



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

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

June 30, 2015

atkinson

PRECISE. PERSONAL. PROACTIVE.

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Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

OFFICIAL ROSTER

June 30, 2015

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



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Highlands Stable Isotopes Corporation
and
Mr. Timothy Keller
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 year ended June 30, 2015 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.

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, 2015 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

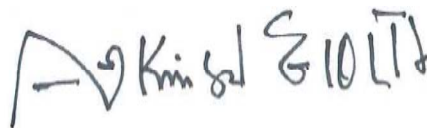
Other Matters

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 2, 2015, 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.

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

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 2, 2015

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

STATEMENT OF NET POSITION

June 30, 2015

ASSETS	<u>\$ -</u>
LIABILITIES	
Noncurrent liabilities	
Due to New Mexico Highlands University	<u>\$ 1,466,059</u>
Total liabilities	<u>1,466,059</u>
NET POSITION	
Unrestricted deficit	<u>(1,466,059)</u>
Total liabilities and net position	<u>\$ -</u>

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

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2015

OPERATING REVENUES	
Sales	<u>\$ 18,383</u>
OPERATING EXPENSES	
Payroll and related benefits	291,335
General and administrative expenses	<u>23,901</u>
Total operating expenses	<u>315,236</u>
Change in net position	(296,853)
Net position (deficit), beginning of year	<u>(1,169,206)</u>
Net position (deficit), end of year	<u><u>\$ (1,466,059)</u></u>

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

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 18,383
Payments to and on behalf of employees	(291,335)
Payments to vendors	<u>(23,901)</u>
Total cash used by operating activities	(296,853)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from New Mexico Highlands University	<u>296,853</u>
Total cash provided by noncapital financing activities	296,853
CASH FLOWS FROM INVESTMENT ACTIVITIES	
	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

Highlands Stable Isotopes Corporation (HSI or the Corporation), a component unit of New Mexico Highlands University (the University), was formed August 21, 2009 and 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 will seek determination under 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. HSI is included in the financial statements of Highlands University as a discretely presented component unit.

2. 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.

3. 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.

4. Revenue and Cost Recognition

As business-type activity, the HSI's financial statements are reported using the 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.

5. Net Position

Unrestricted net position (deficit) represents resources whose use is not limited or restricted by time or purpose. Deficit unrestricted net position has arisen from payments made by the University on behalf of HSI without an offsetting revenue stream. HSI expects to cover this deficit with future revenues.

Restricted net position is net position that has third-party (statutory or granting agency) limitations on its use. There is no restricted net position at June 30, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Income Taxes

The Corporation is taxed as a C-corporation under the Internal Revenue Code (IRC). Income taxes are accounted for under the asset and liability method and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Corporation has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions in an enterprise's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FASB ASC 740 and in subsequent periods. The provisions of FASB ASC 740 have been applied to all Corporation income tax positions commencing from that date. The Corporation's policy is to classify income tax penalties and associated interest according to their natural classification rather than as income tax expense. During the year ended June 30, 2015, the Corporation recognized no interest or penalties and no significant amounts are expected to be levied as a result of not filing (or late filing) tax returns for the fiscal years 2010 through 2015. As of June 30, 2015, management does not believe the Corporation has any uncertain tax positions that would require financial statement recognition or measurement under FASB ASC 740, due to losses sustained in each year of operation and for the reason noted above. Because HSI has not filed tax returns for any of the years it has been in existence, the Corporation is subject to examinations by tax authorities for all tax years.

HSI intends 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 (IRS) as a public charity; however, an application for exempt status has not yet been filed with the IRS.

HSI is a supporting organization of the University and not a private foundation.

7. Estimates

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

8. Budgets

HSI does not have a legally adopted budget.

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE B – INCOME TAXES

The components of the provision for income tax benefit for the year ended June 30, 2015 are as follows:

Deferred income tax benefit	
Federal (FY 2010 - FY 2015)	\$ 366,500
State (FY 2010 - FY 2015)	57,000
Less: valuation allowance	<u>(423,500)</u>
 Total deferred income tax benefit	 <u><u>\$ -</u></u>

The components of deferred income taxes are as follows:

Current deferred income tax asset at June 30, 2015:

Deferred tax asset resulting from federal and state net operating loss carryforwards	\$ 423,500
Less: valuation allowance	<u>(423,500)</u>
 Current deferred tax asset	 <u><u>\$ -</u></u>

The Corporation has federal and state net operating loss carryforwards of approximately \$1,466,059 and \$1,186,673, respectively, which may be used to offset future regular taxable income. The federal loss carryforwards will expire over the years 2030-2035. The state loss carryforwards will expire depending on when the cutoff period for the five or twenty year rule was effective. Therefore, a portion of state loss carryforwards will expire in the years 2016-2017 and the remainder in 2033-2035.

NOTE C – 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 \$1,466,059 in 2015 for amounts paid on behalf of HSI for start up costs, legal fees, salaries and benefits, and general and administrative expenses under a memorandum of understanding (MOU) with the University. The amount due to HSI increased by \$296,853 during the fiscal year ended June 30, 2015 and no payments were made. 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, 2016. Accordingly, the due to University has been classified as a long-term liability. See also Note D.

