

LOS ALAMOS NATIONAL
LABORATORY FOUNDATION
Española, New Mexico

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
SUPPLEMENTARY INFORMATION	24
Consolidating Statement of Financial Position	25
Consolidating Statement of Activities	26
SINGLE AUDIT	27
Schedule of Expenditures of Federal Awards	28
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 <i>Government Auditing Standards</i>	29
Independent Auditor's Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	31
Schedule of Findings and Questioned Costs	33
Schedule of Prior Year Findings and Questioned Costs	36

Independent Auditor's Report

To the Board of Directors of
Los Alamos National Laboratory Foundation
Española, New Mexico

We have audited the consolidated statement of financial position of Los Alamos National Laboratory Foundation (the Foundation) as of December 31, 2010, 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. We did not audit the consolidated financial statements of the Foundation as of December 31, 2009. These statements were audited by other auditors, who expressed an unqualified opinion in their report dated May 4, 2010.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2010, 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 July 18, 2011, on our consideration of the Foundation'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 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 basic consolidated financial statements of the Foundation taken as a whole. The consolidating financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Clifton Gunderson LLP

Albuquerque, New Mexico
July 18, 2011

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2010 and 2009**

	Unrestricted
ASSETS	
Cash and cash equivalents	\$ 889,322
Investments	-
Accounts receivable	10,025
Prepaid expenses	55,384
Property and equipment, net	1,697,314
Other assets	-
	-
Total assets	\$ 2,652,045
 LIABILITIES	
Accounts payable and accrued expenses	\$ 72,003
Grants payable	736,822
Deferred revenue	59,166
Notes payable	1,087,374
Funds held for others	1,932
Other liabilities	3,570
	3,570
Total liabilities	1,960,867
Net assets	691,178
TOTAL LIABILITIES AND NET ASSETS	\$ 2,652,045

2010			2009
Temporarily Restricted	Permanently Restricted	Total	Summarized Total
\$ 114,941	\$ 51,524	\$ 1,055,787	\$ 1,463,964
18,952,689	43,013,269	61,965,958	56,651,353
262,664	31,641	304,330	414,084
-	-	55,384	-
-	-	1,697,314	1,574,601
-	-	-	10,100
<u>\$ 19,330,294</u>	<u>\$ 43,096,434</u>	<u>\$ 65,078,773</u>	<u>\$ 60,114,102</u>
\$ -	\$ -	\$ 72,003	\$ 103,544
-	-	736,822	610,466
-	-	59,166	-
-	-	1,087,374	1,106,277
-	-	1,932	17,098
-	-	3,570	3,570
<u>-</u>	<u>-</u>	<u>1,960,867</u>	<u>1,840,955</u>
<u>19,330,294</u>	<u>43,096,434</u>	<u>63,117,906</u>	<u>58,273,147</u>
<u>\$ 19,330,294</u>	<u>\$ 43,096,434</u>	<u>\$ 65,078,773</u>	<u>\$ 60,114,102</u>

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

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2010 and 2009

	Unrestricted
SUPPORT AND REVENUE	
Contributions	\$ 17,601
Grants and contracts	90,419
Special events	50,375
Investment income	29,802
Other income	42,496
Net assets released from restrictions	5,579,330
Total support and revenue	5,810,023
EXPENSES	
Program:	
Educational enrichment grants	2,625,000
Educational outreach grants	366,455
Community outreach grants	97,137
Scholarships	324,137
Math and Science Academy	131,204
First Born	294,546
Regional Education Quality Center	178,000
Inquiry Science Education Consortium	197,420
Annual Conference	65,146
Program operating expenses	812,267
Total program expenses	5,091,312
General and administrative	589,476
Fundraising	236,512
Total expenses	5,917,300
Increase (decrease) in net assets	(107,277)
NET ASSETS, BEGINNING OF YEAR	402,567
RESTATEMENT	395,888
NET ASSETS, BEGINNING OF YEAR, RESTATED	798,455
NET ASSETS, END OF YEAR	\$ 691,178

