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**FINANCIAL
STATEMENTS AND
REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTANTS**

**NEW MEXICO COMPUTING
APPLICATIONS CENTER, INC.**

June 30, 2009

atkinson

PRECISE. PERSONAL. PROACTIVE.

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OFFICIAL ROSTER

June 30, 2009

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas
New Mexico State Auditor and
Board of Directors
New Mexico Computing Applications Center, Inc.

We have audited the accompanying financial statements of the business-type activities of the New Mexico Computing Applications Center, Inc. (NMCAC or Center) a component unit of the State of New Mexico, as of and for the period July 3, 2008 (inception) through June 30, 2009, which collectively comprise NMCAC's basic financial statements as listed in the table of contents. We have also audited the accompanying budgetary comparison for the period ended June 30, 2009, presented as supplementary information, as listed in the accompanying table of contents. These financial statements are the responsibility of NMCAC's management. Our responsibility is to express an opinion 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 with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements and budgetary comparison referred to above present fairly, in all material respects, the respective financial position of the business type activities of NMCAC, as of June 30, 2009, and the respective changes in financial position and cash flows, for the period July 3, 2008 (inception) through June 30, 2009, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2010 on our consideration of NMCAC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis on pages 5-8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements and the budgetary comparison statement. The Schedules of the Individual Deposit Account and Pledged Collateral and Memorandums of Understanding are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Atkinson & Co., Ltd." with a stylized flourish at the end.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
January 15, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Required Supplementary Information

June 30, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

The management of the New Mexico Computing Applications Center, Inc. (NMCAC or Center) offers readers of the Center's financial statements this narrative overview and analysis of the financial position of the Center as of June 30, 2009 and the results of its operations for the year then ended. Data as of June 30, 2008 is not available due to the initial year of operation.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, was adopted by the NMCAC as of July 3, 2008.

BASIC FINANCIAL STATEMENTS

The Center is considered a discrete component unit of the State of New Mexico. The Center does not use fund accounting and therefore this format is not presented. The Center is reporting using the Business Type Activities (BTA) format for proprietary/enterprise fund type reporting according to GASB 34.

NMCAC is a not for profit privately organized 501c(3), partially funded by the State of New Mexico. Basic financial statement includes statement of net assets, which reports the Center's assets, liabilities and net assets (equity), statements of revenues, expenses, and changes in net assets, and statements of cash flows. The statement of net assets is presented as of June 30, 2009.

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The Center's assets, liabilities and net assets can be summarized as follows as of June 30, 2009:

Current assets	\$	327,814
Non-current assets		101,930
Total assets	\$	<u>429,744</u>
Current liabilities	\$	152,747
Non-current liabilities		-
Total liabilities		152,747
Net assets		<u>276,997</u>
Total liabilities and unrestricted net assets	\$	<u>429,744</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2009

CONDENSED COMPARATIVE FINANCIAL INFORMATION - CONTINUED

The NMCAC's revenues and expenses can be summarized as follows for the years ended June 30, 2009:

In-kind revenues	\$ 3,756,947
Operating revenues	300,000
Transfers in	<u>925,729</u>
Total revenues	4,982,676
Operating expenses	948,732
In-kind expense	3,756,947
Non-operating expenses	<u>-</u>
Change in net assets	<u>\$ 276,997</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

There is no 2008 information available for comparison purposes as the first year of operations was 2009. Assets included cash, draw requests approved but not yet received (receivables), pre-payments, and computer storage equipment. Liabilities include expenses incurred but not yet paid at June 30, 2009.

As noted above, the Center is partially funded by the State of New Mexico through a general fund appropriation flowing through the Department of Information Technology. Operating revenues are a result of a contract for using the computer storage equipment which separate from the super computer. Operating expenses consist mainly of amounts paid for services by individuals for maintaining the day-to-day activities of the Center.

In-kind revenue and expenses include amounts that relate to leased space for operations and the computer site for which fees have been waived. The amount also includes time of individuals for the Center would have had to pay in order for the Center to begin and continue in operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2009

BUDGETARY ANALYSIS

A budget was created for 2009. Budget revenues included amounts available for transfer of about \$2.2 million of which \$925,729 was recorded. The difference relates to a delay in purchasing equipment for gateways. Operating expenses were budgeted at \$1.03 million. Overall operating and related expenses ended at \$947,000 resulting in a difference of \$84,400.

The 2010 budget has been formed and plans for the NMCAC have been established. The expectation for future years is an increase in revenues by growing commercial applications on Encanto, the supercomputer. In addition, expenses will increase commensurate with the business plans to grow the business.

In-kind revenues and expenses were not budgeted but were a vital part to the success of operations for 2009.

CAPITAL ASSET ACTIVITY

The Center purchased computer storage equipment for the purposes of growing part of the commercial applications. This was purchased with funding external to the State of New Mexico and is capitalized. The Center also purchased, with state appropriation monies, furniture for the Center's new offices at Mesa del Sol, as well as laptops, servers, digital media boards, 3-D visualization screen, printers and copier machine, postage meter and machine, and ABQ hardware. These items have been expensed as no single item cost more than \$5,000. Items over \$5,000 and purchased with state funds are recorded as depreciation on the books and records of the Department of Information Technology.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Computing Applications Center has made a decision to provide commercially viable High Performance Computing services. In that context, expenses have increased as investments have been made in the current year whose purpose is to position the Center to begin to grow its revenues from commercial entities. In addition, expenses associated with the additional revenue will increase in order to fulfill commitments to the commercial sector. The economic conditions make growth in this sector quite challenging, however the research resources available to the New Mexico Computing Applications Center allow the Center to offer unique and cost competitive solutions for the Digital Film and Environmental, Energy and Water industries. The decision to aggressively pursue commercial markets is also in response to the difficult budgetary environment faced by the State of New Mexico and the pressures that will be brought to bear on all state initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED
Required Supplementary Information

