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NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Financial Statements
Years Ended June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

**Financial Statements
Years Ended June 30, 2012 and 2011**

(With Independent Auditors' Report Thereon)

INTRODUCTORY SECTION

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

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NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Official Roster at June 30, 2012

Name	Title
Council	
Leonard Tapia	Chair
Thomas A. MacLean, Ph.D.	Vice-Chair
Daniel Lyon	Secretary
Kent Carruthers	Treasurer
R. Greg Leyendecker	Member-At-Large
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, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, which collectively comprise the Council's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statement for the year ended June 30, 2012, 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, 2012 and 2011, 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, 2012 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 October 5, 2012 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.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements and the 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
October 5, 2012

New Mexico Hospital Equipment Loan Council

Management's Discussion and Analysis (required supplementary information) June 30, 2012

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, 2012 and 2011, 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 \$2,694,799 and \$2,387,123 as of June 30, 2012 and 2011, respectively. All net assets were business-type net assets.

NMHELIC's current liabilities were \$94,632 and \$24,833 as of June 30, 2012 and 2011, respectively.

The financing activity revenue was \$327,931 and \$13,614, and program activity revenue was \$87,813 and \$81,348 for the years ended June 30, 2012 and 2011, respectively.

The change in net assets was \$307,676 in fiscal year 2012 and (\$16,822) in fiscal year 2011.

The total cost of financing activity and program activity was \$108,068 and \$111,784 for the years ended June 30, 2012 and 2011, respectively.

New Mexico Hospital Equipment Loan Council

Management's Discussion and Analysis (required supplementary information) June 30, 2012

FINANCIAL ANALYSIS

The NMHELC assists qualified medical facilities to finance capital equipment and improvement projects through the issuance of bonds or other financing arrangements. One new transaction with a total value of \$50,000,000 was originated in fiscal year 2012, and three new transactions with a total value of \$34,573,000 (all to a single qualified facility) were made in fiscal year 2011.

Program activity revenue, which consists of loan origination fees and ongoing fees, experienced an increase of 7.9% in fiscal year 2012. Beginning in February 2011, the NMHELC transferred funds that were in the State Treasurer's *New MexiGrow* Local Government Investment Pool (LGIP) into a series of Certificates of Deposit with maturity dates that range from three months (cash equivalents) to three years (investments). See note 3 for further detail regarding this change in investment strategy.

In recent years, NMHELC has 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 NMHELC, 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Cash, cash equivalents and investments (note 3)	\$ 2,712,512	\$ 2,366,178
Accounts receivable	66,656	39,896
Accrued interest receivable	9,453	5,675
Prepaid expenses	810	207
	<u> </u>	<u> </u>
Total assets	<u>\$ 2,789,431</u>	<u>\$ 2,411,956</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 12,853	\$ 14,809
Due to Hospital Services Corporation	81,779	10,024
	<u> </u>	<u> </u>
Total liabilities	94,632	24,833
Net assets:		
Unrestricted	<u>2,694,799</u>	<u>2,387,123</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 2,789,431</u>	<u>\$ 2,411,956</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Program administration fees	<u>\$ 87,813</u>	<u>\$ 81,348</u>
Total operating revenues	<u>87,813</u>	<u>81,348</u>
Operating expenses:		
Professional fees	10,751	20,277
Program administrator	85,003	76,334
Administrative	12,033	14,897
Insurance	<u>281</u>	<u>276</u>
Total operating expenses	<u>108,068</u>	<u>111,784</u>
Operating loss	(20,255)	(30,436)
Nonoperating revenues (expenses):		
Unrealized gain (loss) on investments	-	2,279
Settlement (note 5)	303,467	-
Investment income	<u>24,464</u>	<u>11,335</u>
Total nonoperating revenues (expenses)	<u>327,931</u>	<u>13,614</u>
Change in net assets	307,676	(16,822)
Net assets, beginning of year	<u>2,387,123</u>	<u>2,403,945</u>
Net assets, end of year	<u>\$ 2,694,799</u>	<u>\$ 2,387,123</u>

