

**LOS ALAMOS NATIONAL LABORATORY  
FOUNDATION**

**Consolidated Financial Statements**

**December 31, 2008**

**(With Independent Auditors' Report Thereon)**

# LOS ALAMOS NATIONAL LABORATORY FOUNDATION

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Los Alamos National Laboratory Foundation:

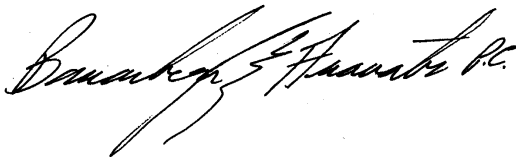
We have audited the consolidated statement of financial position of Los Alamos National Laboratory Foundation (Foundation) as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2007 financial statements and, in our report dated April 28, 2008 we expressed an unqualified opinion on those financial statements.

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 the *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Los Alamos National Laboratory Foundation at December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 28, 2009, on our consideration of the Foundation's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The supplemental schedule of consolidating balance sheet and consolidating statement of activities is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial condition of the individual entity. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brandon J. Harnett P.C.", written in a cursive style.

April 28, 2009

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Consolidated Statement of Financial Position**

**December 31, 2008**

**(with summarized information for 2007)**

	2008			2007 Summarized Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 829,699	\$ 1,489,391	\$ -	\$ 2,319,090	\$ 2,103,656
Investments (note 4)	-	5,738,443	42,955,894	48,694,337	65,664,796
Accounts receivable (note 5)	328,055	200,000	-	528,055	445,597
Prepaid expenses	-	-	-	-	1,816
Property and equipment, net (note 6)	1,647,562	-	-	1,647,562	936,710
Other assets	10,100	-	-	10,100	10,250
Total assets	\$ 2,815,416	\$ 7,427,834	\$ 42,955,894	\$ 53,199,144	\$ 69,162,825
<b><u>Liabilities and Net Assets</u></b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 97,800	\$ -	\$ -	\$ 97,800	\$ 254,107
Grants payable (note 7)	871,766	-	-	871,766	882,806
Note payable (note 11)	1,124,018	-	-	1,124,018	531,402
Funds held for others	18,382	-	-	18,382	21,245
Total liabilities	2,111,966	-	-	2,111,966	1,689,560
Net assets (note 8)	703,450	7,427,834	42,955,894	51,087,178	67,473,265
Total liabilities and net assets	\$ 2,815,416	\$ 7,427,834	\$ 42,955,894	\$ 53,199,144	\$ 69,162,825

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

LOS ALAMOS NATIONAL LABORATORY FOUNDATION

Consolidated Statement of Activities

December 31, 2008

(with summarized information for 2007)

	2008				2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Summarized Total
<b>Support and Revenue</b>					
Contributions (note 9)	\$ 51,232	\$ 452,768	\$ 51,844	\$ 555,844	\$ 649,971
Grants and contracts (note 9)	140,879	3,787,514	487,462	4,415,855	4,324,980
Special events	-	68,081	106,469	174,550	93,929
Investment (loss) income (note 4)	1,248,756	(16,912,501)	-	(15,663,745)	6,902,391
Other income	1,625	150	-	1,775	1,352
Net assets released from restrictions	4,669,153	(4,669,153)	-	-	-
<b>Total support and revenue</b>	<b>6,111,645</b>	<b>(17,273,141)</b>	<b>645,775</b>	<b>(10,515,721)</b>	<b>11,972,623</b>
<b>Expenses</b>					
Program					
Educational enrichment grants	2,824,535	-	-	2,824,535	2,729,654
Educational outreach grants	685,194	-	-	685,194	646,944
Community outreach grants	91,000	-	-	91,000	9,000
Scholarships	242,974	-	-	242,974	188,704
Math and Science Academy	144,678	-	-	144,678	67,052
First Born	692,237	-	-	692,237	330,425
Regional Education Quality Center	-	-	-	-	85,000
Program operating expenses	568,229	-	-	568,229	785,982
Total program expenses	5,248,847	-	-	5,248,847	4,842,761
General and administrative	399,849	-	-	399,849	361,606
Fundraising	221,670	-	-	221,670	183,711
<b>Total expenses</b>	<b>5,870,366</b>	<b>-</b>	<b>-</b>	<b>5,870,366</b>	<b>5,388,078</b>
(Decrease) increase in net assets	241,279	(17,273,141)	645,775	(16,386,087)	6,584,545
Net assets at beginning of year	462,171	24,700,975	42,310,119	67,473,265	60,888,720
Net assets at end of year	\$ 703,450	\$ 7,427,834	\$ 42,955,894	\$ 51,087,178	\$ 67,473,265