June 30, 2009

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED

In this year, the New Mexico Computing Applications Center had several accomplishments in working towards meeting its strategic objectives of economic development, use of High Performance Computing to further the State's education goals and community development. Key amongst the accomplishments are: the establishment of management, governance and control systems which included the completion of complex legal negotiations with the New Mexico Research Universities, the Department of Information Technology, SGI, and Intel. Early in the year, the Center was instrumental in establishing a high speed, live link to movie studios in California demonstrating the ability to work on developmental High Performance Computing challenges as well as a multitude of Digital Film services for the Movie Industry. The Center received \$300,000 from Cerelink, a local company, to jointly work on developing the Digital Film Media industry for the state of New Mexico. In addition, the Center has become recognized as a catalyst for Smart Grid and Green Energy initiatives. During the year, the Center attracted three of the High Computing Industries' top performers to work on commercial projects for the Energy, Environment, Aerospace and Digital Media Industries. Marshall Peterson and Scott Collins joined the team as the co-Chief Technology Officers and Allan Torres joined as the Vice President of Business Development. After year-end Major National Science Foundation grants were awarded to the University of New Mexico where the New Mexico Computing Applications Center provided enabling capabilities to compete nationally for those awards. Significant over the long-term is the decision to locate one of the nation's long-term research repositories in New Mexico (Data One). As the year came to a close, the Center worked very closely with the Department of Information Technology to specify 3-D visualization gateways throughout the higher education institutions in the state. These "Gateways" will provide access to Encanto and will also enable inter-gateway interaction which will serve the Public Education Department (K-12 and all 89 school districts) as well as the Higher Education Department to provide the highest quality high performance computing based education for New Mexico students throughout the entire state. The "Gateway" network will provide rural communities and companies access to the resources of Encanto including researchers at the founding members working on their most complex problems. With the envisioned network and the established legal agreements, the Center is open for business and moving forward to accomplish its strategic intent.

New Mexico Computing Applications Center, Inc.

STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 84,407
Accounts receivable - DoIT	238,607
Prepaid expenses	<u>4,800</u>
Total current assets	327,814

PROPERTY AND EQUIPMENT

Computer data storage equipment	<u>103,658</u>
	103,658
Less accumulated depreciation and amortization	<u>(1,728)</u>
Net property and equipment	<u>101,930</u>

Total assets	<u><u>\$ 429,744</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 80,026
Accounts payable - related parties	<u>72,721</u>
Total current liabilities	152,747

NON-CURRENT LIABILITIES

Total liabilities	<u>-</u>
	152,747

COMMITMENTS

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NET ASSETS

Invested in capital assets	101,930
Unrestricted	<u>175,067</u>
Total net assets	<u>276,997</u>

Total liabilities and net assets	<u><u>\$ 429,744</u></u>
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The accompanying notes are an integral part of these financial statements.

New Mexico Computing Applications Center, Inc.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - PROPRIETARY FUND**

For the period July 3, 2008 (inception) through June 30, 2009

OPERATING REVENUE	
Contracts and grants:	
Private contract	\$ 300,000
Contributions:	
In-kind	<u>3,756,947</u>
Total revenues	4,056,947
EXPENSES	
In-kind	3,756,947
Subcontracted personnel	343,613
Professional fees	199,759
Office expense	176,949
Technical operations	175,573
Other operating expense	26,933
Gross receipts tax on subcontracted personnel	24,177
Depreciation and amortization	<u>1,728</u>
Total operating expenses	<u>4,705,679</u>
Operating (deficit) income	(648,732)
NONOPERATING REVENUES AND (EXPENSES)	
Grants - Transfers in from DoIT	<u>925,729</u>
Total nonoperating revenues and (expenses)	<u>925,729</u>
Change in net assets	276,997
Net assets, beginning of period	<u>-</u>
Net assets, end of period	<u><u>\$ 276,997</u></u>

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

New Mexico Computing Applications Center, Inc.

STATEMENT OF CASH FLOWS

For the period July 3, 2008 (inception) through June 30, 2009

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from grants and contracts	\$ 300,000
Cash paid to subcontracted personnel	(345,069)
Cash paid for technical operations	(125,573)
Cash paid for operating activities	<u>(328,415)</u>
Net cash used in operating activities	(499,057)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Cash received from transfers in	<u>687,122</u>
Net cash provided by non capital financing activities	687,122
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
	-
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property and equipment	<u>(103,658)</u>
Net cash used in investing activities	<u>(103,658)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	84,407
Cash and cash equivalents, beginning of period	<u>-</u>
Cash and cash equivalents, end of period	<u><u>\$ 84,407</u></u>

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

New Mexico Computing Applications Center, Inc.

