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# **NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL**

Financial Statements  
Years Ended June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

# **NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL**

**Financial Statements  
Years Ended June 30, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**

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## **INTRODUCTORY SECTION**

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# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

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# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Official Roster at June 30, 2014

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| Name                  | Title                                    |
|-----------------------|--|
| Council               |  |
| Daniel Lyon           | Chair                                    |
| Vacant                | Vice-Chair                               |
| R. Greg Leyendecker   | Secretary                                |
| Kent Carruthers       | Treasurer                                |
| Vacant                | Member                                   |
| Program Administrator |  |
| Deborah Gorenz        | President, Hospital Services Corporation |

**FINANCIAL SECTION**

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Macias, Gutierrez  
& Co., P.C.

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*Member AICPA, NMSCPA*

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and major fund of the New Mexico Hospital Equipment Loan Council (the "Council") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements which collectively comprise the Council's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statement, presented as supplementary information, as defined by State Audit Rule 2014, for the year ended June 30, 2014, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the New Mexico Hospital Equipment Loan Council as of June 30, 2014 and 2013, and the respective changes in financial position and 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, 2014 in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014 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* in considering the Council's internal control over financial reporting and compliance.

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

Macias, Gutierrez & Co., CPAs, P.C.  
Espanola, New Mexico  
September 26, 2014



# **NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL**

## **Management's Discussion and Analysis (required supplementary information) June 30, 2014 and 2013**

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### **INTRODUCTION**

The New Mexico Hospital Equipment Loan Council (NMHELC) discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the NMHELC's financial activity, and 3) identify changes in the NMHELC'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 position, statements of revenues, expenses and changes in net position, and the statements of cash flows. Also included are notes to financial statements.

NMHELC 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. NMHELC 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 position give the financial position as of June 30, 2014 and 2013, the statements of revenues, expenses and changes in net position present current year activity, and the statements of cash flows reflect the change in cash and cash equivalents 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.

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

### **CONDENSED FINANCIAL INFORMATION**

NMHELC's net position was \$2,710,233 and \$2,723,479 as of June 30, 2014 and 2013, respectively. The net position was all business-type net position.

NMHELC's current liabilities were \$21,890 and \$21,205 as of June 30, 2014 and 2013, respectively.

The financing activity revenue was \$22,943 and \$22,178, and program activity revenue was \$89,875 and \$159,190 for the years ended June 30, 2014 and 2013, respectively.

The change in net position was \$(13,246) in fiscal year 2014 and \$28,680 in fiscal year 2013. The reduction was mainly due to no new loan origination fees received in 2014.

The total cost of financing activity and program activity was \$126,064 and \$152,688 for the years ended June 30, 2014 and 2013, respectively.

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Management's Discussion and Analysis (required supplementary information) June 30, 2014 and 2013

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### FINANCIAL ANALYSIS

The NMHELC assists qualified medical facilities to finance capital equipment and improvement projects through the issuance of bonds or other financing arrangements. No new transactions were originated in fiscal year 2014, and four new transactions with a total value of \$215,434,600 were made in fiscal year 2013.

Program activity revenue, which consists of loan origination fees and ongoing fees, experienced a decrease of 43.5% in fiscal year 2014. 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 Position  
June 30, 2014 and 2013

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| <b><u>Assets</u></b>                            |                     |                     |
| Current assets:                                 |                     |                     |
| Cash, cash equivalents and investments (note 3) | \$ 2,678,198        | \$ 2,713,826        |
| Accounts receivable                             | 46,727              | 20,009              |
| Accrued interest receivable                     | 6,977               | 10,333              |
| Prepaid expenses                                | <u>221</u>          | <u>516</u>          |
| Total assets                                    | <u>\$ 2,732,123</u> | <u>\$ 2,744,684</u> |
| <b><u>Liabilities and Net Position</u></b>      |                     |                     |
| Current liabilities:                            |                     |                     |
| Accounts payable                                | \$ 12,449           | \$ 12,117           |
| Due to Hospital Services Corporation            | <u>9,441</u>        | <u>9,088</u>        |
| Total liabilities                               | 21,890              | 21,205              |
| Net position:                                   |                     |                     |
| Unrestricted                                    | <u>2,710,233</u>    | <u>2,723,479</u>    |
| Total liabilities and net position              | <u>\$ 2,732,123</u> | <u>\$ 2,744,684</u> |

