

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT
LOAN COUNCIL
FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
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JUNE 30, 2016 AND 2015

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STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
OFFICIAL ROSTER
JUNE 30, 2016

COUNCIL

Daniel Lyon
R. Greg Leyendecker
Christina Campos
Kent Carruthers
Vacant

Chair
Vice-Chair
Secretary
Treasurer
Member

PROGRAM ADMINISTRATOR

Deborah Gorenz

President, Hospital Services Corporation



REPORT OF INDEPENDENT AUDITORS

To the Council Members of the
New Mexico Hospital Equipment Loan Council
and
Mr. Timothy Keller, State Auditor

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, State of New Mexico (Council), as of and for the year ended June 30, 2016, 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 schedule, presented as supplementary information, for the year ended June 30, 2016, 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 accounting 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 Council as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the budgetary comparison schedule referred to in the first paragraph presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The accompanying financial statements of the business-type activities and major fund, and the budget comparison schedule of the Council, as of and for the year ended June 30, 2015, were audited by other auditors whose report dated October 15, 2015, expressed an unmodified opinion on those statements.

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 3 and 4 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements and the budgetary comparison schedule. The schedule of vendor information for purchases exceeding \$60,000 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of vendor information for purchases exceeding \$60,000 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2016, on our consideration of the Council's internal control over financial reporting and on 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 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.

Mackie, Reid & Company
Mackie, Reid & Company, P.A.
Certified Public Accountants

Albuquerque, New Mexico
November 15, 2016

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

INTRODUCTION

The New Mexico Hospital Equipment Loan Council (NMHELCL) discussion and analysis is designed to 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the NMHELCL's financial activity, and 3) identify changes in the NMHELCL'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.

NMHELCL 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. NMHELCL 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, 2016 and 2015, 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.

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

CONDENSED FINANCIAL INFORMATION

NMHELCL's net position was \$2,705,296 and \$2,716,434 as of June 30, 2016 and 2015, respectively. The net position was all business-type net position.

NMHELCL's current liabilities were \$121,299 and \$21,005 as of June 30, 2016 and 2015, respectively. The increase was due to the annual Program Administrator Fee remaining unpaid until after June 30, 2016.

The investing activity revenue was \$24,129 and \$23,458, and program activity revenue was \$87,057 and \$108,768 for the years ended June 30, 2016 and 2015, respectively.

The change in net position was \$(11,138) in fiscal year 2016 and \$6,201 in fiscal year 2015. The reduction was mainly due to no new loan origination fees received in 2016.

The total cost of program activity was \$122,324 and \$126,025 for the years ended June 30, 2016 and 2015, respectively.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

FINANCIAL ANALYSIS

The NMHELC assists qualified medical facilities to finance capital equipment and improvement projects through the issuance of bonds or other financing arrangements. There were no new transactions originating in fiscal year 2016. One new transaction was originated in fiscal year 2015.

Program activity revenue, which consists of loan origination fees and ongoing fees, experienced a decrease of 19.96% in fiscal year 2016.

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.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	Business-type Activities	
	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 406,374	\$ 321,021
Certificates of deposit, current portion	2,256,050	578,035
Accounts receivable	22,814	41,206
Accrued interest receivable	8,666	7,473
Prepayments	516	810
Total current assets	2,694,420	948,545
Certificates of deposit, non-current	132,175	1,788,894
Total assets	2,826,595	2,737,439
LIABILITIES		
Current liabilities		
Accounts payable	20,879	13,720
Due to Hospital Services Corporation	100,420	7,285
Total current liabilities	121,299	21,005
NET POSITION, Unrestricted	\$ 2,705,296	\$ 2,716,434

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 YEARS ENDED JUNE 30, 2016 AND 2015

	Business-type Activities	
	2016	2015
OPERATING REVENUES		
Program administration fees	\$ <u>87,057</u>	\$ <u>108,768</u>
OPERATING EXPENSES		
Program administrator fees	95,084	96,667
Professional fees	14,792	15,340
Administrative	12,154	13,723
Insurance	<u>294</u>	<u>295</u>
Total operating expenses	<u>122,324</u>	<u>126,025</u>
OPERATING LOSS	(<u>35,267</u>)	(<u>17,257</u>)
NONOPERATING REVENUES		
Investment income	<u>24,129</u>	<u>23,458</u>
Change in net position	(11,138)	6,201
NET POSITION		
Beginning of year	2,716,434	2,710,233
End of year	\$ <u>2,705,296</u>	\$ <u>2,716,434</u>