STATEMENT OF CASH FLOWS - CONTINUED

For the period July 3, 2008 (inception) through June 30, 2009

Increase (Decrease) in Cash and Cash Equivalents

Reconciliation of the operating (deficit) income
to net cash used in operating activities

Operating (deficit) income	\$ (648,732)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	1,728
Changes in assets and liabilities	
Prepaid expense	(4,800)
Accounts payable	<u>152,747</u>
Total adjustments	<u>149,675</u>
Net cash used in operating activities	<u>\$ (499,057)</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Donation of space, materials, supplies and services	<u>\$ 3,756,947</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

NOTE A – FINANCIAL REPORTING ENTITY

New Mexico Computing Applications Center, Inc. (NMCAC or the Center) is a governmental not-for-profit corporation formed July 3, 2008 under the New Mexico Nonprofit Act (53-8-1 through 53-8-99 NMSA 1978) and the New Mexico Research Park and Economic Act of the New Mexico Statutes Annotated (21-28-1 through 21-28-25 NMSA 1978) to promote, develop, and manage research parks or technological innovations for scientific, educational, and economic development opportunities in accordance with bylaws adopted by the Center.

NMCAC is organized by the New Mexico University Research Consortium (NMURC), a New Mexico Joint Powers Agency acting for and on behalf of the Board of Regents of the University of New Mexico (UNM), the Board of Regents of New Mexico State University (NMSU), and the Board of Regents of the New Mexico Institute of Mining and Technology (NM Tech). NMURC is the sole organizer of NMCAC. Per its bylaws, NMCAC is governed by a Board of Directors consisting of the Vice Presidents of Research for the organizing universities and the State's National Laboratories, the Governors' Science Advisor, the Cabinet Secretaries of Department of Information Technology, Economic Development, Higher Education and Public Education, the Director of Telehealth Commission, two individuals representing the rural education and economic development sectors, and two private sector members.

The Articles of Incorporation state that NMCAC is to promote statewide cooperation in attracting research resources in New Mexico, to manage resources for the benefit of the state's research facilities, to promote education and policy development in science and technology, and for the benefit of New Mexico economic development. In particular, the corporation is organized to manage the universities' role in expanding the awareness, access, and opportunities in connection with the New Mexico Supercomputer, known as Encanto, and otherwise perform research and educational functions in connection with Los Alamos National Laboratories and Sandia National Laboratories.

The *AICPA Audit and Accounting Guide for State and Local Governments* states in paragraph 1.01, that "public corporations and bodies corporate and politic are governmental entities. Other entities are governmental if they have the potential for unilateral dissolution by a government with the net assets reverting to a government." NMCAC's assets revert to governmental entities by which NMCAC is organized. Therefore, NMCAC is considered a governmental entity for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED

Further, Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, establishes the standards for defining and reporting on the financial entity. GASB 14 defines the financial reporting entity as consisting of the primary government, organization for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. An organization is financially accountable as it meets the following tests:

- the primary government appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, or
- an organization is fiscally dependent on the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

NMCAC's governing body is composed of certain individuals appointed by the Governor and entities within the primary government. Through these relationships, the primary government does have the ability to impose its will on NMCAC. Additionally, NMCAC provides both financial benefits and imposes financial burdens on the primary government as documented in Notes C and I. For these reasons, NMCAC is presented as discrete component unit of the State of New Mexico.

There are no component units of NMCAC as defined in government accounting principles.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basic Financial Statements – GASB Statements and State Audit Act

The financial statements of NMCAC have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to governmental units. The Governmental Account Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

As discussed in Note A, NMCAC is considered a nonprofit component unit of the State of New Mexico. As such, NMCAC should present financial statements in a government format.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

As of July 3, 2008, the Center implemented the provisions of GASB No. 34, *Basic Financial Statements—Management’s Discussion and Analysis—For State and Local Governments* and all other GASB pronouncements. Opinions after November 30, 1989 of the Financial Accounting Standards Board (FASB) are not followed.

NMCAC is subject to the State Audit Act (12-6-1 through 12-6-14 NMSA 1978) and other applicable provisions of NMSA 1978, but as an entity organized under the Research Park and Economic Development Act (21-28-7 NMSA 1978) it does not have to comply with the following governmental statutes and laws:

- Personnel
- Procurements of goods and services
- Meetings of the Board of Directors
- Gross receipts tax
- Disposition or acquisition of property
- Capital outlays
- Perdiem and mileage
- Inspection of records

Other governmental laws and statutes apply to NMCAC as applicable.

The University Research Park and Economic Act (Research Park Corporation) sets forth certain requirements for NMCAC to follow including:

- The Research Park Corporation is deemed an agency or public body in relation to furnishing goods and services provided to Universities and the Risk Management Fund.
- The Research Park Corporation shall be governed by a Board of Directors appointed by the regents creating the organization.
- The organization shall adopt bylaws.
- The organization shall conform to federal law when applicable.
- The organization shall not contract for goods or services with individuals and/or associated companies for which there exists a controlling interest in excess of \$20,000 without approval of regents and determination that the transaction is needed due to lack of availability from other sources or such goods or services are of lower cost or higher quality than is otherwise available.
- The Research Park Corporation, its officers, directors, and employees shall be granted immunity from liability for any tort as provided in the Tort Claims Act (41-4-1 NMSA 1978).
- The Research Park Corporation may enter into outside insurance arrangements in addition to those covered by the Risk Management Division, State of New Mexico.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

1. Basic Financial Statements – GASB Statements and State Audit Act – Continued

- Conflict of interest conditions shall be disclosed by management, employees and the Board. Affected employees shall not participate in approving related contracts.

No ruling has been issued as to the legality of the structure of NMCAC and the applicability of laws and statutes to its affairs.