2010			2009
Temporarily Restricted	Permanently Restricted	Total	Summarized Total
\$ 749,569	\$ 48,378	\$ 815,548	\$ 485,280
3,326,872	17,040	3,434,331	3,832,450
-	-	50,375	93,503
6,389,507	-	6,419,309	8,743,053
-	-	42,496	25,262
<u>(5,579,330)</u>	<u>-</u>	<u>-</u>	<u>-</u>
4,886,618	65,418	10,762,059	13,179,548
-	-	2,625,000	2,873,812
-	-	366,455	663,853
-	-	97,137	93,428
-	-	324,137	321,172
-	-	131,204	89,730
-	-	294,546	434,486
-	-	178,000	100,000
-	-	197,420	-
-	-	65,146	49,260
-	-	812,267	623,391
<u>-</u>	<u>-</u>	<u>5,091,312</u>	<u>5,249,132</u>
-	-	589,476	506,475
-	-	236,512	237,972
<u>-</u>	<u>-</u>	<u>5,917,300</u>	<u>5,993,579</u>
<u>4,886,618</u>	<u>65,418</u>	<u>4,844,759</u>	<u>7,185,969</u>
14,839,564	43,031,016	58,273,147	51,087,178
<u>(395,888)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>14,443,676</u>	<u>43,031,016</u>	<u>58,273,147</u>	<u>51,087,178</u>
<u>\$ 19,330,294</u>	<u>\$ 43,096,434</u>	<u>\$ 63,117,906</u>	<u>\$ 58,273,147</u>

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

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 4,844,759	\$ 7,185,969
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	119,092	92,313
Unrealized gains on investments	(5,395,685)	(7,705,494)
Capital gain distributions and realized gains on investments	(63,155)	(42,201)
Contributions restricted for long-term purposes, including accounts receivable	(65,418)	(75,122)
Effects of changes in operating assets and liabilities:		
Accounts receivable	109,754	113,971
Prepaid expenses	(55,384)	-
Other assets	10,100	-
Accounts payable and accrued expenses	(31,541)	5,744
Grants payable	126,356	(261,300)
Deferred revenue	59,166	-
Funds held for others	(15,166)	(1,284)
Other liabilities	-	3,570
Total adjustments	(5,201,881)	(7,869,803)
NET CASH USED IN OPERATING ACTIVITIES	(357,122)	(683,834)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(151,833)	(599,109)
Reinvested interest, dividends and capital gains	296,068	389,789
Purchase of property and equipment	<u>(241,805)</u>	<u>(19,353)</u>
Net cash used by investing activities	(97,570)	(228,673)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable principal paid	(18,903)	(17,741)
Contributions restricted to investment in endowment	<u>65,418</u>	<u>75,122</u>
Net cash provided by financing activities	<u>46,515</u>	<u>57,381</u>
Net decrease in cash and cash equivalents	<u>(408,177)</u>	<u>(855,126)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,463,964</u>	<u>2,319,090</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,055,787</u>	<u>\$ 1,463,964</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 81,886</u>	<u>\$ 71,779</u>

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

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 1 – DEFINITION OF REPORTING ENTITY

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 company, Building Equity, LLC (LLC). The purpose of the LLC is to construct, own and operate the office building occupied by the Foundation and another entity. The building was completed in 2008.

NOTE 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 following paragraphs describe the basis of presentation and summarize the more significant accounting policies.

Use of Estimates in Preparing Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Consolidation

As described above, the accompanying consolidated financial statements for 2010 and 2009 include the accounts of the Foundation and the LLC. All significant balances and transactions between entities have been eliminated.

Basis of Accounting

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted, or unrestricted, as follows:

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations.

Permanently restricted net assets are net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which do not expire by the passage of time. Donors contribute to various endowments which require that the corpus be invested in perpetuity and the income be made available for program operations in accordance with donor restrictions.

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

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, 2009, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. The Foundation has modified the treatment for appropriating temporarily restricted investment income. In previous years, the Foundation reclassified board appropriated temporarily restricted investment income, where temporary restriction purpose had been satisfied, to unrestricted investment income. The Foundation is now treating such appropriations as a "Release of Temporarily Restricted Net Assets" once the temporarily restricted purpose has been satisfied.