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	Business-type Activities	
	2016	2015
Cash flows from operating activities		
Receipts from conduit debtors	\$ 105,449	\$ 113,204
Payments for services	(21,736)	(126,910)
Net cash provided (used) by operating activities	83,713	(13,706)
Cash flows from investing activities		
Certificates of deposit purchased	(725,564)	(15,324)
Certificates of deposit matured	704,268	-
Investment income	22,936	23,458
Net cash provided by investing activities	1,640	8,134
Net increase (decrease) in cash and cash equivalents	85,353	(5,572)
Cash and cash equivalents		
Beginning of year	321,021	326,593
End of year	\$ 406,374	\$ 321,021
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (35,267)	\$ (17,257)
Change in assets and liabilities		
Accounts receivable	18,392	5,521
Accrued interest receivable	-	(496)
Prepayments	294	(589)
Accounts payable	7,159	1,271
Due to Hospital Services Corporation	93,135	(2,156)
Net cash provided (used) by operating activities	\$ 83,713	\$ (13,706)

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. ORGANIZATION

The New Mexico Hospital Equipment Loan Council (“Council”) is a public body corporate and politic, separate and apart from the State of New Mexico (“State”), constituting a governmental instrumentality organized under the laws of the State, and governed by a five-member board appointed by the Governor of the State of New Mexico.

The purpose of the Council 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 a 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. As further described in Note 5, the financial statements do not include activities of conduit debtors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Council's financial statements are prepared in accordance with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (“GASB”). The GASB is responsible for establishing standards for accounting principles for state and local governments. The standards require a management discussion and analysis (“MD&A”) section providing an analysis of the Council’s overall financial position and results of operations.

The Council’s accounting is reported as a business-type activity with one proprietary-type fund. Proprietary funds are accounted for on the economic resource measurement focus and accrual basis of accounting. The accounting objectives are a determination of net income, financial position, and changes in cash flows. The Council’s proprietary fund is an enterprise fund. Enterprise funds are used for activities that are financed and operated in a manner similar to that of a private business enterprise where the costs of providing goods and services are recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary fund are program administration fees to conduit debtors as customers for services. Operating expenses for proprietary funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other significant accounting policies established and used by the Council are discussed below.

Cash and Cash Equivalents

The Council considers as cash equivalents all highly liquid investments, with maturities of three months or less when purchased.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

It is the policy of the Council to invest monies not needed for immediate disbursement in accordance with State statutes, more particularly Chapter 58, Article 23, Section 12 (A), NMSA 1978, at the maximum interest rate available for maturities coincident with the future need for these funds.

The Council restricts authorized investments to direct U.S. Treasury obligations, U.S. Agency obligations, and obligations of the State of New Mexico or its political subdivisions, repurchase agreements secured by U.S. Treasury or U.S. Agency obligations, and qualified certificates of deposit or time deposits which are insured by the FDIC.

The Council's stated objective with regard to investments is to ensure that principal is preserved and enhanced over time, both in real and nominal terms. The goal is to increase capital both in absolute (nominal) terms and in real terms, i.e. after consideration of the effects of inflation.

The Council has adopted a detailed set of investment guidelines within which an investment manager may be granted discretion regarding asset allocation, selection of investment securities, and the timing of transactions.

During the years ending June 30, 2016 and 2015, respectively, the Council has only invested in qualified certificates of deposit.

Fair Value Measurements

The Council has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of fair value hierarchy are as follows: Level 1: unadjusted quoted prices for identical assets in active markets; Level 2: quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, and valuation methodology using other observable inputs or inputs derived from or corroborated by observable market data by correlation or other means; Level 3: valuation methodology using unobservable inputs.

The GASB Statement *Fair Value Measurement and Application* provides guidance for applying fair value to certain investments. The Council's certificates of deposit as defined are considered nonparticipating interest-earning investment contracts and are measured and reported at cost.

Accounts Receivable

Accounts receivable consist of annual administration fees assessed to conduit debtors. All receivables are considered fully collectible.

