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

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

June 30, 2011

atkinson

PRECISE. PERSONAL. PROACTIVE.

CONTENTS

	<u>Page</u>
CONTENTS.....	1
OFFICIAL ROSTER.....	2
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	3-4
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	5-9
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS – PROPRIETARY FUND.....	10
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – PROPRIETARY FUND	11
STATEMENT OF CASH FLOWS.....	12-13
NOTES TO FINANCIAL STATEMENTS	14-25
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL.....	26
SCHEDULE OF MEMORANDUMS OF UNDERSTANDING.....	27-28
SCHEDULE OF INDIVIDUAL DEPOSIT ACCOUNT AND PLEDGED COLLATERAL.....	29
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 <i>GOVERNMENT AUDITING STANDARDS</i>	30-31
SCHEDULE OF FINDINGS AND RESPONSES	32-34
EXIT CONFERENCE.....	35

OFFICIAL ROSTER

June 30, 2011

BOARD OF DIRECTORS

Tom Bowles	Chief Executive Officer
Darryl Ackley	Secretary of Information Technology
Jon Barela	Economic Development
Jose Garcia	Secretary of Higher Education
Hanna Skandera	Secretary of Public Education
Vimal Chaitanya	NMSU VP for Research, Grad. Studies, and Int'l Programs
Van Romero	NMT VP for Research and Economic Dev.
Julia Fulghum	UNM VP for Research and Economic Dev.
Terry Wallace	LANL Principal Associate Director for Science, Technology, and Engineering
Steve Rottler	SNL VP for Science and Technologies and Research Foundations
Dr. Steven Gamble	ENMU President
Jami Grindatto	Intel
Tad Powers	Hidalgo County Economic Dev. Coordinator



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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SUITE 700
ALBUQUERQUE, NM 87110

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PO BOX 25246
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, 2011, 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, 2011, 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 provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of New Mexico Computing Applications Center, Inc. are intended to present the financial position, and the changes in financial position of only that portion of the business type activities of the State of New Mexico that is attributable to the transactions of NMCAC. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

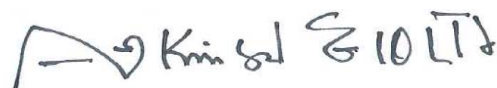
In our opinion, the financial statements and budgetary comparison referred to above present fairly, in all material respects, the respective financial position of the business type activities of NMCAC, as of June 30, 2011, and the respective changes in financial position and cash flows, for the year ended June 30, 2011, 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 2012. The lack of future funding from the State of New Mexico and write-off of significant receivable balance 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 December 13, 2011 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, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our 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 basic 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.



Atkinson & Co., Ltd.

Albuquerque, New Mexico
December 13, 2011

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

June 30, 2011

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, 2011 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 the 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, 2011 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>2011</u>	<u>2010</u>
Current assets	\$ 118,044	\$ 1,506,271
Non-current assets	<u>60,466</u>	<u>81,198</u>
Total assets	<u>\$ 178,510</u>	<u>\$ 1,587,469</u>
Current liabilities	\$ 1,102,883	\$ 639,450
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	1,102,883	639,450
Net assets	<u>(924,373)</u>	<u>948,019</u>
Total liabilities and net assets	<u>\$ 178,510</u>	<u>\$ 1,587,469</u>

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

June 30, 2011

CONDENSED COMPARATIVE FINANCIAL INFORMATION – CONTINUED

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

	<u>2011</u>	<u>2010</u>
In-kind revenues	\$ 1,492,620	\$ 1,295,580
Operating revenues	917,913	1,052,421
Transfers in	<u>1,461</u>	<u>2,967,163</u>
 Total revenues	 2,411,994	 5,315,164
 Operating expenses	 2,994,866	 3,348,562
In-kind expenses	1,492,620	1,295,580
Non-operating expenses	<u>-</u>	<u>-</u>
 Change in net assets	 (2,075,492)	 671,022
 Beginning Net Assets	 948,019	 276,997
 Restatement	 <u>203,100</u>	 <u>-</u>
 Ending Net Assets	 <u>\$ (924,373)</u>	 <u>\$ 948,019</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, 2011.