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

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Consolidated Statement of Cash Flows**

**Year Ended December 31, 2008  
(with summarized information for 2007)**

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (16,386,087)	\$ 6,584,545
Adjustments to reconcile to net cash from operating activities:		
Depreciation expense	40,893	21,400
Unrealized losses (gains) on investments	17,459,328	(4,742,379)
Realized gains on investments	(16,060)	(528,976)
Bad debt expense	21,626	-
Contributions restricted for long-term purposes, including accounts receivable	(645,775)	(89,429)
Decrease (Increase) in assets:		
Accounts receivable	(104,084)	(41,195)
Prepaid expenses	1,816	34,342
Other assets	150	1,300
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(156,307)	8,454
Grants payable	(11,040)	(733,900)
Funds held for others	(2,863)	(6,091)
Net cash provided by operating activities	201,597	508,071
Cash flows from investing activities:		
Purchases of investments	(56,729)	(90,904)
Reinvested interest and dividends	(658,734)	(830,708)
Proceeds from sale of investments	242,654	1,974,418
Acquisition of fixed assets	(751,745)	(898,004)
Notes payable proceeds	599,538	512,463
Notes payable principal paid	(6,922)	(4,563)
Net cash (used in) provided by investing activities	(631,938)	662,702
Cash flows from financing activities:		
Contributions restricted to investment in endowment	645,775	89,429
Net increase in cash and cash equivalents	215,434	1,260,202
Cash and cash equivalents at beginning of year	2,103,656	843,454
Cash and cash equivalents at end of year	\$ 2,319,090	\$ 2,103,656
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 65,122	\$ 10,992

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

# LOS ALAMOS NATIONAL LABORATORY FOUNDATION

## Notes to Consolidated Financial Statements

December 31, 2008

### 1. Nature of Activities

Los Alamos National Laboratory Foundation (Foundation) is a New Mexico not-for-profit corporation incorporated on April 17, 1997 for charitable, educational, and other lawful purposes consistent with the New Mexico Nonprofit Corporation Act. In particular, the Foundation is organized for the purpose of receiving and administering gifts and grants dedicated to support charitable and educational public service activities in northern New Mexico. In May of 2007, the Foundation formed a Single Member For Profit LLC, Building Equity, LLC (LLC). The purpose of the LLC is to construct and operate the building, which will be occupied by the Foundation and other entities. The building was completed in 2008.

### 2. Summary of Significant Accounting Policies

The Foundation's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following paragraphs describe the basis of presentation and summarize the more significant accounting policies:

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Foundation's net assets, the excess of assets over liabilities, are reported in three classes in accordance with FASB statement No. 117.

*Permanently Restricted* – Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which do not expire by passage of time.

*Temporarily Restricted* – Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which expire by passage of time or are fulfilled by actions of the Foundation.

*Unrestricted* – Those net assets that are neither permanently or temporarily restricted.

