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CERTIFIED PUBLIC ACCOUNTANTS
ESPANOLA, NEW MEXICO
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NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Financial Statements
Years Ended June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

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INTRODUCTORY SECTION

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

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NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Official Roster at June 30, 2010

Name	Title
Board of Directors	
Leonard Tapia	Chair
Thomas A. MacLean, Ph.D.	Vice-Chair
Daniel Lyon	Secretary
Kent Carruthers	Treasurer
R. Greg Leyendecker	Member
Program Administrator	
Deborah Gorenz	Hospital Services Corporation

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Council Members
New Mexico Hospital Equipment Loan Council
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying statements of net assets of the business-type activities of the New Mexico Hospital Equipment Loan Council (the "Council") as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. We have also audited the budgetary comparison statement for the year ended June 30, 2010, presented as supplementary information as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the New Mexico Hospital Equipment Loan Council's financial position of the business-type activities as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the budgetary comparison statement referred to in the first paragraph presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued our report dated November 10, 2010 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages vi through vii is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements and budgetary comparison. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
November 10, 2010

New Mexico Hospital Equipment Loan Council

Management's Discussion and Analysis (required supplementary information) June 30, 2010

INTRODUCTION

The New Mexico Hospital Equipment Loan Council (NMHELIC) discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the NMHELIC's financial activity, and 3) identify changes in the NMHELIC's financial position. The Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts.

The financial statements presented include the statements of net assets, statements of revenues, expenses and changes in net assets, and the statements of cash flows. Also included are notes to financial statements.

NMHELIC is a special-purpose government agency engaged in only one business-type activity, i.e., helping qualified medical facilities obtain financing for capital purchases and improvements. Accordingly, no government-wide presentation of the financial statement information is appropriate. NMHELIC is a proprietary enterprise fund. Enterprise funds are required to account for operations which charge a fee to external users for goods and services, and the activity is: (a) financed with debt that is solely secured by a pledge of the net revenues, or (b) has third party requirements that has costs of providing services be recovered with fees and charges, or (c) has a pricing policy designed so the fees and charges recover these costs.

The statements of net assets give the financial position as of June 30, 2010 and 2009, the statements of revenues, expenses and changes in net assets present current year activity, and the statements of cash flows reflect the change in cash position for the years being reported. The notes to financial statements consist of information that is essential to a user's understanding of the basic financial statements.

NMHELIC does not use government money in its financing operations. However, NMHELIC has a legally adopted budget and presents the budgetary comparison schedule as supplementary information, as required.

CONDENSED FINANCIAL INFORMATION

NMHELIC's net assets were \$2,403,945 and \$2,375,425 as of June 30, 2010 and 2009, respectively. All net assets were business-type net assets.

NMHELIC's current liabilities were \$91,605 and \$76,666 as of June 30, 2010 and June 30, 2009, respectively.

The financing activity revenue was \$52,760 and (\$29,154) and program activity revenue was \$85,000 and \$63,886 for the years ended June 30, 2010 and 2009, respectively.

The change in net assets was \$28,520 in fiscal year 2010 and (\$57,068) in fiscal year 2009.

The total cost of financing activity and program activity was \$109,240 and \$91,800 for the years ended June 30, 2010 and 2009, respectively.

New Mexico Hospital Equipment Loan Council

Management's Discussion and Analysis (required supplementary information) June 30, 2010

FINANCIAL ANALYSIS

The NMHELIC assists qualified medical facilities to finance capital equipment and improvement projects through the issuance of bonds or other financing arrangements. Two new loans were made in fiscal year 2010, as well as two new loans in fiscal year 2009.

Program activity revenue, which consists of loan origination fees and ongoing fees, increased by 33.0% in fiscal 2010. The reason program activity revenue increased for the FY 2010 was the \$10,113 increase in annual fees and the \$11,000 increase in loan origination fees.

Financing activity revenue, which consists of investment income and losses, increased by \$81,914 as the global investment markets are experiencing slight recoveries in earnings. In addition, the Council recorded a \$48,822 recovery of the previous \$58,222 reserve against the investment assets, all of which are in the State Treasurer's *New MexiGROW* Local Government Investment Pool (LGIP), which represents the apportioned share of the Reserve Primary Fund assets that are included in the investment portfolio. As of June 30, 2010, the reserve is now valued at \$9,400. As of July 31, 2010, that total reserve balance was reduced to \$7,121. It is estimated that the Council will not be able to recover the assets in the Reserve Primary Fund as they are liquidating the company and do not have sufficient assets to pay off all investors.

