



**HIGHLANDS STABLE  
ISOTOPE CORPORATION  
(A COMPONENT UNIT OF NEW MEXICO  
HIGHLANDS UNIVERSITY)  
FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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**HIGHLANDS STABLE ISOTOPE CORPORATION  
(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, 2014**

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, 2014 and 2013 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, 2014 and 2013 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 3, 2014 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 3, 2014

**HIGHLANDS STABLE ISOTOPE CORPORATION**  
**(A Component Unit of New Mexico Highlands University)**  
**STATEMENTS OF NET POSITION**  
**June 30, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
<b>Total assets</b>	<u>\$ -</u>	<u>-</u>
<b>LIABILITIES AND NET POSITION</b>		
Long-term Liabilities		
Due to New Mexico Highlands University	<u>\$ 1,169,206</u>	<u>1,030,730</u>
<b>Total liabilities</b>	<u>1,169,206</u>	<u>1,030,730</u>
<b>NET POSITION (DEFICIT)</b>		
Unrestricted (deficit)	<u>(1,169,206)</u>	<u>(1,030,730)</u>
<b>Total liabilities and net position</b>	<u>\$ -</u>	<u>-</u>

*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, 2014 and 2013**

	2014	2013
Operating revenues	\$ 18,455	7,129
Operating Expenses		
General and administrative	156,931	164,354
<b>Total operating expenses</b>	<u>156,931</u>	<u>164,354</u>
<b>Change in net position</b>	(138,476)	(157,225)
Net position (deficit), beginning of year	<u>(1,030,730)</u>	<u>(873,505)</u>
<b>Net position (deficit), end of year</b>	<u>\$ (1,169,206)</u>	<u>(1,030,730)</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, 2014 and 2013**

	2014	2013
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	-	-
<b>Net change in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents, beginning of year	-	-
<b>Cash and cash equivalents, end of year</b>	<b>\$ -</b>	<b>-</b>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY  
OPERATING ACTIVITIES

Operating loss	\$ (138,476)	(157,225)
Adjustments to reconcile operating loss to net cash used by operating activities		
Due to New Mexico Highlands University	138,476	157,225
<b>Net cash used by operating activities</b>	<b>\$ -</b>	<b>-</b>

*See Notes to Financial Statements.*



**HIGHLANDS ISOTOPE CORPORATION**  
**(A Component Unit of New Mexico Highlands University)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**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, 2014 and 2013**

**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 \$1,169,206 and \$1,030,730 in 2014 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, 2014. 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 net revenue is generated from the use of these patents. For the years ended June 30, 2014 and 2013, HSI had \$18,455 and \$7,129 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, 2014 and 2013**

**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 the business-type activities of Highlands Stable Isotope Corporation (Corporation) (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2014, 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 3, 2014.

**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.

*Mess Adams LLP*

Albuquerque, New Mexico  
November 3, 2014

**HIGHLANDS STABLE ISOTOPE CORPORATION**  
**(A Component Unit of New Mexico Highlands University)**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**June 30, 2014**

**Prior Year Findings:**

None

**Current Year Findings:**

None

**HIGHLANDS STABLE ISOTOPE CORPORATION**  
**(A Component Unit of New Mexico Highlands University)**  
**EXIT CONFERENCE**  
**June 30, 2014**

The contents of this report were discussed on November 14, 2014. The following individuals were in attendance:

Highlands Stable Isotope Corporation:

Dr. James Fries, President of Highlands Stable Isotope Corporation

Moss Adams LLP:

Lisa Todd, Partner

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