HIGHLANDS STABLE
ISOTOPES CORPORATION
(A COMPONENT UNIT OF
NEW MEXICO
HIGHLANDS UNIVERSITY)
Agency#957B
FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT
CERTIFIED PUBLIC
ACCOUNTANTS
June 30, 2017
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HIGHLANDS STABLE ISOTOPES CORPORATION
(A Component Unit of New Mexico Highlands University)

OFFICIAL ROSTER
June 30, 2017

Dr. Sam Minner President
Dr. Rudy Martinez Vice President
Dr. Linda LaGrange Secretary / Treasurer
Dr. William (Bill) Taylor Member
Dr. Merritt Helvenston Member
INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Highlands Stable Isotopes Corporation
and
Mr. Wayne Johnson
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, 2017, 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.

Auditors’ 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 auditors' 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. Wayne Johnson, New Mexico State Auditor
Page 2

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, 2017, 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.

**Emphasis of Matter Regarding Going Concern**
The accompanying financial statements have been prepared assuming that Highlands Stable Isotopes Corporation will continue as a going concern. As discussed in Note 7 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*
The Corporation has omitted management's discussion and analysis 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 October 31, 2017, 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.

*Ricci & Company LLC*
Albuquerque, NM
October 31, 2017
**HIGHLANDS STABLE ISOTOPES CORPORATION**  
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)  
**STATEMENT OF NET POSITION**  
June 30, 2017

**ASSETS**

<table>
<thead>
<tr>
<th>Total assets</th>
<th>$-</th>
</tr>
</thead>
</table>

**LIABILITIES**

<table>
<thead>
<tr>
<th>Non-Current Liabilities</th>
<th>Due To New Mexico Highlands University</th>
<th>455,386</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities</td>
<td></td>
<td>455,386</td>
</tr>
</tbody>
</table>

**Net Position**

<table>
<thead>
<tr>
<th>Unrestricted deficit</th>
<th>(455,386)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total liabilities and net position</td>
<td>$-</td>
</tr>
</tbody>
</table>

The Notes to the Financial Statements are an integral part of this statement.
### OPERATING REVENUE

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$3,426</td>
</tr>
<tr>
<td>Royalties</td>
<td>66,367</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td><strong>$69,793</strong></td>
</tr>
</tbody>
</table>

### OPERATING EXPENSES

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual services</td>
<td>27,181</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>9,873</td>
</tr>
<tr>
<td><strong>Total operating expense</strong></td>
<td><strong>37,054</strong></td>
</tr>
</tbody>
</table>

  Net operating income (loss) 32,739

### NONOPERATING REVENUE

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized gain on fair value adjustment</td>
<td>500,007</td>
</tr>
<tr>
<td>Change in net position</td>
<td>532,746</td>
</tr>
</tbody>
</table>

Net position (deficit), beginning of year (988,132)

Net position (deficit), end of year $ (455,386)

The Notes to the Financial Statements are an integral part of this statement.
HIGHLANDS STABLE ISOTOPES CORPORATION  
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)  
STATEMENT OF CASH FLOWS  
June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES
  Cash received from customers  $  69,793
  Payment to vendors  (37,054)
  Totals cash provided by operating activities  32,739

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
  Cash provided to New Mexico Highlands University  (32,739)
  Totals cash used by noncapital financing activities  (32,739)

Net increase (decrease) in cash and cash equivalent -
Cash and cash equivalent beginning of year -
Cash and cash equivalent end of year -

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES
  Change in net position - operations  $  532,746
  Adjustments to reconcile operating loss and net cash used by operating activities:
    Unrealized gain on fair value adjustment  (500,007)
    Increase due to NM Highlands University  (32,739)
    Decrease in payments to vendors  (37,054)
    Increase in sales and other operating revenues  69,793
  Net cash used by operating activities  $  32,739

The Notes to the Financial Statements are an integral part of this statement.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the University as a discretely presented component unit.

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.


The Corporation implemented Governmental Accounting Standards Board Statement No. 63 “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” (GASB 63). Deferred outflows of resources consumed and deferred inflows of resources received and available as they are now included in the elements that make up a statement of net financial position reporting the residual of all elements in a statement of financial position. The statement of financial position of the Corporation conforms to the presentation requirements of GASB 63.

The Corporation implemented Governmental Accounting Standards Board Statement No. 65 “Items Previously Reported as Assets and Liabilities” (GASB 65), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources. GASB 65 is applicable for years beginning after December 15, 2012 (FY14). There were no deferred outflows or inflows of resources to separately report at June 30, 2017.

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.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Cost Recognition. As a business-type activity, HSI's financial statements are reported upon 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 the liability is incurred.

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

Net Position. Unrestricted net position (deficit) represents resources whose use is not limited or restricted by time or purpose. Unrestricted deficit has arisen from payments made by the University on behalf of HSI without an offsetting revenue stream.

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, 2017.

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, 2017, 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 2017. As of June 30, 2017, 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. 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.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

HSI intends to become 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.

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.

Budgets. HSI does not have a legally adopted budget.

