A large orange circular graphic is positioned on the left side of the page, partially cut off by the edge. It contains the text for the financial statements and report.

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

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

June 30, 2010

atkinson

PRECISE. PERSONAL. PROACTIVE.

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OFFICIAL ROSTER

June 30, 2010

BOARD OF DIRECTORS

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Marlin Mackey, Chief Information Officer	Secretary of Information Technology
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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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ALBUQUERQUE, NM 87110

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ALBUQUERQUE, NM 87125

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 New Mexico Computing Applications Center, Inc. (NMCAC) a component unit of the State of New Mexico, as of and for the year ended June 30, 2010, 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 year ended June 30, 2010, 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.

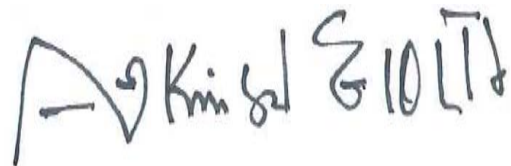
In our opinion, the financial statements and budgetary comparison referred to above present fairly, in all material respects, the respective financial position of the business type activities of NMCAC, as of June 30, 2010, and the respective changes in financial position and cash flows, for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying statement of net assets has been prepared assuming that NMCAC will continue as a going concern. As discussed in note L to the financial statements, NMCAC will receive no new funding from the State of New Mexico in fiscal year 2011. The lack of future funding from the State of New Mexico raises serious doubt about NMCAC's ability to continue as a going concern. Management's plans regarding this matter also are described in note L. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 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 audit.

Management's Discussion and Analysis on pages 5-9 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, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
September 30, 2010

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

June 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

The management of the New Mexico Computing Applications Center, Inc. (NMCAC) offers readers of NMCAC's financial statements this narrative overview and analysis of the financial position of NMCAC as of June 30, 2010 and the results of its operations for the year then ended.

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 NMCAC as of July 3, 2008 (inception).

BASIC FINANCIAL STATEMENTS

NMCAC is considered a discrete component unit of the State of New Mexico. NMCAC does not use fund accounting and therefore this format is not presented. NMCAC is reporting using the Business Type Activities (BTA) format for proprietary/enterprise fund type reporting according to GASB 34. The financial statements are full accrual and there is no separate government-wide statement.

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 NMCAC's assets, liabilities and net assets (equity), statements of revenues, expenses, and changes in net assets, and statements of cash flows. The financial statements are presented as of June 30, 2010 and for the year then ended.

CONDENSED COMPARATIVE FINANCIAL INFORMATION

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

	<u>2010</u>	<u>2009</u>
Current assets	\$ 1,506,271	\$ 327,814
Non-current assets	<u>81,198</u>	<u>101,930</u>
Total assets	<u>\$ 1,587,469</u>	<u>\$ 429,744</u>
Current liabilities	\$ 639,450	\$ 152,747
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	639,450	152,747
Net assets	<u>153,169</u>	<u>276,997</u>
Total liabilities and unrestricted net assets	<u>\$ 792,619</u>	<u>\$ 429,744</u>

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

June 30, 2010

CONDENSED COMPARATIVE FINANCIAL INFORMATION – CONTINUED

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

	<u>2010</u>	<u>2009</u>
In-kind revenues	\$ 1,295,580	\$ 3,756,947
Operating revenues	1,052,421	300,000
Transfers in	<u>2,967,163</u>	<u>925,729</u>
 Total revenues	 5,315,164	 4,982,676
 Operating expenses	 3,348,562	 948,732
In-kind expense	1,295,580	3,756,947
Non-operating expenses	<u>-</u>	<u>-</u>
 Change in net assets	 671,022	 276,997
 Beginning Net Assets	 <u>276,997</u>	 <u>-</u>
 Ending Net Assets	 <u>\$ 948,019</u>	 <u>\$ 276,997</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Assets included cash, private contract receivables, pre-payments, and computer storage equipment. Liabilities include expenses incurred but not yet paid at June 30, 2010.

As noted above, NMCAC 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 are separate from the super computer. Operating expenses consist mainly of amounts paid for services by individuals for maintaining the day-to-day activities of NMCAC.

In-kind revenue and expenses include amounts that relate to leased space for operations and the computer site for which fees have been waived.