2. Basis of Presentation

The Center is considered a special purpose government engaged in a single business type activity and presents only financial statements required for enterprise funds. These financial statements and corresponding required supplementary information consist of:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statement
- Management's Discussion and Analysis
- Information Required by the State Auditor Rules

3. Basis of Accounting and Measurement Focus – Enterprise Fund

The accompanying financial statements have been prepared on the accrual basis of accounting. The economic resource measurement focus is used for all assets (both financial and capital), liabilities, revenues, expenses, gains and losses. Revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of the related cash flows. The Center has elected not to apply FASB pronouncements issued after November 30, 1989. The proprietary fund consists of one enterprise fund and as such does not employ any internal service funds.

The fund distinguishes operating revenues and expenditures in the enterprise fund from non-operating items. Operating revenues and expenditures generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the fund are computer usage fees. Operating expenditures include administrative expenditures required to manage and operate the fund. All revenues and expenditures not meeting this definition are reported as non-operating revenues and expenditures.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Cash and Cash Equivalents

NMCAC maintains a cash account at a local financial institution. Cash is held by the University of New Mexico until draw requests are approved for state funds. Revenue not sourced from the State of New Mexico is deposited directly into its bank account. At times during 2009, cash balances exceeded Federal Deposit Insurance Corporation (FDIC) insured limits, currently \$250,000. In accordance with Section 6-10-17 NMSA 1978, the Center is required to obtain collateral in an amount equal to one-half of deposited public money in excess of \$250,000. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. See the schedule of individual deposit account and pledged collateral supplementary information for risk information that applies to the Center.

For the purposes of the statements of cash flows, the Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

5. Receivables

Receivables represent amounts due for computer usage for central processing units, storage, and bandwidth and amounts due from state appropriations. The Center considers these amounts to be fully collectible; accordingly, no allowance is required. When receivables are determined to be uncollectible, they will be charged to operations when that determination is made.

6. Capital Assets

Capital assets are tangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported at historical cost or at fair value if donated. Capital assets are depreciated using the straight-line method over their estimated useful lives. The Center capitalizes new asset additions greater than \$5,000 in accordance with 12-6-10 NMSA 1978. The Center does not own or lease any vehicles or equipment. Useful lives of capital assets are included in the following table:

<u>Asset Class</u>	<u>Useful Life</u>
Computer equipment	5

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Capital Assets – Continued

Repairs and maintenance expenses are charged to operations when incurred and major betterments and replacements are capitalized.

Certain furniture and computer equipment were acquired with funds received under a state appropriation in connection with the primary purpose of NMCAC. The carrying amounts of these assets are not reflected in the statement of financial position because the asset titles remain with the state.

7. Components of Net Assets

Net assets are reported as restricted when constraints placed on net assets use are externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Enabling legislation includes a legal enforceable requirement that resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party – such as citizens, public interest groups or the judiciary – to use resources only for the purposes specified by the legislation. The amount of net assets restricted by enabling legislation is \$0 at June 30, 2009. There are no restricted net assets.

The Center has significant assets invested in capital assets, as reported on the statement of net assets-proprietary fund for 2009. They consist principally of computer equipment. Capital assets are defined as those that are tangible or intangible assets that are used in operations and have a useful life extending beyond one reporting period.

Unrestricted net assets represent all resources that are not restricted or invested in capital assets. They are available to management or the Board for any purpose.

When an expense is incurred that may be paid using either restricted or unrestricted resources, it is the Center's policy to first apply the expense to restricted resources.

8. Classification of Revenues

The Center has classified its revenues for the enterprise fund as either operating or non-operating according to the following criteria:

Operating revenues: Operating revenues include activities that have characteristics of exchange transactions, such as (1) computer central processing units usage, (2) computer storage usage, and (3) computer bandwidth usage.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Classification of Revenues - Continued

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions such as investment income and revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

9. Use of Estimates

The preparation of these 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Tax Status

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code under a determination letter received from the IRS dated November 12, 2009. Accordingly, no provision for income taxes has been reflected in NMCAC's financial statements. Unrelated business income tax issues, if any, are deemed immaterial through June 30, 2009.

11. Budgetary Basis

The NMCAC budgets on an accrual basis. Depreciation and in-kind expenses are not budgeted. The Board of Directors is responsible for authorizing the Association's budget. The level of budgetary control is at the fund level. NMCAC reports their activities in a single fund common to enterprise funds.

12. New Accounting Standards Affecting NMCAC

Government Accounting Standards Board (GASB) Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions* have been issued. This standard was issued to provide increased clarity for fund balance type definitions and for classification rules for fund balances. This standard will be implemented for the FY2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE C – RELATED PARTY TRANSACTIONS

As discussed in Note A, NMCAC was organized by the New Mexico Research Universities. In addition, certain members of the Board of Directors are also employees of the universities, other organizations, or agencies of the State of New Mexico, which were not part of the organizing of NMCAC. During 2009, NMCAC paid for services provided by these organizations or had other relationships with related parties as follows:

NMCAC paid \$50,000 to the University of New Mexico (UNM) for providing accounting services. NMCAC also paid \$20,303 to UNM for computer equipment. Mesa Del Sol, in agreement with UNM provided NMCAC office space at no charge for a portion of the year. If fees were charged, NMCAC would have paid approximately \$13,523 for the office space. A total of an additional \$51,000 is due to UNM for a connection fee as of July 1, 2010 and is recorded as accounts payable.

NMCAC paid \$120,110 to New Mexico Institute of Mining and Technology (NM Tech) for services provided by a professor in developing and managing an education program that will use the supercomputer. The amount due to NM Tech as of June 30, 2009 is \$22,721.

