken tenders with New Mexican red or green chile. Viltz, a transplant from Southern California, is creating a business using family recipes. Doug's Old Fashion Ice Cream makes the sweet treats by hand using fresh ingredients and will eventually offer 50 flavors and a variety of ice cream sandwiches. Sundays at the restaurant get so crowded after church with patrons staying for hours to visit that the partners have to sometimes ask them to leave.

With two employees, a partner and a community that has supported the Villanueva and Torrez families for decades, things are looking good for Villanueva General Store.

"They [The Loan Fund] have been supportive when we've needed it," he said.

Visit the Villanueva General Store at 1227 NM-3, Villanueva, NM. Learn more about The Loan Fund at www.loanfund.org.

Introduction

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 enhance the economic development objectives of the state, to create new job opportunities, and to support small businesses in communities statewide. The NMSBIC is funded by an allocation from the Severance Tax Permanent Fund.

Investment Overview

The NMSBIC invests in New Mexico businesses through its lending and equity programs.

In 2011, the NMSBIC Board of Directors (“Board”) changed the organization’s strategic direction away from venture capital investments, to focus on expanding the NMSBIC’s lending program. Reasons for expanding the NMSBIC’s Lending Program were, (i) there was a shortage of traditional bank lending available to small businesses in New Mexico, (ii) the NMSBIC had experienced significant losses from its large concentration of equity program investments, (iii) equity program investments were concentrated primarily in the Albuquerque area, whereas the lending program provided funds to small businesses throughout New Mexico, and (iv) equity program investments were limited to a narrow sector of the economy and supported relatively few jobs, whereas the lending program supports jobs throughout New Mexico. The NMSBIC continues to focus on expanding its lending program.

Beginning in March 2020, The NMSBIC created the NMSBIC COVID-19 Lending Program and the NMSBIC PPP Lending Program to assist small businesses that did not have access to COVID-19 relief programs from traditional banks.

The NMSBIC is actively engaging with existing lending partners, and recently added new partners, to expand the lending program in a way that is responsible, supports and sustains existing jobs, and increases the number of jobs created throughout the state.

The board follows the Prudent Investor Rule as a basis for all loans and investments. NMSBIC loans and investments are underwritten in a way that balances yield, safety, diversification, and economic development, with a focus on creating and sustaining jobs and preserving taxpayer funds.

New Mexico Employment

U.S. Census data shows there are 133,350 non-employer establishments (sole proprietorships with no employees) in New Mexico. For New Mexico employer establishments (businesses with paid employees), there are 44,850 establishments, employing 639,118 people, with a total annual payroll of \$32 billion. 23% of employer firms are minority-owned businesses, and 20% are women-owned businesses.¹

Employment in New Mexico was 934,652 as of June 30, 2024, an increase from 931,616 in the prior year, and higher than 908,423 jobs as of February 2020, before the COVID-19 crisis. New Mexico’s unemployment rate of 3.9% as of June 30, 2024, was up slightly from 3.6% a year ago, and lower than the pre-pandemic unemployment of 5.3% rate as of February 2020.²

There continues to be a critical need for providing funds to help create and grow small businesses, protect existing jobs, and promote job growth; a need that increased during the COVID-19 crisis. NMSBIC believes the continued expansion of its lending program addresses a serious funding gap created by retrenchment in the banking community and is an effective way to deliver funding to New Mexico businesses. Continued expansion of the lending program enables the NMSBIC to better preserve capital and to increase the turnover of that

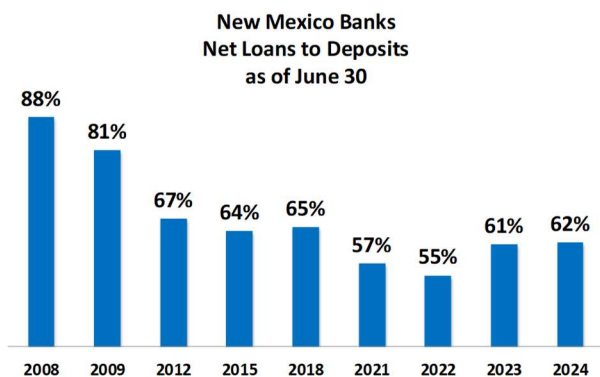
¹ <https://www.census.gov/quickfacts/NM>

² https://www.bls.gov/regions/southwest/new_mexico.htm

capital, thereby benefitting more small businesses and employees in our state.

Lending Gap

Beginning with the 2008 recession, a tightening of bank lending to small businesses occurred in our state. The loan-to-deposit ratio for New Mexico-based banks was 88% in 2008. The ratio dropped during the 2008 recession and has not recovered to the 2008 level. The bank loan-to-deposit ratio for New Mexico based banks was 62% as of June 30, 2024.³ This tight credit market provides an opportunity for NMSBIC to continue expanding its lending program and help fill the lending gap, especially for start-up and small expanding businesses.



Source: www.fdic.gov



Brandy went to The Loan Fund for financial help to purchase a building in downtown Belen where she could serve more clients from a central location. After financing help from The Loan Fund, Heart & Soul of New Mexico's 35 behavioral health specialists and staff are serving clients from three New Mexico locations.

- Brandy Castillo, Owner Heart & Soul of New Mexico

Lending Program

The NMSBIC's lending program provides funding to small businesses throughout the state, through its lending partners.

NMSBIC Lending Partners

The NMSBIC is an important source of funding for nonprofit organizations engaged in micro-lending and small business lending in New Mexico. It has actively engaged with existing lending partners, including DreamSpring (formerly Accion), New Mexico Community Development Loan Fund ("The Loan Fund"), the New Mexico Mortgage Finance Authority ("MFA"), and WESST Corp. Beginning in 2019, to further expand the NMSBIC's lending program and increase the number of jobs created throughout the state, the NMSBIC added new lending partners including: Homewise, Clearinghouse CDFI, LiftFund, RBC GAM, RCAC, and Ventana Fund.

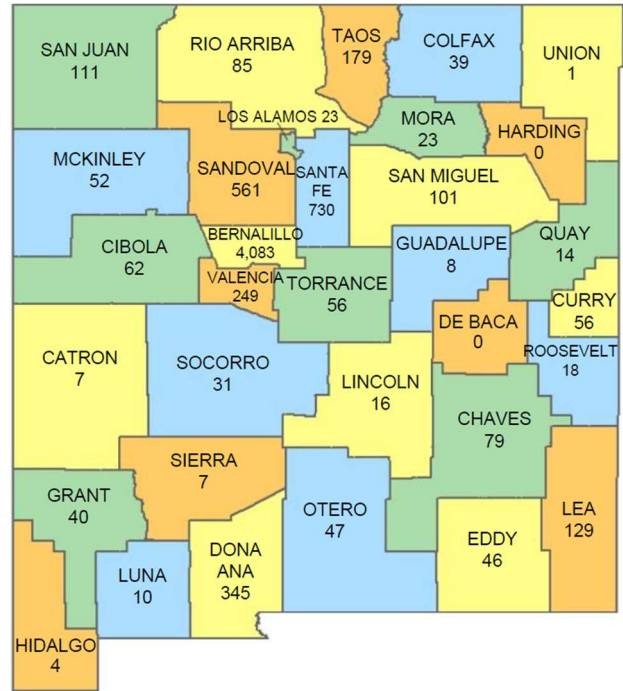
NMSBIC Lending Partners



³ <https://www.fdic.gov>, BankFind Suite/Peer Group Comparisons

Communities and Jobs Supported

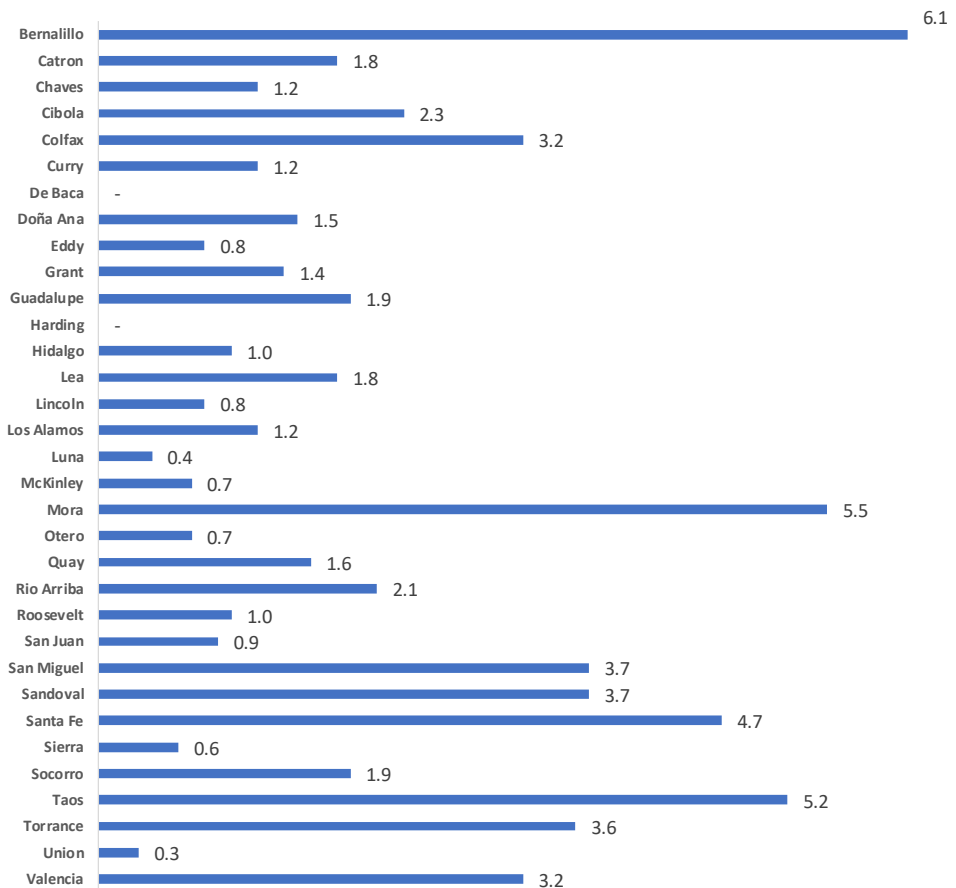
Since its inception, and in connection with its lending partners, the NMSBIC has funded 7,212 loans to New Mexico start-up and small businesses, in 31 of 33 New Mexico counties, which have supported 25,018 jobs throughout New Mexico. In many cases, NMSBIC's funding of small businesses has preserved jobs that would have been eliminated without access to capital. \$254 million in loans have been originated since 2001 to businesses that would likely not have had access to such loans from other sources.



