



REPORT OF INDEPENDENT AUDITORS AND CONSOLIDATED
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

LOS ALAMOS NATIONAL LABORATORY FOUNDATION

December 31, 2018 and 2017

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Los Alamos National Laboratory Foundation, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and functional expenses for the year ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Los Alamos National Laboratory Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 of the financial statements, in 2018, the entity adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the table of contents is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Albuquerque, New Mexico
May 21, 2019

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Los Alamos National Laboratory Foundation
Consolidated Statements of Financial Position

ASSETS

	December 31,	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 986,309	\$ 889,115
Investments	4,090,703	4,072,043
Accounts receivable, net	210,600	225,720
Prepaid expenses	<u>20,000</u>	<u>10,955</u>
Total current assets	<u>5,307,612</u>	<u>5,197,833</u>
NONCURRENT ASSETS		
Investments - long term	76,115,276	80,843,873
Property and equipment, net	<u>1,123,950</u>	<u>1,162,288</u>
Total noncurrent assets	<u>77,239,226</u>	<u>82,006,161</u>
Total assets	<u>\$ 82,546,838</u>	<u>\$ 87,203,994</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 211,281	\$ 344,465
Grants payable, net	14,957	15,957
Deferred revenue	-	25,700
Current portion of notes payable	29,981	27,117
Other liabilities	<u>-</u>	<u>698</u>
Total current liabilities	256,219	413,937
LONG-TERM LIABILITIES		
Notes payable, less current portion	<u>904,273</u>	<u>934,255</u>
Total liabilities	<u>1,160,492</u>	<u>1,348,192</u>
NET ASSETS		
Without donor restriction	1,497,762	1,544,496
Donor restricted	<u>79,888,584</u>	<u>84,311,306</u>
Total net assets	<u>81,386,346</u>	<u>85,855,802</u>
Total liabilities and net assets	<u>\$ 82,546,838</u>	<u>\$ 87,203,994</u>

Los Alamos National Laboratory Foundation
Consolidated Statements of Activities
December 31, 2018

	Without Donor Restriction	Donor Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 17,783	\$ 615,246	\$ 633,029
Grants and contracts	65,235	651,652	716,887
Investment income (loss)	1,233,626	(2,484,330)	(1,250,704)
Other income	30,676	51,730	82,406
Net assets released from restrictions	3,257,020	(3,257,020)	-
Total support and revenue	4,604,340	(4,422,722)	181,618
EXPENSES			
Program			
Program operating expenses	1,302,792	-	1,302,792
Inquiry science education consortium	1,141,919	-	1,141,919
Scholarships	601,616	-	601,616
Early childhood	513,865	-	513,865
Educational enrichment grants	249,394	-	249,394
Educational outreach grants	164,052	-	164,052
Community outreach grants	54,000	-	54,000
Teacher awards	7,000	-	7,000
Total program expenses	4,034,638	-	4,034,638
General and administrative	442,373	-	442,373
Fundraising	174,063	-	174,063
Total expenses	4,651,074	-	4,651,074
CHANGE IN NET ASSETS	(46,734)	(4,422,722)	(4,469,456)
NET ASSETS			
Beginning of year	1,544,496	84,311,306	85,855,802
End of year	\$ 1,497,762	\$79,888,584	\$81,386,346

Los Alamos National Laboratory Foundation
Consolidated Statements of Activities
December 31, 2017

	Without Donor Restriction	Donor Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 14,123	\$ 456,429	\$ 470,552
Grants and contracts	91,147	675,406	766,553
Investment income	1,501,538	9,653,381	11,154,919
Other income	56,267	20,179	76,446
Net assets released from restrictions	<u>2,669,671</u>	<u>(2,669,671)</u>	<u>-</u>
Total support and revenue	<u>4,332,746</u>	<u>8,135,724</u>	<u>12,468,470</u>
EXPENSES			
Program			
Inquiry science education consortium	1,450,751	-	1,450,751
Program operating expenses	694,963	-	694,963
Scholarships	547,167	-	547,167
Early childhood	303,886	-	303,886
Educational enrichment grants	137,397	-	137,397
Educational outreach grants	125,000	-	125,000
Other	<u>92,553</u>	<u>-</u>	<u>92,553</u>
Total program expenses	3,351,717	-	3,351,717
General and administrative	485,142	-	485,142
Fundraising	<u>148,103</u>	<u>-</u>	<u>148,103</u>
Total expenses	<u>3,984,962</u>	<u>-</u>	<u>3,984,962</u>
CHANGES IN NET ASSETS	347,784	8,135,724	8,483,508
NET ASSETS			
Beginning of year	<u>1,196,712</u>	<u>76,175,582</u>	<u>77,372,294</u>
End of year	<u>\$ 1,544,496</u>	<u>\$84,311,306</u>	<u>\$ 85,855,802</u>