Revenue Recognition

The Council collects loan origination fees in relation to its conduit debt obligations. These fees are recorded as revenue at the time the debt obligation is closed. In addition, the Council performs certain monthly accounting and administration services for each of its conduit debt obligations and collects annual fees for these services. The annual fees are recorded as revenue as the monthly services are rendered. The Council classifies these program administration fees as operating revenues.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

The Council's financial statements utilize a net position presentation. Net position represents the excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources of the Council. The Council's net position is reported in three categories – net investment in capital assets, restricted, and unrestricted. Net investment in capital assets (net of related debt, if applicable) is intended to reflect the portion of net position which is associated with capital assets less related outstanding debt. The council has no capital assets, deferred outflows of resources and deferred inflows of resources at June 30, 2016 and 2015, respectively. Restricted net position is intended to reflect net position which has third party limitations on its use. The Council has no restricted net position at June 30, 2016 and 2015, respectively. Unrestricted net position has no third party limitations on its use.

The Council's policy is to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net position are available.

Risk Management

The Council is exposed to various risks of loss for which the Council purchases commercial insurance coverage. There have been no settled claims which have exceeded insurance coverage in any of the past three fiscal years.

Budgetary Information

The Council shall annually prepare a budget which shall be adopted by the Council Board. The budget is prepared on the accrual basis of accounting and is controlled at the fund level. The Council reports a budgetary comparison statement as supplementary information. For the year ended June 30, 2015, budgeted expenses exceeded budgeted revenues by \$1,928. Unrestricted net position at the beginning of the year was used to complete the budget process.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the 2015 financial statement presentation to conform to the 2016 presentation.

STATE OF NEW MEXICO
 NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of two demand deposit accounts in New Mexico banks and money market deposit accounts placed in various banks through an Insured Cash Sweep (“ICS”) Deposit Placement Agreement and Custodial Agreement with New Mexico Bank & Trust (“NMB&T”). Under the terms of the agreements, NMB&T acts as the Council’s agent in placing funds in money market deposit accounts which do not exceed the FDIC standard maximum deposit insurance amount of \$250,000 at destination institutions. NMB&T acts as the Council’s custodian and Bank of New York Mellon (“BNY Mellon”) acts as sub-custodian. The money market deposit accounts are recorded on the records of the destination institution in the name of BNY Mellon as sub-custodian and are recorded on the records of the BNY Mellon in the name of NMB&T as custodian, and are recorded on the records of NMB&T in the Council’s name.

Custodial credit risk is the risk that in the event of bank failure, the Council’s deposit may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance. At June 30, 2016 and 2015, no cash and cash equivalents were exposed to custodial credit risk due to all accounts being fully insured.

At June 30, 2016, cash and cash equivalents consist of the following:

<u>Name of Depository/Type of Account</u>	<u>Balance per Books</u>	<u>Balance per Bank</u>
Bank of the West, New Mexico		
Demand deposit account	\$ 127,595	\$ 127,608
New Mexico Bank & Trust		
Demand deposit account	2,904	2,904
ICS money market deposit accounts		
Customers Bank, Wyomissing, Pennsylvania	245,010	245,010
The Washington Trust Company, Westerly, Rhode Island	<u>30,865</u>	<u>30,865</u>
Total cash and cash equivalents	\$ <u>406,374</u>	\$ <u>406,387</u>

Each account with the above depositories are fully insured at June 30, 2016 as account balances are under the \$250,000 FDIC limit.

At June 30, 2015, cash and cash equivalents consist of the following:

<u>Name of Depository/Type of Account</u>	<u>Balance per Books</u>	<u>Balance per Bank</u>
Bank of the West		
Demand deposit account	\$ 42,380	\$ 42,380
New Mexico Bank & Trust		
Demand deposit account	2,904	2,904
ICS money market deposit accounts		
Bank of China, New York, New York	245,010	245,010
Western Alliance Bank, Phoenix, Arizona	<u>30,727</u>	<u>30,727</u>
Total cash and cash equivalents	\$ <u>321,021</u>	\$ <u>321,021</u>