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

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from borrowers	\$ 56,672	\$ 80,082
Cash paid for services	<u>(38,269)</u>	<u>(178,556)</u>
Net cash provided (used) by operating activities	<u>18,403</u>	<u>(98,474)</u>
Cash flows from noncapital financing activities:		
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Investments purchased	<u>(20,373)</u>	(2,202,205)
Investment income	<u>327,931</u>	<u>13,614</u>
Net cash provided (used) in investing activities	<u>307,558</u>	<u>(2,188,591)</u>
Increase (decrease) in cash and cash equivalents	<u>325,961</u>	(2,287,065)
Cash and cash equivalents, beginning of year	<u>163,973</u>	2,451,038
Cash and cash equivalents, end of year	<u>\$ 489,934</u>	<u>\$ 163,973</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) for Operating Activities		
Operating loss	\$ (20,255)	\$ (30,436)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	<u>(26,760)</u>	4,051
Accrued interest receivable	<u>(3,778)</u>	(5,317)
Prepaid expenses	<u>(603)</u>	-
Accounts payable	<u>(1,956)</u>	(1,511)
Due to Hospital Services Corporation	<u>71,755</u>	<u>(65,261)</u>
Net cash provided (used) by operating activities	<u>\$ 18,403</u>	<u>\$ (98,474)</u>

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

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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 Act provides that the Council shall be separate and apart from the state and shall not be subject to the supervision or control of any board, bureau, department or agency of the state except as specifically provided in the Act.

In order to effectuate the separation of the state from the Council, no use of the terms "state agency" or "instrumentality" in any other law of the state shall be deemed to refer to the Council unless the Council is specifically referred to therein. 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. See Note 4.

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.

Private-sector standards of accounting and financial reporting (FASB pronouncements) issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with GASB guidance. Governments also have the option of following subsequent FASB pronouncements for their government-wide financial statements. The Council has elected to follow subsequent FASB guidance.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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

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.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and investments, including certificates of deposit (CDs) and money market deposit accounts (MMDAs), in highly liquid 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.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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

Investments (cont'd)

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.
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.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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

Investments (cont'd)

Investment Guidelines (cont'd)

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.

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.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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

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.

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. Also, reflected is a favorable revenue variance of \$306,331 in investment earnings from the settlement described in Note 5 below. The most significant unfavorable revenue variance is the Council origination fees that were \$18,500 less than budgeted.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

3. Cash, Cash Equivalents and Investments

Cash deposits, certificates of deposit (CDs) and money market deposit accounts (MMDAs) are reported at cost, which reasonably estimates fair value. The Council maintains no more than \$75,000 in a local bank checking account to pay monthly operating expenses of the Council. Previously, through February 2011, the Council maintained the majority of its funds in the State Treasurer's *New MexiGROW* Local Government Investment Pool (LGIP).

However, beginning in February 2011, the Council implemented a certificate of deposit investment strategy through Promontory's Certificate of Deposit Account Registry Service, or CDARS, for a better investment return. The certificates original maturity dates range from three months (cash equivalents) to three years (investments). Also, through an arrangement with Promontory Interfinancial Network, LLC ("Promontory"), two New Mexico Banks, that issue and hold CDs for the Council, Citizens Bank of Clovis and New Mexico Bank & Trust, placed funds in CDs issued by Insured Institutions through CDARS.

These CDs were issued only in principal amounts that, when aggregated with interest to accrue over the term of the CD, will not exceed the Standard Maximum Deposit Insurance Amount ("SMDIA") for deposits of one depositor at one Insured Institution (\$250,000). The two banks act as custodian with respect to the CDs pursuant to a separate custodial agreement. Some features of the CDARS placement process are:

- When funds are placed, the Council will be issued CDs by Insured Institutions that have entered into agreements with Promontory.
- The Bank will act as the Council's custodian with respect to those CDs.
- CDs issued to the Council by Insured Institutions will have the interest rates and annual percentage yields ("APY") the Council has agreed to with the Bank.
- A fee will not be charged in connection with CD placements
- The Council selected the maturities and payment terms of the CDs from those that are available through CDARS at the time the funds were submitted for placement.
- The Council may designate any Insured Institution as ineligible to receive funds.
- No secondary market for the CDs currently exists, but early withdrawal of any CD the Council purchases will be available, subject to penalties that may be substantial.

Also, in March 2012, the Council approved a \$325,000 investment (\$303,467 from the settlement described in Note 5 below and \$21,533 from cash balance) in the NM Bank & Trust Insured Cash Sweep (ICS) Program of Promontory Interfinancial Network, LLC. The funds are placed in money market deposit accounts (MMDAs) at Destination Institutions that do not exceed the SMDIA.