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

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2014 and 2013

|  | <u>2014</u>                | <u>2013</u>                |
|--|----------------------------|----------------------------|
| Operating revenues:                    |                            |                            |
| Program administration fees            | <u>\$ 89,875</u>           | <u>\$ 159,190</u>          |
| Total operating revenues               | <u>89,875</u>              | <u>159,190</u>             |
| Operating expenses:                    |                            |                            |
| Professional fees                      | 18,207                     | 12,324                     |
| Program administrator                  | 96,618                     | 129,630                    |
| Administrative                         | 10,944                     | 10,440                     |
| Insurance                              | <u>295</u>                 | <u>294</u>                 |
| Total operating expenses               | <u>126,064</u>             | <u>152,688</u>             |
| Operating income (loss)                | <b>(36,189)</b>            | <b>6,502</b>               |
| Nonoperating revenues (expenses):      |                            |                            |
| Unrealized gain (loss) on investments  | -                          | -                          |
| Settlement (note 5)                    | -                          | -                          |
| Investment income                      | <u>22,943</u>              | <u>22,178</u>              |
| Total nonoperating revenues (expenses) | <u>22,943</u>              | <u>22,178</u>              |
| Change in net position                 | <b>(13,246)</b>            | <b>28,680</b>              |
| Net position, beginning of year        | <u>2,723,479</u>           | <u>2,694,799</u>           |
| Net position, end of year              | <u><b>\$ 2,710,233</b></u> | <u><b>\$ 2,723,479</b></u> |

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

**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

|   | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|
| Cash flows from operating activities:   |                    |                    |
| Cash received from borrowers  | \$ 66,808          | \$ 205,251         |
| Cash paid for services  | (125,379)          | (226,115)          |
| Net cash provided (used) by operating activities  | <u>(58,571)</u>    | <u>(20,864)</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   | (19,741)           | (109,286)          |
| Investment income   | 22,943             | 22,178             |
| Net cash provided (used) in investing activities  | <u>3,202</u>       | <u>(87,108)</u>    |
| Increase (decrease) in cash and cash equivalents  | (55,369)           | (107,972)          |
| Cash and cash equivalents, beginning of year  | <u>381,962</u>     | <u>489,934</u>     |
| Cash and cash equivalents, end of year  | <u>\$ 326,593</u>  | <u>\$ 381,962</u>  |
| <b>Reconciliation of Operating Income (Loss) to Net Cash<br/>Provided (Used) for Operating Activities</b> |                    |                    |
| Operating income (loss)   | \$ (36,189)        | \$ 6,502           |
| Adjustments to reconcile operating loss to net cash<br>provided by operating activities:                  |                    |                    |
| Changes in operating assets and liabilities:  |                    |                    |
| Accounts receivable   | (26,718)           | 46,647             |
| Accrued interest receivable   | 3,356              | (880)              |
| Prepaid expenses  | 295                | 294                |
| Accounts payable  | 332                | (736)              |
| Due to Hospital Services Corporation  | 353                | (72,691)           |
| Net cash provided (used) by operating activities  | <u>\$ (58,571)</u> | <u>\$ (20,864)</u> |

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

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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### 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.

Effective for FY 2013, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, made available all applicable accounting and financial reporting guidance previously available only in the FASB and AICPA pronouncements. Prior to FY 2013, private-sector standards of accounting and financial reporting (FASB pronouncements) issued prior to November 30, 1989, generally were followed in the government-wide financial statements to the extent that those standards did not conflict with GASB guidance. Governments also had the option of following subsequent FASB pronouncements for their government-wide financial statements and the Council elected to follow subsequent FASB guidance. Also Effective for FY 2013, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* amended GASB 34 to rename net assets as "net position" and to include deferred outflows and deferred

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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

inflows of resources as elements of a financial statement along with assets and liabilities. Deferred outflows are consumption of net position and deferred inflows are acquisition of net position. Both are applicable to a future reporting period. The Council does not have either deferred outflows or deferred inflows of resources for the year ended June 30, 2014 or 2013.

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, 2014 and 2013

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### 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, 2014 and 2013

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### 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, 2014 and 2013

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### 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 Position

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

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

Restricted net position – is net position (generated from revenues and not bond proceeds), which has third-party (statutory, bond covenant or granting agency) limitations on its use.