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

June 30, 2010

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS – CONTINUED

NMCAC reports a positive net asset balance at June 30, 2010 but the balance available covers only a portion of operating expenses expected for fiscal year 2011 based on operating expenses reported for fiscal year 2010. NMCAC is not self sustaining in terms of revenue. The original planning for the Supercomputer (Encanto) showed 5 years would be needed for self sufficiency. In the absence that State appropriations for fiscal year 2011, emphasis is on grant applications as the State of New Mexico received significant funding during the past fiscal year in which the supercomputer capability and infrastructure was part of the grant application. Other sources of revenue will continue to be identified.

BUDGETARY ANALYSIS

A budget was created for 2010. Budget revenues included amounts available for transfer of about \$2.9 million. Operating expenses were budgeted at \$4.5 million. Overall operating and related expenses ended at \$3.3 million resulting in a difference of \$1.2 million as actual contract revenues were lower than anticipated contract revenues.

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 2010.

CAPITAL ASSET ACTIVITY

NMCAC 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. NMCAC also purchased, with state appropriation monies, furniture for NMCAC'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.

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

June 30, 2010

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

The New Mexico Computing Applications Center (NMCAC) continued to make progress in its second year towards meeting its strategic objectives of economic development, use of High Performance Computing to further the State's education goals and community development. The management team continued to evolve as Marshall Peterson became the single Chief Technology Officer for NMCAC and the performance of Encanto was finely tuned and after a major upgrade, the utilization standards in the industry of 80% were routinely exceeded by the technical team which also included Kevin Nolte in applications support and Kevin Kennedy in system administration. The education and research and development agenda in the state were addressed significantly in this last fiscal year as greater than 185,000 jobs were run by researchers from the University of New Mexico, New Mexico State University, New Mexico Tech, Sandia National Laboratories and Los Alamos National Laboratory.

Much of the work done on Encanto was in basic research and in support of grants that were won in the state. \$54 million worth of grants have been awarded to New Mexico entities as a result of collaboration with NMCAC and several of those researchers have been using Encanto to further their research. Also in the Education sector, 20 3-D visualization "Gateways" have been successfully installed throughout higher education institutions in the state. These "Gateways" provide access to Encanto and also enable inter-gateway interaction and serve the Public Education Department, the Higher Education Department to provide the highest quality high performance computing based education for New Mexico students, as well as practical high definition training capabilities for the Medical community in remote locations. The "Gateway" network provides rural communities and companies' access to the resources of Encanto including researchers at the founding members working on their most complex problems. On the commercial economic development front, the Digital Media Industry has shown great interest in NMCAC and has provided \$174,403 of revenue into the center this year. Cerelink continues to be a major partner with the center and they have won a significant multi-year multi-million dollar contract with Dreamworks SKA. In particular, Cerelink, NMCAC, and Intel have demonstrated successful Cloud Computing applications that show great promise for the industry. Green Energy, Smart Energy, and other energy related projects also continue to show great promise in terms of economic development opportunities for the state and projects for the center. The largest available platform for doing modeling of the oil spill in the Gulf of Mexico was Encanto, consequently, the entire community, including the federal government, working on this project began to understand through the modeling and simulation provided by Encanto, the long-term affects of the oil spill if it were not contained and cleaned-up successfully. In addition, Intel made its decision to co-locate its Energy Research Center with NMCAC in the Intel-Rio Rancho, New Mexico facility. The center will not be funded by the state in the next fiscal year, which dramatically changes the 6-year business plan for the center. Most of the effort in the coming year will build off the success of this year with a specific focus toward becoming self sustaining much earlier than planned.

New Mexico Computing Applications Center, Inc.

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

June 30, 2010

Requests for Information

This financial report is designed to provide a general overview of the AGO finances for all interested parties. If you have questions about this report or need additional information, contact:

New Mexico Computing Applications Center, Inc.
5700 West University Blvd. SE, Suite 320
Albuquerque, New Mexico 87106

New Mexico Computing Applications Center, Inc.