Through its lending partners, the NMSBIC has provided funds for 7,212 loans in 31 of 33 counties in New Mexico.

	Population	Loans per	
	Loans (000) (1)	Capita	
Bernalillo	4,083	672.5	6.1
Catron	7	3.8	1.8
Chaves	79	63.9	1.2
Cibola	62	27.0	2.3
Colfax	39	12.2	3.2
Curry	56	47.5	1.2
De Baca	-	1.7	-
Doña Ana	345	223.3	1.5
Eddy	46	60.4	0.8
Grant	40	27.7	1.4
Guadalupe	8	4.3	1.9
Harding	-	0.6	-
Hidalgo	4	4.0	1.0
Lea	129	72.5	1.8
Lincoln	16	20.4	0.8
Los Alamos	23	19.2	1.2
Luna	10	25.7	0.4
McKinley	52	69.8	0.7
Mora	23	4.2	5.5
Otero	47	68.8	0.7
Quay	14	8.5	1.6
Rio Arriba	85	40.0	2.1
Roosevelt	18	18.9	1.0
San Juan	111	120.4	0.9
San Miguel	101	27.0	3.7
Sandoval	561	153.5	3.7
Santa Fe	730	155.7	4.7
Sierra	7	11.4	0.6
Socorro	31	16.1	1.9
Taos	179	34.6	5.2
Torrance	56	15.5	3.6
Union	1	4.0	0.3
Valencia	249	78.1	3.2
Totals	7,212	2,113	3.41

NMSBIC Loans by County
(per 1,000 in population, since inception)



(1) https://www.newmexico-demographics.com/counties_by_population, 2022 Population Estimates Program and 2021 American Community Survey

NMSBIC Actions to Assist Small Businesses Impacted by the COVID-19 Crisis

Beginning in March 2020, the NMSBIC board of directors made the following changes to its lending programs to support its lending partners, and indirectly small businesses in New Mexico impacted by the COVID-19 crisis.

“In a matter of days, the NMSBIC made additional liquidity available to DreamSpring to channel into PPP loans. As a result of the partnership, the NMSBIC and DreamSpring saved thousands of New Mexico small businesses, jobs and livelihoods.”

- Anne Haines, DreamSpring President/CEO

- **Additional Funds Committed.** The NMSBIC committed an additional \$50 million in funding to lending partners, so that lending partners could make additional funding available to small businesses in New Mexico, including businesses impacted by the COVID-19 crisis.
- **COVID-19 Lending Program.** In March 2020, the NMSBIC introduced a COVID-19 Lending Program, under which the NMSBIC provided funds to lending partners at an interest rate of 0% for up to thirty-six months, provided that the lending partner’s loan was to a business impacted by the COVID-19 crisis, and the interest rate to the small business was at 3.75% or less. The program ended on September 30, 2022, for new or modified loans. The program will remain active for existing loans through 2027.
- **PPP Lending Program.** In April 2020, the NMSBIC introduced a new lending program to provide funds for the NMSBIC’s lending partners to originate loans under the Small Business Administration’s (SBA) Paycheck Protection Program (PPP). Under this lending program, the NMSBIC provided funds to lending partners at an interest rate of zero percent (0%) for PPP loans that lending partners make to New Mexico businesses. The SBA’s PPP loans are forgiven if certain conditions are met and are a tremendous benefit to small businesses. When SBA announced the PPP program, many traditional banks prioritized existing customers or larger

customers for their PPP loans. This resulted in many smaller businesses, including minority- and women-owned businesses, to not have access to PPP loans. Also, while the PPP loans were guaranteed by the SBA, lenders were required to originate PPP loans with their own funds. The NMSBIC provided \$35 million in funding to DreamSpring, which was used to make PPP loans available to small businesses in New Mexico, including those businesses that were not able to access PPP funding through traditional banks. From the beginning of the COVID-19 crisis in March 2020, through June 30, 2021, DreamSpring used NMSBIC funds to originate 1,524 PPP loans supporting 7,576 jobs in New Mexico. DreamSpring was able to recycle the \$35 million in NMSBIC funds and originated over \$49 million of PPP loans in New Mexico. As of June 30, 2024, the NMSBIC’s outstanding PPP loan balance was reduced to \$22,522.

- **Reduced Interest Rates.** To support lending partners with loan loss reserves and with increased costs associated with originating COVID-19 and PPP loans, the NMSBIC lowered the interest rate it charges by one percent (1%) for a period of twelve months on all outstanding loans originated under its traditional lending program, for lending partners participating in the COVID-19 or PPP lending programs. Due to The Loan Fund’s active participation in the NMSBIC’s COVID-19 Lending Program, the NMSBIC further lowered The Loan Fund’s interest rate to 0.50% and extended the interest rate reduction through December 2026.

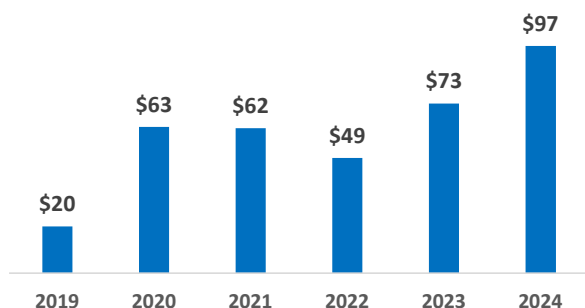


Courtney is delighted that the interest from her DreamSpring loans goes right back to helping other entrepreneurs who, like her, didn’t initially qualify for financing at a traditional bank. “I have a heart for anything that gives back to the community,” she says, “and I see entrepreneurship as value added for our communities.”

- Courtney Lewis, CEO and Owner of We Rock the Spectrum

In 2024, NMSBIC lending partners experienced growth in traditional lending programs, with outstanding loans increasing to \$97 million.

Loans Outstanding
(in millions)



Lending Partner Actions to Assist Small Businesses Impacted by the COVID-19 Crisis.

Throughout the COVID-19 crisis, the NMSBIC's lending partners worked with impacted borrowers. Payments were deferred on existing loans, and new loan advances were made under the NMSBIC's COVID-19 Lending Program and PPP Lending Program.

Lending Volume and Jobs Supported.

Since the NMSBIC's inception in 2001, and through June 30, 2024, the NMSBIC has funded the following volume of loans through its lending partners:

Lending Partner	Number of Loans	Amount Supported	Jobs Supported
DreamSpring	6,002	\$96,391,178	17,024
The Loan Fund	1,010	79,506,878	6,035
Ventana Fund	63	29,886,033	193
Clearinghouse CDFI	8	24,482,000	532
RBC GAM	32	12,122,210	158
Homewise	14	5,484,364	237
MFA	6	4,000,000	380
WESST	66	922,266	407
Rio Vista Growth Capit:	1	750,000	16
LiftFund	<u>10</u>	<u>181,221</u>	<u>36</u>
Total	<u>7,212</u>	<u>\$253,726,150</u>	<u>25,018</u>

For the twelve months ended June 30, 2024, the NMSBIC funded the following volume of loans through its lending partners:

Lending Partner	Number of Loans	Amount Supported	Jobs Supported
Ventana Fund	16	\$11,452,495	23
The Loan Fund	45	8,001,240	348
Clearinghouse CDFI	1	5,855,000	1
RBC GAM	19	5,060,561	88
DreamSpring	33	2,500,226	117
Homewise	2	1,175,000	2
WESST	<u>4</u>	<u>94,200</u>	<u>9</u>
Total	<u>120</u>	<u>\$34,138,722</u>	<u>588</u>

As of June 30, 2024, the NMSBIC had the following loans outstanding through its lending partners:

Lending Partner	Number of Loans	Amount Supported	Jobs Supported
The Loan Fund	142	\$23,689,997	850
The Loan Fund (COVID-19)	108	9,318,593	582
Clearinghouse CDFI	6	20,000,000	490
Ventana Fund	37	23,902,034	69
RBC GAM	32	9,948,054	158
Homewise	14	6,427,745	313
DreamSpring	180	3,844,941	574
DreamSpring (PPP Loans)	5	22,522	14
WESST	<u>9</u>	<u>122,378</u>	<u>25</u>
Total	<u>533</u>	<u>\$97,276,264</u>	<u>3,075</u>

Commitments

As of June 30, 2024, the NMSBIC had the following amounts committed, loans outstanding, and remaining commitments.