In recent years, NMHELIC issued revenue bonds to individual hospitals and other healthcare organizations. Most of the financing activity has been in the form of conduit debt where neither the NMHELIC, nor any political subdivision of the State, is obligated in any manner for repayment. It is expected that this will continue into the future.

Statements of Net Assets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 2,451,038	\$ 2,410,038
Accounts receivable	43,947	41,313
Accrued interest receivable	358	533
Prepaid expenses	<u>207</u>	<u>207</u>
Total assets	<u><u>\$ 2,495,550</u></u>	<u><u>\$ 2,452,091</u></u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 16,320	\$ 9,945
Due to Hospital Services Corporation	<u>75,285</u>	<u>66,721</u>
Total liabilities	91,605	76,666
Net assets:		
Unrestricted	<u>2,403,945</u>	<u>2,375,425</u>
Total liabilities and net assets	<u><u>\$ 2,495,550</u></u>	<u><u>\$ 2,452,091</u></u>

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Program administration fees	<u>\$ 85,000</u>	<u>\$ 63,886</u>
Total operating revenues	<u>85,000</u>	<u>63,886</u>
Operating expenses:		
Professional fees	13,429	16,455
Program administrator	82,833	64,500
Administrative	12,702	10,580
Insurance	<u>276</u>	<u>265</u>
Total operating expenses	<u>109,240</u>	<u>91,800</u>
Operating loss	(24,240)	(27,914)
Nonoperating revenues (expenses):		
Unrealized gain (loss) on investments	48,823	(58,223)
Investment income	<u>3,937</u>	<u>29,069</u>
Total nonoperating revenues (expenses)	<u>52,760</u>	<u>(29,154)</u>
Change in net assets	28,520	(57,068)
Net assets, beginning of year	<u>2,375,425</u>	<u>2,432,493</u>
Net assets, end of year	<u>\$ 2,403,945</u>	<u>\$ 2,375,425</u>

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from borrowers	\$ 83,780	\$ 79,541
Cash paid for services	<u>(95,540)</u>	<u>(95,900)</u>
Net cash provided (used) by operating activities	<u>(11,760)</u>	<u>(16,359)</u>
Cash flows from noncapital financing activities:		
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Investment income	<u>52,760</u>	<u>(29,154)</u>
Net cash provided (used) in investing activities	<u>52,760</u>	<u>(29,154)</u>
Increase (decrease) in cash and cash equivalents	41,000	(45,513)
Cash and cash equivalents, beginning of year	<u>2,410,038</u>	<u>2,455,551</u>
Cash and cash equivalents, end of year	<u>\$ 2,451,038</u>	<u>\$ 2,410,038</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) for Operating Activities		
Operating loss	\$ (24,240)	\$ (27,914)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(2,634)	12,624
Accrued interest receivable	175	4,263
Prepaid expenses	-	(11)
Accounts payable	6,375	6,362
Due to Hospital Services Corporation	<u>8,564</u>	<u>(11,683)</u>
Net cash provided (used) by operating activities	<u>\$ (11,760)</u>	<u>\$ (16,359)</u>

The accompanying notes are an integral part of these financial statements.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

1. Organization and Reporting Entity

The New Mexico Hospital Equipment Loan Council (the "Council") is a public body corporate and politic, separate and apart from the State of New Mexico (the "State"), constituting a governmental instrumentality organized under the laws of the State of New Mexico, governed by a five-member board. Its purpose is to provide the healthcare industry with access to low-cost capital through the issuance of tax-exempt and taxable bonds, loans and leases. The Council can finance any real or personal property, instrument, service, or operational necessity that is determined by the Council to be directly or indirectly needed for medical care, treatment or research, or to operate the health facility. The Council is authorized to borrow money and to issue bonds to provide financing for the purpose and projects of the Council pursuant to the New Mexico Hospital Equipment Loan Act contained in Sections 58-23-1 through 58-23-32 of the New Mexico Statutes Annotated, 1978, and the New Mexico Public Securities Short-Term Interest Rate Act, Sections 6-18-1 through 6-18-16, of the New Mexico State Statutes, 1978, inclusive and amended (collectively, the "Act"). The Council has no component units or fiduciary funds. The financial statements include only the activities of the Council. They do not include activities of conduit debt recipients.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the reporting model defined by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. These GASB statements did not significantly change the financial reporting for the accompanying financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Also, the Council has elected to apply Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. GASB 20 states that the Council has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Proprietary Fund Types

The Council’s accounting is organized on a proprietary fund basis. Proprietary funds are accounted for on a flow of economic resources measurement focus and accrual basis of accounting. The accounting objectives are a determination of net income, financial position and changes in cash flow. The following is the Council’s proprietary fund type:

Enterprise Funds – Enterprise funds are used for activities that are financed and operated in a manner similar to private business enterprises where the costs of providing goods or services are recovered primarily through user charges.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less.