#### Support and Revenue

Grants and contributions (gifts) received and unconditional promises to give are reported as an increase in net assets. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, if they are designated as support for future periods or if the date of payment is beyond the current year. When a donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

# LOS ALAMOS NATIONAL LABORATORY FOUNDATION

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

### 2. Summary of Significant Accounting Policies (Continued)

#### Funds Held for Others

The Foundation raises funds for schools, through the Fund For Education, to assist them in establishing endowment funds. These funds are held and invested by the Foundation until such time as the schools have established their own independent endowment funds.

#### In-Kind Donations

The Foundation receives in-kind donations of materials and services. Donations of materials are recorded as contributions at their estimated fair value at the date of donation. Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation received \$11,700 in contributed services for 2008 and \$1,500 for 2007.

#### Grants Awarded

Grants awarded by the Foundation are charged to operations and recorded as liabilities upon approval by the Foundation's Board of Directors. All grants payable at December 31, 2008 are scheduled for payment during the year ending December 31, 2009.

#### Investments

Investments are reported at market value, which results in unrealized gains and losses being recognized as market value changes.

#### Income Tax Status

The Foundation is exempt from federal income and unemployment taxes under Internal Revenue Code Section 501(c)(3). The Foundation files an annual information return (form 990) with the Internal Revenue Service. Unrelated income, if any, from the LLC may be subject to income taxes when the building is leased.

#### Property and Equipment

Property and equipment with cost in excess of \$1,000 are capitalized. Purchased equipment is stated at cost. Contributed equipment is reflected at estimated fair market value at the date of contribution. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 7 years. The building is depreciated over 39 years utilizing the straight-line method.

#### Allocation of Functional Expenses

The Foundation allocates expenses not applicable to a single activity to the appropriate activities based on the estimated percentage of time employees spend on each of the programs.

# LOS ALAMOS NATIONAL LABORATORY FOUNDATION

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

### 2. Summary of Significant Accounting Policies (Continued)

#### Compensated Absences

All eligible employees accrue vacation time at a rate of 10 hours per month. Accrued but unused vacation up to 240 hours may be carried from year to year, and a liability for compensated absences has been recorded.

#### Cash Equivalents

Cash equivalents include money market accounts, including \$2,256,598 at December 31, 2008 and \$1,795,093 at December 31, 2007 in the Short Term Investment Pool managed by the University of California Office of the Treasurer, and any securities with an original maturity date of less than 90 days.

#### Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and investments. Periodically throughout 2008 and 2007, the Foundation has maintained cash balances in excess of insured limits. As of December 31, 2008 and 2007, the amounts on deposit at the banks exceeded the FDIC limit by \$0 and \$477,579, respectively. To reduce its risk, the Foundation places its cash and investments with a highly rated financial institution and pools managed by the University of California. The investment pools are not insured.

#### Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

#### Reclassification

Certain 2007 items may have been reclassified in order to conform to the 2008 financial statement presentation.

#### Basis of Consolidation

As described above, the accompanying consolidated financial statements for 2008 include the accounts of the Foundation and the LLC. All significant balances and transactions between entities have been eliminated.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

3. Endowment Funds

The Foundation's endowment consists of 4 individual funds, the Educational Enrichment, John and Marti Bowne Leadership Scholarships, Scholarships and Public School Endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruments at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with their spending policy.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donors require the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature at December 31, 2008 and 2007.

4. Investments

Investments consist of the following at December 31:

	2008		2007	
	Market Value	Cost	Market Value	Cost
General Endowment Pool, Managed by of California	\$ 48,694,337	\$ 46,049,604	\$65,664,796	\$45,560,734

The General Endowment Pool (GEP) includes absolute return hedge funds. Investments in these funds are valued by the University of California at the Foundation's pro rata interest in the GEP. Investments in these funds consist of approximately 22% of the entire portfolio. Investment fees are nine basis points, netted from income earned before it is distributed. There were no investment fees paid in 2008.