STATEMENT OF NET ASSETS - PROPRIETARY FUND

June 30, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,347,094
Accounts receivable -related party	154,825
Prepaid expenses	<u>4,352</u>

Total current assets 1,506,271

PROPERTY AND EQUIPMENT

Computer data storage equipment	<u>103,658</u>
---------------------------------	----------------

103,658

Less accumulated depreciation and amortization	<u>(22,460)</u>
--	-----------------

Net property and equipment 81,198

Total assets \$ 1,587,469

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 374,500
Accounts payable - related party	<u>264,950</u>

Total current liabilities 639,450

NON-CURRENT LIABILITIES

-

Total liabilities 639,450

COMMITMENTS

-

NET ASSETS

Invested in capital assets	81,198
Unrestricted	<u>866,821</u>

Total net assets 948,019

Total liabilities and net assets \$ 1,587,469

The accompanying notes are an integral part of this financial statement.

New Mexico Computing Applications Center, Inc.

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

For the year ending June 30, 2010

OPERATING REVENUE	
Supercomputer revenues	\$ 794,850
Private contracts and grants	257,571
In-kind contributions	<u>1,295,580</u>
Total revenues	2,348,001
EXPENSES	
Technical operations	2,530,534
In-kind	1,295,580
Subcontracted personnel	475,753
Professional fees	207,073
Other operating expense	93,664
Office expense	20,806
Depreciation and amortization	<u>20,732</u>
Total operating expenses	<u>4,644,142</u>
Operating deficit	(2,296,141)
NONOPERATING REVENUES	
Appropriations - Transfers in from DoIT	<u>2,967,163</u>
Total nonoperating revenues	<u>2,967,163</u>
Change in net assets	671,022
Net assets, beginning of year	<u>276,997</u>
Net assets, end of year	<u><u>\$ 948,019</u></u>

The accompanying notes are an integral part of this financial statement.

New Mexico Computing Applications Center, Inc.

STATEMENT OF CASH FLOWS

For the year ending June 30, 2010

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from grants and contracts	\$ 102,746
Cash paid to subcontracted personnel	(475,753)
Cash paid for technical operations	(1,248,981)
Cash paid for operating activities	<u>(321,095)</u>

Net cash used in operating activities (1,943,083)

CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES

Cash transfers and reimbursements from receiving agent (UNM)	<u>3,205,770</u>
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Net cash provided by non capital financing activities 3,205,770

NET INCREASE IN CASH AND CASH EQUIVALENTS 1,262,687

Cash and cash equivalents, beginning of year 84,407

Cash and cash equivalents, end of year \$ 1,347,094

The accompanying notes are an integral part of this financial statement.

New Mexico Computing Applications Center, Inc.

STATEMENT OF CASH FLOWS - CONTINUED

For the year ending June 30, 2010

Increase (Decrease) in Cash and Cash Equivalents

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

Operating deficit	\$ (2,296,141)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	20,732
Changes in assets and liabilities	
Accounts receivable	(154,825)
Prepaid expense	448
Accounts payable including related parties	<u>486,703</u>
Total adjustments	<u>353,058</u>
Net cash used in operating activities	<u><u>\$ (1,943,083)</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Donation of space, materials, supplies, and services	<u><u>\$ 1,295,580</u></u>
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

NOTE A – FINANCIAL REPORTING ENTITY

New Mexico Computing Applications Center, Inc. (NMCAC) 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 NMCAC.

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, 2010

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, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

As of July 3, 2008 (inception), NMCAC 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
- Per diem 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).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

- The Research Park Corporation may enter into outside insurance arrangements in addition to those covered by the Risk Management Division, State of New Mexico.
- 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

NMCAC 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. NMCAC 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, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Cash and Cash Equivalents

NMCAC maintains a non-interest bearing cash account at a local financial institution for private funds only. Public funds are deposited and held by the New Mexico Department of Information Technology until draw requests are approved for state funds. Once the draw down request has been approved, funds are then transferred to University of New Mexico (UNM) where they are held for NMCAC's use. Public funds are deposited and disbursed through a UNM account who acts as a receiving agent for NMCAC pursuant to a memorandum of understanding detailed on page 29. NMCAC has no authority to require collateral for monies deposited into UNM bank accounts. Revenue not sourced from the State of New Mexico is deposited directly into NMCAC's private bank account. NMCAC 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 NMCAC.