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 (DoIT) through 2010. 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 revenues 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, 2011

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS – CONTINUED

NMCAC reports a negative net asset balance at June 30, 2011. 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 2012, 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 2011. Operating expenses were budgeted at \$2.5 million. Overall operating and related expenses ended at \$2.9 million including a one-time bad debt charge of \$632,645. Revenues were under budget by 1.3 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 2011.

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 offices, 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

Cerelink, Inc. (Cerelink), a related party to NMCAC, informed NMCAC on November 4, 2011 that they were denied funding from private investors to move forward. As a result, their Board authorized them to proceed to shut down the business and file chapter 7 bankruptcy. They have since engaged a bankruptcy attorney and terminated their remaining employees. The closure of Cerelink leaves an outstanding accounts receivable owed to NMCAC of \$632,645, which is a serious concern for the viability of NMCAC. For financial statement purposes, this amount was provided for as uncollectible as of June 30, 2011.

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

June 30, 2011

CURRENTLY KNOWN FACTS, DECISIONS, AND CONDITIONS – CONTINUED

NMCAC has been actively working to bring other resources to bear and to generate revenues in the coming months. To that end, we have concluded agreements in November and December 2011 with HPC Tools and OSSDS (both offshoots of the nationally-recognized SiCorp computer support company) to operate the G6 and Encanto systems and to work with NMCAC to generate business use of the computers by offering cloud computing services. This has resulted in HPC Tools providing system administration support for Encanto. OSSDS is working to bring the G6 system back on line (after removal of Cerelink-leased equipment). We are now working on the specifics that will be included in contracts with HPC Tools and OSSDS that include revenue sharing, computer system upgrades, and responsibilities.

To be more detailed, HPC Tools and OSSDS wish to use and to sublicense to others the use of Encanto and G6 the services and specific resources of NMCAC via cloud computing. HPC Tools further desires to provide to NMCAC maintenance and operational support for Encanto and G6 to expedite the availability of Encanto and G6 and NMCAC's services and resources for NMCAC's and HPC Tools and OSSDS own projects and for sub-licensed projects, all consistent with NMCAC's purposes, policies, and procedures as provided to HPC Tools and OSSDS. We have agreed to sort out all the issues and come to a final contract by the end of December 2012. In the meantime, they will support Encanto and work to bring more business on board.

We are still working with Intel on many different levels to keep Encanto and G6 up and running through the transition and moving forward. Intel is continuing to use Encanto for chip design studies, which are progressing well. Intel Rio Rancho has expressed strong interest in partnering with NMCAC to grow HPC usage in several areas and we are currently in discussions with Intel Corporate with a reasonable chance that Intel will provide substantial resources to NMCAC. NMCAC is also pursuing other opportunities for funding, including a collaboration with institutions in Colorado and Arizona to compete for National Science Foundation funding for a cyber security Frontier Center of Excellence. At the same time, efforts to develop smart grid capabilities are underway along with development of New Mexico proposals for NSF EPSCoR funding in energy, environment, and water.

The loss of revenue from Cerelink has had a substantial negative impact on NMCAC. As a result, we have had to engage in painful cost-cutting exercises while at the same time pursuing revenue generation through cloud computing and focused R&D initiatives. NMCAC has developed a plan to move forward and is seeking Board approval on December 15, 2011 while at the same time pursuing a number of possibilities for funding. Clearly, the fate of NMCAC will be determined by next summer, either as having transitioned through a difficult period to an era of self-sustaining operations and growth or to closure of NMCAC.

New Mexico Computing Applications Center, Inc.