Subsequent Events. Subsequent events have been evaluated through October 31, 2017, the date at which the financial statements were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2017. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE 2. INCOME TAXES

The components of the provision for income tax benefit for the year ended June 30, 2017, are as follows

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax asset resulting from federal and</td>
<td>$ 414,300</td>
</tr>
<tr>
<td>state net operating loss carryfowards</td>
<td></td>
</tr>
<tr>
<td>Less: Valuation allowance</td>
<td>($414,300)</td>
</tr>
<tr>
<td>Total deferred income tax benefit</td>
<td>$ -</td>
</tr>
</tbody>
</table>

The components of deferred income taxes are as follows:

Current deferred income tax asset at June 30, 2017:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal (FY2010- FY 2017)</td>
<td>$ 372,000</td>
</tr>
<tr>
<td>State (FY2012- FY 2017)</td>
<td>$ 42,300</td>
</tr>
<tr>
<td>Less: Valuation allowance</td>
<td>($414,300)</td>
</tr>
<tr>
<td>Current deferred tax asset</td>
<td>$ -</td>
</tr>
</tbody>
</table>
NOTE 2. INCOME TAXES (CONTINUED)

The Corporation has federal and state net operating loss carryforwards of approximately $455,393 and $988,132, respectively, which may be used to offset future regular taxable income. The federal loss carryforwards will expire over the years 2030-2036. 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 2017 and 2018 and the remainder in 2033-2036.

NOTE 3. FAIR VALUE MEASUREMENTS

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 4. RELATED PARTY TRANSACTIONS

1. Certain HSI's Board members are also officers of the University.
2. HSI has amounts due to the University totaling $455,393 as of June 30, 2017, for amounts paid on behalf of HSI for startup costs, legal fees, salaries and benefits, and general and administrative expenses under a memorandum of understanding (MOU) with the University. The amount due to the University decreased by $(500,000) during the fiscal year ended June 30, 2017, primarily due to a downward revaluation of $500,000 on amounts due to the University by HSI as determined by University management. Highlands University has recorded an allowance for uncollectible accounts receivable for $500,000 at June 30, 2017, and HSI has recorded a corresponding unrealized gain for the reduction in amounts owing. No payments were made on amounts owing to the University during the year. Management of HSI does not expect that HSI will have the ability to pay back the entire outstanding liability to the University during the fiscal year ending June 30, 2018. Accordingly, the remaining amount due to the University has been classified as a long-term liability.

The University has represented that it will support ongoing activities for HSI for next year.
NOTE 5. 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 3). To date, no payments have been made or accrued by HSI. The estimated liability as of June 30, 2017, is approximately $33,000.

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, 2017, is not determinable. HSI had $69,793 of net revenue generated from the application of these patents during the year ended June 30, 2017.

NOTE 6. 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 7. GOING CONCERN

HSI has no assets, a deficit net position, and has a substantial liability to the University. As a result, there is substantial doubt about HSI’s ability to continue as a going concern. Management’s plans to mitigate this concern is centered around obtaining new contracts for use of the product and procedures created by HSI from potential new clients. These financial statements have not been adjusted based on the effects of this concern.
SUPPLEMENTAL INFORMATION
INDEPENDENT AUDITOR'S 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

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, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated October 31, 2017.

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.

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 an 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 2015-001.

Highlands Stable Isotopes Corporation’s Response to the Finding
Highlands Stable Isotopes Corporation’s response to the finding 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.

Ricci & Company, LLC

Albuquerque, NM
October 31, 2017
PRIOR YEAR FINDINGS
Financial Statement Findings Required by Government Auditing Standards

2015-001 Tax Status (Material Noncompliance)- Repeated

CURRENT AUDIT FINDINGS
Financial Statement Findings Required by Government Auditing Standards

2015-001 Tax Status (Material Noncompliance)
Financial Statement Findings Required by Government Auditing Standards 2015-001 TAX STATUS (MATERIAL NONCOMPLIANCE) (REPEAT)

CONDITION
As a result of audit procedures, we determined that the following items, in combination, constitute material noncompliance with laws and regulations:

- 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.

Management is working with the law firm who assisted the entity with tax status issues at inception and an outside accountant to determine the appropriate course of action in regard to the corporation’s tax status and delinquent filings.

There has been no significant progress in relation to filing tax returns for the Corporation or an application for tax exempt status 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. HSI is required to file federal and NM state corporate income tax returns even if no taxable income exists.

HSI is organized as a nonprofit 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
HSI is not in compliance with federal and state law and may be subject to penalties and interest from the state of NM.

CAUSE
Ineffective oversight by those charged with governance.

RECOMMENDATION
We recommend that management and the Board file all required tax returns and file the application for exempt status as soon as possible.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION
The University agrees with this audit finding. The University has had difficulty determining the appropriate forms to file because of recent staff turn-over, and its legal team was also unable to determine the tax liabilities given the University’s unknown 501(c)(3) application status. It was impossible for us to determine the appropriate path forward to resolve this matter.
HIGHLANDS STABLE ISOTOPES CORPORATION
(A Component Unit of New Mexico Highlands University)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2017

Financial Statement Findings Required by Government Auditing Standards – Continued
2015-001 TAX STATUS (MATERIAL NONCOMPLIANCE) (REPEAT) – CONTINUED

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION
– CONTINUED

The proper process has since been determined, and the University will be filing the appropriate forms. The Vice President for Finance and Administration is working on the corrective action plan, and the Board of Regents and President Minner have dissolved the corporation’s governing board and are in the process of liquidating its outstanding receivables.

- Timeline to correct: Will be reviewed and updated by June 30, 2018.

- Responsible Official: VP for Finance and Administration.
The basic financial statements have been prepared by Ricci & Company, LLC. with the assistance of the Corporation. The content in this report is the responsibility of the Corporation.

An exit conference was held on October 12, 2016, by telephone for the following participants.

For Highlands Stable Isotopes Corporation:

Dr. Sam Minner  President
Max Baca  Vice President for Finance and Administration/Highlands University

For Ricci & Company, LLC.

Wayne Brown, CPA,  Audit Partner