Investments

It is the policy of the Council to invest monies not needed for immediate disbursement in accordance with New Mexico state statutes, more particularly NMSA 58-23-12(A), at the maximum interest rate available for maturities coincident with the need for these funds. The investment objective is to preserve the investment corpus of the funds, while generating investment returns in excess of inflation.

Authorized investments shall be restricted to the following:

- Direct US Treasury obligations;
- US Agency obligations;
- Obligations of the State of New Mexico or any of its political subdivisions;
- Repurchase agreements secured by US Treasury or US Agency obligations;
- Qualified certificates of deposit or time deposits which are insured by the FDIC

Statement of Goals and Objectives

Assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time, both in real and nominal terms. Capital is expected to increase in absolute (nominal) terms and also after consideration of the effects of inflation (i.e., in real terms). The Council shall be responsible for recommending the investment structure, including eligible asset classes, and the determination of targets and ranges. Sector and portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with other funds. Total portfolio risk exposure shall be reasonably below the average of comparable funds. Risk-adjusted returns are expected to consistently rank in the top half of comparable funds.

Investment Guidelines

1. Discretion, within the parameters of the investment policy guidelines described herein, is granted to the investment manager(s) regarding the asset allocation, the selection of securities, and the timing of transactions.
2. Domestic fixed income investments are permitted, and they include US Government and Agency obligations, Certificates of Deposit, and other instruments deemed prudent by the investment manager(s) with the written approval of the Council. Certificates of Deposit shall not exceed the current FDIC limit.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (cont'd)

Investments (cont'd)

Investment Guidelines (cont'd)

3. Fixed-income securities are to be selected and managed to ensure appropriate balances in qualities and maturities consistent with current money market and economic conditions.
4. The minimum quality rating of any fixed-income issue held in a portfolio shall be either/or Baa (Moody's) or BBB (S&P) (investment grade), and the overall average quality of the fixed-income portfolio shall be the equivalent of S&P A or better.
5. No bond in the portfolio shall have a final maturity greater than five (5) years from the date of purchase. The portfolio shall maintain an average maturity of three (3) years.
6. Investment manager(s) may maintain reserve and cash equivalent investments. However, these investments should be made on the basis of safety and liquidity, and only secondarily by yield available. Such securities shall carry the equivalent of S&P A1 rating. Balances in the account, either uninvested principal or accumulated income, will be invested daily in a money market fund such as the Federated Trust for Short-Term US Government Securities. This portfolio consists of US Government and Government Agency obligations maturing in 120 days or less. The portfolio also invests in repurchase agreements which are for a period of not longer than one (1) year and have US Government or Agency obligations as collateral. Unit Value is set at \$1 and does not fluctuate.
7. The investment manager(s) are responsible for making an independent analysis of the creditworthiness of securities, and their appropriateness as an investment regardless of the classification provided by the rating service.
8. While the Council is sensitive to excessive turnover, there shall be no specific limitation in this regard, recognizing the importance of providing flexibility to the manager(s) to adjust the asset mix in changing market conditions. Flexible management of the portfolio is permitted. Furthermore, there is no justification to hold a particular security, or to manage the collective assets of the sole purpose of avoiding the recognition of a book loss.
9. No security, excepting issues of the US Government, shall comprise more than 10% of total assets measured at market.
10. Investment manager(s) shall make portfolio transactions on a "best execution" basis. Additionally, arrangements to direct commissions shall only be implemented by specific authorization of the Council.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (cont'd)

Investments (cont'd)

Other Considerations

It is the policy of the Council to review these goals and objectives at least once per year and to communicate any changes thereto to the investment manager(s). These policy statements are prepared to provide appropriate guidelines, consistent with the investments return objectives and risk tolerances to the investment manager(s). Should any investment manager(s) believe that the guidelines are restrictive or inappropriate; the Council expects to be advised accordingly.