Unrestricted net position – is net position that does not have third-party (statutory, bond covenant or granting agency) limitations on its 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 17, the total approved budget for FY14 was under expended by \$6,353. Also reflected is a favorable revenue variance of \$6,088 in Council annual fees. A significant unfavorable expense variance is general counsel fees that were \$4,258 more than budgeted.

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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### 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 normally 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 2012, the Council approved a \$325,000 investment (\$303,467 from a settlement 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, 2014 and 2013

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

At June 30, 2014, 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       | \$ 48,090              | \$ -                                | \$ 48,090                        |
| NM Bank & Trust                      | Demand       | 2,904                  | -                                   | 2,904                            |
| NM Bank & Trust - Insured Cash Sweep | Savings      | 275,599                | -                                   | 275,599                          |
| <b>Total</b>                         |              | <b>\$ 326,593</b>      | <b>\$ -</b>                         | <b>\$ 326,593</b>                |

At June 30, 2013, 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       | \$ 103,931             | \$ (322)                            | \$ 103,609                       |
| NM Bank & Trust                      | Demand       | 2,902                  | -                                   | 2,902                            |
| NM Bank & Trust - Insured Cash Sweep | Savings      | 275,451                | -                                   | 275,451                          |
| <b>Total</b>                         |              | <b>\$ 382,284</b>      | <b>\$ (322)</b>                     | <b>\$ 381,962</b>                |

Of the total of \$326,594 in the demand and savings accounts at June 30, 2014, none was uninsured, uncollateralized and subject to custodial credit risk. Of the total of \$382,284 in the demand and savings accounts at June 30, 2013, 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, 2014 and June 30, 2013 at each financial institution. At June 30, the bank accounts were insured as follows:

|                                     | NM Bank & Trust |              | Bank of the West |              |
|-------------------------------------|-----------------|--------------|------------------|--------------|
|                                     | 2014 Balance    | 2013 Balance | 2014 Balance     | 2013 Balance |
| Total amount on deposit in bank     | \$ 2,904        | \$ 2,902     | \$ 48,090        | \$ 103,931   |
| Less: FDIC coverage                 | (2,904)         | (2,902)      | (48,090)         | (103,931)    |
| <b>Total uninsured public funds</b> | <b>\$ -</b>     | <b>\$ -</b>  | <b>\$ -</b>      | <b>\$ -</b>  |

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

|                                     | Bank of China New York, New York | Morton Community Bank, Morton, Illinois | U.S. Bank National Association, Cincinnati, Ohio | Western Alliance Bank, Phoenix, Arizona |
|-------------------------------------|----------------------------------|---|--|---|
|                                     | 2014 Balance                     | 2013 Balance                            | 2014 Balance                                     | 2013 Balance                            |
| Total amount on deposit in bank     | \$ 245,009                       | \$ 245,000                              | \$ 30,591  | \$ 30,451                               |
| Less: FDIC coverage                 | (245,009)                        | (245,000)                               | (30,591)   | (30,451)                                |
| <b>Total uninsured public funds</b> | <b>\$ -</b>                      | <b>\$ -</b>                             | <b>\$ -</b>                                      | <b>\$ -</b>                             |

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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### 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. 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. In fiscal years 2006-2009, 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. 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.

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

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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

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. Since it was uncertain if LGIP will be able to fully recover its investment in the Reserve Primary Fund, a valuation reserve was established.

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, the Council's Reserve Fund balance was \$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. Through partial redemptions of these funds by the State Treasurer, the balance in the Council's Reserve Primary Fund account is \$1,193 and \$1,193 as of June 30, 2014 and 2013, respectively.

However, on September 23, 2014, the Board of Trustees of the Primary Fund-In Liquidation (Fund), formerly known as Reserve Primary Fund, announced that on September 17, 2014, the Federal Court approved a final distribution of Fund assets, aggregating approximately \$67 million, that will be made before the end of 2014. It is anticipated the distributions will occur in December 2014. When combined with previously received distributions, Fund investors will have received approximately 99.1 cents per share held in the Fund on September 15, 2008. The Fund will issue an update proximate to the making of the final distributions to advise Fund investors of the upcoming distribution. Except for the valuation offset to the current balance in the Primary Fund-In Liquidation, the Council believes that no further valuation adjustment is necessary at this time. Accounts will be adjusted upon receipt of the final distribution.