	Amount Committed	Loans Outstanding	Remaining Commitment
The Loan Fund	\$37,500,000	\$33,008,590	\$4,491,410
Ventana Fund	29,000,000	23,902,034	5,097,966
RBC GAM	25,000,000	9,948,054	15,051,946
Clearinghouse CDFI	20,000,000	20,000,000	0
Homewise	16,000,000	6,427,745	9,572,255
DreamSpring	7,772,522	3,867,463	3,905,059
MFA	3,500,000	0	3,500,000
LiftFund	1,000,000	0	1,000,000
RCAC	1,000,000	0	1,000,000
WESST	<u>375,000</u>	<u>122,378</u>	<u>252,622</u>
Totals	<u>\$141,147,522</u>	<u>\$97,276,264</u>	<u>\$43,871,258</u>

The above tables show \$254 million in loans have been funded with \$141 million of committed funds. As loans are repaid, the funds are loaned to other small businesses, sustaining and/or creating more new jobs. This recycling of loan funds provides positive leverage of the NMSBIC's capital.

Net Interest Income and Loan Charge-Offs

The NMSBIC has approved revolving lines of credit to The Loan Fund, Ventana Fund, Clearinghouse CDFI, Homewise, MFA, LiftFund, and RCAC. Under these loan agreements no loan losses are passed through to the NMSBIC. The interest rate on these revolving lines of credit is typically 2.0% annually.

The NMSBIC purchases pools of Small Business Administration (SBA) loans from RBC Global Asset Management (RBC GAM). Under this agreement RBC GAM sources 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. SBA pools are guaranteed by the SBA, with no loan losses passed through to the NMSBIC. The NMSBIC earns a market yield on SBA pools that adjusts quarterly.

The NMSBIC has loan participation agreements with DreamSpring and WESST, whereby NMSBIC purchases 75% of the principal balance of loans, and the lending partners retain 25% of the loans. Lending partners can pass through loan charge-offs to the NMSBIC as described below.

Under its arrangement with DreamSpring, the NMSBIC earns interest of 3.0% annually. Loan charge-offs passed through to the NMSBIC are capped at 1% per year, with the NMSBIC earning a net interest rate of no less than 2.0% annually.

For WESST, the NMSBIC earns interest of 3.0% annually. 75% of loan charge-offs can be passed through to the NMSBIC. During the 2024 fiscal year, there were no charge-offs passed through to the NMSBIC, with the NMSBIC earning net interest of 3.0% annually.

Lending program interest income, charge-offs, and net interest income were as follows for the fiscal year ended June 30, 2024.

	Interest <u>Income</u>	<u>Charge-Offs</u>	Net Interest <u>Income</u>
Ventana Fund	\$370,949	\$0	\$370,949
Clearinghouse CDFI	310,278	0	310,278
DreamSpring	101,841	33,947	67,894
The Loan Fund	99,850	0	99,850
Homewise	105,198	0	105,198
RBC GAM	318,734	0	318,734
WESST	2,446	0	2,446
LiftFund	97	0	97
Totals	<u>\$1,309,393</u>	<u>\$33,947</u>	<u>\$1,275,446</u>

For the fiscal year ended June 30, 2024, net interest income of \$1,275,446 more-than-offset operating expenses of \$378,004 comprised of economic development program services of \$188,218 and other operating expenses of \$189,786. Maintaining organizational self-sufficiency, with interest income on loans exceeding operating expenses, is a key part of the NMSBIC's strategy.

NMSBIC Equity Partners



New Mexico
Mezzanine
Partners

Equity Program

In 2011, the NMSBIC board changed its investment strategy. The NMSBIC's focus is on expanding its lending program and is no longer on making equity investments.

Equity investments in New Mexico were virtually unheard of prior to 2000, but the efforts of the State Investment Council and the NMSBIC have attracted funds and investment professionals to New Mexico. Prior to 2004, there were no equity fund organizations headquartered in New Mexico and no organizations focused their capital and expertise

exclusively on New Mexico companies. It was the NMSBIC's capital and early commitments that led to investments in venture capital funds based in New Mexico.

Most large equity funds look to deploy \$5 to \$10 million in any one investment, whereas New Mexico had smaller, early-stage companies that warranted investments of only \$250,000 to \$1 million. Few, if any, local companies would have been able to attract national attention and, without equity, could not have secured any credit relationships.

Beginning in 2004, the NMSBIC committed capital to Flywheel Ventures, Mesa Capital Partners, New Mexico Community Capital, New Mexico Mezzanine Partners, and Verge Fund to address the need for capital access for local start-ups, technology transfer licensees, and other small businesses looking to expand. With these five partners, the NMSBIC participated in ten venture capital partnerships.

NMSBIC's investment history has provided valuable experience and revealed significant challenges regarding venture capital investing as follows:

- NMSBIC's total asset size relative to the historical amount invested in each company resulted in limited diversification;
- NMSBIC can only invest in New Mexico companies, which further limited diversification;
- High risk and limited diversification appear to have contributed to significant venture capital investment losses during the economic downturn of 2008;
- Management fees paid to equity fund managers reduced investment returns;
- Equity investments are typically long-term, which reduced the ability to turn-over capital in additional new small businesses;
- Equity investments do not provide current income to offset the NMSBIC's operating expenses;
- Equity investments have been geographically concentrated, with limited funding outside the Rio Grande Corridor;
- Equity investments do not generate significant job creation during their initial phases of development; and

- Successful equity investments often require later-stage investments from out-of-state investors that require the enterprise to relocate outside New Mexico.

Equity Fund Termination Dates

Many of the NMSBIC's equity investments, most of which were made between 2004 and 2009, have reached or are nearing the partnership termination dates. Mesa New Mexico Growth Fund I and Mesa New Mexico Growth Fund II closed in 2012 and 2015, respectively. Flywheel I-NMSBIC closed in 2017, and New Mexico Gap Fund I closed in May 2021. New Mexico Community Capital and New Mexico Mezzanine Partners have reached the end of their partnership agreements and are in the process of winding-up operations. The NMSBIC's investments in Verge I, Verge I.5, Verge II, and Verge II.5, were combined into Verge I II Combined as of January 1, 2021. Verge I II Combined has a termination date of December 31, 2025.

Equity Investments Reported Using Cost Method

In accordance with GASB Statement No. 72, paragraph B74, equity investments held primarily to further economic development are reported using the cost method. Equity investments are carried at cost, less capital distributions received, management fees, operating expenses, and any impairment loss. 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. Additional detail is provided in the supplementary schedules to the audited financial statements.

NMSBIC Impact

The following provides information regarding the impact of NMSBIC's lending and equity programs on New Mexico small businesses and jobs, and costs of delivering these services.

The Importance of Small Businesses

The NMSBIC's lending program supports small businesses in New Mexico. Small businesses are vitally important to both the New Mexico and national economies.

According to the Small Business Administration, a small business has 500 or fewer employees. In New

Mexico, small business employment accounts for 52.9% of total employment. In 2020, there were 28,060 New Mexico small businesses with 1-19 employees, and 4,432 small businesses with 20-500 employees.⁴

Nationally, small businesses comprise⁵:

- 99.9% of all firms
- 99.7% of firms with paid employees
- 97.4% of exporters (271,241 businesses)
- 45.9% of private sector employees (59 million workers)
- 43.5% of gross domestic product
- 39.0% of private sector payroll (\$3.2 trillion)
- 38.9% of private sector receipts (\$14.6 trillion)
- 34.9% of known export value (\$542 billion)

Nationally, small businesses have accounted for 61% of net new job creation since 1995.⁶

Jobs Supported

A common measure used by CDFI's and by the Small Business Administration (SBA) is total jobs at the time a loan is originated, referred to as "jobs supported." In the table below, *Equity and Lending Programs Costs and Benefits*, information is provided regarding New Mexico jobs supported by the NMSBIC's equity and lending programs. For the equity program, jobs supported are the number of jobs as of June 30, 2024, or as of the date when the company exited from the NMSBIC's investment portfolio. For the lending program, jobs supported are the total jobs when the loan was originated. Jobs supported are self-reported by the NMSBIC's equity and lending partners.

- From 2004 to 2009, the NMSBIC committed over \$32 million for venture capital equity investments. Equity program life-to-date results were a loss of \$15.4 million, with 348 jobs reported, resulting in an estimated cost per job of \$44,377. Equity investments are long-term in nature, therefore year-to-date results are not considered meaningful.

- Lending program life-to-date results were positive net interest income (after loan losses) of \$5.7 million, with 25,018 jobs reported, for an estimated *profit* per job of \$230. For the twelve months ended June 30, 2024, net interest income was \$1,275,446, with 3,075 jobs reported, for an estimated *profit* per job of \$415.

BBER Impact Analysis

The NMSBIC engaged the Bureau of Business and Economic Research (BBER) to conduct an impact analysis, which was completed in 2017. The number of jobs were independently measured by BBER. The BBER analysis indicated the NMSBIC's equity and lending programs resulted in the creation of 646 "new" jobs in New Mexico during the five-year period from July 1, 2010 to June 30, 2015. Additionally, the BBER study estimated an additional 750 jobs would have been lost during this time period, in the absence of the NMSBIC's lending program.

The BBER analysis included a supplement that calculated the cost per new job, based on an opportunity cost of funds using the severance tax permanent fund's target return of 6.75%. The BBER analysis reported an equity program opportunity cost per new job of \$29,085, and a lending program opportunity cost per new job of \$4,717. The lending program opportunity cost per new job of \$4,717 compares favorably with cost per job figures (also five-year averages) for the state's Job Training Incentive Program (JTIP) and Local Economic Development Act (LEDA) program, which were \$5,941 and \$4,255, respectively, during the same time-period, as noted in the BBER impact analysis.

The BBER analysis also indicated that during the five-year period, the NMSBIC's programs were responsible for \$69 million in economic output, and \$23.9 million of labor income in New Mexico.

The BBER analysis appears to support the NMSBIC board's strategy to focus on expanding the NMSBIC's lending program. The full BBER report is available at www.nmsbic.org.