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 2010 and 2009, the Foundation has maintained cash balances in excess of insured limits. As of December 31, 2010 and 2009, the amounts on deposit at the banks did not exceed the FDIC limit. To reduce its risk, the Foundation places its cash and investments with a highly rated financial institutions and pools managed by the University of California. The investment pools are not insured.

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments with a maturity date of three months or less at the time of purchase to be a cash equivalent. Cash and cash equivalents consist of money market accounts, including \$984,700 and \$1,447,181 at December 31, 2010 and 2009, respectively, 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.

Accounts Receivable

Accounts receivable include promises to give and unconditional pledges to the Foundation that have not been received by the balance sheet date. The carrying amount of accounts receivable is reduced by a valuation allowance based on the Foundation's estimates of uncollectible, which is approximately 4% of pledges receivable. The allowance for doubtful accounts is \$19,144 and \$21,080 for December 31, 2010 and 2009, respectively.

Investments

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

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.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

The Foundation reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported at the lower of the carrying amount or the fair value less costs to sell.

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.

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 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 if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation received approximately \$107,000 in contributed services for 2010 and \$4,000 for 2009.

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, 2010 are scheduled for payment within the subsequent year.

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.

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). The Foundation files an annual information return (form 990) with the Internal Revenue Service. Income from activities not directly related to the Foundation's tax exempt purpose is subject to taxation as unrelated business income.

In 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance relating to the accounting for the uncertainty in income taxes, which was effective for the Foundation for the year ending December 31, 2010. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with GAAP. The guidance also requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Foundation's informational returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. In addition, guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition was also provided. As of December 31, 2010, the Foundation performed a review of its material tax positions in accordance with recognition and measurement standards established by GAAP. As a result of this review, the Foundation qualified as a tax exempt organization under Section

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

501(c)(3) of the IRC and did not identify any entity level tax positions that would not meet the more-likely-than-not threshold.

The Foundation files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Foundation is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended December 31, 2007 and forward.

The Foundation would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense. There was no such interest or penalties recorded for the year ended December 31, 2010.

Subsequent Events

Management evaluated subsequent events through July 18, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior to July 18, 2011, that provided additional evidence about conditions that existed at December 31, 2010 have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2010.

NOTE 3 - ENDOWMENT FUNDS

The Foundation maintains five endowment funds, all of which are governed by donor-imposed restrictions, as follows:

- Educational Enrichment provides support to public schools (K-12) in the seven county area served by the Foundation. The disbursement of funds is focused in the areas of science, technology, engineering and mathematics education. Additionally, the donor allows a portion of the earnings of this endowment to support the operations of the Foundation.
- Domenici Endowment, John and Marti Browne Leadership Endowment, Scholarship Endowment and Tim Martin Endowment all provide competitively awarded scholarships to college students in one to four-year commitments.

As required by GAAP, net assets associated with endowments are classified and reported based on donor-imposed restrictions. The Foundation has no board-designated endowment funds. The Foundation has adopted investment and spending policies based on the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). According to the Foundation's interpretation of UPMIFA, and in accordance with donor restrictions, contributions to the endowment funds are classified as permanently restricted net assets. Permanently restricted net assets are valued at the original value of all gifts donated to

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 3 - ENDOWMENT FUNDS (CONTINUED)

the endowments. The historic dollar value of endowment contributions received must be maintained inviolate. Income earned from endowment investments is classified with temporarily restricted net assets based upon the donor-imposed restrictions. When a donor restriction is met, the net assets are reclassified to unrestricted net assets. Temporarily restricted endowment earnings that are used to support the operations of the Foundation are reclassified to unrestricted net assets upon board approval of the annual operating budget.

The composition of endowment net assets by type of fund consists of the following as of December 31, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	<u>\$ 17,363,910</u>	<u>\$ 43,096,434</u>	<u>\$ 60,460,344</u>
Total endowment net assets	<u>\$ 17,363,910</u>	<u>\$ 43,096,434</u>	<u>\$ 60,460,344</u>

The composition of endowment net assets by type of fund consists of the following as of December 31, 2009:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted funds	<u>\$ 13,163,729</u>	<u>\$ 43,031,016</u>	<u>\$ 56,194,745</u>
Total endowment net assets	<u>\$ 13,163,729</u>	<u>\$ 43,031,016</u>	<u>\$ 56,194,745</u>