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

June 30, 2011

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of NMCAC 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, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 91,651
Accounts receivable, net of allowance for uncollectible accounts of \$632,645	<u>26,393</u>

Total current assets 118,044

PROPERTY AND EQUIPMENT

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

103,658

Less accumulated depreciation and amortization	<u>(43,192)</u>
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Net property and equipment 60,466

Total assets \$ 178,510

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable - related party	<u>\$ 1,102,883</u>
----------------------------------	---------------------

Total current liabilities 1,102,883

NON-CURRENT LIABILITIES

-

Total liabilities 1,102,883

COMMITMENTS

-

NET ASSETS (DEFICIT)

Invested in capital assets	60,466
Unrestricted (deficit)	<u>(984,839)</u>

Total net assets (deficit) (924,373)

Total liabilities and net assets \$ 178,510

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, 2011

OPERATING REVENUE	
Private contracts and grants	\$ 917,364
Investment income	549
In-kind contributions	<u>1,492,620</u>
Total revenues	2,410,533
EXPENSES	
Technical operations	1,923,517
In-kind	1,492,620
Bad debt expense	632,645
Subcontracted personnel	290,829
Professional fees	69,295
Other operating expense	34,013
Office expense	23,835
Depreciation and amortization	<u>20,732</u>
Total operating expenses	<u>4,487,486</u>
Operating deficit	(2,076,953)
NONOPERATING REVENUES	
Appropriations - Transfers in from DoIT	<u>1,461</u>
Total nonoperating revenues	<u>1,461</u>
Change in net assets	(2,075,492)
Net assets, beginning of year, as previously reported	948,019
Restatement	<u>203,100</u>
Net assets, end of year	<u><u>\$ (924,373)</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, 2011

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from grants and contracts	\$ 1,045,796
Cash paid to subcontracted personnel	(290,829)
Cash paid for technical operations	(1,256,984)
Cash paid for operating activities	(755,436)
Investment income	<u>549</u>
Net cash used in operating activities	(1,256,904)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Cash transfers and reimbursements from receiving agent	<u>1,461</u>
Net cash provided by non capital financing activities	<u>1,461</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,255,443)
Cash and cash equivalents, beginning of year	<u>1,347,094</u>
Cash and cash equivalents, end of year	<u>\$ 91,651</u>

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, 2011

Increase (Decrease) in Cash and Cash Equivalents

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

Operating deficit	\$ (2,076,953)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation and amortization	20,732
Bad debt expense	632,645
Changes in assets and liabilities	
Accounts receivable	(504,213)
Prepaid expense	4,352
Accounts payable including related parties	<u>666,533</u>
Total adjustments	<u>820,049</u>
Net cash used in operating activities	<u><u>\$ (1,256,904)</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Donation of space, materials, supplies, and services	<u><u>\$ 1,492,620</u></u>
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The accompanying notes are an integral part of this financial statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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, 2011

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 a 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 discrete 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, 2011

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, 2011

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. Grant revenue is recorded when all eligibility requirements have been met. 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Cash and Cash Equivalents

NMCAC maintains an 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 (DoIT) 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 28. NMCAC has no authority to require collateral for monies deposited into UNM bank accounts. This agreement with UNM and DoIT ended June 2010 and the residual funds were received and expended by November 2010. As of June 30, 2011, no funds were held by UNM. 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. These funds are insured through National Credit Union Administration (NCUA) up to statutory limits. 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 private contracts. Subsequent to year-end \$632,645 owed by Cerelink to NMCAC was written off due to the bankruptcy of Cerelink. NMCAC considers the remaining 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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, 2011. 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 2011. 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, 2011

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, 2011.