Future updates regarding the Fund can be found at the following website:

<http://www.primary-yieldplus-inliquidation.com>

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

### 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 at **June 30, 2014**:

| Bank  | Issue Date | Maturity Date | Interest Rate | Term                               | Amount              |
|---|------------|---------------|---------------|------------------------------------|---------------------|
| First State Bank - Socorro                      | 2/15/14    | 8/15/14       | 0.16%         | 6 months                           | \$ 100,568          |
| First State Bank - Socorro                      | 2/15/14    | 2/15/15       | 0.22%         | 12 months                          | 100,718             |
| Total FSB- Socorro                              |            |               |               |                                    | <u>\$ 201,286</u>   |
| Citizens Bank of Clovis                         | 2/17/14    | 8/17/14       | 0.85%         | 6 months                           | \$ 128,036          |
| Citizens Bank of Clovis                         | 2/17/14    | 2/17/15       | 1.05%         | 12 months                          | 122,000             |
| Total CB of Clovis                              |            |               |               |                                    | <u>\$ 250,036</u>   |
|   |            |               |               | Over FDIC limit by \$36            |                     |
|   |            |               |               | Overage cleared subsequent to 6/30 |                     |
| CDARS - Citizens Bank of Clovis<br>Issuing Bank |            |               |               |                                    |                     |
| Business First Bank                             | 2/14/13    | 2/12/15       | 1.25%         | 2 years                            | \$ 103,886          |
| First County Bank                               | 2/14/13    | 2/12/15       | 1.25%         | 2 years                            | 161,504             |
| Santander Bank, N.A.                            | 2/14/13    | 2/12/15       | 1.25%         | 2 years                            | 56,114              |
| Traditional Bank, Inc.                          | 2/14/13    | 2/12/15       | 1.25%         | 2 years                            | 184,024             |
| Morton Community Bank                           | 2/13/14    | 2/9/17        | 1.40%         | 3 years                            | 10,169              |
| Washington Federal                              | 2/13/14    | 2/9/17        | 1.40%         | 3 years                            | 198,010             |
| WesBanco Bank, Inc.                             | 2/13/14    | 2/9/17        | 1.40%         | 3 years                            | 235,000             |
| Total CDARS - CB of Clovis                      |            |               |               |                                    | <u>\$ 948,707</u>   |
| NM Bank & Trust                                 | 2/14/13    | 2/14/15       | 0.45%         | 2 years                            | \$ 127,966          |
| Total NM Bank & Trust                           |            |               |               |                                    | <u>\$ 127,966</u>   |
| CDARS - NM Bank & Trust<br>Issuing Bank         |            |               |               |                                    |                     |
| BB & T  | 3/13/14    | 3/12/15       | 0.25%         | 1 year                             | 200,610             |
| Signature Bank                                  | 2/13/14    | 2/11/16       | 0.59822%      | 2 years                            | 105,100             |
| The Lorain National Bank                        | 2/13/14    | 2/11/16       | 0.59822%      | 2 years                            | 25,343              |
| Adirondack Bank                                 | 2/13/14    | 2/9/17        | 0.89599%      | 3 years                            | 235,797             |
| United Bank                                     | 2/13/14    | 2/9/17        | 0.89599%      | 3 years                            | 219,644             |
| Washington Federal                              | 2/13/14    | 2/9/17        | 0.89599%      | 3 years                            | 37,116              |
| Total CDARS - NM B & T                          |            |               |               |                                    | <u>\$ 823,610</u>   |
| Total Investments                               |            |               |               |                                    | <u>\$ 2,351,605</u> |