NMCAC has no full or part time paid employees. Operations are currently performed by contracted employees some of which are affiliated or formerly affiliated with state government or the research laboratories. NMCAC paid \$241,433 for these services.

NMCAC uses space with Intel Corporation for storage and operations of the supercomputer. Per management, Intel provided approximately \$2,000,000 of costs relating to preparing the space for the supercomputer and has been recorded as an in-kind transaction. Intel has also waived any monthly lease amounts relating to this space subject to an agreement dated June 30, 2009 for which it will charge for power, cooling and network services, see Note G. An Intel employee sits on the Board of Directors of the Center.

The Center has signed MOUs with Cerelink, Inc., a commercial LLC. A Cerelink employee sits on the Board of Directors of the Center and certain owners and members of management of Cerelink are former employees of Intel Corporation.

During 2009, the Center provided free access to the supercomputer to the following related party entities as noted below. The free usage was provided to the founding member entities or to the National Laboratories.

- University of New Mexico (UNM)
- New Mexico Institute of Mining and Technology (NM Tech)
- New Mexico State University (NMSU)
- Los Alamos National Laboratory
- Sandia National Laboratory
- Center for Advanced Research Computing (UNM)
- National Center for Genome Resources (related through UNM and NMSU)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE D – DEPARTMENT OF INFORMATION TECHNOLOGY (DoIT) TRANSACTIONS

The Cabinet Secretary of DoIT sits on the Board of Directors of NMCAC, a related party. DoIT is charged with planning, designing, renovating, constructing, improving and purchasing a state center for advanced computing (supercomputer). (Laws of 2007, Chapter 42, Section 61.)

DoIT received a \$3,000,000 appropriation for the staff and operations of the New Mexico supercomputer for FY 2009-2010, (Laws of 2009, chapter 124, Section 5, Item 19). During the year ending June 30, 2009, DoIT expended \$2,158,585 for contractual services for the operations of the supercomputer. \$925,729 was transferred or was due to be transferred by DoIT to NMCAC arising from drawdown requests by NMCAC and approved by DoIT during the year in accordance with the MOU between the parties.

At June 30, 2009, DoIT reports a \$5,612,601 restricted fund balance for the Center for Advanced Computing which reverts at the end of FY 2010 if not expended or if the legislation is not extended. Certain computer equipment and furniture used by NMCAC and purchased with state funds are recorded on DoIT’s books including the Encanto supercomputer.

NOTE E – PROPERTY AND EQUIPMENT

A summary of property and equipment consists of the following as of June 30, 2009:

Description	2008	Additions	Deletions	2009
Computer equipment	\$ -	\$ 103,658	\$ -	\$ 103,658
Accumulated depreciation	-	(1,728)	-	(1,728)
Net capital assets	\$ -	\$ 101,930	\$ -	\$ 101,930

Depreciation expense for the year ended June 30, 2009 was \$1,728. All capital assets are being depreciated.

NOTE F – IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES

In-kind contributions are reflected as contributions at their estimated fair value at the date of donation and are reported as unrestricted support. The Center benefited from donated rental spaces which were valued by the respective lessors at \$3,225,247. Additionally, the Center received \$75,000 of network healthcare membership assets, from a certain healthcare organization, to explore healthcare applications of the supercomputer. Donated services for the Center’s CEO and current COO were valued by management at \$456,700 during the year ended June 30, 2009 for these individuals. These amounts have been reported as both in-kind contribution revenue with corresponding in-kind expense on the statement of revenues, expenses, and changes in net assets.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE F – IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES – CONTINUED

The Center provides free access of the supercomputer to the entities listed in Note C. Expenses related to the operation of the supercomputer for free access periods are expensed by NMCAC or were paid by DoIT during FY09.

NOTE G – LEASES

The Center has month-to-month lease arrangements for office space currently with Mesa Del Sol and with UNM earlier in the year, for the year ended June 30, 2009. The leases waived a total of \$25,247 of lease expense which has been included as in-kind transactions. Of the \$25,247, UNM amounts are related party transactions, see Note B.

The Center has a lease arrangement with Intel Corporation, a related party for computer operations and operating space. The annual lease expense waived by the related party is \$1,200,000 which has been included as an in-kind transaction. The arrangement expires June 30, 2010 with the option to renew for three consecutive years, expenses to be paid by NMCAC for fiscal 2010. The lease requires power, cooling and network services to be billed to NMCAC quarterly. Total annual cost is \$1,059,000 and increases in subsequent years by approximately 4% each year. Connectivity services provided by Qwest in connection with LlamdaRail are estimated at \$16,800 per month in addition to the basic lease.

NOTE H – COMMITMENTS

The Center has entered into various agreements, memorandums of understanding (MOU), with other government entities and non-governmental entities, as documented in the supplementary information schedule.

NOTE I – ECONOMIC DEPENDENCY

Due to its start up nature, the Center's operations were significantly supported, over 70%, by funds provided through the State of New Mexico.

The State subleases the Encanto supercomputer to the Center through a MOU document. The supercomputer is owned by Department of the Information Technology, State of New Mexico. A change in state government's support in relation to the supercomputer would seriously impact the Center.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2009

NOTE J – RISK MANAGEMENT

The Center is exposed to various risks of loss including General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Losses Related to Torts. The Center is covered for certain risks with the State of New Mexico Risk Management Division (RMD). General liability and property loss are not covered by RMD, but the Center pays premiums to participate in the State Insurance Program to secure other insurance coverage. Coverages are designed to satisfy the requirements of the state tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end.