For the purposes of the statements of cash flows, NMCAC 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. NMCAC 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. NMCAC capitalizes new asset additions greater than \$5,000 in accordance with 12-6-10 NMSA 1978. NMCAC 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

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Capital Assets – Continued

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, 2010. There are no restricted net assets.

NMCAC has significant assets invested in capital assets, as reported on the statement of net assets-proprietary fund for 2010. 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 NMCAC's policy to first apply the expense to restricted resources.

8. Classification of Revenues

NMCAC 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, 2010

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

NMCAC 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, 2010.

11. Budgetary Basis

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

Currently there are no new accounting standards issued by the governmental accounting standards board that will affect NMCAC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

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 2010, NMCAC paid for services provided by these organizations or had other relationships with related parties as follows:

NMCAC paid \$51,500 to the University of New Mexico (UNM) for providing accounting services. NMCAC also paid \$101,725 to UNM for computer access capability (LlamadaRail). 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 \$95,580 for the office space which has been recorded as an in-kind transaction.

NMCAC paid \$7,173 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.

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 \$214,774 for these services.

NMCAC uses space with Intel Corporation for storage and operations of the supercomputer. 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. Intel was owed \$264,950 for these services as of June 30th 2010. Per management the value of the space provided is \$1,200,000 annually and has been recorded as an in-kind transaction. A \$30,000 grant was received from Intel for a supercomputer education outreach program. An Intel employee sits on the Board of Directors of NMCAC.

NMCAC has signed MOUs with Cerelink, Inc., a commercial LLC for use of the supercomputer to supports its digital media project. Cerelink's use of the supercomputer generated \$227,571 in contract revenues for fiscal year 2010. \$154,825 was owed to NMCAC from Cerelink as of June 30th 2010. A Cerelink employee sits on the Board of Directors of NMCAC and certain owners and members of management of Cerelink are former employees of Intel Corporation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE C – RELATED PARTY TRANSACTIONS – CONTINUED

During 2010, NMCAC 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
- NMCAC for Advanced Research Computing (UNM)
- National NMCAC for Genome Resources (related through UNM and NMSU)

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 NMCAC for advanced computing (supercomputer). (Laws of 2007, Chapter 42, Section 61.)

In fiscal year 2009 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). In fiscal year 2010, \$2,967,163 was received and expended during the fiscal year.

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:

Description	2009	Additions	Deletions	2010
Computer equipment	\$ 103,658	\$ -	\$ -	\$ 103,658
Accumulated depreciation	<u>(1,728)</u>	<u>(20,732)</u>	<u>-</u>	<u>(22,460)</u>
Net capital assets	<u>\$ 101,930</u>	<u>\$ (20,732)</u>	<u>\$ -</u>	<u>\$ 81,198</u>

Depreciation expense for the year ended June 30, 2010 was \$20,732. All capital assets are being depreciated.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

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. NMCAC benefited from donated rental spaces which were valued by the respective lessor at \$1,295,580. 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.

NMCAC 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 during FY10.

NOTE G – LEASES

NMCAC has month-to-month lease arrangements for office space currently with Mesa Del Sol for the year ended June 30, 2010. The lessor waived a total of \$95,580 of lease expense which has been included as in-kind transactions.

NMCAC 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 expired 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. Subsequent to year-end, based on previous negotiations, Intel agreed to modify the fee schedule dated June 30, 2009 in exchange for use of the supercomputer CPU core hours. The value of CPU core hours provided to Intel was \$794,850 and is recorded as supercomputer revenues for the period ending June 30, 2010. Under the modified fee schedule dated August 20, 2010 annual lease cost in subsequent years is as follows:

2011	\$ 826,800
2012	1,293,922
2013	<u>1,348,481</u>
Total	<u>\$ 3,469,203</u>

NOTE H – COMMITMENTS

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE I – ECONOMIC DEPENDENCY

Due to its start up nature, NMCAC's operations were significantly supported, over 56%, by funds provided through the State of New Mexico.

The State subleases the Encanto supercomputer to NMCAC 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 NMCAC.