Los Alamos National Laboratory Foundation
Consolidated Statement of Functional Expenses
December 31, 2018

	Program Activities							Total Program Expenses	Supporting Activities		Total Expense	
	K-12	Scholarships	Early Childhood	Educational Enrichment Grants	Educational Outreach Grants	Community Outreach Grants	Teacher Awards		Program Operating Expenses	General and Administrative Support		Fundraising
Salaries wages and benefits	\$ 408,027	\$ -	\$ 316,785	\$ -	\$ -	\$ -	\$ -	\$ 803,138	\$ 1,527,950	\$ 328,429	\$ 120,789	\$ 1,977,168
Professional services	327,612	-	116,367	-	-	-	-	295,023	739,002	27,365	11,286	777,653
Public relations	17,411	-	13,518	-	-	-	-	34,271	65,200	22,722	11,941	99,863
Travel and training	40,022	-	19,394	-	-	-	-	49,169	108,585	14,335	6,436	129,356
Grants	-	-	-	249,394	164,052	54,000	-	-	467,446	-	-	467,446
Scholarship payout	-	601,616	-	-	-	-	-	-	601,616	-	-	601,616
Teacher awards	-	-	-	-	-	-	7,000	-	7,000	-	-	7,000
Office expenses	348,052	-	47,184	-	-	-	-	119,626	514,862	16,500	21,272	552,634
Total operating expenses	1,141,124	601,616	513,248	249,394	164,052	54,000	7,000	1,301,227	4,031,661	409,351	171,724	4,612,736
Depreciation	795	-	617	-	-	-	-	1,565	2,977	33,022	2,339	38,338
Total expenses	\$ 1,141,919	\$ 601,616	\$ 513,865	\$ 249,394	\$ 164,052	\$ 54,000	\$ 7,000	\$ 1,302,792	\$ 4,034,638	\$ 442,373	\$ 174,063	\$ 4,651,074

Los Alamos National Laboratory Foundation

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	\$ (4,469,456)	\$ 8,483,508
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation expense	38,338	41,403
Unrealized loss (gain) on investments	3,877,878	(7,522,789)
Provision for losses	21,520	19,583
Effects of changes in operating assets and liabilities		
Accounts receivable, net	(6,400)	(53,623)
Prepaid expenses	(9,045)	(9,706)
Accounts payable and accrued expenses	(133,184)	145,872
Grants payable, net	(1,000)	1,000
Other liabilities	(698)	(2,872)
Deferred revenue	(25,700)	19,934
	(707,747)	1,122,310
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,999,877)	(5,470,990)
Reinvested interest, dividends and capital gains	(485,634)	(665,391)
Proceeds from sale of investments	6,317,570	4,473,715
Purchases of property and equipment	-	(6,740)
	832,059	(1,669,406)
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable principal paid	(27,118)	(21,105)
	(27,118)	(21,105)
NET CHANGE IN CASH AND CASH EQUIVALENTS	97,194	(568,201)
CASH AND CASH EQUIVALENTS, beginning of year	889,115	1,457,316
CASH AND CASH EQUIVALENTS, end of year	\$ 986,309	\$ 889,115
SUPPLEMENTAL DISCLOSURES OF CASH		
Cash paid for interest	\$ 47,870	\$ 63,240

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 1 – Definition of Reporting Entity

Los Alamos National Laboratory Foundation (the Foundation) is a New Mexico nonprofit 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 (the 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. For tax purposes, the LLC is disregarded, and all of its activities are reported on the Foundation's annual information return (IRS form 990).

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 nonprofit 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. Significant estimates and assumptions made by management include the allowance for uncollectible receivables, useful lives of property and equipment, fair value measurements of investments, and functional allocation of expenses.

Basis of Consolidation

As described above, the accompanying consolidated financial statements include the accounts of the Foundation and the LLC. All significant balances and transactions between the 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 two classes of net assets – net assets without donor restrictions, and net assets with donor restrictions:

Net Assets Without Donor Restrictions are net assets that are not subject to donor-imposed stipulations.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Donor Restricted Net Assets are subject to explicit restrictions imposed by the donor on the expenditure of contributions or income and gains on contributed assets. These net assets may have stipulations by the donor to be maintained in perpetuity, such as an endowment, or the restrictions may expire due to the passage of time or the occurrence of expenditures that fulfill the restrictions. Net assets with donor restrictions also include accumulated net investment income earned by the net assets held in perpetuity.

Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and investments. During 2018 and 2017, the Foundation's cash accounts, including all noninterest-bearing transaction accounts, were at an institution insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000, for each deposit insurance ownership category. Periodically throughout 2018 and 2017, the Foundation has maintained cash balances in excess of insured limits. At December 31, 2018 and 2017, the Foundation's cash held in checking accounts is fully insured as balances were under the insured limits.

Cash and Cash Equivalents

For purposes of the Consolidated 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 cash equivalents.