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. CERTIFICATES OF DEPOSIT

The Council invests in certificates of deposit at Citizens Bank of Clovis, New Mexico (“Citizens”) and through a Certificate of Deposit Account Registry Service (“CDARS”) under Deposit Placement and Custodial Agreements with NMB&T and Citizens. Under the terms of the agreements, NMB&T and Citizens act as the Council’s agents in placing funds in certificates of deposit which, together with accrued interest, do not exceed the FDIC standard maximum deposit insurance amount of \$250,000 at destination institutions. NMB&T and Citizens act as the Council’s custodians and BNY Mellon acts as sub-custodian. The certificates of deposit are recorded on the records of the destination institution in the name of BNY Mellon as sub-custodian, and are recorded on the records of the BNY Mellon in the name of NMB&T or Citizens as custodians, and are recorded on the records of NMB&T and Citizens in the Council’s name. The CDARS certificates of deposit bear interest at rates agreed to by the Council and NMB&T and Citizens. Early withdrawal of any certificate of deposit is available, subject to withdrawal penalties.

As the Council has invested in certificates of deposit that do not exceed the current FDIC insurance limit, the Council’s certificates of deposit are not exposed to credit risk or to concentration of credit risk. The Council does not have a specific policy relating to the maturities of certificates of deposit. However, purchased certificates of deposit have had terms ranging from six months to three years, which limit the Council’s exposure to interest rate risk.

At June 30, 2016, certificates of deposit consist of the following:

<u>Issuer</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Term</u>		<u>Amount</u>
Citizens Bank of Clovis	2/17/16	8/17/16	.60%	6 months	\$	124,271
Citizens Bank of Clovis	2/17/16	2/17/17	.90%	1 year		124,391
CDARS						
Capital Bank Corporation	3/24/16	3/23/17	.75%	52 weeks		200,000
Apple Bank for Savings	2/12/15	2/9/17	.95%	2 years		242,026
Bangor Savings Bank	2/12/15	2/9/17	.95%	2 years		16,092
First County Bank	2/12/15	2/9/17	.95%	2 years		242,026
Prosperity Bank	2/12/15	2/9/17	.95%	2 years		16,805
EverBank	2/26/15	2/23/17	.95%	2 years		239,418

(continued)

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. CERTIFICATES OF DEPOSIT (CONTINUED)

<u>Issuer</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Term</u>	<u>Amount</u>
Tri State Capital Bank	2/26/15	2/23/17	.95%	2 years	93,247
Morton Community Bank	2/13/14	2/9/17	1.55%	3 years	10,470
Washington Federal	2/13/14	2/9/17	1.55%	3 years	203,871
WesBanco Bank, Inc.	2/13/14	2/9/17	1.55%	3 years	241,957
Adirondack Bank	2/13/14	2/9/17	.89599%	3 years	240,067
United Bank	2/13/14	2/9/17	.89599%	3 years	223,621
Washington Federal	2/13/14	2/9/17	.89599%	3 years	<u>37,788</u>
Current portion					2,256,050
First Merchants Bank, Noncurrent portion	2/11/16	2/8/18	.91%	2 years	<u>132,175</u>
					<u>\$ 2,388,225</u>

Each account with the above depositories is fully insured at June 30, 2016 as account balances are under the \$250,000 FDIC limit.

At June 30, 2015, certificates of deposit consist of the following:

<u>Issuer</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Term</u>	<u>Amount</u>
Citizens Bank of Clovis	2/17/15	8/17/15	.85%	6 months	\$ 123,528
Citizens Bank of Clovis	2/17/15	2/17/16	1.05%	12 months	123,281
CDARS					
Old Line Bank	3/26/15	3/24/16	.75%	52 weeks	200,000
Signature Bank	2/13/14	2/11/16	.59822%	2 years	105,731
The Lorain National Bank	2/13/14	2/11/16	.59822%	2 years	<u>25,495</u>
Current portion					578,035
Apple Bank for Savings	2/12/15	2/9/17	.95%	2 years	240,000
Bangor Savings Bank	2/12/15	2/9/17	.95%	2 years	15,958
First County Bank	2/12/15	2/9/17	.95%	2 years	240,000
Prosperity Bank	2/12/15	2/9/17	.95%	2 years	16,665
EverBank	2/26/15	2/23/17	.95%	2 years	237,500
Tri State Capital Bank	2/26/15	2/23/17	.95%	2 years	92,500
Morton Community Bank	2/13/14	2/9/17	1.40%	3 years	10,309
Washington Federal	2/13/14	2/9/17	1.40%	3 years	200,736
WesBanco Bank, Inc.	2/13/14	2/9/17	1.40%	3 years	238,235
Adirondack Bank	2/13/14	2/9/17	.89599%	3 years	237,920
United Bank	2/13/14	2/9/17	.89599%	3 years	221,621
Washington Federal	2/13/14	2/9/17	.89599%	3 years	<u>37,450</u>
Noncurrent portion					<u>1,788,894</u>
					<u>\$ 2,366,929</u>