11. Budgetary Basis

NMCAC budgets on an accrual basis. Depreciation, bad debts, 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. Accounts Payables

Accounts payables are as follows:

Intel Corporation	\$	826,800
SGL International		181,961
Ilsl, LLC		85,967
Other		<u>8,156</u>
	\$	<u>1,102,884</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

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 2011, NMCAC paid for services provided by these organizations or had other relationships with related parties as follows:

NMCAC paid \$12,500 to the University of New Mexico (UNM) for providing accounting services. 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 \$59,520 for the office space which has been recorded as an in-kind transaction.

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 or accrued \$376,795 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 \$826,800 for these services as of June 30, 2011. Per Intel management analysis the value of the space provided is \$1,200,000 annually and has been recorded as an in-kind transaction. An Intel employee sits on the Board of Directors of NMCAC.

NMCAC has signed Memorandums of Understanding (MOU) with Cerelink, Inc., a commercial LLC, for use of the supercomputer to supports its digital media project. Cerelink's use of the supercomputer generated \$868,242 in contract revenues for fiscal year 2011. However, \$632,645 worth of receivables was written off due to Cerelink filing for bankruptcy during part of 2011 subsequent to June 30, 2011. A Cerelink employee sat on the Board of Directors of NMCAC during 2011.

NMCAC received \$1,461 from the New Mexico Department of Information Technology for the purchase of capital expenditures. Those funds were expended by June 30, 2011.

During 2011 and 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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE C – RELATED PARTY TRANSACTIONS – CONTINUED

- 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.)

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	2010	Additions	Deletions	2011
Computer equipment	\$ 103,658	\$ -	\$ -	\$ 103,658
Accumulated depreciation	<u>(22,460)</u>	<u>(20,732)</u>	<u>-</u>	<u>(43,192)</u>
Net capital assets	<u>\$ 81,198</u>	<u>\$ (20,732)</u>	<u>\$ -</u>	<u>\$ 60,466</u>

Depreciation expense for the year ended June 30, 2011 was \$20,732. 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. NMCAC benefited from donated rental spaces which were valued by the respective lessor at \$1,492,620. These amounts have been reported as in-kind contribution revenue and 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 the year ended June 30, 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE G – LEASES

NMCAC had a month-to-month lease arrangements for office space with Mesa Del Sol for the year ended June 30, 2011. The lessor waived a total of \$95,580 of lease expense which has been included as in-kind transactions. This lease terminated June 30, 2011.

Currently, NMCAC leases its administrative offices under a one year operating lease which expires June 30, 2012. There is no lease expense for this facility for the year ended June 30, 2011 in that the first payment begins July 1, 2011. The minimum lease payment required under this operating lease will be \$1,563 monthly, for an annual payment of \$18,756.

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 expires June 30, 2013. The lease requires power, cooling, and network services to be billed to NMCAC quarterly. Lease expense for power, cooling, and network services was \$826,800 for fiscal year 2011. Under the fee schedule dated August 20, 2010 annual lease cost in subsequent years is as follows:

2012	\$ 1,293,922
2013	<u>1,348,481</u>
Total	<u>\$ 2,642,403</u>

NOTE H – COMMITMENTS

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

SGL International provided tech support for Encanto supercomputer for fiscal year 2011 and prior years. This technical support will not continue in fiscal year 2012. New agreements have been signed with HPC Tools and OSSDS for computer support. The amount of the commitment under the new arrangement is \$333,858.

NOTE I – ECONOMIC DEPENDENCY

NMCAC's operations were significantly supported, approximately 36%, by Cerelink, a private organization using the supercomputer. In addition, the accounts receivable from Cerelink accounted for approximately 96% of the accounts receivable balance at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE I – ECONOMIC DEPENDENCY – CONTINUED

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 have been evaluated through December 13, 2011, the date the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ending June 30, 2011. Management believes all material subsequent events that have arisen that would require disclosure are properly disclosed. One matter resolved after year-end that required adjustment to NMCAC's financial statements.