NOTE K – SUBSEQUENT EVENTS

1. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. NMCAC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. NMCAC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

NMCAC has evaluated subsequent events through January 15, 2010, which is the date the financial statements are available to be issued. The following items were deemed significant for disclosure.

2. Federal Award

Subsequent to year-end, EPSCoR New Mexico was awarded the Dataone Research Investment and Infrastructure project(s) from the National Science Foundation. The NMCAC will participate in these programs once a Federally Approved Overhead Rate is granted to NMCAC, which is expected in FY10.

3. Gateways

In connection with its educational gateway initiative, NMCAC entered into MOUs subsequent to year-end, which establishes the rights and responsibilities including funding obligations for nineteen Gateways' locators and users. The MOUs provide for the purchase, installation and warranty for the equipment. The MOUs also provide for the locations to accept ownership and responsibility for the equipment to use in delivering the objectives of the NMCAC to those locations.

SUPPLEMENTARY INFORMATION

New Mexico Computing Applications Center, Inc.

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the period July 3, 2008 (inception) through June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
REVENUES				
Grants and contracts	\$ -	\$ -	\$ 300,000	\$ 300,000
Total revenues and budgeted cash balance	-	-	300,000	300,000
EXPENSES				
Business operations	305,913	305,913	386,544	(80,631)
Program operations	352,275	352,275	190,752	161,523
Technical operations	178,215	178,215	175,573	2,642
Outreach and client services	135,000	135,000	17,186	117,814
Office operations	60,000	60,000	176,949	(116,949)
Total expenses	1,031,403	1,031,403	947,004	84,399
OTHER FINANCING SOURCES				
Transfers in	2,204,839	2,204,839	925,729	(1,279,110)
	<u>\$ 1,173,436</u>	<u>\$ 1,173,436</u>	278,725	<u>\$ 215,601</u>
Depreciation			(1,728)	
In-kind contributions			3,756,947	
In-kind expenses			<u>(3,756,947)</u>	
Change in net assets, GAAP basis			<u>\$ 276,997</u>	

SCHEDULE OF MEMORANDUMS OF UNDERSTANDING

June 30, 2009

Participants	Party Responsible for Operations	Description
NMCAC, DoIT, UNM Memorandum of Understanding – (the First MOU)	Various rights and responsibilities assigned to the parties	Parties wish to develop the New Mexico Computing Applications Center – upon procurement of Encanto supercomputer – MOU provides mechanism for transfer and use of state funds
NMCAC and DoIT Memorandum of Understanding – (Interim MOU)	NMCAC and DoIT	Interim authority granted to NMCAC to commit supercomputer availability to commercial and other beneficial concerns
NMCAC and DoIT – (Master Agreement)	NMCAC and DoIT	Establishes for NMCAC rights of use, sublicense and sublease, establishes responsibility for basic maintenance, operational maintenance and user support
NMCAC and Cerelink	Both parties have rights and responsibilities	Commercial business MOU whereby Cerelink funds certain amounts in advance and per a timeline in anticipation of digital media project time on the supercomputer – Cerelink secures availability of supercomputer for its needs
NMCAC and DoIT – Sub agreements no 1-6 incorporating the Master Agreement dated April 10, 2009	NMCAC and DoIT	DoIT must procure any equipment purchased with state funds and own such equipment – NMCAC will own equipment purchased with its own funds – network infrastructure rights and responsibilities outlined – NMCAC responsible for maintenance and user support in FY2010 – NMCAC to enter into leases as necessary for supercomputer space – policies and procedures for capital assets, financial and privacy and security policies to be provided to DoIT

SCHEDULE OF MEMORANDUMS OF UNDERSTANDING – CONTINUED

June 30, 2009

Beginning and Ending Dates	Estimated Total Amount and Amount Contributed During the Year	Audit Responsibility/ Fiscal Agent	Government Agency Reporting Revenue and Expenditures
Entered into September 19, 2008 – continues in effect until terminated	\$925,576	NMCAC must conduct an annual audit as a component unit of the State of New Mexico – all parties responsible for their transactions	UNM is receiving agent for appropriations made available to NMCAC – DoIT is owner of computer equipment purchased with state funds and funds drawdown requests – NMCAC receives approved draw downs and conducts operations
Entered into February 17, 2009 and continues until replaced with a MOU and lease and management agreement with a specified term	NA	NMCAC and DoIT	Both parties are responsible for their revenue and expense transactions resulting from the agreement
April 10, 2009 for a 5 year term	NA	Both entities audited	Both parties are responsible for their own transactions arising from this agreement
November 1, 2008 until terminated	\$1,250,000 ceiling amount applies to Cerelink and \$300,000 contributed by Cerelink	NMCAC reports income of \$300,000	Both parties record their transactions as they occur
Sub-agreements generally adopt the term of the master agreement	Various	NMCAC and DoIT	Both parties report their transactions arising from Sub agreements no 1-6

New Mexico Computing Applications Center, Inc.

SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNT AND PLEDGED COLLATERAL

June 30, 2009

ACCOUNT	<u>Bank Balance</u>	<u>Outstanding Reconciling Items</u>	<u>Book Balance</u>
General checking account, First Community Bank	\$ 169,758	\$ 85,305	\$ 84,453
Total	169,758	<u>\$ 85,305</u>	<u>\$ 84,453</u>
FDIC coverage	<u>250,000</u>		
Total uninsured (overinsured) public funds	<u>\$ (80,242)</u>		
Collateral requirements - 50% (Section 6-10-17)	\$ -		
Amounts of pledged collateral - pledged inventory	<u>-</u>		
Total over uncollateralized	<u>\$ -</u>		

Disclosure

Custodial credit risk is the risk that in the event of a bank failure the Center's deposits may not be returned to it. The Association has a single bank account to utilize the protection of FDIC insurance coverage. As of June 30, 2009, the bank balance was not exposed to custodial credit risk. Credit quality risk, securities custodial credit risk, and interest rate rise disclosures do not apply.