Interpretation of Relevant Law

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Consequently, the Foundation classifies permanently restricted net assets as:

- The original value of gifts donated to the permanent endowment, and
- The original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation's Board. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 3 - ENDOWMENT FUNDS (CONTINUED)

4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2009	\$ 13,163,729	\$ 43,031,016	\$ 56,194,745
Investment return:			
Investment income	5,911,469	-	5,911,469
Contributions	-	65,418	65,418
Appropriations of endowment assets for expenditures	<u>(1,711,288)</u>	<u>-</u>	<u>(1,711,288)</u>
Endowment net assets December 31, 2010	<u>\$ 17,363,910</u>	<u>\$ 43,096,434</u>	<u>\$ 60,460,344</u>

Changes in endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2008	\$ 7,427,834	\$ 42,955,894	\$ 50,383,728
Investment return:			
Investment income	7,081,771	-	7,081,771
Contributions	-	75,122	75,122
2009 Appropriations accounted for in investment income	(949,988)	-	(949,988)
Appropriations of endowment assets for expenditures	<u>(395,888)</u>	<u>-</u>	<u>(395,888)</u>
Endowment net assets, December 31, 2009	<u>\$ 13,163,729</u>	<u>\$ 43,031,016</u>	<u>\$ 56,194,745</u>

Fund Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. No deficiencies of this nature are reported in unrestricted net assets as of December 31, 2010 and 2009, respectively. These deficiencies can result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the governing board.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 3 - ENDOWMENT FUNDS (CONTINUED)

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowments while not eroding the future purchasing power of the endowment assets. Endowment assets include donor contributions that the Foundation must hold in perpetuity, plus temporarily restricted earnings that have been reinvested. Under the board-approved investment policy, endowment assets are invested in a manner intended to produce a rate of return in excess of the spending rate plus the rate of inflation, while assuming a moderate level of investment risk. Over time, the Foundation expects its endowment funds to provide an annual rate of return of approximately 8%. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation's investment objective is to diversify investments to maximize long-term growth of assets within prudent risk constraints. The Foundation has elected to invest in the University of California General Endowment Pool (GEP). The GEP is an investment pool in which a large number of University-affiliated endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle offered by the University for endowed gift funds. The investment policy of the fund is established by the Regents of the University, and carried out by the University's Chief Investment Officer.

The 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 20% and 25% of the entire portfolio at December 31, 2010 and 2009, respectively. Investment fees are nine basis points, netted from income earned before it is distributed. For information on the University of California's endowment investment policy, holdings, unit values and the annual endowment report, please visit www.ucop.edu/treasurer.

Spending Policy and the How Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for annual distribution between 3% and 5% of the five-year weighted average market value of endowment assets. The decision to use a five-year average allows the spending stream from the Foundation to be less volatile than the underlying market, and thereby provides more steady and predictable funding to programs. In establishing this policy, the Foundation considered the long term expected return on its endowment and the accumulated earnings in the endowment accounts. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowments to grow at an average of 4% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 4 – INVESTMENTS

The Foundation adopted Statement ASC 820-10, formerly FASB No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the

principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels defined by the ASC 820-10 hierarchy are as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Investments consist of Level 1 inputs at December 31:

	<u>2010</u>		<u>2009</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
General Endowment Pool, managed by the University of California	<u>\$61,965,958</u>	<u>\$46,220,064</u>	<u>\$56,651,353</u>	<u>\$46,301,125</u>

Net investment income consists of the following:

	<u>2010</u>	<u>2009</u>
Interest on short-term funds	\$ 29,802	\$ 45,375
Interest and dividends on long-term investments	930,667	949,983
Realized gain on investments	63,155	42,201
Unrealized gains on investments	<u>5,395,685</u>	<u>7,705,494</u>
Net investment income	<u>\$ 6,419,309</u>	<u>\$ 8,743,053</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consist of the following:

	<u>2010</u>	<u>2009</u>
Annual banquet	\$ 2,500	\$ 59,035
General operations support	-	6,578
Public Schools endowment	-	17,283
Leadership endowment	20,000	22,419
Domenici endowment	-	16,853
Scholarship program pledges, net of \$19,144 and \$21,080 allowance for doubtful accounts for 2010 and 2009, respectively	274,305	171,053
Tuitions reimbursable	-	35,518
Los Alamos National Security, LLC	-	72,680
Other receivables	<u>7,525</u>	<u>12,665</u>
Total	<u>\$ 304,330</u>	<u>\$ 414,084</u>

Certain receivables will be received over the next two years. No discount was taken in 2010 and 2009, as the amount was deemed immaterial.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 165,711	\$ 165,711
Building and improvements	1,308,740	1,302,523
Furniture	172,104	171,003
Computers, equipment and software	404,478	169,991
Vehicle	<u>25,333</u>	<u>25,333</u>
	2,076,366	1,834,561
Less accumulated depreciation and amortization	<u>(379,052)</u>	<u>(259,960)</u>
Property and equipment, net	<u>\$ 1,697,314</u>	<u>\$ 1,574,601</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$119,092 and \$92,313, respectively.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 7 - GRANTS PAYABLE

Grants payable consisted of the following at December 31:

	2010	2009
	<u>\$ 736,822</u>	<u>\$ 610,466</u>

All 2009 grants payable were funded in 2010. Because grants payable related to 2010 are expected to be funded in 2011, a discount for the grants payable has not been recorded.

During 2010 and 2009, 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 disburse \$100,000 of these Educational Outreach grants in 2011.

NOTE 8 - NOTES PAYABLE AND LINE OF CREDIT

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

	2010	2009
Note payable to a bank for vehicle purchase, matures July 2, 2011, fixed rate of interest of 6.0%. The note payable is collateralized by the vehicle.	\$ 3,360	\$ 8,857
Mortgage payable (LLC), payable to a bank with monthly payments of \$7,029, maturing on October 1, 2038, with a fixed rate of interest of 6.5%. The note is secured by a mortgage on the property owned by Building Equity, LLC.	<u>1,084,014</u>	<u>\$ 1,097,420</u>
Total	<u>\$ 1,087,374</u>	<u>\$ 1,106,277</u>

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, 2010 and 2009, the balance on the line of credit was \$0.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 8 - NOTES PAYABLE AND LINE OF CREDIT (CONTINUED)

The future schedule maturities of debt are as follows:

Years ending December 31:

	Principal
2011	\$ 17,665
2012	15,261
2013	16,283
2014	17,374
2015	18,538
2016 – 2020	1,002,253
Total	\$ 1,087,374

NOTE 9 - RESTRICTED NET ASSETS

Restricted net assets consisted of the following at December 31:

	2010		2009, as Restated	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Educational enrichment	\$16,964,122	\$41,444,726	\$12,952,859	\$41,444,726
Educational outreach	148,785	-	154,190	-
Inquiry Science Educa- tion Consortium	83,120	-	-	-
Math and Science	563,510	-	603,332	-
Public Schools	-	-	-	675
Domenici Endowment	230,622	628,203	149,514	616,367
Tim Martin Endowment	(785)	34,013	-	-
John and Marti Browne Leadership Scholarships	15,147	235,613	13,569	228,357
Scholarships	1,325,773	753,879	966,100	740,891
Restatement- Investment Income	-	-	(395,888)	-
Total	<u>\$19,330,294</u>	<u>\$43,096,434</u>	<u>\$14,443,676</u>	<u>\$43,031,016</u>

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, 2010, conditional scholarship awards comprise approximately \$459,500 of the approximate \$1.3 million temporarily restricted for scholarships. As of December 31, 2009, conditional scholarship awards comprised \$397,500 of the \$966,100 restricted for scholarships.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 10 - REVENUES

Contributions consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Individuals and business:		
Building	\$ 101	\$ 1,996
First Born	266,088	65,600
Math and Science Academy	13,525	125,000
Scholarship program	351,974	238,843
Scholarship endowments	68,637	41,560
General and other	<u>115,223</u>	<u>12,281</u>
Total	<u>\$ 815,548</u>	<u>\$ 485,280</u>

Grants and contracts consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Department of Energy/Los Alamos		
National Security, LLC	\$ 2,500,000	\$ 3,000,000
Department of Education	78,775	-
Los Alamos National Security, LLC	855,556	642,793
State of New Mexico Children, Youth & Families	<u>-</u>	<u>189,657</u>
Total	<u>\$ 3,434,331</u>	<u>\$ 3,832,450</u>

NOTE 11 – RENTAL INCOME

Effective July 1, 2009, the LLC and a tenant entered into a three-year lease agreement. Building lease income for the years ended December 31, 2010 and 2009 was approximately \$42,000 and \$21,000, respectively.