Cerelink, Inc. owed NMCAC \$632,645 at June 30, 2011. Subsequent to year-end, Cerelink, Inc. declared bankruptcy and informed NMCAC that they would not pay any amount of the outstanding balance. NMCAC wrote off \$632,645 of accounts receivable at June 30, 2011 to reflect the bankruptcy filing by Cerelink, Inc. Total assets were reduced to \$178,510 after the write-off.

NOTE L – GOING CONCERN

NMCAC did 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 2012. In addition, NMCAC is currently operating with negative net assets. Management's plans regarding this matter include the following:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2011

NOTE L – GOING CONCERN – CONTINUED

- 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.
- In fiscal year 2012, NMCAC will seek to charge universities and national laboratories for their use of the supercomputer. Small amounts of funding were generated in fiscal year 2011 from these sources with the expectation that they will continue to grow.
- 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.

NOTE M – RESTATEMENT

NMCAC increased its beginning net assets by \$203,100 to reflect a decrease in accounts payable for an amount previously reported payable to Qwest. This amount, \$203,100 was determined to be payable by Intel Corporation under its contract with NMCAC.

SUPPLEMENTARY INFORMATION

New Mexico Computing Applications Center, Inc.

SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

For the year ending June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
REVENUES				
Grants and contracts	\$ 2,279,683	\$ 2,279,683	\$ 917,364	\$ (1,362,319)
Interest income	<u>-</u>	<u>-</u>	<u>549</u>	<u>549</u>
Total revenues	2,279,683	2,279,683	917,913	(1,361,770)
EXPENSES				
Technical operations	2,115,084	2,115,084	1,923,517	191,567
Business operations	248,020	248,020	227,920	20,100
Program operations	90,166	90,166	114,986	(24,820)
Outreach and client services	48,562	48,562	51,231	(2,669)
Office operations	<u>8,080</u>	<u>8,080</u>	<u>23,835</u>	<u>(15,755)</u>
Total expenses	2,509,912	2,509,912	2,341,489	168,423
OTHER FINANCING SOURCES				
Transfers in	<u>-</u>	<u>-</u>	<u>1,461</u>	<u>1,461</u>
	(230,229)	(230,229)	(1,422,115)	<u>\$ (1,528,732)</u>
Beginning fund balance	<u>230,229</u>	<u>230,229</u>		
	<u>\$ -</u>	<u>\$ -</u>		
Depreciation			(20,732)	
Bad debt expense			(632,645)	
In-kind contributions			1,492,620	
In-kind expenses			<u>(1,492,620)</u>	
Change in net assets, GAAP basis			<u>\$ (2,075,492)</u>	

SCHEDULE OF MEMORANDUMS OF UNDERSTANDING

June 30, 2011

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 2011 – 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, 2011

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	\$1,461	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 to August 27, 2011	\$1,250,000 ceiling amount applies to Cerelink with the closeout amount under negotiation	NMCAC reported income and allowance for bad debts with Cerelink for 2011	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, 2011

	<u>Bank Balance</u>	<u>Outstanding Reconciling Items</u>	<u>Book Balance</u>
ACCOUNTS			
Checking account - NM Educators Federal CU	\$ 103,376	\$ (11,825)	\$ 91,551
Savings account - NM Educators Federal CU	<u>100</u>	<u>-</u>	<u>100</u>
 Total	 <u>\$ 103,476</u>	 <u>\$ (11,825)</u>	 <u>\$ 91,651</u>
	<u>NM Educators Federal CU</u>		
Amounts	\$ 103,476		
NCUA coverage - fully insured	<u>103,476</u>		
 Total uninsured (overinsured)	 <u>\$ -</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. Management does not believe the bank balance was exposed to significant custodial credit risk as of June 30, 2011. Credit quality risk, securities custodial credit risk, and interest rate risk 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), a component unit of the State of New Mexico, as of and for the year ending June 30, 2011, 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, 2011, presented as supplementary information in the table of contents, and have issued our report thereon dated December 13, 2011. The report on NMCAC's financial statements was qualified because of the lack of future funding from the State of New Mexico, raising doubt about NMCAC's ability to continue as a going concern. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of NMCAC is responsible for establishing and maintaining effective 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.