NOTE J – RISK MANAGEMENT

NMCAC is exposed to various risks of loss including General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Losses Related to Torts. NMCAC 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 NMCAC pays premiums to participate in the State Insurance Program and 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

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 September 30, 2010, which is the date the financial statements are available to be issued. The following items were deemed significant for disclosure.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE K – SUBSEQUENT EVENTS – CONTINUED

- Gateways

In connection with its educational gateway initiative, NMCAC established 20 gateways during fiscal year 2010 and 8 new gateways subsequent to fiscal year 2010 pursuant to MOUs that established the rights and responsibilities including funding obligations for the 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 NMCAC to those locations.

- Intel Agreement

NMCAC and Intel modified their agreement whereby NMCAC leased Supercomputer power, cooling, and network operations from Intel for \$264,950 per quarter. The outstanding charges at June 30, 2010 was \$1,059,800 before contract modification. The parties agreed to offset certain operating and maintenance costs in exchange for Intel's use of supercomputer CPU core hours. A \$794,850 entry was recorded at June 30, 2010 to reduce accounts payable and record supercomputer revenue to reflect Intel's purchase of core hours. Accounting Standards require the recognition of effects subsequent to year-end that provide additional evidence about conditions that existed at the date of the balance sheet. See Note G.

- Cerelink Agreement

A contract amendment with Cerelink (Project Zia Phase Upgrade 1) was signed subsequent to year-end for \$1.1 million whereby Cerelink will utilize Encanto for commercial purposes. The contract requires certain equipment upgrades to be paid by NMCAC and reimbursed by Cerelink.

NOTE L – GOING CONCERN

NMCAC will not receive any state funding from the State of New Mexico for fiscal year 2011. Funding from the State of New Mexico's Department of Information Technology accounted for 56% of total support received in fiscal year 2010. Current operating revenue not sourced from the State of New Mexico is not sufficient to cover expected operating expenses for fiscal year 2011. Management's plans regarding this matter include the following:

- On August 20, 2010, NMCAC completed negotiations with Intel to modify the fee schedule associated with a lease agreement dated June 30, 2009 in exchange for Intel's use of supercomputer CPU core hours. The agreement will save NMCAC \$794,850 currently and \$1,070,450 over the next two years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE L – GOING CONCERN – CONTINUED

- NMCAC will use carry over funds from fiscal year 2010 totaling \$866,821 (total net assets of \$948,019 less \$81,198 in net property and equipment) to fund fiscal year 2011 operations.
- In fiscal year 2011, NMCAC will seek to charge universities for their use of the supercomputer.
- NMCAC will seek to obtain new grant funding including a \$4 million grant with a bio-energy company where Encanto would provide all the computing for the proposal.
- NMCAC will seek to co-develop semiconductor parts for fabrication plants with a technology manufacturing company for purposes of reducing semiconductor industry energy costs.
- NMCAC will continue to seek new private contracts.
- Subsequent to year-end, NMCAC and Cerelink amended their contract for the Zia Phase 1 Upgrade. The contract amendment will provide \$1.1 million of commercial revenue in fiscal year 2011 and requires through DoIT certain equipment upgrades to be purchased by NMCAC and reimbursed by Cerelink.

Per management, the NMCAC is working through a difficult transition from State appropriations to other than State funding. The Cerelink contract, together with available net assets brought forward to fiscal 2011, provides in excess of 60% anticipated operating funds needed for fiscal year 2011. Grant applications and certain other commercial funding opportunities are in process. Additional opportunities will continue to be identified.

NOTE M – REVERSION

A memorandum of understanding (MOU) with the Board of Regents of the University of New Mexico (UNM) and the State of New Mexico Department of Information Technology (DoIT) requires NMCAC to revert to DoIT unexpended or unencumbered funds transferred to NMCAC within fifteen (15) calendar days of the occurrence of a statutorily prescribed reversion date. It is NMCAC's policy to apply expenses first to restricted resources. Reversion expense was calculated including Intel modifications, described in Note G, for which consideration was given and current and future cash flows of NMCAC were increased. The tables below detail amounts transferred to NMCAC during fiscal year 2010 and activity for fiscal year 2010.