⁴ *New Mexico 2023 Small Business Profile* U.S. Small Business Administration Office of Advocacy

⁵ *Frequently Asked Questions About Small Business, July 2024*, U.S. Small Business Administration Office of Advocacy

⁶ *Frequently Asked Questions About Small Business, July 2024*, U.S. Small Business Administration Office of Advocacy

Small Business Administration Job Study

A study was conducted in August 2013 by the US Census Bureau and the Institute for the Study of Labor, on new jobs created by the Small Business Administration (SBA)⁷. The study noted that SBA has historically reported a performance indicator which is the number of “jobs supported” by its lending program. The purpose of the study was to measure the number of new jobs created by the SBA’s lending program. The study found that from 1976 to 2010, 5.4 new jobs were created for each \$1 million loaned by the SBA.

Based on the BBER impact analysis performed for the NMSBIC, \$35.6 million of NMSBIC loans were originated from 2011 to 2015 resulting in 426 new jobs, or 12.0 new jobs for each \$1 million in loans, which appears to compare favorably to the SBA’s ratio of 5.4 new jobs for each \$1 million in loans.

Stated another way, according to the BBER impact analysis, for every \$1 million in loans originated under the NMSBIC’s lending program, 12 new jobs were created in New Mexico, plus 21 jobs were saved that otherwise might have been lost.

Minority and Women-Owned Businesses

Of the loans originated in 2020 with NMSBIC funds:

- 57% of the loans were made to minority-owned small businesses.
- 45% were made to women-owned small businesses.

⁷ *Do SBA Loans Create Jobs?* J. David Brown and John S. Earle, August 2013

Equity and Lending Programs, Jobs Supported and Cost per Job
NMSBIC, Equity and Lending Program Cost per Job Supported

	Net	Fair Market		Jobs	Profit (Cost)
	Investment	Value	Gain (Loss)	Supported (2)	per Job Supported
1 Equity Program Costs and Benefits, Life-to-Date, June 30, 2024 (1):					
2					
3					
4 Santa Fe Windows and Doors (3)	(\$25,000)	\$0	\$25,000	n/a	n/a
5 Flywheel Ventures, 2 funds	\$2,956,754	\$0	(\$2,956,754)	50	(\$59,135)
6 NM Community Capital	\$1,604,078	\$1,154,907	(\$449,171)	204	(\$2,202)
7 Mesa NM Growth Funds, 2 funds	\$10,257,750	\$0	(\$10,257,750)	18	(\$569,875)
8 NM Mezzanine Ptrs	\$1,688,976	\$902,226	(\$786,750)	10	(\$78,675)
9 Verge Fund (4)	\$2,977,861	\$1,960,078	(\$1,017,783)	136	(\$7,484)
10 Adjustment for multiple funds invested in the same company (4 companies)				-70	
11 Total Equity Program (5)	\$19,460,419	\$4,017,211	(\$15,443,208)	348	(\$44,377)

(1) Equity fund investments are long-term investments. Life-to-date results are considered more meaningful than year-to-date information.

(2) Jobs reported at June 30, 2024, or jobs reported as of the date when a company was sold.

(3) Sante Fe Windows and Doors was originated in 2003 and repaid in full in 2007. This was the only direct investment made by the NMSBIC.

(4) Investments in Verge I, Verge I.5, Verge II and Verge II.5 were combined into Verge I II Combined on January 1, 2021.

(5) Investments of \$32.4 million, less returns of \$12.9 million, result in net investment of \$19.5 million.

	Interest	Loan Charge	Net Interest	Jobs	Profit (Cost)
	Income	Offs	Income (Loss)	Supported (8)	per Job Supported
21 Lending Program Costs and Benefits:					
22					
23 Since Inception					
24 Clearinghouse CDFI	\$453,333	\$0	\$453,333	532	\$852
25 DreamSpring 2003 Prior Agreement (6)	\$1,013,665	(\$1,258,310)	(\$244,645)	4,516	(\$54)
26 DreamSpring 2013 Participation Agreement	\$1,504,681	(\$368,277)	\$1,136,404	4,797	\$237
27 DreamSpring 2020 PPP Participation Agreement	\$0	\$0	\$0	7,711	-
28 Homewise	\$188,589	\$0	\$188,589	237	\$796
29 LiftFund PPP and COVID-19 Lending Program	\$0	\$0	\$0	36	-
30 New Mexico Mortgage Finance Authority	\$110,769	\$0	\$110,769	380	\$291
31 The Loan Fund Participation Agreement (7)	\$77,631	(\$11,518)	\$66,113	-	-
32 The Loan Fund	\$2,765,441	\$0	\$2,765,441	5,427	\$510
33 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	608	-
34 RBC Global Asset Management	\$277,917	\$0	\$277,917	158	-
35 Rio Vista Growth Capital Line of Credit (9)	\$155,217	\$0	\$155,217	16	\$9,701
36 Ventana Fund	\$830,034	\$0	\$830,034	193	\$4,301
37 WESST Participation Agreement	\$42,371	(\$17,695)	\$24,676	407	\$61
38 Total Lending Program	\$7,419,648	(\$1,655,800)	\$5,763,848	25,018	\$230

12 months ended June 30, 2024

41 Clearinghouse CDFI	\$310,278	\$0	\$310,278	490	\$633
42 DreamSpring 2013 Participation Agreement	\$101,841	(\$33,947)	\$67,894	588	\$115
43 Homewise	\$105,198	\$0	\$105,198	313	\$336
44 LiftFund	\$97	\$0	\$97	-	\$0
45 RBC Global Asset Management	\$318,734	\$0	\$318,734	158	\$2,017
46 The Loan Fund	\$99,850	\$0	\$99,850	850	\$117
47 The Loan Fund COVID-19 Lending Program	\$0	\$0	\$0	582	\$0
48 Ventana Fund	\$370,949	\$0	\$370,949	69	\$5,376
49 WESST Participation Agreement	\$2,446	\$0	\$2,446	25	\$98
50 Total Lending Program	\$1,309,393	(\$33,947)	\$1,275,446	3,075	\$415

(6) The DreamSpring 2003 prior participation agreement was terminated as of November 2013. Loans outstanding as of the termination date were repaid in the normal course of business. All loans were repaid as of January 2022.

(7) The Loan Fund 2004 participation agreement was terminated as of July 13, 2007.

(8) Jobs reported at the time the loan was originated.

(9) The Rio Vista Growth Capital line of credit was terminated as of September 30, 2018.

Finance New Mexico

The NMSBIC helped to create and continues to support a statewide business financial literacy resource called *Finance New Mexico* (see www.financeenewmexico.org). The organization was selected in 2009 as the Albuquerque Chamber of Commerce Small Business Advocate of the Year. Business-related articles are published and circulated electronically to businesses and economic development organizations throughout the state. Finance New Mexico plays an important role in publicizing the NMSBIC's programs and lending partners in all corners of the state.

Board Engagement

NMSBIC Board members have actively engaged in various activities to support the organization. Board members have attended numerous community events, attended meetings with existing and potential equity and lending partners, and performed detailed loan and operational reviews at lending partner offices. The NMSBIC Board members are qualified professionals who are applying their collective and diverse business experience in reviewing activities and making sound decisions. The Board members have demonstrated their dedication and commitment to strengthening and improving the NMSBIC.

Strategic Plan

The NMSBIC's strategic plan is to continue creating and supporting jobs in New Mexico, by expanding the lending program throughout the entire state of New Mexico with existing and potential new partners and maintaining the NMSBIC's organizational self-sufficiency where interest income from loans exceeds operational expenses. The NMSBIC's funding is based on 2% of the balance of the severance tax permanent fund. Growth in the severance tax permanent fund will result in growth of the NMSBIC's assets. The Board is being proactive in making plans to deploy additional funding in a responsible manner that will continue to stimulate the economy and support the growth of small businesses and jobs in New Mexico.

Statutory Requirements

The following information is provided in accordance with NMSA 58-29-6(B) and 58-29-7.

Audited Financial Statements

NMSBIC independently audited financial statements for the years ended June 30, 2024, and 2023 are attached to this report.

Rate of Return

For the fiscal year ended June 30, 2024, the NMSBIC had a positive change in net assets of \$30.53 million, with average net assets of \$134.78 million, for an annual return of 22.6%.

After subtracting the contribution from the severance tax permanent fund of \$30.23 million, and adding back funds returned to the severance tax permanent fund of \$3.14 million, operating income was positive \$3.44 million, or an annual return of 2.6%.

Desired Changes in the Corporation

The NMSBIC Board of Directors recommends no changes to the corporation.

Continued Operation of the Corporation

The NMSBIC Board recommends continued operation of the corporation with a focus on expanding lending programs to address a gap in available bank financing as described in this report.

Severance Tax Permanent Fund Distribution

Under NMSA 58-29-7, the NMSBIC is charged with making a distribution of "net excess funds" to the severance tax permanent fund, calculated as return on investments to the corporation in the amount of dividends and interest actually received, plus any capital gains actually realized, less the operating expenses of the corporation and less amounts reasonably reserved for losses. For the fiscal year ended June 30, 2024, there were net excess funds due to the Severance Tax Permanent Fund of \$3,142,669. A calculation of net excess funds is included in Note 7 of the attached audited financial statements.

Conclusion

The NMSBIC is grateful for the support of the Governor, State Legislators, the State Investment Council, and its financial partners. Through the creation and expansion of the NMSBIC, New Mexico has created a unique delivery system of loans and investment capital for new and growing businesses.

The NMSBIC has played a critical role during the COVID-19 crisis, making loan funds available to New Mexico small businesses that in most cases would not have had access to loans from traditional banks.