Standards of Investment Performance

Performance of this plan will be evaluated on a regular basis. Consideration will be given to the degree to which performance results meet the goals and objectives as herein set forth. Toward that end, each investment manager will be evaluated by their compliance with the guidelines as expressed herein. Performance of the Fund shall be evaluated by comparison to the iShares Barclays Capital Intermediate Government/Credit Bond Fund.

Benchmark Data

iShares Barclays Intermediate Government/Credit Bond Fund (the Fund), formerly iShares Lehman Intermediate Government/Credit Bond Fund, seeks investment results that correspond generally to the price and yield performance of the United States Government and investment-grade corporate sectors of the bond market as defined by the Barclays Capital US Intermediate Government/Credit Bond Index (the Index) (formerly, Lehman Brothers Intermediate US Government/Credit Index). The index measures the performance of United States dollar-denominated United States Treasuries, government related and investment grade United States credit securities that have a remaining maturity of greater than or equal to one (1) year and less than ten (10) years. Securities have \$250 million or more of outstanding face value and must be fixed rate and nonconvertible securities.

Receivables

Receivables consist of annual administration fees assessed on conduit debtors and accrued interest receivable on interest bearing accounts. All receivables are considered fully collectible.

Origination and Administrative Fees

The Council collects certain loan origination fees in relationship to its conduit debt obligations. These fees are recorded as revenue at the time each obligation is closed. In addition, the Council performs certain accounting administration services for each of its conduit debt obligations on a monthly basis. The Council collects a monthly fee for each loan and records these fees when services are rendered. The Council classifies these fees as operating revenues. All other revenues, interest earnings, are classified as nonoperating revenues.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

2. Summary of Significant Accounting Policies (cont'd)

Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt, if applicable), restricted and unrestricted.

Investment in capital assets (net of related debt) – is intended to reflect the portion of net assets which are associated with capital assets less outstanding capital asset related debt. The Council has no capital assets.

Restricted assets – are assets (generated from revenues and not bond proceeds), which have third-party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted assets – are assets that do not have third-party (statutory, bond covenant or granting agency) limitations on their use.

Risk Management

The Council is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and other causes. Commercial insurance coverage is purchased for claims arising from such matters.

Fair Value of Financial Instruments

The Council's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

Budgetary Information

The budget is prepared annually on the accrual basis of accounting and is controlled at the fund level. As shown on Statement 1 on page 13, the total approved budget for FY10 was over expended by \$10,230. Also reflected is a positive variance of \$18,500 in origination fees revenue. The most significant variance is the Council investment earnings that were \$56,063 less than budgeted.

3. Cash and Cash Equivalents

Cash deposits are reported at cost, which reasonably estimates fair value. The Council maintains the majority of its funds in the State Treasurer's *New MexiGROW* Local Government Investment Pool (LGIP) for a better investment return and also maintains no more than \$75,000 in a local bank checking account to pay monthly operating expenses of the Council. Previously, all Council funds were held by a national banking institution in money market accounts in a trustee capacity. At June 30, 2010, the carrying amounts in the local bank account and LGIP are as follows:

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

**Notes to Financial Statements
June 30, 2010 and 2009**

3. Cash and Cash Equivalents (cont'd)

<u>Account Name</u>	<u>Account Number/Type</u>	<u>Balance per Depository</u>	<u>Reconciling Item Outstanding Checks</u>	<u>Balance per Financial Statements</u>
Bank of the West	Demand	\$ 49,423	\$ -	\$ 49,423
State Treasurer: <i>New MexiGROW</i> LGIP	7803-8644	2,401,615	-	2,401,615
Total		\$ 2,451,038	\$ -	\$ 2,451,038

At June 30, 2009, the carrying amounts in the local bank account and LGIP were as follows:

<u>Account Name</u>	<u>Account Number/Type</u>	<u>Balance per Depository</u>	<u>Reconciling Item Outstanding Checks</u>	<u>Balance per Financial Statements</u>
Bank of the West	Demand	\$ 61,554	\$ (196)	\$ 61,358
State Treasurer: <i>New MexiGROW</i> LGIP	7803-8644	2,348,680	-	\$ 2,348,680
Total		\$ 2,410,234	\$ (196)	\$ 2,410,038