These swept funds are "deposits" as defined by federal law and is a savings product. Up to six withdrawals each month are permitted through ICS from these deposits. The NM Bank and Trust acts as an agent in placing the funds in MMDAs through ICS and does not act as an investment advisor or has no obligation to advise the Council regarding alternative investments.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

**Notes to Financial Statements
June 30, 2012 and 2011**

3. Cash, Cash Equivalents and Investments (cont'd)

At June 30, 2012, the carrying amounts in local bank accounts are as follows:

Account Name	Account Type	Balance per Depository	Reconciling Item Outstanding Checks	Balance per Financial Statements
Bank of the West	Demand	\$ 63,862	\$ (341)	\$ 63,521
NM Bank & Trust	Demand	1,000	-	1,000
NM Bank & Trust - Insured Cash Sweep	Savings	325,128	-	325,128
Total		\$ 389,990	\$ (341)	\$ 389,649

At June 30, 2011, the carrying amount in the local bank account was as follows:

Account Name	Account Number/Type	Balance per Depository	Reconciling Item Outstanding Checks	Balance per Financial Statements
Bank of the West	Demand	\$ 63,873	-	\$ 63,873

Of the total of \$389,990 in the demand and savings accounts at June 30, 2012, none was uninsured, uncollateralized and subject to custodial credit risk. Of the total of \$63,873 in the demand account at June 30, 2011, 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, 2012 and June 30, 2011 at each financial institution. At June 30, the bank accounts were insured as follows:

	<u>NM Bank & Trust</u> 2012 Balance	<u>Bank of the West</u> 2012 Balance 2011 Balance	
Total amount on deposit in bank	\$ 1,000	\$ 63,862	\$ 63,873
Less: FDIC coverage	(1,000)	(63,862)	(63,873)
Total uninsured public funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The NM Bank and Trust Insured Cash Sweep (ICS) accounts placed with FDIC-Insured institutions are as follows:

	<u>Salisbury Bank & Trust Company</u> Lakeville, Connecticut 2012 Balance	<u>Enterprise Bank & Trust</u> Clayton, Missouri 2012 Balance	<u>2012 Total</u>
Total amount on deposit in bank	\$ 245,040	\$ 80,088	\$ 325,128
Less: FDIC coverage	(245,040)	(80,088)	(325,128)
Total uninsured public funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

3. Cash, Cash Equivalents and Investments (cont'd)

As mentioned previously, through February 2011, the Council maintained the majority of its funds in the State Treasurer's *New MexiGROW* Local Government Investment Pool (LGIP). 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. 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. In order to minimize risk, the statutes of the State of New Mexico place certain restrictions on the investments of public money by the State Treasurer.

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.

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 New Mexico State Treasurer's Office invested a portion of the LGIP in the Reserve Primary Fund ("the fund or RPF"), a money market fund, in fiscal years 2006-2009. 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.

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.

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

3. Cash, Cash Equivalents and Investments (cont'd)

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 \$7,121 and \$1,193 as of June 30, 2011 and 2012, 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, as indicated previously, the Council's Reserve Fund balance is \$7,121. There was \$108 million still remaining with the Reserve at that time.

Effective November 24, 2010, all remaining assets were transferred to a liquidating services agent, Crederian Fund Services, LLC, that will facilitate (1) Form 1099 reporting for calendar year 2010 and subsequent years and (2) any further Fund distributions to shareholders. Reserve Management Company Inc., the previous investment manager of the Funds, is responsible for the retention of records prior to November 23, 2010, for the periods required by law, and is available to respond to broker, shareholder and regulatory inquiries related to information required to be retained.

The current trustee believes that there will be no further distributions from the Reserve Primary Fund estate. Significant legal claims in excess of the RPF assets have been filed with the courts. The matter headed to court and a trial was scheduled for July 16, 2012. The outcome is still pending. Except for the valuation offset to the current balance in the Reserve Primary Fund, 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, 2012 and 2011

3. Cash, Cash Equivalents and Investments (cont'd)

New Mexico bank issued Certificates of Deposit and those placed under the CDARS program, as described previously are as follows:

Bank	Issue Date	Maturity Date	Interest Rate	Term	Amount
First State Bank - Socorro	2/15/12	8/15/12	0.20%	6 months	\$ 100,177
First State Bank - Socorro	2/15/12	2/15/13	0.25%	12 months	100,215
Total FSB- Socorro					<u>\$ 200,392</u>
Citizens Bank of Clovis	2/17/12	8/17/12	0.95%	6 months	\$ 125,817
Citizens Bank of Clovis	2/17/12	2/17/13	1.15%	12 months	125,625
Total CB of Clovis					<u>\$ 251,442</u>
CDARS - Citizens Bank of Clovis					
Issuing Bank					
Firstbank - Alma	2/17/11	2/14/13	1.00%	2 years	\$ 230,499
Huntington National Bank	2/17/11	2/14/13	1.00%	2 years	43,376
WesBanco Bank, Inc.	2/17/11	2/14/13	1.00%	2 years	230,499
Cross Key Bank	2/17/11	2/13/14	1.40%	3 years	25,054
Keystone Community Bank	2/17/11	2/13/14	1.40%	3 years	19,764
Mutual of Omaha Bank	2/17/11	2/13/14	1.40%	3 years	56,157
NCB, FSB	2/17/11	2/13/14	1.40%	3 years	101,227
Western Bank of Wolf Point	2/17/11	2/13/14	1.40%	3 years	228,014
Total CDARS - CB of Clovis					<u>\$ 934,590</u>
NM Bank & Trust	2/14/11	2/14/13	0.95%	2 years	\$ 126,190
NM Bank & Trust	2/12/11	2/12/14	1.35%	3 years	126,692
Total NM Bank & Trust					<u>\$ 252,882</u>
CDARS - NM Bank & Trust					
Issuing Bank					
Private Bank & Trust Company	5/17/12	8/16/12	0.15%	3 months *	\$ 100,285
Huntington National Bank	2/17/11	2/14/13	0.77%	2 years	101,060
First National Bank of Michigan	2/17/11	2/13/14	1.10%	3 years	228,670
Hills Bank and Trust Company	2/17/11	2/13/14	1.10%	3 years	96,070
Keystone Community Bank	2/17/11	2/13/14	1.10%	3 years	157,472
Total CDARS - NM B & T					<u>\$ 683,557</u>
* Cash Equivalent, original maturity three months or less					
Total Certificates of Deposit					\$ 2,322,863
Total Cash Equivalents					<u>100,285</u>
Total Investments					<u>\$ 2,222,578</u>

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

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 included the following at June 30:

	<u>2012</u>	<u>2011</u>
Hospital Revenue Bonds:		
Presbyterian Healthcare Services, Series 2001A	\$ -	\$ 183,710,000
Lovelace Women's Hospital, Series 2007	12,617,082	12,617,082
Dialysis Clinic, Inc. Project, Series 2000	5,000,000	5,000,000
St. Vincent Hospital, Series 2003	1,720,000	3,390,000
St. Vincent Hospital, Series 2005	20,490,000	21,145,000
Rehoboth McKinley Christian Hospital Project, Series 2007	6,580,000	6,870,000
Presbyterian Healthcare Services, Series 2008 A-D	373,550,000	379,625,000
Presbyterian Healthcare Services, Series 2009 A	134,610,000	134,610,000
La Vida Llana, Series 2010 A-C	57,472,748	43,320,847
San Juan Regional Medical Center, Series 2010 A	8,645,000	8,800,000
Lovelace Health Systems, Series 2011	32,800,000	-
Lovelace Respiratory Research Institute Project 2004	-	411,782
Lovelace Respiratory Research Institute Series 2009	8,347,833	9,304,602
San Juan Regional Medical Center Leases (3)	23,294,295	25,253,368
Total	<u>\$ 685,126,958</u>	<u>\$ 834,057,681</u>

5. Settlement – JP Morgan Securities, LLC

On July 7, 2011, the Securities and Exchange Commission filed the action *Securities and Exchange Commission v. JP Morgan Securities, LLC*, Case No. 11-cv-03877-WJM, in the United States District Court for the District of New Jersey in which JP Morgan Securities, LLC, was named as the defendant. JP Morgan Securities, LLC, consented to a Judgment, without admitting or denying liability. The Judgment was amended by an Order dated September 7, 2011. Pursuant to that Judgment (as amended), JP Morgan Securities, LLC, paid New Mexico Hospital Equipment Loan Council a sum of \$303,467.

The United States District Court ordered, adjudged, and decreed that JP Morgan Securities, LLC was liable for disgorgement, together with prejudgment interest thereon, and a civil penalty

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Notes to Financial Statements June 30, 2012 and 2011

5. Settlement – JP Morgan Securities, LLC (cont'd)

pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)]. JP Morgan Securities, LLC, satisfied this obligation by distributing funds as set forth in the final judgment. By making this payment, JP Morgan Securities, LLC, relinquished all legal and equitable right, title, and interest in such funds, and no part of the funds shall be returned to JP Morgan Securities, LLC. Regardless of the Fair Fund distribution, amounts ordered to be paid as civil penalties pursuant to this Judgment was treated as penalties paid to the government for all purposes, including all tax purposes. On September 16, 2011, the funds were disbursed to the Council.