Lending partners have provided 7,212 loans to businesses in communities statewide, in many cases preserving jobs that would have been eliminated without access to capital and creating jobs that would not exist without NMSBIC funds. Through its lending program, the NMSBIC has provided over \$254 million in loans to businesses that would likely not have had access to capital.

While equity program losses since the NMSBIC's inception have been substantial, there are several new companies that are growing and prospering with equity provided by NMSBIC. The impact the NMSBIC has had in helping to create an equity/venture community has been positive, but the role the NMSBIC was asked to play in this arena did not adequately support the mission that the NMSBIC's enabling legislation assigned it. The NMSBIC Board plans to continue to decrease the investment concentration in these high-risk investments.

With the impact on New Mexico small businesses related to the COVID-19 crisis, and with continued regulatory constraints imposed on banks, access to loans continues to be challenging for New Mexico small businesses. The NMSBIC, through its lending partners, plays an important role in helping to fill that void. This program, created by the legislature, has been and continues to be a valuable state resource in investing taxpayer dollars in New Mexico

businesses, in creating jobs for New Mexicans, and in having a positive impact on our state's economic health.

Respectfully Submitted,

Joshua L. Smith
Board Chair & President

NMSBIC Board of Directors



Joshua Smith (since 2022)
NMSBIC Board Chair and President
Senior Vice President, Commercial Lending
Manager, WaFd Bank
Cedar Crest, New Mexico



Anne Beckett (since 2022)
NMSBIC Vice Chair and Vice President
Retired Financial Services Executive
Youngsville, New Mexico



Robert Valdiviez (since 2022)
NMSBIC Secretary/Treasurer
Retired Banking Executive
Albuquerque, New Mexico



The Honorable Laura M. Montoya (since 2023)
State Treasurer
Santa Fe, New Mexico



Sayuri Yamada (since 2023)
Owner, Kizuna Strategies
Santa Fe, New Mexico



Kristina Alley (since 2023)
Principal, Santa Fe Advisors, LLC
Santa Fe, New Mexico



Joshua Grassham
Chief Credit Officer, Lea County State Bank
Hobbs, New Mexico

NMSBIC Executive Director/Investment Advisor



Russell Cummins (since 2012)
Owner, RDC Advisors, LLC
Tijeras, New Mexico



New Mexico Small Business Investment Corporation
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EXHIBIT A

Independently Audited Financial Statements
as of and for the years ended
June 30, 2024 and 2023

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

FINANCIAL STATEMENTS

June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. NMSBIC's financial statements are included in the financial statements of the State of New Mexico.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 19, 2024 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

Pulakos CPAs, PC

September 19, 2024

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

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, 2024 and 2023, respectively. 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 Flows; 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. These statements measures the activities of the NMSBIC’s operations over the past year and presents the resulting change in net position.

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

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

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

Management's Discussion and Analysis

This section contains management's discussion and analysis of the financial position and results of operations as of, and for the years ended June 30, 2024 and 2023. 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, 2024 and 2023 was \$152.4 million and \$121.9 million, respectively. The change in net position for the years ended June 30, 2024 and 2023 was positive \$30.5 million and positive \$8.2 million, respectively.

Financial Analysis

The following is a summary of the NMSBIC's total assets, liabilities and net position at June 30, 2024 and 2023.

Financial Analysis

	<u>2024</u>	<u>2023</u>
Assets:		
Current assets	\$ 56,847,704	\$ 48,363,038
Noncurrent assets	<u>100,089,976</u>	<u>75,473,995</u>
Total assets	<u>\$ 156,937,680</u>	<u>\$ 123,837,033</u>
Liabilities:		
Current liabilities	<u>\$ 4,530,258</u>	<u>\$ 1,958,110</u>
Total liabilities	4,530,258	1,958,110
Net position:		
Restricted net assets	<u>152,407,422</u>	<u>121,878,923</u>
Total liabilities and net position	<u>\$ 156,937,680</u>	<u>\$ 123,837,033</u>

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June 30, 2024 and 2023

Current assets increased by \$8.5 million at June 30, 2024, compared to June 30, 2023, and are detailed as follows:

	2024	2023
Cash and cash equivalents	\$ 36,657	\$ 18,735
Investment held with New Mexico State Investment Council	10,093,191	9,547,232
Investment held with New Mexico State Treasurer's Office		
Local Government Investment Pool	29,511,403	19,341,782
Other investments	16,843,331	19,249,765
Other current assets	363,122	205,524
Total current assets	\$ 56,847,704	\$ 48,363,038

- **Cash and cash equivalents** increased by \$17,922 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 \$545,959 during the year. The increase was due to reinvested interest income, plus realized gains. Investments held with the New Mexico State Investment Council can be withdrawn as of the first business day of each month.

- **Investment held with New Mexico State Treasurer’s Local Government Investment Pool (LGIP)** increased by \$10.2 million during the year. The increase was primarily due to a \$30.2 million contribution from the State of New Mexico Severance Tax Permanent Fund, less funds used to provide advances to lending partners. LGIP funds can be withdrawn with one business days’ notice.

- **Other investments** decreased by \$2.4 million during the year. Other investments are managed by RBC Global Asset Management (RBC GAM) and are invested in a federal money market fund. At the beginning of the fiscal year, funds were also invested in United States Treasury securities with maturities less than one year. All the United States Treasury securities matured during the year, and no new funds were invested in United States Treasury securities. The decrease in other investments was due to net purchases of Small Business Administration (SBA) loan pools. Other investments are liquidated as RBC GAM delivers pools of SBA loans to the NMSBIC. Payments received from the SBA loan pools are reinvested in other investments.

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

June 30, 2024 and 2023

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

Noncurrent assets increased by \$24.6 million during the year and are detailed as follows:

	2024	2023
Equity investments in New Mexico entities	\$ 2,240,338	\$ 2,275,605
Cooperative loan agreements, net of allowance for losses	97,193,828	72,594,537
Notes receivable including accrued interest	655,810	603,853
Total noncurrent assets	\$ 100,089,976	\$ 75,473,995

- **Equity investments in New Mexico entities** decreased by \$35,267 during the year. The change was due to \$35,267 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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June 30, 2024 and 2023

- Cooperative loan agreements, net of allowance for loan losses** increased by \$24.6 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 \$97.2 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:

	<u>2024</u>	<u>2023</u>
NMSBIC PPP lending program	\$ 22,522	\$ 81,663
NMSBIC COVID-19 lending program	9,318,593	13,378,176
Traditional lending program, net	<u>87,852,713</u>	<u>59,134,698</u>
Total cooperative agreement loans, net	<u>\$ 97,193,828</u>	<u>\$ 72,594,537</u>

- 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 2024 or 2023. 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 during the pandemic, 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. NMSBIC COVID-19 lending program loan can be renewed or modified by lending partners at rate of 6.75% or less, for up to five years from when the original NMSBIC COVID-19 lending program loan was made. Outstanding loans are scheduled to be repaid by 2027.

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June 30, 2024 and 2023

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 \$51,957 during the year, entirely due to accrued interest. This is comprised of two notes transferred to the NMSBIC related to the termination of the New Mexico Gap Fund I limited partnership in 2021. Prior to termination the NMSBIC owned 92.4% of the limited partnership. The NMSBIC purchased minority interests totaling 7.6% of the fund at a deeply discounted price of 25% to have full control of the two notes receivable that were transferred to the NMSBIC.

Current liabilities increased by \$2.5 million at June 30, 2024, compared to June 30, 2023, and are detailed as follows:

	2024	2023
Accounts payable	\$ 27,148	\$ 25,462
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	3,142,669	1,725,798
Debt funding payable, net	1,360,441	206,850
Total current liabilities	\$ 4,530,258	\$ 1,958,110

- **Accounts payable** increased by \$1,686.
- **Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978** increased by \$1.4 million. This is comprised of net excess funds to be returned to the State of New Mexico Severance Tax Permanent Fund. There was \$3.1 million in net excess funds as of June 30, 2024, compared with \$1.7 million in net excess funds as of June 30, 2023.
- **Debt funding payable, net** increased by \$1.2 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 \$30.5 million at June 30, 2024, compared to June 30, 2023.

	2024	2023
Net position restricted for economic development	\$ 152,407,422	\$ 121,878,923

- The \$30.5 increase was primarily due to a \$30.2 million contribution received from the State of New Mexico Severance Tax Permanent Fund.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

The following are the NMSBIC's operating revenues and expenses, and net nonoperating revenue for the years ended June 30, 2024 and 2023.

	2024	2023
Operating revenues:		
Interest and dividends on investments	\$ 2,528,772	\$ 2,043,367
Interest income on cooperative loan agreements	1,309,393	660,133
Interest income on notes receivable	51,958	47,663
Realized gain (loss) on investment held with New Mexico		
State Investment Council	25,815	(296,479)
Realized loss on other investments	7,608	(7,608)
Total operating revenues	3,923,546	2,447,076
Operating expenses:		
Equity investment operating expense, net	35,267	30,669
Provision for loan losses	69,392	29,154
Economic development program services	188,218	189,121
Other operating expenses	189,785	175,138
Total operating expenses	482,662	424,082
Operating income	3,440,884	2,022,994
Nonoperating revenue (expense):		
Contribution from the State of New Mexico Severance Tax		
Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	30,230,284	7,922,532
Return to the State of New Mexico Severance Tax		
Permanent Fund pursuant to §5-29-7 NMSA 1978	(3,142,669)	(1,725,798)
Total nonoperating revenue	27,087,615	6,196,734
Change in net position	30,528,499	8,219,728
Total net position, beginning of year	121,878,923	113,659,195
Total net position, end of year	\$ 152,407,422	\$ 121,878,923

Operating revenues increased by \$1.5 million during the year ended June 30, 2024, compared to June 30, 2023.