Due in one year or less	\$ 42,846
Due after one year through five	<u>21,423</u>
Total	<u>\$ 64,269</u>

NOTE 12 - OPERATING LEASES

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 income and expense has been eliminated from the financial statements through the consolidating entries.

The Foundation leases office space in Española for the Math & Science Academy administration. The lease expired June 19, 2009, and is now on a month-to-month agreement.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009**

NOTE 12 - OPERATING LEASES (CONTINUED)

The Foundation leases two copiers under long-term, lease agreements. They also rent a warehouse facility for storage of their Inquiry Science Education Consortium supplies in Pojoaque, NM. Total lease costs for this space and equipment in 2010 and 2009 were approximately \$40,000 and \$37,000, respectively.

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

Years ending December 31:

2011	\$ 29,166
2012	20,397
2013	<u>1,982</u>
Total minimum lease payments	<u>\$ 51,545</u>

NOTE 13 - RETIREMENT PLAN

The Foundation has a 401(k) plan. All employees who work for twelve consecutive months and at least 1,000 hours are eligible for discretionary employer-paid benefit. For 2010 and 2009, the benefit was 8% of annual compensation. The retirement expense was \$33,261 and \$34,467 for 2010 and 2009, respectively.

NOTE 14 - GRANTS

The Foundation has a grant contract with Los Alamos National Security, LLC (LANS) for annual funding of \$554,000 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 \$924,637 and \$627,794 in 2010 and 2009, respectively, from LANS.

The Foundation received annual grants from the Department of Energy, administered by LANS, for educational enrichment and outreach. The Foundation received \$2,500,000 and \$3,000,000 for 2010 and 2009, respectively. Funding for 2011 is estimated to be \$2,000,000.

NOTE 15 - 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 Rio Arriba County. The CYFD provided startup funds of \$1,000,000 over a three-year period beginning October 2006, based on expenses incurred by the program. The Foundation is required to raise matching funds over the second and third years of the program. The Foundation has raised the required funds for this program. The Foundation has received \$0 and \$189,657 in funding from CYFD for the years ended December 31, 2010 and 2009, respectively.

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NOTE 16 - 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 contributions is \$53,478 and \$27,489 from members of the Board and employees for the year ended December 31, 2010 and 2009, respectively.

NOTE 17 - CONTINGENCY

The Foundation receives funds from federal and state agencies. These funds are subject to audit and adjustment by the granting agency. Any disallowed amounts resulting from these audits would be required to be refunded.

NOTE 18 - RESTATEMENT

The board of directors may, at its discretion, release from restriction endowment earnings to support the operations and educational activities of the Foundation. The board determines the amount annually, at the beginning of the year, based upon a percentage of the five-year average market value of the endowment investments. In 2009, the amount transferred to unrestricted was less than the amount approved by the board. As a result, unrestricted net assets were understated by \$395,888, and temporarily restricted net assets were overstated by the same amount. The restatement correctly reflects the board approved appropriation in support of 2009 operations.

NOTE 19 - SUBSEQUENT EVENT

Management and the Board of Directors of the Foundation have evaluated events through July 18, 2011 the date the financial statements were available to be issued. In 2011, the Foundation intends to spend \$1 million from the unrestricted portion of their Department of Energy endowment to subsidize the federal grant from the US Department of Energy, which phases out by \$500,000 each year until the end of the grant in 2013.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2010**