The Foundation invests in funds that contain various types of marketable securities. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the financial statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

4. Investments (Continued)

Net investment income consists of the following:

	2008	2007
Interest on short-term funds	\$ 61,846	\$ 52,275
Interest and dividends on long-term investments	1,717,587	1,578,761
Realized gain on investments	16,060	528,976
Unrealized (losses) gains on investments	(17,459,238)	4,742,379
Net investment income	\$ (15,663,745)	\$ 6,902,391

5. Accounts Receivable

Accounts receivable at December 31 consist of the following:

	2008	2007
Annual banquet	\$ 33,535	\$ 20,000
First Born Program	-	117,499
General operations support	8,505	10,841
Public Schools endowments	14,821	17,992
Leadership endowment	29,087	28,881
Domenici endowment	27,618	-
Scholarship program pledges, net of \$27,040 and \$31,725 allowance for doubtful accounts for 2008 and 2007, respectively	122,894	162,151
Tuitions reimbursable	49,019	54,102
CYFD	36,287	39,798
Los Alamos National Security, LLC	200,000	-
Other receivables	6,289	2,025
	528,055	453,289
Discount for multi-year pledges (3.5%)	-	(7,692)
	\$ 528,055	\$ 445,597

Certain receivables will be received over the next three years. No discount was taken in 2008, as the amount was deemed immaterial.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

6. Property and Equipment

A summary of property and equipment at December 31 is as follows:

	2008	2007
Land	\$ 165,711	\$ 165,711
Building	1,285,697	-
Furniture	169,861	41,308
Computers, equipment and software	164,790	126,394
Leasehold improvements	-	2,600
Vehicle	25,333	25,332
Construction in progress	-	702,120
	1,811,392	1,063,465
Less accumulated depreciation	(165,036)	(126,755)
	\$ 1,646,356	\$ 936,710

Depreciation expense for the years ended December 31, 2008 and 2007 was \$40,893 and \$21,400, respectively.

Interest expense of \$48,118 has been capitalized as part of the cost of construction.

7. Grants Payable

The grants payable consist of the following at December 31:

	2008	2007
	\$ 871,766	\$ 882,806

A discount for the grants payable has not been recorded as the amount is immaterial to the financial statements.

During 2007 and 2008, the Foundation made conditional multiple year grant awards. These grants will be recognized when the conditions of the grants are substantially met. If the conditions of these grants are met, the Foundation will make Educational Outreach grants of \$195,000 in 2009 and \$100,000 in 2010.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

8. Restricted Net Assets

	2008		2007	
	Temporarily Restricted	Permanently Restricted Endowments	Temporarily Restricted	Permanently Restricted Endowments
Educational enrichment	\$5,901,998	\$ 41,444,726	\$22,782,330	\$41,444,726
Educational outreach	77,621	-	109,329	-
First Born	69,876	-	281,464	-
Math and Science	526,199	-	393,137	-
Regional Educational Quality Center	100,000	-	-	-
Public Schools	-	675	-	675
Domenici endowment	-	585,067	-	-
John and Marti Browne Leadership scholarships	-	218,607	79,229	207,167
Scholarships	752,140	706,819	1,055,486	657,551
	\$7,427,834	\$ 42,955,894	\$24,700,975	\$42,310,119

Restricted net assets consist of the following at December 31:

Several of the scholarships awarded by the Foundation are four-year commitments that are conditional on the student maintaining a grade point average of 3.0. These scholarships will be recognized each year if the conditions are met. As of December 31, 2008, conditional scholarship awards comprise \$323,500 of the \$752,140 restricted for scholarships. As of December 31, 2007, conditional scholarship awards comprised \$237,000 of the \$1,134,715 restricted for scholarships.