- **Interest and dividends on investments** increased by \$485,405 primarily due to higher yields on short-term investments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

- **Interest income on cooperative loan agreements** increased by \$649,260 during the year, due primarily to an increase in outstanding cooperative loan agreement balances.
- **Interest income on notes receivable** increased by \$4,295 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 gain on investment held with New Mexico State Investment Council** increased by \$322,294 during the year. Gains are due to changes in market value for the Credit Plus Bond Pool.
- **Realized gain on other investments increased** by \$15,216 during the year due to changes in market value for short-term United States Treasury securities.

Total operating expenses increased by \$58,580 during the year ended June 30, 2024, compared to June 30, 2023.

- **Equity investment operating expense, net** is comprised of equity investment management fees and operating expenses, net of other income from equity investments and increased by \$4,598 during the year.
- **Provision for loan losses** increased by \$40,238 during the year and was related to an increase 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 \$1.4 million during the year as detailed in the operating revenue and operating expense sections above.

Nonoperating revenue increased by \$20.9 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** increased by \$22.3 million during the year. There was a \$30,230,284 contribution during the year ended June 30, 2024, compared to a \$7,922,532 contribution during the year ended June 30, 2023. 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 2024 and 2023 were based on growth in the Severance Tax Permanent Fund during the twelve months ended June 30, 2023 and June 30, 2022, respectively.

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- **Return to the State of New Mexico severance tax permanent fund pursuant to §58-29-7 NMSA 1978** was \$3.1 million for the year ended June 30, 2024, compared to \$1.7 million for the year ended June 30, 2023. 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.

Change in net position increased by \$30.5 million as compared to the prior year. The increase was primarily due an increase 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 2024.

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. 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. A year later in 2022Q4, employment in the state had essentially returned to the pre-pandemic peak.

The trend of gains continued into 2023Q1. Comparing that quarter against the last quarter prior to the pandemic indicated that employment in the state was about 7,000 jobs (0.8%) above pre-pandemic levels. Moving onto the second, third and fourth quarters of 2023, the most recent quarters of available QCEW data, the New Mexico economy continued to show signs of life as total employment advanced by about 28,500 jobs (3.4%) year-over-year in the second quarter, 18,000 jobs (2.2%) year-over-year in the third quarter, and 16,500 jobs (1.9%) in the fourth quarter. In the most recent quarter, both the private sector (10,400 jobs, 1.9%) and the government sector (6,100 jobs, 3.5%) added to the bottom line on a year-over-year basis.

Preliminary Current Employment Statistics (CES) employer survey data, which is current through 2024Q2, suggests that the situation in New Mexico continued to improve through the end of 2023 and the first and second quarters of 2024. Estimates for the most recent month (June 2024) indicate that job levels are now around 2.4%-2.5% higher than the peak prior to the pandemic.

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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 8.4% in 2020 and then by 9.6% in 2021. Although private wages and salaries advanced 10.3% in 2022, declining transfer payments (-8.3%) caused personal income growth to be sapped and to advance only 1.9% for the year. Income then advanced 4.3% in 2023. Most components of income expanded nicely, with wages & salaries (8.2%); dividends, interest & rent (4.7%); nonfarm proprietors’ income (3.3%); and other labor income (6.2%) all advancing. Transfer payments (-0.6%), on the other hand, contracted. The newest data, which is current through 2024Q1, indicate modest year-over-year income growth of 3.9% in the quarter (\$4.5 billion, annualized), with the greatest contributions to the bottom line coming from total wages & salaries (6.0%, \$3.2 billion, annualized); dividends, interest, and rent (4.7%, \$980 million, annualized) and other labor income (4.0%, \$466 million, annualized).

According to the Bureau of Economic Analysis (BEA), New Mexico’s real gross state product (GSP), which is current data through 2024Q1, contracted by 2.9% in 2020, but then expanded by 2.1% in 2021, 1.8% in 2022, and 4.1% in 2023. In the first quarter of 2024, the indicator rose 4.0%.

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 in 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 remained just below 100, but by the end of July 2022, rig counts moved up to about 110 before pushing up to 113 by the end of September. Rig activity temporarily cooled a bit, totaling 102 by the end of December 2022, but increased to 105 by the end of January 2023 and then hit a peak of 113 one week in August. Rig counts settled, down to 100 near the end of October 2023 but dipped below 100 by the end of January 2024. Rigs climbed to 111 by the end of March but then softened a tad to 108 by the end of July.

Crude oil production climbed from 340 million barrels in 2019 to 382 million barrels in 2020 – both all-time records. Strength continued in 2021 with production rocketing to 469 million barrels for the year before accelerating to 595 million barrels in 2022 with each quarter of the year hitting all-time records. Data for the first quarter of 2023 indicates that production hit a new quarterly high of 169 million barrels before breaking the streak of quarterly highs and “dipping” to 168 million barrels in the second quarter and then 167 million barrels in the third quarter. Things turned around in the fourth quarter, as production hit another all-time high of 178 million barrels before beating that number a quarter later and registering 179 million barrels.

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New Mexico's Economic Outlook

On an annual basis, the state added 36,200 jobs (4.5%) in 2022 and added an additional 22,750 jobs (2.7%) in 2023. As the economy is now well above pre-pandemic employment levels, and as the national economy is projected to slow, the state is only projected to add about 11,000 jobs (1.3%) in 2024 (although this is a slight upward adjustment compared to our last forecast). General macroeconomic weakness will operate to keep employment growth soft for the remainder of the forecast and as a result, we project that New Mexico will only add about 3,920 jobs per year during the forecast window for a tepid average rate of growth of 0.4% per year – although, this is also a slight upward revision compared to last time. By the final year of the forecast in 2029, New Mexico should end about 51,000 jobs, or about 6.9%, above 2019 levels.

In 2024 (and beyond), several industries are primed to advance, though gains will generally be slower than in 2022 and 2023, respectively. Leading the gains will be the large healthcare & social assistance industry which will add about 3,200 jobs (2.6%) in the year as the industry will be pushed well above pre-pandemic levels. Over the remainder of the forecast window, growth in this industry will be slow, averaging only about 1.0% per year, but the large size of the industry will lead to relatively large job gains.

Also adding substantial jobs in 2024 will be leisure & hospitality (which is comprised of accommodation & food services and arts, entertainment & recreation), and is projected to add about 1,165 jobs (1.2%). Growth will continue to plod along for the remainder of the forecast window, growing at about 0.4% per year. Like healthcare, slow growth in this industry translates to large job gains.

Other industries that are slated to add a good number of jobs in 2024 include professional & technical services (1,575 jobs, 2.3%); construction (1,140 jobs, 2.1%); retail trade (480 jobs, 0.5%); and other services (350 jobs, 1.7%).

Over the longer term (through 2029), most industries will have recovered well above pre-pandemic levels. Professional & technical services (12,900 jobs above 2019 levels, 21.5%); healthcare (14,900 jobs, 12.4%); transportation (5,400 jobs, 25.6%); construction (8,700 jobs, 17.5%); administrative & waste services (1,400 jobs, 3.1%); educational services (1,850 jobs, 19.1%); accommodation & food services (1,960 jobs, 2.2%); and arts, entertainment & recreation (2,000 jobs, 18.2%) are projected to end in 2029 well above their respective 2019 levels.

Meanwhile, several industries are expected to drag the New Mexico economy down. Retail trade, despite solid gains early in the pandemic recovery, should end 2029 more or less back to where it was in 2019 as consumers continue to shift to online purchasing. The mining industry, which has seen tremendous growth in oil and gas production, will still end in 2029 with about 770 jobs (-3.0%) fewer than it had prior to the pandemic as producers transition away from labor-intensive practices. The good news is that both of these industries have been revised up compared to our last forecast. In addition, although manufacturing has performed admirably recently (and still has a possibility for upside) this industry will end 2029 at about 1,400 jobs (-5.0%) below levels in 2019 as businesses increasingly rely on automated processes. Also expected to perform poorly in this forecast is information, which is projected to end 2029 more than 1,700 jobs (-15.6%) below 2019 levels. One word of caution is that this industry is particularly volatile and, although the longer-term trend is down, it can turn on a dime.

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In state government, reserves that were built in 2018 and 2019 during the initial oil boom provided a cushion for the 2020 revenue shortfall. An uptick in mining activity (and oil price) provided sufficient funding for operations and allowed for the state to more-or-less tread water in 2021 (-0.3%) and 2022 (-0.5%). New data suggests that state government advanced by about 1,300 jobs (2.8%) in 2023. In this forecast FOR-UNM projects that growth will average about 0.6% per year through 2029 and by the end of the forecast window, this industry will be about 6.2% above pre-pandemic levels. After a sluggish post-COVID start, local government growth accelerated and advanced by 3.6% in 2023 and then will grow by an average of 0.4% per year thereafter. By 2029, local government employment will end about 1,200 jobs above pre-pandemic levels – which is an upward revision from our last forecast.

Federal payrolls were up in 2020, due to the Decennial Census, but with the conclusion of the work, payrolls declined proportionately. The outlook for this sector is modestly positive and will end with about 1,400 jobs above pre-pandemic levels.

Boosted by strong transfer growth and solid wage & salary growth, BEA income data estimates that (nominal) personal incomes increased by \$9.5 billion (9.6%) in 2021. In 2022, as the pandemic-related transfers were pulled back, income growth slowed to just 1.9% (an increase of about \$2.1 billion). Continued expansion, even in the face of transfers dragging things down, is largely due to private wages & salary disbursements showing solid growth as hiring expanded and as inflationary factors pushed up wages and prices. With 2023 now in the books, personal income advanced 4.5%. In this forecast, income growth is projected to firm in 2024 to 4.7% and then average 4.7% for the remainder of the forecast. Strength in this forecast comes from solid wage & salary growth, elevated dividend growth (especially 2025-2027), and a return to form for transfer growth.