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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**

Mr. Hector H. Balderas
New Mexico State Auditor and
Board of Directors
New Mexico Computing Applications Center, Inc.

We have audited the accompanying financial statements of the business-type activities of the New Mexico Computing Applications Center, Inc. (NMCAC or Center) a component unit of the State of New Mexico, as of and for the period July 3, 2008 (inception) through June 30, 2009, which collectively comprise the Center's basic financial statements as listed in the table of contents. We have also audited the accompanying budgetary comparison for the period ended June 30, 2009, presented as supplementary information in the table of contents, and have issued our report thereon dated January 15, 2010. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, and can be referenced as items 09-01, 09-03, and 09-04.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are not material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 09-02 and 09-07.

We noted certain matters that are required to be reported under *Government Auditing Standards* January Revision paragraphs and 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as findings 09-05 and 09-06.

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Center's responses and, accordingly, we express no opinion on it.

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



Atkinson & Co. Ltd.

Albuquerque, New Mexico
January 15, 2010

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2009

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

INTERNAL CONTROL OVER FINANCIAL REPORTING

Material weaknesses identified? No

Significant deficiencies identified not considered to be material weaknesses? Yes

COMPLIANCE AND OTHER MATTERS

Noncompliance material to the financial statements noted? Yes

FINANCIAL STATEMENT FINDINGS

- 09-01 – Full Governmental GAAP Financial Statement Preparation Capability (Significant Deficiency)
- 09-02 – Cash Account Not Timely Reconciled
- 09-03 – Full Accrual Accounting Not Properly Used, Significant Audit Adjustments Made (Significant Deficiency)
- 09-04 – Late Audit Report (Significant Deficiency)
- 09-07 – Contract Violations

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

- 09-05 – Budget Violation
- 09-06 – Code of Conduct Not in Place

STATUS OF PRIOR YEAR FINDINGS

No prior year findings

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINANCIAL STATEMENT FINDINGS

09-01 Full Governmental GAAP Financial Statement Preparation Capability (*Significant Deficiency*)

Condition

The Center currently does not have the capability to produce full financial statement reporting in accordance with generally accepted governmental accounting principles (GAAP), including required disclosures. Auditors were responsible for producing a complete financial statement.

Criteria

Statement on Auditing Standard No. 112 requires reporting to those in charge of governance any control deficiencies noted including those relating to the ability to prepare GAAP financial statements.

Cause

The Center is a nonprofit organization and has many characteristics of enterprise funds. The outsourced accountant handles all interim financial and management needs during the year to run the Center but does not perform year-end work.

Effect

The fact that the Center does not have the financial statement preparation capability diminishes the adequacy of their internal control structure as there is not adequate qualifications and training among the Board of Directors to apply GAAP. Full GAAP information is not available during the year.

Recommendation

The Center should consider employing outside accountants or schedule appropriate training to assist in full GAAP financial statement reporting or develop financial templates supported by training in the needed areas.

Management's Response

The Center prepares internal financial statements and all other necessary data for Board and management purposes.

Beginning in FY2010, we are using Quickbooks Software accrual system. The NMCAC will have the tools and will develop the capability to produce full financial statements in accordance with GAAP.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINANCIAL STATEMENT FINDINGS – CONTINUED

09-02 Cash Account Not Timely Reconciled

Condition

A private account cash balance held at a local financial institution was not timely reconciled to recorded balance. The year-end reconciliation was not performed at the time of the audit.

Criteria

Sound accounting practices include reconciliations of an Center's books and records to itself, third party information, and any other available information.

Cause

The Center experienced turn over in contracted employees near the end of the fiscal year causing the year-end reconciliation to not be timely performed.

Effect

Without proper review and timely reconciliation of accounts to third party reports/statements, management will not be able to timely discover unauthorized transactions effecting cash.

Recommendation

In order to make the financial reports generated by the accounting system as meaningful as possible, the Company should reconcile the general ledger accounts for cash, accounts receivable, and accounts payable to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate, but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Management's Response

Bank reconciliations were provided to the audit for all but one month. During the last month, June 2009, we were trying to do online bank reconciliations and needed signatures from Board members that were unavailable for the month of June due to international travel.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINANCIAL STATEMENT FINDINGS – CONTINUED

**09-03 Full Accrual Accounting Not Properly Used, Significant Audit Adjustments Made
(Significant Deficiency)**

Condition

The Center records financial activity on cash receipts and disbursements basis. The year-end engagement required several adjustments to record accrual type accounts and balances.

Criteria

Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) accounting principles for proprietary-type funds require financial reporting to be performed on a full accrual basis of accounting.

Cause

The Center is a nonprofit organization and has many characteristics of enterprise funds. The contracted staff handles all interim financial and management needs during the year to run the Center, but financial records are kept on a cash basis.

Effect

Significant audit adjustments were made to report the financial activity of the Center on the full accrual basis of accounting in order to reflect in the proper period, all the effects of the Center's financial activities. Full accrual financial statements were not available during the year which could have affected budgetary matters and management's decision making.