Of the total of \$49,423 in the demand account at June 30, 2010, none was uninsured, uncollateralized and subject to custodial credit risk. Of the total of \$61,554 in the demand account at June 30, 2009, none was uninsured, uncollateralized and subject to custodial credit risk. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Council is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at June 30, 2010 and June 30, 2009 at each financial institution. At June 30, the local bank account was collateralized as follows:

<u>Bank of the West</u>	<u>2010 Balance</u>	<u>2009 Balance</u>
Total amount on deposit in bank	\$ 49,423	\$ 61,554
Less: FDIC coverage	(49,423)	(61,554)
Total uninsured public funds	<u>\$ -</u>	<u>\$ -</u>

The State Treasurer's *New MexiGROW* Local Government Investment Pool (LGIP) is not Security and Exchange Commission (SEC) registered. Section 6-10-10 I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The *New MexiGROW* LGIP investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The pool does not have unit shares.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

3. Cash and Cash Equivalents (cont'd)

Per Section 6-10-10.1F, 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 amounts were invested. Participation in the *New MexiGROW* LGIP is voluntary. The statutes of the State of New Mexico place certain restrictions on the investments of public money by the State Treasurer, in order to minimize risk. Permissible investments include U. S. Treasury securities and certificates of deposit at financial institutions insured by an agency of the federal government and corporate bonds that meet investment policy criteria. In order to meet short-term investment objectives, state laws permit investment in repurchase agreements. These contracts must be fully secured by obligations of the United States or other securities backed by the United States, having a market value of at least 102% of the amount of the contract.

Investments in the *New MexiGROW* LGIP are valued at fair value based on quoted market prices as of the valuation date. The State Treasurer's Office issues separate financial statements that disclose the types of investments and collateral pledged to secure the investments of the *New MexiGROW* LGIP. Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value.

The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. At June 30, 2010 and 2009 the Council's investment in the *New MexiGROW* LGIP is as follows:

6/30/10 <i>New MexiGROW</i> LGIP AAAM rated	\$2,401,615	50 day WAM
6/30/09 <i>New MexiGROW</i> LGIP AAAM rated	\$2,348,680	43 day WAM

GASB No. 40, *Deposit and Investment Risk Disclosures*, requires a custodial credit risk disclosure. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government's deposit policy for custodial credit risk is to maintain a bank balance of no more than \$75,000 at any one time. The Federal Deposit Insurance Corporation (FDIC) insures up to \$250,000, beginning October 3, 2008 of a government's bank balance.

The New Mexico State Treasurer's Office invested a portion of the LGIP in the Reserve Primary Fund ("the fund"), a money market fund, in fiscal years 2006, 2007, 2008 and 2009. On September 15, 2008, the balance of the LGIP's investment in the Fund was \$381.7 million. On September 16, 2008, the Reserve Primary Fund's net asset value fell below \$1.00 and holdings in the Fund were frozen. On February 26, 2009, the Reserve Primary Fund announced that it was withholding \$3.5 billion of the Fund's assets for anticipated and pending litigation against it, which amount could increase or decrease as the Fund evaluates information related to such litigation. As a result, the State Treasurer's Office could not anticipate what the actual loss to the LGIP from the Reserve Primary Fund would be or when the actual loss would be realized. The total remaining Reserve Primary Fund position as of June 30, 2009, was \$39.5 million.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

3. Cash and Cash Equivalents (cont'd)

On May 5, 2009, the U.S. Securities and Exchange Commission ("SEC") filed a civil lawsuit in federal court against the operators of the Reserve Primary Fund, alleging fraud; seeking the pro rata distribution of the remaining Fund's assets; and seeking the release of the \$3.5 billion currently being withheld from investors pending the outcome of the lawsuits against the Reserve Primary Fund. On May 20, 2009, the New Mexico Attorney General filed a civil complaint and injunction petition in state district court against the Reserve Primary Fund. The Attorney General's complaint alleged that the Fund setting aside \$3.5 billion to pay legal fees and expenses was a willful and intentional conversion of the investors' assets and a breach of contract. The complaint further alleged that the Fund's failure to honor redemption requests on September 16, 2008, was a breach of contract.

Additionally, the Attorney General's injunction petition sought the release of the investors' pro rata share of the \$3.5 billion the Reserve Primary Fund set aside for its anticipated and pending legal costs. The New Mexico State Treasurer's Office believed that the Reserve Primary Fund would ultimately end up distributing between 98.38% and 98.77% of the balance that the LGIP had in the Reserve Primary Fund as of September 15, 2008. This meant that of the remaining undistributed balance as of June 30, 2009, the LGIP was expected to recover between 83.84% and 87.78%. Uncertainty remained, however, as to the timing of these distributions.