9. Revenues

Contributions consist of the following:

	2008	2007
Individuals and business:		
Building	\$ 30,950	\$ 22,861
First Born	132,650	160,643
Math and Science Academy	177,740	150,000
Scholarship program	131,130	124,596
Scholarship endowments	51,844	49,465
General and other	59,270	142,406
	\$ 583,584	\$ 649,971

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

9. Revenues (Continued)

	2008	2007
Grants and contracts consist of the following:		
Department of Energy/Los Alamos National Security, LLC	\$ 3,000,000	\$ 3,000,000
Los Alamos National Security, LLC	1,028,663	947,262
State of New Mexico Children, Youth & Families	387,192	377,718
	\$ 4,415,855	\$ 4,324,980

10. Operating Leases

The Foundation leases office space in Espanola for the Math & Science Academy administration. That lease expires June 19, 2009.

The Foundation leases office space from Building Equity, LLC. The lease is for five years with an automatic renewal for an additional five years. The rent expense has been eliminated from the financial statements through the consolidating entries.

The Foundation leases a postage machine and two copiers under arrangements expiring in 2008, 2010, and 2011, respectively. They also rent other office equipment and a storage shed under month to month lease agreements. Total lease costs for space and equipment in 2008 and 2007 were approximately \$37,000 and \$52,500, respectively.

Future minimum payments under operating leases having remaining lease terms in excess of one year as of December 31, 2008, are as follows:

2009	\$ 9,092
2010	6,273
2011	1,280
	\$ 16,645

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

11. Notes Payable and Line of Credit

At December 31, debt of the Foundation and LLC consisted of the following:

	2008	2007
Note payable to a bank for vehicle purchase, matures July 2, 2011, fixed rate of interest 6.0%. The note payable is collateralized by the vehicle.	\$ 14,034	\$ 18,939
Mortgage payable (LLC), payable to a bank, maturing on October 1, 2038, with a fixed rate of interest 6.5%. The note is secured by a mortgage on the property owned by Building Equity, LLC.	1,109,984	512,463
	\$1,124,018	\$531,402

The Foundation also has a \$3,000,000 line of credit secured by property, equipment, fixtures, accounts receivable, inventory, and funds received from Los Alamos National Security, LLC. At December 31, 2008 and 2007, the balance on the line of credit was \$0.

The future scheduled maturities of debt are as follows:

Years ending	
December 31:	
2009	\$ 6,193
2010	6,518
2011	4,388
2012	1,033
2013	1,038
2014 and Thereafter	1,104,848
	\$ 1,124,018

12. Retirement Plan

The Foundation has a 401k plan. All employees who work for twelve consecutive months and at least 1000 hours are eligible for discretionary employer-paid benefit. For 2008 and 2007, the benefit was 8% of annual compensation. The retirement expense was \$46,383 and \$42,623 for 2008 and 2007 respectively.

## LOS ALAMOS NATIONAL LABORATORY FOUNDATION

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

#### 13. Grants

The Foundation has a grant contract with Los Alamos National Security, LLC (LANS) for annual funding of \$654,000 for Education Outreach, the Math and Science Academy, a Regional Educational Quality Center and scholarships for the University of California non-resident fees. The grant began in 2007 and continues through 2011. LANS also provides matching funds, up to \$250,000, for employee contributions to the Los Alamos Employees' Scholarship Fund. The Foundation received \$1,028,663 and \$947,262 in 2008 and 2007, respectively, from LANS. The Foundation has accrued a receivable for \$200,000 at December 31, 2008 for the portion of funds for the Math and Science Academy and the Regional Educational Quality Center to be received in 2009.

Also in 2007, the Foundation received a one year grant of \$3,000,000 from the Department of Energy, administered by LANS, for educational enrichment and outreach. In 2008, the grant was extended through September 30, 2013, with decreases in funding beginning in 2010.

#### 14. Contracts

In 2006, the Foundation entered into a contract with the State of New Mexico's Children, Youth and Families Department (CYFD) to provide services and support to first time families in the Rio Arriba County. The CYFD will provide startup funds of \$1,000,000 over a three year period beginning October 2006 based on expenses incurred by the program. The Foundation is to raise matching funds over the second and third years of the program. As of December 31, 2008, the Foundation has received \$387,192 in funding from CYFD. At December 31, 2008, the Foundation has incurred \$36,287 in costs to be reimbursed by CYFD in 2009.