STATE OF NEW MEXICO
 NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

5. CONDUIT DEBT OBLIGATIONS

Accounting Standards define conduit debt obligations as certain limited obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local government entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity. Although the conduit debt obligations bear the name of the issuer, the entity has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

The Council has issued revenue bonds, lease purchase agreements, and master financing agreements to provide financing for the acquisition and construction of equipment and facilities. These bonds, lease purchase agreements 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 or master financing agreements. Accordingly the bonds and the obligations under the lease purchase and master financing agreements are not reported as liabilities in the accompanying financial statements.

At June 30, 2016 and 2015, conduit debt obligations outstanding are as follows:

	<u>2016</u>	<u>2015</u>
New Mexico Hospital Equipment Loan Council		
Hospital Revenue Bonds and Leases -		
Dialysis Clinic Inc. Project, Series 2000	\$ 5,000,000	\$ 5,000,000
St. Vincent Hospital, Series 2005	-	18,345,000
Rehoboth McKinley Christian Hospital Project, Series 2007	5,275,000	5,625,000
Lovelace Women's Hospital, Series 2007	12,617,082	12,617,082
Presbyterian Healthcare Services, Series 2008 A-D	327,155,000	339,500,000
Presbyterian Healthcare Services, Series 2009 A	134,610,000	134,610,000
La Vida Llena, Series 2010 A-C	17,915,000	18,125,000
San Juan Regional Medical Center Series 2010	15,914,348	17,861,816
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	40,900,000	41,730,000
Lovelace Health Systems, Series 2012	26,164,600	26,164,600
Gerald Champion Regional Medical Center, Series 2012	71,745,000	71,745,000
Presbyterian Healthcare Services, Series 2015 A	<u>237,160,000</u>	<u>237,160,000</u>
	<u>\$1,002,256,030</u>	<u>\$1,036,283,498</u>

6. RELATED PARTY TRANSACTIONS

The Council has entered into Deposit Placement Agreements and Custodial Agreements with New Mexico Bank & Trust ("NMB&T") and Citizens Bank of Clovis ("Citizens"), as further described in Notes 3 and 4. Two Council members, respectively, are affiliated with NMB&T and Citizens. In addition, at June 30, 2016 and 2015, respectively, and further described in Note 4 the Council has two certificates of deposit at Citizens. Agreements were executed in accordance with Council policies and procedures.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

7. PROGRAM ADMINISTRATION

The Council has an ongoing contract with a corporate third party (Hospital Services Corporation) to perform as program administrator. The duties of the program administrator include responding to all requests for information about the Council's various financing programs and processing loan applications and requests for issuance of financing by the Council. In addition, the program administrator provides all support services necessary for the Council to carry out its responsibilities, including maintaining files to document Council activities, preparing the annual budget and annual report, analyzing the Council's financial position, and providing the Council with current and complete information on all program related activity. The Council has recorded administrator fees in the amounts of \$95,084 and \$96,667 for the years ended June 30, 2016 and 2015, respectively, primarily based on conduit debt outstanding. The agreement continues in force until terminated by either party.