BEA estimates that Gross State Product (GSP) fell by 2.9% in 2020, then increased by 2.1% in 2021, 1.8% in 2022, and 4.1% in 2023. In this forecast, GSP is projected to advance 2.7% in 2024, then slow to 1.1% in 2025, and then average about 1.4% per year thereafter.

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.

S&P Global's pessimistic scenario for the US economy is characterized by a slight decline in both consumer spending and GDP, compared to a growth slowdown in the baseline. Underlying this narrative is the assumption that balance sheet strains in the banking sector lead financial institutions to severely tighten lending standards and curtail credit expansion. As a result, credit-dependent consumer spending and small business activity suffer greatly. Moreover, higher energy prices due to a worsening in the conflicts currently underway in Ukraine and in the Middle East weigh heavily on businesses and households.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2024 and 2023

Under this scenario in New Mexico, employment growth slows in 2024 (0.9%), contracts in 2025 (-0.8%), and flattens in 2026 (0.0%), before growing at or above the pace of the baseline scenario for the remainder of the forecast. Overall, total employment ends with about 9,500 jobs (-1.1%) fewer than the baseline. The private sector suffers the most as it is projected to be 10,250 jobs lower than in the baseline scenario. Countercyclical investments by the government operate to fill the gap somewhat as government employment ends about 750 jobs higher than in the baseline.

The worst-case pessimistic scenario describes a deeper and longer recession. After a slow recovery of employment in 2021 and 2022 and solid growth in 2023 (2.7%), employment contracts in 2024 (-0.5%), 2025 (-1.4%), and 2026 (-0.2%). Slow growth should resume thereafter; however, in this scenario, employment only returns to pre-pandemic levels by 2029 but remains well below the more recent peak reached in 2023.

FINANCIAL STATEMENTS

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

STATEMENTS OF NET POSITION

June 30, 2024 and 2023

<u>Assets</u>	2024	2023
Current assets		
Cash and cash equivalents	\$ 36,657	\$ 18,735
Investment held with NM State Investment Council	10,093,191	9,547,232
Investment held with NM State Treasurer's Office - LGIP	29,511,403	19,341,782
Other investments	16,843,331	19,249,765
Interest and dividends receivable	349,471	189,760
Prepaid expenses	13,651	15,764
Total current assets	56,847,704	48,363,038
Noncurrent assets		
Notes receivable including accrued interest	655,810	603,853
Equity investments in New Mexico entities	2,240,338	2,275,605
Cooperative loan agreements, net of allowance for loan losses	97,193,828	72,594,537
Total noncurrent assets	100,089,976	75,473,995
Total assets	\$ 156,937,680	\$ 123,837,033
 <u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 27,148	\$ 25,462
Due to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	3,142,669	1,725,798
Debt funding payable, net	1,360,441	206,850
Total current liabilities	4,530,258	1,958,110
Total liabilities	4,530,258	1,958,110
Net position		
Restricted for:		
Economic development	152,407,422	121,878,923
Total net position	152,407,422	121,878,923
Total liabilities and net position	\$ 156,937,680	\$ 123,837,033

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, 2024 and 2023

	2024	2023
Operating revenues		
Interest and dividends on investments	\$ 2,580,730	\$ 2,091,030
Interest income on cooperative loan agreements	1,309,393	660,133
Realized gain (loss) on investment held with New Mexico State Investment Council	25,815	(296,479)
Realized gain (loss) on other investments	7,608	(7,608)
	3,923,546	2,447,076
Total operating revenues		
Operating expenses		
Equity investment operating expense, net	35,267	30,669
Provision for loan losses	69,392	29,154
Economic development program services	188,218	189,121
Other operating expenses	189,785	175,138
	482,662	424,082
Total operating expenses		
Operating income	3,440,884	2,022,994
Nonoperating revenue (expense)		
Contribution from the State of New Mexico Severance Tax Permanent Fund pursuant to §7-27-5.15(F) NMSA 1978	30,230,284	7,922,532
Return to the State of New Mexico Severance Tax Permanent Fund pursuant to §5-29-7 NMSA 1978	(3,142,669)	(1,725,798)
	27,087,615	6,196,734
Total nonoperating revenue		
Change in net position	30,528,499	8,219,728
Net position - beginning of year	121,878,923	113,659,195
Net position - end of year	\$ 152,407,422	\$ 121,878,923

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash payments to suppliers for operating expenses	\$ (374,204)	\$ (340,055)
Net cash used by operating activities	(374,204)	(340,055)
Cash flows from noncapital financing activities:		
Cash received from Severance Tax Permanent Fund	30,230,284	7,922,532
Cash paid to Severance Tax Permanent Fund -net excess funds	(1,725,798)	-
Net cash provided by noncapital financing activities	28,504,486	7,922,532
Cash flows from investing activities:		
Purchase of other investments	-	(19,257,373)
(Purchase) liquidation of investment held with NM State Treasurer's Office	(9,070,284)	39,184,323
Investments in NM economic development activities under Cooperative Agreements, net	(19,042,075)	(27,616,108)
Net cash used by investing activities	(28,112,359)	(7,689,158)
Net changes in cash and cash equivalents	17,923	(106,681)
Cash and cash equivalents - beginning of year	18,735	125,416
Cash and cash equivalents - end of year	\$ 36,658	\$ 18,735
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 3,440,884	\$ 2,022,994
Adjustments to reconcile operating income to net cash used by operating activities:		
Provision for loan losses	69,392	29,154
Equity investment operating expense, net	35,267	30,670
Non-cash investment gains, net	(3,763,835)	(2,302,170)
Interest and dividends receivable	(159,711)	(144,907)
Changes in assets and liabilities:		
Prepaid expenses	2,113	(1,258)
Accounts payable	1,686	25,462
Net cash used by operating activities	\$ (374,204)	\$ (340,055)

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023, allowances have been established for loan losses incurred as a result of debt investments made under Cooperative Agreements are as follows:

	<u>2024</u>	<u>2023</u>
Allowance for loan losses, beginning	\$ 46,997	\$ 52,167
Loan losses incurred in current period	(33,947)	(34,324)
Provision for loan losses	<u>69,392</u>	<u>29,154</u>
Allowance for loan losses, ending	<u>\$ 82,442</u>	<u>\$ 46,997</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, 2024 or 2023.

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, 2024 and 2023

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, 2024 and 2023:

	2024	2023
Cumulative severance tax permanent fund capital contributions	\$ 166,590,172	\$ 136,359,888
Cumulative return of net excess funds	(7,699,599)	(4,556,930)
Cumulative expenses in excess of other revenues	(6,483,151)	(9,924,035)
	\$ 152,407,422	\$ 121,878,923

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 \$30,230,284 and \$7,922,532 in 2024 and 2023, 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, 2024 and 2023

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, 2024 and through September 19, 2024, 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, 2024 and 2023, 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
(A Component Unit of the State of New Mexico)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023, respectively, 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:

	2024	2023
Amount of deposits	\$ 36,657	\$ 18,735
FDIC Insurance	(36,657)	(18,735)
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
(A Component Unit of the State of New Mexico)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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, 2024 and 2023:

Description – 2024	<u>Assets at Fair Value</u>			
	Total	Level 1	Level 2	Level 3
Cooperative loan agreements	\$ 97,193,828	\$ -	\$ 97,193,828	\$ -
Investment held with NM				
State Treasurer's Office – LGIP	29,511,403	-	29,511,403	-
Other investments	16,843,331	16,843,331	-	-
Investment held with NM				
State Investment Council	10,093,191	-	10,093,191	-
	\$ 153,641,753	\$16,843,331	\$ 136,798,422	\$ -

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 4 – FAIR VALUE MEASUREMENT – CONTINUED

<u>Description – 2023</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cooperative loan agreements	\$ 72,594,537	\$ -	\$ 72,594,537	\$ -
Investment held with NM State Treasurer’s Office – LGIP	19,341,782	-	19,341,782	-
Other investments	19,249,765	19,249,765	-	-
Investment held with NM State Investment Council	9,547,232	-	9,547,232	-
	<u>\$120,733,316</u>	<u>\$19,249,765</u>	<u>\$ 101,483,551</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.

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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

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:

2024

Description	Level of Inputs	Percentage of Portfolio	Market Value	Credit Risk Rating
Credit Plus Bond	Level 2	100.00%	\$10,093,191	Not available

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

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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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

2024			
Description	Fair Value	Rating	Weighted Average Maturities
Investment held with NM State Treasurer’s Office – LGIP	\$ 29,511,403	AAAm	18 Days (r) ; 65 Days (F)
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)

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 December 2034. 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, 2024 and 2023, interest income of \$99,850 and \$78,650, respectively, was recognized related to this investment.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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 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. As of May 31, 2024, the 0.50% interest rate was modified to step up in January each year in 0.50% increments until it reaches 2.0% as of January 1, 2029. 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, 2024 and 2023, interest income of \$2,446 and \$3,196, respectively, was recognized related to this investment. See supplementary schedules for detail on this agreement.
- DreamSpring (formerly ACCION). NMSBIC is party to a loan participation Cooperative Agreement with DreamSpring, a non-profit CDFI. Under the agreement DreamSpring provides 25% of the funding and the NMSBIC provides the remaining 75%. Under the original participation agreement, NMSBIC shared 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, 2024 and 2023, interest income of \$101,841 and \$102,969, respectively, was recognized related to this investment.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

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.