#### 15. Related Party Transactions

Members of the Board and employees of the Foundation provide financial assistance to the Foundation through restricted and unrestricted support. Included in donation revenue is \$74,111 and \$38,323 from members of the Board and employees for the year ended December 31, 2008 and 2007, respectively. Some members of the board also provided \$3,043 and \$19,835 in goods during 2008 and 2007 respectively.

#### 16. Concentrations

In 2006, the management of Los Alamos National Laboratory was awarded to Los Alamos National Security LLC, (LANS). The language in the new contract did not specify the amount to be awarded annually to the LANL Foundation. LANS, DOE and LANL Foundation signed a new Institutional Agreement (IA) in 2007 that will guide the new funding sources under the new contract. The new contract was for one year and was extended in 2008. In addition, LANS has committed to meeting or exceeding the annual funding previously provided by the University of California. A reduction of funding from LANS or DOE would have a material adverse effect on the Foundation's financial operations.

**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**

Board of Directors  
Los Alamos National Laboratory Foundation:

We have audited the consolidated financial statements of Los Alamos National Laboratory Foundation (the Foundation) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 28, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Los Alamos National Laboratory Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Los Alamos National Laboratory Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

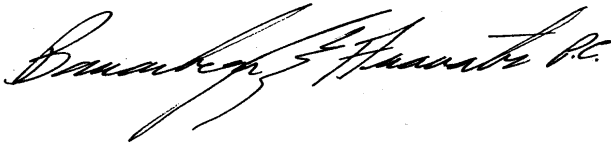
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

This report is intended solely for the information and use of management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



April 28, 2009

LOS ALAMOS NATIONAL LABORATORY FOUNDATION

Schedule of Expenditures of Federal Awards

December 31, 2008

<u>Federal Grantor/Program</u>	<u>Federal CFDA</u>	<u>Cumulative Federal Expenditures</u>
Department of Energy Endowment	81 .unknown	\$35,048,000
		<u>Current Year Expenditures</u>
Department of Energy Educational Enrichment and Outreach	81 .unknown	\$3,000,000

General

The Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Los Alamos National Laboratory Foundation.

Basis of Accounting

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

Endowment

The Department of Energy (DOE) provided funds to the Foundation for the educational enrichment endowment fund. The cumulative balance of the federal award for the endowment fund which are federally restricted are considered awards expended in each year in which the funds are still restricted.

Educational Enrichment Grants

The Department of Energy (DOE) through the Los Alamos National Security, LLC provided funds to the Foundation for the educational enrichment and education outreach grants distributed annually.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Schedule of Findings and Questioned Costs**

**December 31, 2008**

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of Los Alamos National Laboratory Foundation.
2. There were no material weaknesses disclosed during the audit of the consolidated financial statements of Los Alamos National Laboratory Foundation.
3. No instances of noncompliance material to the consolidated financial statements of Los Alamos National Laboratory Foundation were disclosed during the audit.
4. There were no material weaknesses disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award program for Los Alamos National Laboratory Foundation expresses an unqualified opinion.
6. No audit findings pertaining to the major federal award programs are reported in this schedule.
7. The major programs tested were:  
  
Agency: Department of Energy  
Program title: Los Alamos National Laboratory Foundation - Endowment  
CFDA No.: 81. unknown  
  
Agency: Department of Energy  
Program title: Los Alamos National Laboratory Foundation – Educational Enrichment and Outreach  
CFDA No.: 81. unknown
8. The threshold for Type A program was \$300,000
9. Los Alamos National Laboratory Foundation was determined to be a low-risk auditee.

B. Findings – Financial Statement Audit

None.

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None.

Status of Prior Year Findings

There were no prior year findings.

