

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

**FINANCIAL STATEMENTS**

**June 30, 2024 and 2023**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1-3
Management's Discussion and Analysis .....	4-16
Financial Statements:	
Statements of Net Position .....	17
Statements of Revenues, Expenses and Changes in Net Position.....	18
Statements of Cash Flows .....	19
Notes to Financial Statements .....	20-37
Supplemental Information:	
Schedules of Activity of Debt Cooperative Agreements – Schedule 1 .....	38
Schedules of Activity of Equity Cooperative Agreements – Schedule 2.....	39
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 <i>Government Auditing Standards</i> .....	40-41
Schedule of Findings and Responses – Current and Prior Year .....	42

## 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2024 and 2023**

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>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**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:

	<b>2024</b>	<b>2023</b>
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	<b>\$ 56,847,704</b>	<b>\$ 48,363,038</b>

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

**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:

	<u>2024</u>	<u>2023</u>
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	<u>655,810</u>	<u>603,853</u>
Total noncurrent assets	<u>\$ 100,089,976</u>	<u>\$ 75,473,995</u>

- **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.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**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.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**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:

	<b>2024</b>	<b>2023</b>
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	<b>\$ 4,530,258</b>	<b>\$ 1,958,110</b>

- **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.

	<b>2024</b>	<b>2023</b>
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.

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

**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.

	<b>2024</b>	<b>2023</b>
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.

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

**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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2024 and 2023**

- **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.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2024 and 2023**

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2024 and 2023**

**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.



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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2024 and 2023**

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.

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

**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>	<b>2024</b>	<b>2023</b>
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
	56,847,704	48,363,038
Total current assets		
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
	100,089,976	75,473,995
Total noncurrent assets		
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
	4,530,258	1,958,110
Total current liabilities		
Total liabilities	4,530,258	1,958,110
Net position		
Restricted for:		
Economic development	152,407,422	121,878,923
	152,407,422	121,878,923
Total net position		
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**

	<b>2024</b>	<b>2023</b>
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)
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
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**

	<b>2024</b>	<b>2023</b>
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:

	<b>2024</b>	<b>2023</b>
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)
	<b>\$ 152,407,422</b>	<b>\$ 121,878,923</b>

Severance Tax Permanent Fund Proceeds

Prior to July 1, 2007, Section 7-27-5.15 NMSA 1978 required that the State Investment Officer make a commitment to NMSBIC pursuant to the Act to invest three-fourths of one percent of the market value of the New Mexico Severance Tax Permanent Fund. If at any time the commitment fell below that level, further commitments must be made until the invested capital is equal to three-fourths one percent of the market value of the fund. Effective July 1, 2007, the commitment was increased to one percent. Effective July 1, 2019, the commitment was increased to two percent. Funding received from the State Investment Officer due to the net market value of the New Mexico Severance Tax Permanent Fund was \$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:

	<b>2024</b>	<b>2023</b>
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:

<b>Description – 2024</b>	<b><u>Assets at Fair Value</u></b>			
<b>Description – 2024</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
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	-
	<b>\$ 153,641,753</b>	<b>\$16,843,331</b>	<b>\$ 136,798,422</b>	<b>\$ -</b>

**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**

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2024 and 2023**

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

<b>2024</b>			
<b>Description</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average Maturities</b>
Investment held with NM State Treasurer's Office – LGIP	\$ 29,511,403	AAAm	18 Days (r) ; 65 Days (F)
<b>2023</b>			
<b>Description</b>	<b>Fair Value</b>	<b>Rating</b>	<b>Weighted Average Maturities</b>
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  
(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

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  
(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

- 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**  
**(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

- 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  
(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**

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

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

**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

	<u>Loan Commitments</u>	<u>Beginning Gross Loan Balance</u>	<u>Loan Funding Net of Repayments</u>	<u>Realized Loan (Loss) Recovery</u>	<u>Ending Gross Loan Balance</u>	<u>Allowance for Loan Losses</u>	<u>Ending Net Loan Balance</u>
For the year ended June 30, 2024							
1. RBC SBA Loan Pool	\$ 25,000,000	\$ 6,361,453	\$ 3,586,601	\$ -	\$ 9,948,054	\$ -	\$ 9,948,054
2. DreamSpring #2	7,750,000	3,253,839	625,049	(33,947)	3,844,941	(38,449)	3,806,492
3. DreamSpring #3*	22,522	81,663	(59,141)	-	22,522	-	22,522
4. NMCDFL	37,500,000	30,286,380	2,722,210	-	33,008,590	-	33,008,590
5. WESST Corp	375,000	90,372	32,012	-	122,384	(43,993)	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
8. Homewise	16,000,000	4,247,366	2,180,379	-	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
	<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>\$ (82,442)</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
2. DreamSpring #2	7,750,000	3,439,797	(151,634)	(34,324)	3,253,839	(32,538)	3,221,301
3. DreamSpring #3*	81,663	488,656	(406,993)	-	81,663	-	81,663
4. NMCDFL	35,000,000	28,742,784	1,543,596	-	30,286,380	-	30,286,380
5. WESST Corp	375,000	111,059	(20,687)	-	90,372	(14,459)	75,913
6. NMMFA	2,500,000	-	-	-	-	-	-
7. Ventana Fund	15,000,000	9,640,074	3,671,232	-	13,311,306	-	13,311,306
8. Homewise	7,000,000	1,905,673	2,341,693	-	4,247,366	-	4,247,366
9. Lift Fund	1,000,000	21,426	(12,271)	-	9,155	-	9,155
10. RCAC	1,000,000	-	-	-	-	-	-
11. Clearinghouse CDFI	15,000,000	5,000,000	10,000,000	-	15,000,000	-	15,000,000
	<u>\$ 109,706,663</u>	<u>\$ 49,349,469</u>	<u>\$ 23,326,389</u>	<u>\$ (34,324)</u>	<u>\$ 72,641,534</u>	<u>\$ (46,997)</u>	<u>\$ 72,594,537</u>

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

**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**

	<b>Investment Capital Commitments</b>	<b>Investment Activity, Cost Method of Accounting</b>				<b>Ending Investment Cost Method</b>	<b>Ending Investment Fair Value*</b>
		<b>Beginning Investment Cost Method</b>	<b>Capital Calls and Redemptions</b>	<b>Other Than Temporary Impairment</b>	<b>Operating Expense</b>		
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.

**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**