Restricted resource	Purpose	Reversion Date	Original Amount	Amount received	Expenses applied	Unexpended balance	Reversion
Laws of 2009 Ch 124 sec 5 item 15	For staff and operations cost for the New Mexico computing applications center	6/30/2010	\$3,000,000	\$2,967,163	\$2,967,163	-	-

New Mexico Computing Applications Center, Inc.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2010

NOTE M – REVERSION – CONTINUED

	<u>Reversion Expenses</u>
Total operating expenses	\$ 4,644,142
Less in-kind expenses	(1,295,580)
Less depreciation	<u>(20,732)</u>
	<u>\$ 3,327,830</u>
Application of restricted appropriations	\$ 2,967,163
Application of unrestricted resources	<u>360,667</u>
	<u>\$ 3,327,830</u>

SUPPLEMENTARY INFORMATION

New Mexico Computing Applications Center, Inc.

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the year ending through June 30, 2010

	Original Budget	Final Budget	Actual	Positive (Negative) Variance
REVENUES				
Supercomputer revenues	\$ -	\$ -	\$ 794,850	\$ 794,850
Grants and contracts	<u>1,618,988</u>	<u>1,618,988</u>	<u>257,571</u>	<u>(1,361,417)</u>
Total revenues	1,618,988	1,618,988	1,052,421	(566,567)
EXPENSES				
Business operations	526,694	526,694	539,615	(12,921)
Program operations	224,600	224,600	30,470	194,130
Technical operations	2,609,954	2,609,954	2,530,534	79,420
Outreach and client services	1,102,219	1,102,219	206,405	895,814
Office operations	<u>98,000</u>	<u>98,000</u>	<u>20,806</u>	<u>77,194</u>
Total expenses	4,561,467	4,561,467	3,327,830	1,233,637
OTHER FINANCING SOURCES				
Transfers in	<u>2,942,479</u>	<u>2,942,479</u>	<u>2,967,163</u>	<u>24,684</u>
	<u>\$ -</u>	<u>\$ -</u>	691,754	<u>\$ (1,775,520)</u>
Depreciation			(20,732)	
In-kind contributions			1,295,580	
In-kind expenses			<u>(1,295,580)</u>	
Change in net assets, GAAP basis			<u>\$ 671,022</u>	

SCHEDULE OF MEMORANDUMS OF UNDERSTANDING

June 30, 2010

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 NMCAC – upon procurement of Encanto supercomputer – MOU provides mechanism for transfer and use of state funds to UNM for NMCAC’s use.
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 fiscal year 2010 – 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, 2010

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	\$2,967,163	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 \$227,571 contributed by Cerelink	NMCAC reports income of \$227,571	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, 2010

	Bank Balance	Outstanding Reconciling Items	Book Balance
	<u> </u>	<u> </u>	<u> </u>
ACCOUNTS			
UNM/DoIT - public funds	\$ 1,088,258	\$ -	\$ 1,088,258
Private funds - checking account, First Community Bank	<u>258,836</u>	<u>-</u>	<u>258,836</u>
Total	<u>\$ 1,347,094</u>	<u>\$ -</u>	<u>\$ 1,347,094</u>
	<u>Private</u>	<u>Public</u>	
Amounts	\$ 258,836	\$ 1,088,258	
FDIC coverage	<u>250,000</u>	<u>-</u>	
Total uninsured (overinsured) private funds	<u>\$ 8,836</u>		
Total uninsured (overinsured) public funds		<u>See UNM financial statements and disclosures</u>	
Collateral requirements - 50% (Section 6-10-17)	\$ -	\$ -	
Amounts of pledged collateral - pledged inventory	<u>-</u>	<u>-</u>	
Total over uncollateralized	<u>\$ -</u>	<u>\$ -</u>	

Disclosure

Custodial credit risk is the risk that in the event of a bank failure, NMCAC's deposits may not be returned to it. The UNM/DOIT and the First Community Bank accounts are two separate bank accounts. NMCAC has a private bank account to utilize the protection of FDIC insurance coverage that contains no public money. The bank is not a designated depository of public money as defined by Section 6-10-17 NMSA. Management does not believe the bank balance was exposed to significant custodial credit risk as of June 30, 2010. Credit quality risk, securities custodial credit risk, and interest rate risk disclosures do not apply. Public funds are deposited and held by the New Mexico Department of Information Technology until draw requests are approved for state funds. Once the draw down request has been approved, funds are then transferred to University of New Mexico (UNM) where they are held for NMCAC's use. Public funds are deposited and disbursed through a UNM bank account who acts as a receiving agent for NMCAC pursuant to a memorandum of understanding detailed on page 22. NMCAC has no control over the bank account and no authority to require collateral for monies deposited into UNM bank accounts. See the University of New Mexico's (UNM) financial statements which contain risk disclosures and pledging requirements and details for cash balances held by UNM for NMCAC.