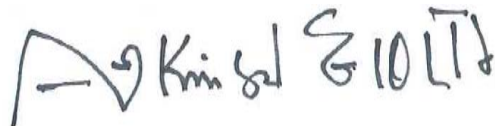
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting and can be referenced as item 09-03 and 11-01. 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit NMCAC's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board, 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 black ink, appearing to read "Atkinson & Co. Ltd.", with a stylized flourish on the left side.

Atkinson & Co. Ltd.

Albuquerque, New Mexico
December 13, 2011

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

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

09-03 – Full Accrual Accounting Not Properly Used, Significant Audit Adjustments Made (Significant Deficiency) – Repeated and Modified

CURRENT YEAR FINDINGS

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

11-01 – Prior Period Adjustment (Significant Deficiency)

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2011

FINANCIAL STATEMENT FINDINGS

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

Condition

The year-end engagement required several adjustments to record transactions which have occurred during the year, as well as, reversing prior years adjusting journal entries.

Criteria

Good accounting practice requires general ledger accounts be reconciled to supporting records.

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. During 2011, accounts were not fully reconciled.

Effect

Adjusting journal entries had to be performed during the audit to reconcile the general ledger to the supporting records.

Recommendation

We recommend NMCAC reconcile the general ledger to accounting records to avoid extensive reconciliations at year-end.

Management's Response

NMCAC transferred its general ledger system during the year ended June 30, 2010 from the University of New Mexico Banner system to a QuickBooks general ledger system. This was done at the same time as the NMCAC Chief Operating Officer left NMCAC to pursue other career opportunities. These changes resulted in some confusion between accounts. The discrepancies have now been resolved and did not affect the overall performance of NMCAC during the year ended June 30, 2011. NMCAC has been, and will continue, to reconcile the general ledger accounts to supporting documentation in all future transactions.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2011

FINANCIAL STATEMENT FINDINGS – CONTINUED

11-01 Prior Period Adjustment (*Significant Deficiency*)

Condition

During the June 30, 2011 audit, an entry was made to adjust the beginning balance of net assets.

Criteria

An accounts payable was on the books as of June 30, 2010 to Qwest. This accounts payable in the amount of \$203,100 was finally determined to not be the responsibility of NMCAC, but was payable by Intel.

Cause

NMCAC did not distinguish between accounts payable contract responsibilities and contingency items.

Effect

Accounts payable and expenses were overstated, and net assets were understated at June 30, 2010.

Recommendation

We recommend NMCAC reconcile the general ledger to accounting records for all balance sheet and income statement accounts.

Management's Response

There was an uncertainty about a possible \$203,100 payment to Qwest as the contract that included Qwest charges was negotiated by DoIT at the time that Encanto was procured. DoIT did not allow the NMCAC to participate in those contract negotiations and the information provided by DoIT did not break out payments to Qwest. As we always take a conservative budget approach, we included a possible payment to Qwest as part of the closeout of the 3-year contract negotiated by DoIT, but with the understanding that the \$203,100 was included as a contingency item. With the termination on June 30, 2011 of the original 3-year contract put in place by DoIT, the NMCAC negotiates all current and future contracts. Doing so not only results in clear and transparent records keeping, but has also allowed us to negotiate reductions in costs with vendors. Thus, the inclusion of the \$203,100 payment as a possible cost was a one-time event.

EXIT CONFERENCE

June 30, 2011

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 October 15, 2011 and attended by the following:

For Atkinson & Co., Ltd.:

Marty Mathisen, CPA, CGFM
Krik Mielke, CPA, CFE, FCPA

Shareholder/Audit Director
Audit Manager

For the New Mexico Computing Applications Center, Inc.:

Thomas J. Bowles
Sue Devore

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

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