6. Related Party Transactions

As discussed above in Note 3, beginning in February 2011, the Council implemented a certificate of deposit (CD) investment strategy for a better investment return. The Council received only four responses from a total Request for Proposal (RFP) distribution of fifty. One bank was eliminated due to offering a super jumbo CD. However, of the remaining three responses, two were from local banks related to Council members who are the President of their respective banks. Those two banks offered competitive interest rates and maturity dates. CDs were placed with those local banks and those transactions were executed in accordance with Council policies and procedures.

As a result of the settlement described in Note 5, above, in March 2012, the Council placed funds, as described in Note 3 above, in an Insured Cash Sweep (ICS) account with a local bank, whose President sits on the Council. A RFP was issued, the results were masked when presented and only that bank met the qualifications to guarantee FDIC coverage for those funds. Although the bank selected was unknown, that Council member abstained from voting to insure independence. Those transactions were executed in accordance with Council policies and procedures.

7. Subsequent Events

At the July 20, 2012 meeting, the Council approved Sales Resolution, Series 2012 Revenue Bonds, Lovelace Health System, Inc., in the amount of \$30,000,000 for the acquisition and improvement of Roswell Regional Hospital. At the same meeting, the Council approved Authorizing Resolution, Series 2012 Revenue Bonds in the amount of \$80,000,000 for Gerald Champion Regional Medical Center.

At the August 16, 2012 meeting, the Council approved Sales Resolution, Series 2012A Revenue Bonds in the amount of \$80,000,000, Presbyterian Healthcare Services, for improvement to five (5) Presbyterian facilities, including Española Hospital, Rust Medical Center, Socorro Medical Office Building, Presbyterian Kaseman and Presbyterian Hospital.

At the September 13, 2012 meeting, the Council approved a resolution authorizing the issuance of the New Mexico Hospital Equipment Loan Council First Mortgage Revenue Bonds (La Vida Llena Project), Series 2012 in the maximum par amount of \$30,000,000 (subsequently increased to \$60,000,000) for improvements to and expansion of La Vida Llena's retirement communities.

SUPPLEMENTARY INFORMATION

Statement of Revenues and Expenses
Budget and Actual
Year Ended June 30, 2012

	Proprietary Fund			Variance with Final Budget Positive (Negative)
	Original Approved Budget	Final Approved Budget	Actual	
Revenues:				
Council annual fees	\$ 71,250	\$ 71,250	\$ 67,813	\$ (3,437)
Origination fees	38,500	38,500	20,000	(18,500)
Council investment earnings	21,600	21,600	327,931	306,331
Total revenues	131,350	131,350	<u>\$ 415,744</u>	<u>\$ 284,394</u>
Prior-year funds re-budgeted	-	-		
	<u>\$ 131,350</u>	<u>\$ 131,350</u>		
Operating expenses:				
General counsel	\$ 4,800	\$ 4,800	\$ (1,249)	\$ 6,049
Insurance premium	300	300	281	19
Council fees	1,800	1,800	2,334	(534)
Origination fee	13,400	13,400	6,667	6,733
CPA fees	11,800	11,800	12,000	(200)
Program administrator	77,500	77,500	78,336	(836)
Miscellaneous	17,800	17,800	9,699	8,101
Total expenditures	<u>\$ 127,400</u>	<u>\$ 127,400</u>	<u>\$ 108,068</u>	<u>\$ 19,332</u>

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, 2012 and have issued our report thereon dated October 5, 2012. We have also audited the budgetary comparison statement for the year ended June 30, 2012, 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

Management of the Council is responsible for establishing and maintaining effective 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 was 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**.

This report is intended solely for the information and use of management, the Board of Directors, others within the Council, and the Office of the State Auditor, the New Mexico Legislature and its committees, 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
October 5, 2012

NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

Schedule of Findings and Responses June 30, 2012

	<u>Type of Finding *</u>	<u>Prior Year Finding Number</u>	<u>Current Year Finding Number</u>
Current Year Findings:			
None	N/A	N/A	N/A
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

**Exit Conference
June 30, 2012**

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 December 6, 2012, with the following in attendance:

New Mexico Hospital Equipment Loan Council (NMHELIC)

Leonard Tapia	Chair (by telephone)
Kent Carruthers	Treasurer (by telephone)
R. Greg Leyendecker	Member

Hospital Services Corporation

Deborah Gorenz	Program Administrator
Kristie Hall	Executive Assistant
Annette Cottrell, CPA	CFO

Modrall Spering Law Firm (Counsel for NMHELIC)

Chris Muirhead

Audit Firm

James R. (Jim) Macias, CPA