	<u>Foundation</u>	<u>Building Equity, LLC</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,047,683	\$ 8,104	\$ -	\$ 1,055,787
Investments	61,965,958	-	-	61,965,958
Accounts receivable	304,330	-	-	304,330
Due from LLC	123,886	-	(123,886)	-
Prepaid expenses	55,384	-	-	55,384
Property and equipment, net	296,469	1,400,845	-	1,697,314
Investment in LLC	190,145	-	(190,145)	-
	<u>63,983,855</u>	<u>1,408,949</u>	<u>(314,031)</u>	<u>65,078,773</u>
Total assets	<u>\$ 63,983,855</u>	<u>\$ 1,408,949</u>	<u>\$ (314,031)</u>	<u>\$ 65,078,773</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable and accrued expenses	\$ 72,003	\$ -	\$ -	\$ 72,003
Grants payable	736,822	-	-	736,822
Deferred revenue	55,596	3,570	-	59,166
Due to Foundation	-	123,886	(123,886)	-
Notes payable	3,360	1,084,014	-	1,087,374
Funds held for others	1,932	-	-	1,932
Other liabilities	-	3,570	-	3,570
	<u>869,713</u>	<u>1,215,040</u>	<u>(123,886)</u>	<u>1,960,867</u>
Total liabilities	<u>869,713</u>	<u>1,215,040</u>	<u>(123,886)</u>	<u>1,960,867</u>
Net assets	<u>63,114,142</u>	<u>193,909</u>	<u>(190,145)</u>	<u>63,117,906</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 63,983,855</u>	<u>\$ 1,408,949</u>	<u>\$ (314,031)</u>	<u>\$ 65,078,773</u>

LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

	<u>Foundation</u>	<u>Building Equity, LLC</u>	<u>Elimination Entries</u>	<u>Consolidated Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 815,548	\$ -	\$ -	\$ 815,548
Grants and contracts	3,434,331	-	-	3,434,331
Special events	50,375	-	-	50,375
Investment gain (loss) income	6,419,309	-	-	6,419,309
Other income	-	135,116	(92,620)	42,496
Net assets released from restrictions	-	-	-	-
Total support and revenue	10,719,563	135,116	(92,620)	10,762,059
EXPENSES				
Program:				
Educational enrichment grants	2,625,000	-	-	2,625,000
Educational outreach grants	366,455	-	-	366,455
Community outreach grants	97,137	-	-	97,137
Scholarships	324,137	-	-	324,137
Math and Science Academy	131,204	-	-	131,204
First Born	294,546	-	-	294,546
Regional Education Quality Center	178,000	-	-	178,000
Inquiry Science Education Consortium	197,420	-	-	197,420
Annual Conference	65,146	-	-	65,146
Program operating expenses	<u>757,756</u>	<u>54,511</u>	<u>-</u>	<u>812,267</u>
Total program expenses	<u>5,036,801</u>	<u>54,511</u>	<u>-</u>	<u>5,091,312</u>
General and administrative	619,704	62,392	(92,620)	589,476
Fundraising	<u>222,063</u>	<u>14,449</u>	<u>-</u>	<u>236,512</u>
Total expenses	<u>5,878,568</u>	<u>131,352</u>	<u>(92,620)</u>	<u>5,917,300</u>
Increase (decrease) in net assets	<u>4,840,995</u>	<u>3,764</u>	<u>-</u>	<u>4,844,759</u>
NET ASSETS, BEGINNING OF YEAR	<u>58,273,147</u>	<u>190,145</u>	<u>(190,145)</u>	<u>58,273,147</u>
NET ASSETS, END OF YEAR	<u>\$ 63,114,142</u>	<u>\$ 193,909</u>	<u>\$ (190,145)</u>	<u>\$ 63,117,906</u>

SINGLE AUDIT

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2010**

<u>Federal Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Current Federal Expenditures</u>
U.S. DEPARTMENT OF ENERGY		
Educational Enrichment and Outreach	81.unknown	\$ 2,500,000
U.S DEPARTMENT OF EDUCATION		
Northern New Mexico Inquiry Science Education Consortium	84.215K	<u>78,775</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 2,578,775</u></u>

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 was prepared on 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 awards for the endowment fund, which are restricted, are considered awards expended in each year in which the funds are still restricted.