Due to the dramatic drop in the rating of the Reserve Primary Fund, which accounted for 23.1% of the total LGIP investment pool, the State Treasurer created a segregated account for each member's proportional balance in the Reserve Primary Fund. The Council's original share of the Fund amounted to \$83,515. Through partial redemptions of these funds by the State Treasurer, the balance in the Council's Reserve Primary Fund account is \$58,223 and \$9,400 as of June 30, 2009 and 2010, respectively. Since it is uncertain if LGIP will be able to fully recover its investment in the Reserve Primary Fund, a valuation reserve was established. The Council contacted the New Mexico Attorney General to request periodic updates regarding pending litigation against the Reserve and the possibility of recouping the invested funds through legal action.

On July 15, 2010, the Reserve announced that it would begin its seventh distribution to Primary Fund shareholders on or about July 16, 2010. The distribution, in the amount of approximately \$215 million, represented approximately 67% of the Fund's remaining asset value of \$323 million as of the close of business on July 9, 2010. Including this seventh distribution, \$50.7 billion of the Fund assets as of the close of business on September 15, 2008, have been returned to investors. As of July 31, 2010, and currently, the Council's Reserve Fund balance is \$7,121. There was \$108 million still remaining with the Reserve at that time and the State Treasurer's Office has no information about timing or amounts of potential future distributions. As a result, the State Treasurer's Office cannot anticipate what the actual loss to the LGIP from the Reserve Primary Fund may be or when the actual loss may be realized. No actual loss has been realized to date. The Council is of the opinion that no further valuation adjustment is necessary at this time.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2010 and 2009

4. Conduit Debt Obligations

The Council has issued revenue bonds, lease purchases and master financing agreements to provide financing for the acquisition and construction of equipment and facilities. The bonds, lease purchases and master financing agreements are secured by the property financed and are payable solely from payments received on the underlying loans. Neither the Council nor any political subdivision of the State is obligated in any manner for repayment of either the bonds or the lease-purchase/master financing agreements. Accordingly, the bonds or the lease-purchase/master financing agreements are not reported as liabilities in the accompanying financial statements.

Conduit debt obligations consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Hospital Revenue Bonds (Presbyterian Healthcare Services), Series 2001A	\$ 187,870,000	\$ 191,885,000
Hospital Revenue Bonds (Lovelace Women's Hospital), Series 2007	12,617,082	12,617,082
Hospital Revenue Bonds (Dialysis Clinic, Inc. Project), Series 2000	5,000,000	5,000,000
2002 Master Financing Agreement (Covenant Health System)	-	2,231,816
Hospital Revenue Bonds (St. Vincent Hospital), Series 2003	4,995,000	6,535,000
Hospital Revenue Bonds (St. Vincent Hospital), Series 2005	21,780,000	22,390,000
Hospital Revenue Bonds (Rehoboth McKinley Christian Hospital Project), Series 2007	7,145,000	7,405,000
Lovelace Respiratory Research Institute Project 2004	1,208,214	1,969,792
Hospital Revenue Bonds (Presbyterian Healthcare Services), Series 2008 A-D	385,390,000	387,085,000
Lovelace Respiratory Research Institute Series 2009	10,214,441	11,000,000
Hospital Revenue Bonds (Presbyterian Healthcare Services), Series 2009 A	134,610,000	-
La Vida Llena, Series 2010 A-C	39,188,744	-
Total	<u>\$ 810,018,481</u>	<u>\$ 648,118,690</u>

SUPPLEMENTARY INFORMATION

**STATE OF NEW MEXICO
HOSPITAL EQUIPMENT LOAN COUNCIL**

Statement 1

**Statement of Revenues and Expenses
Budget and Actual
Year Ended June 30, 2010**

	Proprietary Fund			Variance with Final Budget Positive (Negative)
	Original Approved Budget	Final Approved Budget	Actual	
Revenues:				
Council annual fees	\$ 40,000	\$ 40,000	\$ 46,500	\$ 6,500
Origination fees	20,000	20,000	38,500	18,500
Council investment earnings	60,000	60,000	3,937	(56,063)
Total revenues	120,000	120,000	\$ 88,937	\$ (31,063)
Prior-year funds re-budgeted	-	-		
	\$ 120,000	\$ 120,000		
Operating expenses:				
General counsel	\$ 3,000	\$ 3,000	\$ 2,929	\$ 71
Insurance premium	350	350	276	74
Council fees	2,000	2,000	2,196	(196)
Origination fee	6,660	6,660	17,000	(10,340)
CPA fees	12,000	12,000	10,500	1,500
Program administrator	65,000	65,000	65,833	(833)
Miscellaneous	10,000	10,000	10,506	(506)
Total expenditures	\$ 99,010	\$ 99,010	\$ 109,240	\$ (10,230)