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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) a component unit of the State of New Mexico, as of and for the year ending June 30, 2010, 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 year ended June 30, 2010, presented as supplementary information in the table of contents, and have issued our report thereon dated September 30, 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 NMCAC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMCAC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NMCAC's internal control over financial reporting.

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

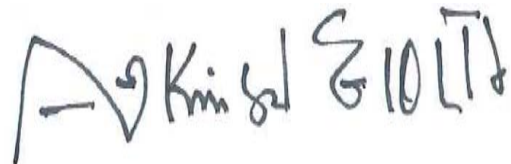
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as described above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiency in internal control over financial reporting and can be referenced as item 09-03. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMCAC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

NMCAC's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit NMCAC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within NMCAC, 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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co. Ltd.", with a stylized logo to the left consisting of a large 'A' and a smaller 'K'.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
September 30, 2010

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified for going concern uncertainty

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? No

STATUS OF PRIOR YEAR FINDINGS

- 09-01 – Full Governmental GAAP Financial Statement Preparation Capability (Significant Deficiency)-Resolved
- 09-02 – Cash Account Not Timely Reconciled-Resolved
- 09-03 – Full Accrual Accounting Not Properly Used, Significant Audit Adjustments Made (Significant Deficiency)-Repeated and Modified
- 09-04 – Late Audit Report (Significant Deficiency)-Resolved
- 09-07 – Contract Violations-Resolved
- 09-05 – Budget Violation-Resolved
- 09-06 – Code of Conduct Not in Place-Resolved

CURRENT YEAR FINDINGS

- 09-03 – Significant Audit Adjustments Made (Significant Deficiency) – Repeated and Modified

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2010

FINANCIAL STATEMENT FINDINGS

09-03 Significant Audit Adjustments Made (*Significant Deficiency*)

Condition

The year-end engagement required several adjustments to record both cash receipt and disbursement transactions that were recorded in UNM's (receiving agent's) general ledger but were not recorded in NMCAC's general ledger at the onset of the audit.

Criteria

Good accounting practice require cash records in NMCAC's general ledger to be periodically reconciled to the UNM (Receiving Agent) cash records to ensure all cash receipts and disbursements are recorded.

Cause

In fiscal year 2010, NMCAC consolidated two cash accounts into a single account in their QuickBooks general ledger; however, transactions related to capital purchases and reimbursement activity were lost during the consolidation process.

Effect

Extensive reconciliations had to be performed during the audit to reconcile the QuickBooks general ledger to the UNM (receiving agent) general ledger. Significant audit adjustments were made to record the capital purchases and reimbursement activity of NMCAC.

Recommendation

We recommend NMCAC reconcile cash receipts and disbursements monthly to UNM cash receipt and disbursement records to avoid extensive reconciliations at year-end.

Management's Response

We are now reconciling Quickbooks Software to the UNM general ledger accounts.

At the time, the NMCAC was standing up its Quickbooks system. We were running parallel systems with Banner at UNM and while we may have had duplicate entries in that time frame, we were able to resolve them through our internal checks and balances so as not to repeat this issue. There were no deleterious effects to the NMCAC as the system of record at that time, was the Banner system at UNM.

EXIT CONFERENCE

June 30, 2010

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

* * * * *

An Exit Conference was held on September 23, 2010 and attended by the following:

For Atkinson & Co., Ltd.:

Marty Mathisen, CPA, CGFM
Morgan Browning, CPA, CGFM

Shareholder/Audit Director
Audit Manager

For the New Mexico Computing Applications Center, Inc.:

Thomas J. Bowles
J. Leonard Martinez
Sue Devore

CEO/Chairman, Board of Directors, NMCAC
COO, NMCAC
OPS Manager, NMCAC

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