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Albuquerque, NM 87110

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

**FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT**

JUNE 30, 2018

HIGHLANDS STABLE ISOTOPES CORPORATION
(A Component Unit of New Mexico Highlands University)

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HIGHLANDS STABLE ISOTOPES CORPORATION
(A Component Unit of New Mexico Highlands University)

OFFICIAL ROSTER
June 30, 2018

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



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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, 2018, 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 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. Those standards require that we plan and perform the audit 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.

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, 2018, and the respective changes in financial position and where applicable, 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 Corporation 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, 2018, 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, 2018

HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Total assets **\$** -

LIABILITIES

Non-Current Liabilities

 Due To New Mexico Highlands University -

Total liabilities **-**

Net Position

 Unrestricted deficit -

Total liabilities and net position **\$** -

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 REVENUES, EXPENSES AND CHANGES IN NET POSITION
June 30, 2018

OPERATING REVENUE

Operating Revenue	\$ 29,077
Royalties	<u>-</u>

Total revenues	\$ 29,077
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OPERATING EXPENSES

Contractual services	43,495
General and administrative expenses	<u>-</u>

Total operating expense	<u>43,495</u>
-------------------------	---------------

Net operating income (loss)	(14,418)
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NONOPERATING REVENUE

Unrealized gain on fair value adjustment	469,559
Other	<u>245</u>
Change in net position	455,386

Net position (deficit), beginning of year	<u>(455,386)</u>
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Net position (deficit), end of year	<u><u>\$ -</u></u>
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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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 29,077
Payment to employees and vendors	<u>(43,495)</u>
Totals cash used by operating activities	(14,418)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash provided by New Mexico Highlands University	<u>14,418</u>
Totals cash provided by noncapital financing activities	14,418

Net increase (decrease) in cash and cash equivalent	<u>-</u>
Cash and cash equivalent beginning of year	<u>-</u>
Cash and cash equivalent end of year	<u><u>-</u></u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Change in net position - operations	\$ 455,386
Adjustments to reconcile operating loss and net cash used by operating activities:	
Unrealized gain on fair value adjustment	(469,559)
Other	<u>(245)</u>
Net cash used by operating activities	<u><u>\$ (14,418)</u></u>

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)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 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 Government Accounting Standards Board (GASB) Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

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 do not contain any of these components.

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, 2018.

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.

HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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. Prior unrestricted deficit had arisen from payments made by the University on behalf of HSI without an offsetting revenue stream. The net position is -0- at June 30, 2018.

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, 2018.

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, 2018, 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 2018. As of June 30, 2018, 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.

There are no recent GASB pronouncements that have an impact on the Corporation.

HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, 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, 2018. 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, 2018, are as follows

Deferred tax asset resulting from federal and state net operating loss carryforwards	\$ 414,300
Less: Valuation allowance	<u>\$ (414,300)</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, 2018:

Federal (FY2010- FY 2018)	\$ 372,000
State (FY2012- FY 2018)	\$ 42,300
Less: Valuation allowance	<u>\$ (414,300)</u>
Current deferred tax asset	<u><u>\$ -</u></u>

HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2. INCOME TAXES (CONTINUED)

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 2018 and 2019 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. The Corporation does not currently have any assets or liabilities subject to these measurements.

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 \$0 as of June 30, 2018, 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 \$(455,386) during the fiscal year ended June 30, 2018, primarily due to a downward revaluation of \$455,386 on amounts due to the University by HSI as determined by University management. Highlands University has recorded an allowance for uncollectible accounts receivable for \$455,386 at June 30, 2018, 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.

The University has represented that it will support ongoing activities for HSI for next year.

HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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.

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, 2018, is not determinable. HSI had \$29,077 of net revenue generated from the application of these patents during the year ended June 30, 2018.

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, and a zero net position. As a result, there is substantial doubt about HSI's ability to continue as a going concern. Managements 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



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**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***

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Highlands Stable Isotopes Corporation
and
Mr. Wayne Johnson
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, 2018, 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, 2018.

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 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.

Ricci & Company, LLC

Albuquerque, NM

October 31, 2018

**HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

PRIOR YEAR FINDINGS

Financial Statement Findings Required by Government Auditing Standards

2015-001 Tax Status (Material Noncompliance) - Resolved

CURRENT AUDIT FINDINGS

Financial Statement Findings Required by Government Auditing Standards

None

**HIGHLANDS STABLE ISOTOPES CORPORATION
(A COMPONENT UNIT OF NEW MEXICO HIGHLANDS UNIVERSITY)
EXIT CONFERENCE
June 30, 2018**

An exit conference was held on October 26, 2018, by telephone for the following participants.

For Highlands Stable Isotopes Corporation:

Dr. Sam Minner	President
Max Baca	Vice President for Finance

For Ricci & Company, LLC.

Mark Santiago, CPA	Senior Audit Manager
Sameer Rasheed	Audit Supervisor

A. PREPARATION OF FINANCIAL STATEMENTS

The financial statements were prepared with the assistance of Ricci & Company LLC from the books and records of the Corporation. The financial statements and related footnotes remain the responsibility of management.