

A series of thin, grey, wavy lines that originate from the left side of the page and curve upwards and to the right, creating a sense of movement and depth. The lines are closely spaced and overlap, forming a mesh-like pattern that tapers as it moves across the page.

**HIGHLANDS STABLE
ISOTOPE CORPORATION
(A COMPONENT UNIT OF NEW MEXICO
HIGHLANDS UNIVERSITY)
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**

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**HIGHLANDS STABLE ISOTOPE CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)**

Official Roster

June 30, 2013

Dr. James Fries	President
Dr. Rudy Martinez	Vice President
Dr. Linda LaGrange	Secretary / Treasurer
Dr. William (Bill) Taylor	Member
Dr. Merritt Helvenston	Member

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Highlands Stable Isotopes Corporation
and
Mr. Hector H. Balderas, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Highlands Stable Isotopes Corporation (the "Corporation") (a component unit of New Mexico Highlands University) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Board of Directors
Highlands Stable Isotopes Corporation
and
Mr. Hector H. Balderas, New Mexico State Auditor

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Corporation as of June 30, 2013 and 2012 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Corporation has omitted management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
November 15, 2013

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Total assets	\$ -	-
LIABILITIES AND NET ASSETS		
Long-term Liabilities		
Due to New Mexico Highlands University	\$ 1,030,730	873,505
Total liabilities	1,030,730	873,505
NET POSITION (DEFICIT)		
Unrestricted (deficit)	(1,030,730)	(873,505)
Total liabilities and net position	\$ -	-

See Notes to Financial Statements.

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues	<u>\$ 7,129</u>	<u>39,800</u>
Operating Expenses		
General and administrative	164,354	306,979
Total operating expenses	<u>164,354</u>	<u>306,979</u>
Change in net position	(157,225)	(267,179)
Net position (deficit), beginning of year	<u>(873,505)</u>	<u>(606,326)</u>
Net position (deficit), end of year	<u><u>\$ (1,030,730)</u></u>	<u><u>(873,505)</u></u>

See Notes to Financial Statements.

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Payment to employees for salaries and benefits	\$ -	-
Cash Flows From Noncapital Financing Activities		
Other non operating revenue (expense)	-	-
Cash Flows From Investment Activities		
Other investing activities	-	-
Cash Flows From Capital and Related Financing Activities		
Capital and related financing activities	-	-
Net change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	\$ -	-

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY
OPERATING ACTIVITIES

Operating loss	\$ (157,225)	(267,179)
Adjustments to reconcile operating loss to net cash used by operating activities		
Due to New Mexico Highlands University	157,225	267,179
Net cash used by operating activities	\$ -	-

See Notes to Financial Statements.

HIGHLANDS ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. Highlands Stable Isotope Corporation (HSI), a component unit of New Mexico Highlands University (the University) HSI was granted all of the powers available to it pursuant to paragraph 21-28-6 NMSA 1978 of the University – Research Park and Economic Development Act. The new corporation was filed under the New Mexico Non-profit Corporation Act and is seeking Section 501(c)(3) of the Internal Revenue Code. The purpose of HSI is to conduct research and research commercialization in accordance with the needs of the University. HSI has no component units.

Basis of Presentation. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental entities. The significant accounting policies are summarized below.

As a proprietary fund, the HSI's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

Operating revenues and expenses are those incurred by HSI and events and activities that relate directly to HSI.

Accounting Standards. As a component unit of the University, HSI follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.

Net Position. Unrestricted net position represent resources whose use is not limited or restricted by time or purpose. Deficit unrestricted net position have arisen from payments made by the University on behalf of HSI without an offsetting revenue stream.

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted net position are net assets that have third-party (statutory or granting agency) limitations on their use.

HSI currently has a net deficit. It expects to cover this deficit with future revenues.

Cash and Cash Equivalents. For purposes of the Statement of Cash Flows, HSI considers cash and cash equivalents to be cash deposits and amounts held by its fiscal agent.

Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes. HSI expects to be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and be classified by the Internal Revenue Service as a public charity. HSI engaged in no material unrelated activities and therefore no provision for income taxes has been made. HSI is a supporting organization of the University and not a private foundation.

Budgets. HSI does not have a legally adopted budget.

NOTE 2. RELATED PARTY TRANSACTIONS

Certain of HSI's Board members are also officers of the University.

HSI has a due to the University in the amount of \$1,030,730 and \$873,505 in 2013 and 2012, respectively, for amounts paid on behalf of HSI for start up costs, legal fees, salaries and benefits. Management of HSI does not expect that HSI will have the ability to pay back the HSI's outstanding liability to the University during the fiscal year ending June 30, 2013. Accordingly, the due to University has been classified as a long-term liability.

HSI has entered into a licensing agreement with the University for the use of certain patents. No royalty amounts are due to the University until revenue is generated from the use of these patents. For the years ended June 30, 2013 and 2012, HSI had \$7,129 and \$39,800 of revenue, respectively, generated from these patents.

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3. RISK MANAGEMENT

HSI is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. HSI is insured under the University's Risk Management for liability and casualty insurance, and through a private carrier for director and officer liability insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Highlands Stable Isotope Corporation
and
Mr. Hector Balderas, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Highlands Stable Isotope Corporation (Corporation) (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 15, 2013.

Internal Control Over Financial Reporting

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

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

The Board of Directors
Highlands Stable Isotope Corporation
and
Mr. Hector Balderas, New Mexico State Auditor

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

Compliance and Other Matters

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

Purpose of this Report

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



Albuquerque, New Mexico
November 15, 2013

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013

Prior Year Findings:

None

Current Year Findings:

None

HIGHLANDS STABLE ISOTOPE CORPORATION
(A Component Unit of New Mexico Highlands University)
EXIT CONFERENCE
June 30, 2013

The contents of this report were discussed on November 14, 2013. The following individuals were in attendance:

Highlands Stable Isotope Corporation:

Dr. James Fries, President of Highlands Stable Isotope Corporation

Moss Adams LLP:

Scott Eliason, Partner

The financial statements were prepared with the assistance of Moss Adams LLP.