8. SUBSEQUENT EVENTS

The Council has evaluated subsequent events through November 15, 2016 which is the date which the financial statements were available to be issued.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
REVENUES				
Origination fees	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Annual fees	89,254	89,254	87,057	(2,197)
Investment income	<u>24,000</u>	<u>24,000</u>	<u>24,129</u>	<u>129</u>
Total revenues	<u>133,254</u>	<u>133,254</u>	<u>111,186</u>	<u>(22,068)</u>
OPERATING EXPENSES				
General counsel	4,000	4,000	1,112	2,888
Annual audit	14,000	14,000	13,680	320
Program administrator fees	95,000	95,000	95,084	(84)
Origination fee	6,667	6,667	-	6,667
Council expense	1,500	1,500	1,027	473
Miscellaneous	10,000	10,000	11,127	(1,127)
Insurance	<u>295</u>	<u>295</u>	<u>294</u>	<u>1</u>
Total operating expenses	<u>131,462</u>	<u>131,462</u>	<u>122,324</u>	<u>9,138</u>
Change in net position	\$ <u>1,792</u>	\$ <u>1,792</u>	\$ (<u>11,138</u>)	\$ (<u>12,930</u>)
Net position at beginning of year	\$ <u>2,716,434</u>			

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
REVENUES				
Origination fees	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Annual fees	89,254	89,254	88,768	(486)
Investment income	<u>25,000</u>	<u>25,000</u>	<u>23,458</u>	<u>(1,542)</u>
Total revenues	<u>134,254</u>	<u>134,254</u>	<u>132,226</u>	<u>(2,028)</u>
OPERATING EXPENSES				
General counsel	3,000	3,000	2,320	680
Annual audit	13,020	13,020	13,020	-
Program administrator fees	100,000	100,000	90,000	10,000
Origination fee	6,667	6,667	6,667	-
Council expenses	2,300	2,300	1,413	887
Miscellaneous	10,900	10,900	12,310	(1,410)
Insurance	<u>295</u>	<u>295</u>	<u>295</u>	<u>-</u>
Total operating expenses	<u>136,182</u>	<u>136,182</u>	<u>126,025</u>	<u>10,157</u>
Change in net position	\$ (<u>1,928</u>)	\$ (<u>1,928</u>)	\$ <u>6,201</u>	\$ <u>8,129</u>
Net position at beginning of year	\$ <u>2,710,233</u>			

See accompanying notes to the financial statements.

STATE OF NEW MEXICO
 NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
 SCHEDULE OF VENDOR INFORMATION
 FOR PURCHASES EXCEEDING \$60,000 (EXCLUDING GRT)
 YEAR ENDED JUNE 30, 2016

Prepared by: Jody Belkofer

Title: Controller, Hospital Services Company,
 Administrator

Date: 10/24/2016

MACKIE REID & COMPANY, P.A.
 CERTIFIED PUBLIC ACCOUNTANTS

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation of <u>ALL</u> Vendors that responded	In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N)? For Federal funds answer N/A	Brief Description of the Scope of Work
NONE								



REPORT OF INDEPENDENT AUDITORS 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*

To the Council Members of the
New Mexico Hospital Equipment Loan Council
and
Mr. Timothy Keller, State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and major fund of the New Mexico Hospital Equipment Loan Council, State of New Mexico (Council) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Council's basic financial statements. We have also audited the budgetary comparison schedule, presented as supplementary information, for the year ended June 30, 2016. We have issued our report thereon dated November 15, 2016.

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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Mackie, Reid + Company

Mackie, Reid & Company, PA
Certified Public Accountants

Albuquerque, New Mexico
November 15, 2016

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
SCHEDULE OF FINDINGS
JUNE 30, 2016

Prior Year Findings Reported Not Repeated

There were no prior year findings

Current Year Findings

There were no current year findings

STATE OF NEW MEXICO
NEW MEXICO HOSPITAL EQUIPMENT LOAN COUNCIL
JUNE 30, 2016

An exit conference was held on November 29, 2016, and the contents of this report were discussed. Present at the conference were:

New Mexico Hospital Equipment Loan Council
Daniel Lyon, Chair
R. Greg Leyendecker, Vice-Chair
Kent Carruthers, Treasurer (by telephone)

Hospital Services Corporation, contract program administrator
Deborah Gorenz, President
Jody Belkofer, Controller
Amy CdeBaca, Administrative Assistant
Christopher Muirhead, Modrall, Sperling, Roehl, Harris & Sisk, P.A.,
General Counsel

Mackie, Reid & Company, PA
Jim Van Der Geest, CPA
Annette Gruber, CPA

The exit conference was in a closed session at a Council meeting.

Financial Statement Preparation

The New Mexico Hospital Equipment Loan Council's financial statements were prepared substantially by the independent auditor, Mackie, Reid & Company, PA. However, the financial statements are the responsibility of management.