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

### 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 at June 30, 2013:

| Bank                            | Issue Date | Maturity Date | Interest Rate | Term      | Amount              |
|---------------------------------|------------|---------------|---------------|-----------|---------------------|
| First State Bank - Socorro      | 2/15/13    | 8/15/13       | 0.20%         | 6 months  | \$ 100,378          |
| First State Bank - Socorro      | 2/15/13    | 2/15/14       | 0.25%         | 12 months | 100,466             |
| Total FSB- Socorro              |            |               |               |           | <u>\$ 200,844</u>   |
| Citizens Bank of Clovis         | 2/17/13    | 8/17/13       | 0.85%         | 6 months  | \$ 126,954          |
| Citizens Bank of Clovis         | 2/17/13    | 2/17/14       | 1.05%         | 12 months | 127,074             |
| Total CB of Clovis              |            |               |               |           | <u>\$ 254,028</u>   |
| Over FDIC limit by \$4,028      |            |               |               |           |                     |
| CDARS - Citizens Bank of Clovis |            |               |               |           |                     |
| Issuing Bank                    |            |               |               |           |                     |
| Business First Bank             |            |               |               |           |                     |
| First County Bank               | 2/14/13    | 2/12/15       | 1.25%         | 2 years   | \$ 102,750          |
| Sovereign Bank                  | 2/14/13    | 2/12/15       | 1.25%         | 2 years   | 159,738             |
| Traditional Bank, Inc.          | 2/14/13    | 2/12/15       | 1.25%         | 2 years   | 55,500              |
| Cross Key Bank                  | 2/14/13    | 2/12/15       | 1.25%         | 2 years   | 182,012             |
| Keystone Community Bank         | 2/17/11    | 2/13/14       | 1.40%         | 3 years   | 25,408              |
| Mutual of Omaha Bank            | 2/17/11    | 2/13/14       | 1.40%         | 3 years   | 20,043              |
| NCB, FSB                        | 2/17/11    | 2/13/14       | 1.40%         | 3 years   | 56,951              |
| Western Bank of Wolf Point      | 2/17/11    | 2/13/14       | 1.40%         | 3 years   | 102,658             |
|                                 | 2/17/11    | 2/13/14       | 1.40%         | 3 years   | 231,238             |
| Total CDARS - CB of Clovis      |            |               |               |           | <u>\$ 936,298</u>   |
| NM Bank & Trust                 | 2/14/11    | 2/14/13       | 0.95%         | 2 years   | \$ 127,392          |
| NM Bank & Trust                 | 2/12/11    | 2/12/14       | 1.35%         | 3 years   | 128,409             |
| Total NM Bank & Trust           |            |               |               |           | <u>\$ 255,801</u>   |
| Over FDIC limit by \$5,801      |            |               |               |           |                     |
| CDARS - NM Bank & Trust         |            |               |               |           |                     |
| Issuing Bank                    |            |               |               |           |                     |
| Apple Bank for Savings          |            |               |               |           |                     |
| First National Bank of Michigan | 3/14/13    | 3/13/14       | 0.23%         | 1 year    | 200,000             |
| Hills Bank and Trust Company    | 2/17/11    | 2/13/14       | 1.10%         | 3 years   | 229,942             |
| Keystone Community Bank         | 2/17/11    | 2/13/14       | 1.10%         | 3 years   | 96,604              |
|                                 | 2/17/11    | 2/13/14       | 1.10%         | 3 years   | 158,347             |
| Total CDARS - NM B & T          |            |               |               |           | <u>\$ 684,893</u>   |
| Total Investments               |            |               |               |           | <u>\$ 2,331,864</u> |



# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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### 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>2014</u>           | <u>2013</u>           |
|---|-----------------------|-----------------------|
| Hospital Revenue Bonds:                                   |                       |                       |
| 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 2005                         | 19,095,000            | 19,810,000            |
| Rehoboth McKinley Christian Hospital Project, Series 2007 | 5,960,000             | 6,280,000             |
| Presbyterian Healthcare Services, Series 2008 A-D         | 351,330,000           | 362,680,000           |
| Presbyterian Healthcare Services, Series 2009 A           | 134,610,000           | 134,610,000           |
| La Vida Llena, Series 2010 A-C                            | 18,330,000            | 18,525,000            |
| San Juan Regional Medical Center, Series 2010 B           | 8,310,000             | 8,480,000             |
| Lovelace Health Systems, Series 2011                      | 32,800,000            | 32,800,000            |
| Presbyterian Healthcare Services, Series 2012 A           | 75,000,000            | 75,000,000            |
| La Vida Llena, Series 2012                                | 42,525,000            | 42,525,000            |
| Lovelace Hospital Services, Series 2012                   | 26,164,600            | 26,164,600            |
| Gerald Champion Regional Medical Center, Series 2012      | 71,745,000            | 71,745,000            |
| Lovelace Respiratory Research Institute Series 2009       | 6,283,697             | 7,341,713             |
| San Juan Regional Medical Center Leases (3)               | <u>19,738,956</u>     | <u>21,840,654</u>     |
| Total   | <u>\$ 829,509,335</u> | <u>\$ 845,419,049</u> |

### 5. 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.

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Notes to Financial Statements June 30, 2014 and 2013

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### 5. Related Party Transactions (cont'd)

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. The ICS program met the qualifications as well as recognized the current CDARS placements to guarantee FDIC coverage for those funds. That Council member abstained from voting to insure independence. Those transactions were executed in accordance with Council policies and procedures. The accounts remained in the same banks throughout fiscal years 2014 and 2013.