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Los Alamos National Laboratory Foundation:

Compliance

We have audited the compliance of Los Alamos National Laboratory Foundation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Los Alamos National Laboratory Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Los Alamos National Laboratory Foundation's management. Our responsibility is to express an opinion on Los Alamos National Laboratory Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Los Alamos National Laboratory Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Los Alamos National Laboratory Foundation's compliance with those requirements.

In our opinion, Los Alamos National Laboratory Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

### Internal Control Over Compliance

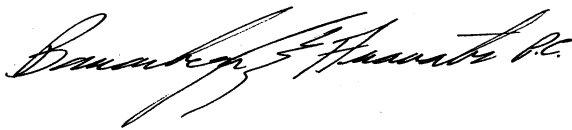
The management of Los Alamos National Laboratory Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Los Alamos National Laboratory Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Los Alamos National Laboratory Foundation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, U.S. Department of Energy and other federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



April 28, 2009

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION**

**Schedule of Consolidating Statement of Financial Position**

**December 31, 2008**

	<u>Foundation</u>	<u>Building Equity, LLC</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,309,159	\$ 9,931	\$ -	\$ 2,319,090
Investments	48,694,337	-	-	48,694,337
Accounts receivable	528,055	-	-	528,055
Due from LLC	157,867	-	(157,867)	-
Property and equipment, net	174,756	1,472,806	-	1,647,562
Investment in LLC	214,886	-	(214,886)	-
Other assets	10,100	-	-	10,100
Total assets	<u>\$ 52,089,160</u>	<u>\$ 1,482,737</u>	<u>\$ (372,753)</u>	<u>\$ 53,199,144</u>
<b><u>Liabilities and Net Assets</u></b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 97,800	\$ -	\$ -	\$ 97,800
Grants payable	871,766	-	-	871,766
Due to Foundation	-	157,867	(157,867)	-
Note payable	14,034	1,109,984	-	1,124,018
Funds held for others	18,382	-	-	18,382
Total liabilities	<u>1,001,982</u>	<u>1,267,851</u>	<u>(157,867)</u>	<u>2,111,966</u>
Net assets	<u>51,087,178</u>	<u>214,886</u>	<u>(214,886)</u>	<u>51,087,178</u>
Total liabilities and net assets	<u>\$ 52,089,160</u>	<u>\$ 1,482,737</u>	<u>\$ (372,753)</u>	<u>\$ 53,199,144</u>

See Independent Auditors' Report

LOS ALAMOS NATIONAL LABORATORY FOUNDATION

Schedule of Consolidating Statement of Activities

Year Ended December 31, 2008

	2008			
	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
<b>Support and Revenue</b>				
Contributions (note 9)	\$ 555,844	\$ -	\$ -	\$ 555,844
Grants and contracts (note 9)	4,415,855	-	-	4,415,855
Special events	174,550	-	-	174,550
Investment income (loss) (note 3)	(15,663,745)	-	-	(15,663,745)
Other income	32,238	59,513	(89,976)	1,775
Total support and revenue	(10,485,258)	59,513	(89,976)	(10,515,721)
<b>Expenses</b>				
Program				
Educational enrichment grants	2,824,535	-	-	2,824,535
Educational outreach grants	685,194	-	-	685,194
Community outreach grants	91,000	-	-	91,000
Scholarships	242,974	-	-	242,974
Math and Science Academy	144,678	-	-	144,678
First Born	692,237	-	-	692,237
Program operating expenses	568,229	-	-	568,229
Total program expenses	5,248,847	-	-	5,248,847
General and administrative	430,312	27,425	(57,888)	399,849
Fundraising	221,670	-	-	221,670
Total expenses	5,900,829	27,425	(57,888)	5,870,366
(Decrease) increase in net assets	(16,386,087)	32,088	(32,088)	(16,386,087)
Net assets at beginning of year	67,473,265	182,798	(182,798)	67,473,265
Net assets at end of year	\$ 51,087,178	\$ 214,886	\$ (214,886)	\$ 51,087,178