- New Mexico Mortgage Finance Authority (NMMFA). As of December 2013, the NMSBIC entered into 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 2028. During the years ended June 30, 2024 and 2023, respectively, interest income of zero 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 2033. During the years ended June 30, 2024 and 2023, interest income of \$370,949 and \$236,384, respectively, was recognized related to this investment.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- LiftFund. As of March 2020, NMSBIC entered into a new revolving loan Cooperative Agreement with LiftFund, a non-profit CDFI. Under this agreement, the NMSBIC provides a revolving loan to this corporation, which is fully collateralized by pledged loans. The agreement limits certain delinquent loans for use as collateral, limits the maximum loan size and the number of modifications allowed on nonperforming loans, and requires the corporation to maintain certain levels of leverage and net assets. The corporation also undertakes good faith efforts to make loans outside the Albuquerque metropolitan area. NMSBIC does not share in any loan losses or recoveries. Loans are serviced by the corporation, with quarterly reports and principal and interest remittances provided to NMSBIC. The outstanding principal balance of the revolving loan matures in March 2025. During the years ended June 30, 2024 and 2023, interest income of \$97 and zero, respectively, was recognized related to this investment.

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

- 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 September 2031. During the years ended June 30, 2024 and 2023, interest income of \$105,198 and \$59,928, respectively, was recognized related to this investment.

Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Cooperative Loan Agreements – Continued

- 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, 2024 and 2023, respectively, interest income of zero was recognized related to this investment.

- 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, 2024 and 2023, interest income of \$310,278 and \$173,333, 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, 2024 and 2023, interest income of \$318,734 and \$5,673, respectively, was recognized related to this investment.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 6 – INVESTMENTS IN NEW MEXICO ENTITIES – CONTINUED

Equity Cooperative Agreements

NMSBIC is party to several Subscription Agreements and Limited Partnership Agreements under which it has acquired interests as a limited partner in various limited partnerships. Under these agreements, NMSBIC has made capital contribution commitments to provide funding to these limited partnerships to be used for debt or equity investments made in New Mexico small businesses. The New Mexico Gap Fund I Limited Partnership terminated in May 2021, with two notes receivable transferred to the NMSBIC prior to termination of the limited partnership. The New Mexico Community Capital Fund I Limited Partnership, and the New Mexico Mezzanine Partner Limited Partnership, have passed the fund termination dates, and are both in winding-up periods. The NMSBIC’s investments in Verge I L.P., Verge I.5 L.P., Verge II L.P., and Verge II.5 L.P., were combined into Verge I II Combined L.P. as of January 1, 2021. Verge I II Combined L.P. has a termination date of December 31, 2025. See supplementary schedules for detail on these agreements.

Notes Receivable

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

NOTE 7 – REVERSIONS OF SEVERANCE TAX PERMANENT FUND

Pursuant to Section 58-29-7 NMSA 1978, the NMSBIC shall revert to the Severance Tax Permanent Fund an amount equal to the net excess funds held by the NMSBIC. “Net excess funds” are calculated as the return on investments to the corporation in the amounts of dividends and interest actually received plus any capital gains actually realized, less the operating expenses of the NMSBIC and less amounts reasonably reserved for losses. NMSBIC had excess funds of \$3,142,669 and \$1,725,798 as of June 30, 2024 and 2023, 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.

	<u>2024</u>	<u>2023</u>
Interest and dividends received, cash basis	\$ 3,604,959	\$ 2,471,807
Operating expenses, net of loan losses	(413,271)	(394,925)
Accumulated reserve for debt and equity losses	(82,442)	(46,997)
Fair value change, investment with New Mexico State Investment Council	25,815	(296,479)
Fair value change, other investments	<u>7,608</u>	<u>(7,608)</u>
Net excess funds	<u>\$ 3,142,669</u>	<u>\$ 1,725,798</u>

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

NOTE 8 – CAPITAL COMMITMENTS

As of June 30, 2024 and 2023, total remaining commitments under debt cooperative agreements and equity cooperative agreements were \$43,871,252 and \$37,065,129, respectively. See supplementary schedules for details of these remaining commitments.

NOTE 9 – TRANSFERS FROM OTHER AGENCIES

NMSBIC’s sole source of funding are distributions from the New Mexico Severance Tax Permanent Fund. The amounts of these distributions for 2024 and 2023 were \$30,230,284 and \$7,922,532, respectively. Details of these distributions are as follows:

<u>2024</u>			
<u>Agency</u>	<u>Number</u>	<u>Amount</u>	<u>Purpose</u>
DFA	34100	\$30,230,284	Severance Tax Permanent Fund Proceeds
<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

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.

**Small Business Investment Corporation
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NOTES TO FINANCIAL STATEMENTS

June 30, 2024 and 2023

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
(A Component Unit of the State of New Mexico)

SCHEDULES OF ACTIVITY OF DEBT COOPERATIVE AGREEMENTS

Years Ended June 30, 2024 and 2023

	Loan Commitments	Beginning		Loan Funding		Realized		Ending		Allowance for Loan Losses	Ending Net Loan Balance
		Gross Loan Balance	Balance	Net of Repayments	Loan (Loss) Recovery	Gross Loan Balance	Loan (Loss) Recovery	Gross Loan Balance	Net Loan Balance		
For the year ended June 30, 2024											
1.	RBC SBA Loan Pool	\$ 25,000,000	\$ 6,361,453	\$ 3,586,601	\$ -	\$ 9,948,054	\$ -	\$ 9,948,054	\$ -	\$ 9,948,054	\$ 9,948,054
2.	DreamSpring #2	7,750,000	3,253,839	625,049	(33,947)	3,844,941		3,806,492	(38,449)	3,806,492	3,806,492
3.	DreamSpring #3*	22,522	81,663	(59,141)	-	22,522		22,522	-	22,522	22,522
4.	NMCDLF	37,500,000	30,286,380	2,722,210	-	33,008,590		33,008,590	-	33,008,590	33,008,590
5.	WESST Corp	375,000	90,372	32,012	-	122,384		122,384	(43,993)	78,391	78,391
6.	NMMFA	3,500,000	-	-	-	-		-	-	-	-
7.	Ventana Fund	29,000,000	13,311,306	10,590,728	-	23,902,034		23,902,034	-	23,902,034	23,902,034
8.	Homewise	16,000,000	4,247,366	2,180,379	-	6,427,745		6,427,745	-	6,427,745	6,427,745
9.	Lift Fund	1,000,000	9,155	(9,155)	-	-		-	-	-	-
10.	RCAC	1,000,000	-	-	-	-		-	-	-	-
11.	Clearinghouse CDFI	20,000,000	15,000,000	5,000,000	-	20,000,000		20,000,000	-	20,000,000	20,000,000
		<u>\$ 141,147,522</u>	<u>\$ 72,641,534</u>	<u>\$ 24,668,683</u>	<u>\$ (33,947)</u>	<u>\$ 97,276,270</u>		<u>\$ 97,276,270</u>	<u>\$ (82,442)</u>	<u>\$ 97,193,828</u>	<u>\$ 97,193,828</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	\$ -	\$ 6,361,453	\$ 6,361,453
2.	DreamSpring #2	7,750,000	3,439,797	(151,634)	(34,324)	3,253,839		3,221,301	(32,538)	3,221,301	3,221,301
3.	DreamSpring #3*	81,663	488,656	(406,993)	-	81,663		81,663	-	81,663	81,663
4.	NMCDLF	35,000,000	28,742,784	1,543,596	-	30,286,380		30,286,380	-	30,286,380	30,286,380
5.	WESST Corp	375,000	111,059	(20,687)	-	90,372		90,372	(14,459)	75,913	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	-	13,311,306	13,311,306
8.	Homewise	7,000,000	1,905,673	2,341,693	-	4,247,366		4,247,366	-	4,247,366	4,247,366
9.	Lift Fund	1,000,000	21,426	(12,271)	-	9,155		9,155	-	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	-	15,000,000	15,000,000
		<u>\$ 109,706,663</u>	<u>\$ 49,349,469</u>	<u>\$ 23,326,389</u>	<u>\$ (34,324)</u>	<u>\$ 72,641,534</u>		<u>\$ 72,641,534</u>	<u>\$ (46,997)</u>	<u>\$ 72,594,537</u>	<u>\$ 72,594,537</u>

*The DreamSpring #3 is used to fund Small Business Administration (SBA) Paycheck Protection Program (PPP) loans.

See Independent Auditors' Report.

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

SCHEDULES OF ACTIVITY OF EQUITY COOPERATIVE AGREEMENTS

Years Ended June 30, 2024 and 2023

	Investment Capital Commitments	Investment Activity, Cost Method of Accounting						Ending Investment Fair Value*
		Beginning Investment Cost Method	Capital Calls and Redemptions	Other Than Temporary Impairment	Operating Expense	Ending Investment Cost Method		
For the year ended								
June 30, 2024								
1. NMCCF	\$ 7,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,421
2. NM Mezzanine Fund	3,000,000	688,800	-	-	-	-	688,800	924,295
3. Verge I II Combined	9,025,155	1,586,805	-	-	(35,267)	1,551,538	4,016,387	
	<u>\$ 19,025,155</u>	<u>\$ 2,275,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (35,267)</u>	<u>\$ 2,240,338</u>	<u>\$ 5,046,103</u>	
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>	

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

See Independent Auditors' Report.

**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, 2024 and the related notes to the financial statements, which collectively comprise NMSBIC's basic financial statements, and have issued our report thereon dated September 19, 2024.

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 19, 2024

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, 2024

FINANCIAL FINDINGS:

Current Year:

NONE

Prior Year:

NONE