Recommendation

At present, the Company prepares its financial statements on the basis of cash receipts and disbursements, whereby certain revenues and the related assets are recognized when received, and expenses are recognized when paid. We recommend that the accrual basis of accounting be considered. Under that basis, revenues and the related assets are recorded when earned and expenses are recorded when the obligation is incurred. The accrual basis is required by generally accepted accounting principles since it results in financial statements that reflect the complete effects of an entity's financial transactions for a period.

Management's Response

We are now using Quickbooks Software for accrual accounts and balances.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINANCIAL STATEMENT FINDINGS – CONTINUED

09-04 Late Audit Report (*Significant Deficiency*)

Condition

The Center's audit report was not turned in to the State Auditor by December 15, 2009. It was submitted on January 29, 2010.

Criteria

2.2.2 9A NMAC requires the annual audit to be turned in 60 days after the books are certified ready for audit but no later than December 15, 2009. The Center's bylaws require that the annual audit be completed within 90 days after NMCAC's year-end (by September 28).

Cause

It was the first audit for NMCAC as a new entity. The Center's auditor was not approved until early November 2009. Based on the starting date, not all audit and quality control procedures could be completed by the due date. The first year audit involved a learning curve for the Center and external auditors.

Effect

The Center is out of compliance with its bylaws and the state audit rule. Information about the Center's financial standing is not available for government stakeholders' agencies, legislators, and others as early as required.

Recommendation

We recommend the Center prepare for its' annual audit to be performed and completed within 90 days after year-end.

Management's Response

The complexity of the structure of NMCAC, the first time audit for NMCAC, and delays in response times from the state and in collecting information from NMCAC contributed to the delays. These factors will be addressed for the FY2010 audit.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINANCIAL STATEMENT FINDINGS – CONTINUED

09-07 Contract Violations

Condition

The following items were deemed to be contractual violations for certain contracts entered into:

- The contract with the chief operations officer, (COO) was exceeded before the contract term expired. The contract was subsequently amended to include a new scope of contractual operations, but the Center expended approximately \$25,000 without a contract in place.
- The Center entered into a MOU with a commercial business before it had negotiated and documented its authority from DoIT to commit the supercomputer for commercial uses.

Criteria

Good business practices recommend documented contractual rights and practices be in place for clarity and to protect the responsible parties during the time of applicable business transactions.

Cause

The COO's contract was overlooked. Subsequent contracts were extended, if additional scope of services were required. The business MOU was made in anticipation of approval based on objectives of the Center and the economic initiative.

Effect

An unexpected outcome may have occurred during the period that the parties' activities were not covered by a contract.

Recommendation

We recommend a contract log be set up with termination dates scheduled to assist in the identification of contract terminations.

Management's Response

The MOU with Cerelink was entered into before final agreement with DoIT, however, Cerelink did not have any projects that required the use of the Encanto recourses. The MOU centered on working together to help build the Digital Media industry in New Mexico and if an acceptable project would have been indentified, the MOU provided for priority access. The project content would have determined if a separate contract with DoIT would have been required prior to the MOU between DoIT and the NMCAC was put in place. No acceptable projects were identified during that time.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC

09-05 Budget Violation

Condition

NMCAC had the following budget violations:

The operating budget for FY09 was not formally approved by the Board of Directors. The Center could not provide documented support of the budget approval for the year certain budgetary matters were discussed and documented in the minutes.

Criteria

The University Research Park and Economic Act sets forth the requirements for NMCAC to be governed by a Board of Directors. A primary Board function is to approve the annual budget providing oversight to the budget function.

Cause

As a first year non-profit organization, certain budget functions were not performed due to oversight and learning curve.

Effect

Budgetary controls inherent in governing body monitoring process were not available. Inappropriate or excessive expenditures could have occurred.

Recommendation

NMCAC should analyze these matters and draft a budget calendar that assists in completion of all budget tasks and approvals.

Management's Response

The budget was listed as an agenda item for the Q-4 FY08 Board Meeting and discussed with the Board at every Board meeting but no record of a vote was found. The Board and the NMCAC operated as if the budget was formally approved.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2009

FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC - CONTINUED

09-06 Code of Conduct Not in Place

Condition

NMCAC has not adopted a Code of Conduct which constitutes part of the compliance requirements of the Governmental Code of Conduct sections of NMSA 1978.

Criteria

NMSA 10-16-1-10-16-18 NMSA 1978 specifies the Code of Conduct requirements for governmental entities under state law. One of these requirements is the adoption of a Code of Conduct meeting the requirements of the statute common to governmental entities.

Effect

A documented code of conduct can positively add to the corporate environment and make explicit certain governmental compliance requirements for management and the Board.

Cause

NMCAC is a new nonprofit entity and did not realize it should adopt a Code of Conduct based on governmental requirements.

Recommendation

NMCAC should adopt a Code of Conduct that meets all the requirements of NMSA 1978.

Management's Response

We will adopt this policy for FY2010. A Conflict of Interest policy was established and adhered to for NMCAC operations during the year.

EXIT CONFERENCE

June 30, 2009

The basic financial statements have been prepared by Atkinson & Co., Ltd. with the assistance of the Center who is responsible for their content.

* * * * *

An Exit Conference was held on January 22, 2010 and attended by the following:

For Atkinson & Co., Ltd.:

Marty Mathisen, CPA
David Thomas

Shareholder/Audit Director
Audit Senior

For the New Mexico Computing Applications Center, Inc.:

Thomas J. Bowles

CEO/Chairman, Board of Directors, NMCAC

J. Leonard Martinez

COO, NMCAC

Sue Devore

OPS Manager, NMCAC

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