The accompanying notes are an integral part of the financial statements.



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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

The Council Members
New Mexico Hospital Equipment Loan Council
and
Honorable Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the statement of net assets and the related statements of revenues, expenses and changes in net assets and cash flows of the New Mexico Hospital Equipment Loan Council (the "Council") as of and for the year ended June 30, 2010 and have issued our report thereon dated November 10, 2010. We have also audited the budgetary comparison statement for the year ended June 30, 2010, presented as supplementary information. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of 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**.

However, we noted certain other matters that we reported to the management of the Council in the accompanying schedule of findings and responses.

This report is intended solely for the information and use of the Board of Directors, others within the Council, management, and the Office of the State Auditor, the New Mexico Legislature, the NM Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gutierrez & Co., CPAs, P.C.

Macias, Gutierrez & Co., CPAs, P.C.
Espanola, New Mexico
November 10, 2010

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Schedule of Findings and Responses June 30, 2010

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
Missing Checks in Sequence	C	N/A	2010-1
Follow-up on Prior Year Findings:			
None	N/A	N/A	N/A

*** Legend for Findings:**

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters involving Internal Control Over Financial Reporting
- D. Material Instance of Noncompliance
- E. Immaterial Instance of Noncompliance

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Schedule of Findings and Responses June 30, 2010

2010-1

Missing Checks in Sequence

Criteria

Proper internal control requires that pre-numbered, sequential documents be accounted for as to whether issued or voided. Any voided document should be retained for control and audit purposes.

Condition

During our audit of bank reconciliations and expenses, we noted that three (3) checks in the sequence to be used at the beginning of the current year had not cleared the bank account and were not a part of the cash reconciliation process or check listing for prior or current year expenses. The Hospital Services Corporation, which is the Program Administrator for the Council, could not locate the missing checks nor demonstrate that they were voided. All other checks issued during the year were processed in order and made a part of the bank reconciliation process.

Cause

The Program Administrator's policies were not sufficiently designed to control blank check stock and check sequences for the bank reconciliation process.

Effect

Poorly designed policies to control blank check stock and the bank reconciliation process could lead to improper payments being made.

Recommendation

We recommend that the Council revise and enforce its policies to account for blank check stock and check sequences in the bank reconciliation process. This includes maintaining voided checks for audit purposes.

Planned Corrective Actions

"To mitigate the risk involved, the bank account has been closed. A new bank account number has been issued with a different check number sequence. To eliminate the potential of this happening again, Hospital Services Corporation, as Program Administrator, has updated its policies and implemented an additional level to the segregation of duties. These steps ensure that a missing check sequence and printing errors will be identified, addressed, and documented immediately."

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

**Exit Conference
June 30, 2010**

Financial Statement Presentation

The financial statements and notes to the financial statements were prepared by the independent certified public accountants performing the audit. Management is responsible for ensuring that the books and records adequately support the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that the records are current and in balance. Management has reviewed and approved the financial statements and notes to financial statements.

* * * * *

EXIT CONFERENCE

The financial statements and the auditors' reports were discussed at an exit conference (closed session) held on November 12, 2010, with the following in attendance:

New Mexico Hospital Equipment Loan Council (NMHELIC)

Leonard Tapia	Chair (by telephone)
Thomas A. MacLean, Ph.D.	Vice-Chair
Daniel Lyon	Secretary
Kent Carruthers	Treasurer (by telephone)
R. Greg Leyendecker	Member (by telephone)

Hospital Services Corporation

Deborah Gorenz	Program Administrator
Penny S. Conger	Executive Assistant
Jody Belkofer	Senior Accountant

Modrall Sperling Law Firm (Counsel for NMHELIC)

Chris Muirhead

Audit Firm

James R. (Jim) Macias, CPA