The University has represented that it will support ongoing activities for HSI for next year. There is operating revenue expected for FY 2016 for its "ZeemClean" product.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE D – COMMITMENTS AND CONTINGENCIES

HSI, under an MOU with the University, is required to make payments to the University of not less than 50% of revenues generated from any source to repay the University for support provided (see Note C). To date, no payments have been made or accrued by HSI. The estimated liability as of June 30, 2015 is approximately \$43,700.

HSI has entered into a licensing and royalty agreement with the University for the use of certain patents that are assets of the University. The license fee and royalty fee (which is based on net revenues) payable for the year ended June 30, 2015 is not determinable. HSI had \$18,383 of net revenue generated from the application of these patents during the year ended June 30, 2015.

NOTE E – RISK MANAGEMENT

HSI is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; 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.

NOTE F – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 2, 2015, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2015. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

SUPPLEMENTAL INFORMATION



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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 Isotopes Corporation
and
Mr. Timothy Keller
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 Isotopes Corporation (Corporation) (a component unit of New Mexico Highlands University) as of and for the year ended June 30, 2015, 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 2, 2015.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

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

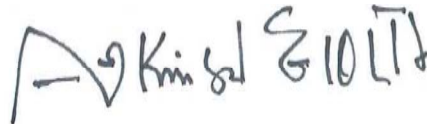
As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-002.

Highlands Stable Isotopes Corporation's Response to Findings

Highlands Stable Isotopes Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Highlands Stable Isotopes Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized initial "A" on the left.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 2, 2015

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2015

PRIOR YEAR FINDINGS

None.

CURRENT AUDIT FINDINGS

Financial Statement Findings Required by *Government Auditing Standards*

2015-001 Income Taxes and Tax Status (Material Weakness)

2015-002 Timing of Annual Audit (Other Noncompliance)

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2015

Financial Statement Findings Required by *Government Auditing Standards*

2015-001 INCOME TAXES AND TAX STATUS (MATERIAL WEAKNESS)

CONDITION

As a result of audit procedures, we determined that the following items, in combination, constitute a material weakness in internal control:

- Deferred income taxes and the associated benefit were not recorded or disclosed in the current or prior periods.
- Federal and New Mexico (NM) state corporate income tax returns have not been filed since HSI's inception.
- Though indicated in the financial statements, an application for exempt status under section 501(c)(3) of the IRC has not been filed with the IRS.

CRITERIA

Because HSI has not filed an application with the IRS for exemption under section 501(c)(3) of the IRC, HSI is considered a taxable corporation and should therefore record a provision for income taxes and deferred income taxes and provide related disclosures in accordance with GAAP. Additionally, HSI is required to file federal and NM state corporate income tax returns even if no taxable income exists.

HSI was organized as a non-profit corporation under the laws of the state of NM and should have applied for exempt status with the IRS as soon as possible after HSI's formation.

EFFECT

Beginning assets and net position were potentially understated by approximately \$348,400 and financial statement disclosures were not adequate. HSI is not in compliance with federal and state law and may be subject to penalties and interest from the state of NM.

CAUSE

Lack of oversight over the financial reporting process and inadequate corporate governance.

RECOMMENDATION

We recommend that management and the Board file all required tax returns as soon as possible, file the application for exempt status as soon as possible, and ensure that tax matters are taken into consideration during the financial reporting process.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The University concurs with this audit finding. The University will file all required tax returns as soon as possible, file the application for exempt status and will establish a procedure to ensure that all appropriate tax matters are submitted timely. The Interim Vice President for Finance and Administration is responsible for remediation.

SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED

June 30, 2015

Financial Statement Findings Required by *Government Auditing Standards - Continued*

2015-002 TIMING OF ANNUAL AUDIT (OTHER NONCOMPLIANCE)

CONDITION

The annual audit was not completed and submitted to the Secretary of State within 90 days of the end of the fiscal year as required by state law.

CRITERIA

Per section 21-28-17 NMSA 1978, a research park corporation shall submit an annual report, audited by an independent certified public accountant, of its activities for the preceding year within 90 days of the end of each fiscal year and also submit such report to the Secretary of State.

EFFECT

HSI is not in compliance with state law.

CAUSE

HSI was not aware of the statutory filing deadlines for research park corporations.

RECOMMENDATION

We recommend that management ensure that the records are ready to audit and schedule the audit to ensure timely completion of the audit.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

The University concurs with this audit finding. The University will establish a procedure to ensure a timely submittal of the annual audit to the Secretary of State per state law. The Interim Vice President for Finance and Administration is responsible for remediation.

Highlands Stable Isotopes Corporation
(A Component Unit of New Mexico Highlands University)

FINANCIAL STATEMENT PREPARATION AND EXIT CONFERENCE

June 30, 2015

The basic financial statements have been prepared by Atkinson & Co., Ltd. with the assistance of the Corporation. The content in this report is the responsibility of the Corporation.

* * * * *

An exit conference was held on October 28, 2015 and attended by the following:

For Highlands Stable Isotopes Corporation:

Dr. Sam Minner
Dr. Linda LaGrange
Max Baca

President
Secretary/Treasurer
Interim Vice President of Finance
and Administration/Highlands
University
Controller/Highlands University

Jesus Baquera

For Atkinson & Co., Ltd.:

Martin Mathisen, CPA, CGFM
Sarah Brack, CPA, CGFM, CGMA

Shareholder/Audit Director
Audit Manager

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