### 6. Subsequent Events

There were no subsequent events for the year ended June 30, 2014 or 2013. The Council has evaluated subsequent events through September 26, 2014 and September 17, 2013, respectively, which are the dates the financial statements were available to be issued and concluded that no additional disclosures are (were) required.

## **SUPPLEMENTARY INFORMATION**

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**Statement of Revenues and Expenses**  
**Budget and Actual**  
**Year Ended June 30, 2014**

|                              | Proprietary Fund               |                             |                   | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|------------------------------|--------------------------------|-----------------------------|-------------------|---|
|                              | Original<br>Approved<br>Budget | Final<br>Approved<br>Budget | Actual            |   |
| Revenues:                    |                                |                             |                   |   |
| Council annual fees          | \$ 83,787                      | \$ 83,787                   | \$ 89,875         | \$ 6,088  |
| Origination fees             | 20,000                         | 20,000                      | -                 | (20,000)  |
| Council investment earnings  | 25,000                         | 25,000                      | 22,943            | (2,057)   |
| Total revenues               | 128,787                        | 128,787                     | \$ 112,818        | \$ (15,969)   |
| Prior-year funds re-budgeted | 3,630                          | 3,630                       |                   |   |
|                              | <u>\$ 132,417</u>              | <u>\$ 132,417</u>           |                   |   |
| Operating expenses:          |                                |                             |                   |   |
| General counsel              | \$ 1,500                       | \$ 1,500                    | \$ 5,758          | \$ (4,258)  |
| Insurance premium            | 350                            | 350                         | 295               | 55  |
| Council fees                 | 2,300                          | 2,300                       | 1,098             | 1,202   |
| Origination fee              | 6,667                          | 6,667                       | -                 | 6,667   |
| CPA fees                     | 12,200                         | 12,200                      | 12,449            | (249)   |
| Program administrator        | 100,000                        | 100,000                     | 96,618            | 3,382   |
| Miscellaneous                | 9,400                          | 9,400                       | 9,846             | (446)   |
| Total expenses               | <u>\$ 132,417</u>              | <u>\$ 132,417</u>           | <u>\$ 126,064</u> | <u>\$ 6,353</u>   |

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



Macias, Gutierrez  
& Co., P.C.

*Certified Public Accountants*  
*Member AICPA, NMSCPA*

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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**

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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, 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, the financial statements of the business-type activities and major fund of the New Mexico Hospital Equipment Loan Council (the "Council") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Council's basic financial statements and the related budgetary comparison statement, presented as supplementary information, and have issued our report thereon dated September 26, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **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*.

### **Purpose of this Report**

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

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

Macias, Gutierrez & Co., CPAs, P.C.  
Española, New Mexico  
September 26, 2014

# NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL

## Schedule of Findings and Responses June 30, 2014

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|  | <u>Type<br/>of<br/>Finding *</u> | <u>Prior<br/>Year<br/>Finding<br/>Number</u> | <u>Current<br/>Year<br/>Finding<br/>Number</u> |
|--|----------------------------------|--|--|
| <b>Current Year Findings:</b>            |                                  |  |  |
| None                                     | N/A                              | N/A  | N/A  |
| <b>Follow-up on Prior Year Findings:</b> |                                  |  |  |
| 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, 2014**

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## **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.

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## **EXIT CONFERENCE**

The financial statements and the auditors' reports were discussed at an exit conference (closed session) held on November 12, 2014, with the following in attendance:

### **New Mexico Hospital Equipment Loan Council (NMHELIC)**

|                      |                          |
|----------------------|--------------------------|
| Daniel Lyon          | Chair                    |
| Kent Carruthers      | Treasurer (by telephone) |
| R. Greg Leyendecker  | Secretary                |
| Ms. Christina Campos | Member                   |

### **Hospital Services Corporation**

|                     |                       |
|---------------------|-----------------------|
| Deborah Gorenz      | Program Administrator |
| Kristie Bad Warrior | Executive Assistant   |
| Jody Belkofer       | Controller            |

### **Modrall Spering Law Firm (Counsel for NMHELIC)**

Chris Muirhead

### **Audit Firm**

James R. (Jim) Macias, CPA