EDUCATIONAL ENRICHMENT GRANTS

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

**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***

To the Board of Directors of
Los Alamos National Laboratory Foundation
Española, New Mexico

We have audited the consolidated financial statements of Los Alamos National Laboratory Foundation (the Foundation) as of and for the year ended December 31, 2010, and have issued our report thereon dated July 18, 2011. 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 the 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs and responses to be a material weakness in internal control over financial reporting. The material weakness is described at finding 2010-01.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs and responses to be a significant deficiency. The significant deficiency is described at finding 2010-02.

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*.

The Foundation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Foundation's Board of Directors, others within the entity, 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
July 18, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Directors of
Los Alamos National Laboratory Foundation
Española, New Mexico

Compliance

We have audited the compliance of Los Alamos National Laboratory Foundation (the Foundation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The 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 the Foundation's management. Our responsibility is to express an opinion on the 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 the 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 the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

The management of the 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 the 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 the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 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.

Clifton Gunderson LLP

Albuquerque, New Mexico
July 18, 2011

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency (ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major program: Qualified for allowable costs requirement for CFDA 14.218. Unqualified opinion on all other compliance requirements.

Any audit findings, disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
81.XXX	U.S. Department of Energy: Educational Enrichment and Outreach

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? yes no

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2010-01 NET ASSET RESTATEMENT (*Material Weakness*)

Statement of Condition: During testwork of net assets, management brought to the auditor's attention that a 2009 audit adjustment had been made reclassifying an amount from unrestricted to temporarily restricted net assets, and that management did not agree that the reclassification was consistent with the Foundation's policy of appropriating restricted net assets.

Criteria: The Foundation may appropriate certain temporarily restricted net assets to support operations. The Foundation determines the amount annually as part of the budgeting process. The amount is determined using a percentage of the five year weighted average of the related endowment's market value. The amount to be appropriated is transferred into the money market account in equal monthly installments. The amount transferred is first satisfied by interest income earned. In months in which interest income is insufficient, the monthly allocation is achieved through selling underlying holdings in the endowment.

Cause: The review of the December 31, 2009 financial statements did not occur before the release of the financial statements. The 2009 audit firm proposed an audit adjustment reducing the board-approved appropriation to the amount of interest income earned. The amount of appropriation in excess of interest income was reclassified to temporarily restricted net assets. The audit firm advised management that it was improper to release funds in excess of interest earnings. Subsequently, through Board review of the December 31, 2009 financial statements, management understood that the audit firm had incorrectly documented the Foundation's method of appropriating funds, and that the misunderstanding was the basis for their audit adjustment.

Effect: The financial statements for the year ending December 31, 2009 overstated temporarily restricted net assets and understated unrestricted net assets.

Recommendation: We recommend the Foundation perform a thorough review of proposed adjustments to the financial statements, including supporting schedules prepared by the Chief Financial Officer for audit testwork.

Management's Response: We have instituted a review process that includes the Chief Executive Officer, the Chief Financial Officer and two members of the board. We have allowed time in our delivery schedule for a thoughtful review of any proposed modifications to our financial statement presentation and disclosure.

2010-02 LACK OF ADEQUATE DISCLOSURES (*Significant Deficiency*)

Statement of Condition: The prior year financial statements, December 31, 2009, did not include the required disclosure for the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was effective during this time.

Criteria: In accordance with FSP FAS 117-1, superseded by FASB codification 9/15/2009: 958-205-65, the Foundation was to implement and disclose their net assets in accordance with UPMIFA for the year ending December 31, 2009.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010**

Cause: Lack of adequate review of the financial statements for the year ending December 31, 2009.

Effect: The financial statements for the year ending December 31, 2009 did not include the appropriate disclosures for net asset classifications.

Recommendation: We recommend the Foundation establish a thorough review process of their financial statements to ensure all required disclosures are included in the financial statements.

Management's Response: Financial Accounting Standards Board (FASB) Statement of Position 117-1 *Endowments of Not-for-Profit Organizations* became effective for fiscal years ending after December 15, 2008. As such, the expanded disclosure regarding endowment net assets, and investment and spending policies, was required for the first time in 2009. Management now subscribes to a non-profit accounting technical publication to stay current with the requirements of new standards and statements. The technical service includes a regularly updated disclosure checklist for financial statement preparation. Additionally, the Foundation now requires that an annual non-profit accounting update class be a required component of the Chief Financial Officer's professional development.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

**B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.