Accounts Receivable, net

Accounts receivable, net include unconditional promises to give and unconditional pledges to the Foundation that have not been received by the Consolidated Statement of Financial Position date. The carrying amount of accounts receivable, net is reduced by a valuation allowance based on the Foundation's estimates of uncollectible amounts, which is approximately 5% of the campaign year accrual of payroll pledges receivable at December 31, 2018 and 2017.

Unconditional promises to give and unconditional pledges are recognized as revenue in the period received, and are classified as net assets with donor restrictions or net assets without donor restrictions based upon the existence or absence of donor-imposed restrictions. Contributions with donor-imposed stipulations are reported as net assets with donor restrictions and are reclassified to net assets without donor restrictions when requirements are met.

Investments

Investments are reported at fair value, which results in unrealized gains and losses being recognized as fair value changes. Investments are held in a General Endowment Pool by the University of California.

Realized and unrealized gains and losses are recognized in the period in which they occur and are recorded in the Consolidated Statements of Activities. Investment income is presented net of investment management fees. Investment income is pooled and allocated to net assets without donor restrictions and net assets with donor restrictions balances in proportion to their average monthly equity in the pooled investment portfolio.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment with cost in excess of \$5,000 are capitalized. Purchased equipment is stated at cost. Contributed equipment is reflected at estimated fair 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 39 years.

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

The Foundation reviews its long-lived assets 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 asset 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 to 16.67 hours per month. The maximum amount of vacation accrued by any employee is 240 hours. A liability for compensated absences has been recorded.

In-Kind Donations

The Foundation receives in-kind donations of stocks, materials and services. Donations of stocks, materials and services 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 nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation did not receive contributed services during the years ending December 31, 2018 and 2017.

Deferred Revenue

Revenues from exchange transactions are recognized when the service is rendered. Amounts collected in advance of incurring specified costs are reflected as deferred revenue.

Grants Awarded

Grants awarded by the Foundation are charged to operations and recorded as liabilities upon approval by the Foundation's Board of Directors. The Foundation has no grant payable that will extend beyond the subsequent year.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes

The Foundation has adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The Foundation recognizes the tax (benefit) expense from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. Any such tax (benefit) expense is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Foundation had no unrecognized tax benefits at December 31, 2018 or 2017. The Foundation files an exempt organization return with the Internal Revenue Service (IRS). It is not a “private foundation” for tax purposes. The Foundation had no taxable unrelated business income for the years ended December 31, 2018 and 2017. Accordingly, a provision for income taxes has not been established in the accompanying consolidated financial statements.

Expenses by Both Nature and Function

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. Depreciation is allocated based on square footage. Most all expenses are recorded directly to the function to which they relate based on the actual personnel assigned and vendor expenses paid.

Recent Accounting Pronouncements-

ASU 2016-14 - Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14) during August 2016. ASU 2016-14 revises the current net asset classification requirements and information presented in financial statements and notes about a non-for-profit entity’s liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Management has adopted this new pronouncement as of January 1, 2018.

ASU 2016-02 – Leases: Changes the way lessees will recognize leases as they will recognize most leases on-balance sheet and will increase reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and interim periods in fiscal years beginning after December 15, 2020. The ASU mandates a modified retrospective transition method for all entities. Management is currently evaluating the impact of this ASU, but does not anticipate a significant impact to the financial statements upon adoption.

ASU 2018-08 – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made – This ASU provides clarification in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The guidance is applicable for transactions where the entity serves as the resource recipient beginning after December 15, 2018 and for transactions in which the entity serves as the resource provider beginning after December 15, 2019. Management is in the process of determining the impact of this pronouncement.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements in Topic 820. The amendments in ASU 2018-13 are effective for all entities for fiscal years beginning after December 15, 2019. Changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Management is in the process of determining the impact of this pronouncement.

ASU 2019-03 – Not-for-Profit Entities (Topic 958): Updating the Definition of Collections. This ASU modifies the definition of the term collections and requires that a collection-holding entity disclose its policy for the use of proceeds when collection items are removed from the collection. It is effective for year ends beginning after December 15, 2020, with early application permitted and to be applied on a prospective basis. Management is in the process of determining the impact of this pronouncement.

Note 3 – Fair Value of Financial Instruments

The Foundation follows Statement ASC 820-10, 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.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value of Financial Instruments (continued)

The following is the fair value of investments at December 31:

	2018		2017	
	Market Value	Cost	Market Value	Cost
General endowment pool, managed by the University of California	\$ 76,115,276	\$ 36,752,601	\$ 80,843,873	\$ 37,715,595
General non-endowment pool, managed by the University of California	3,820,703	3,859,409	3,792,043	3,642,197
Privately held common stock	270,000	120,000	280,000	160,000
	<u>\$ 80,205,979</u>	<u>\$ 40,732,010</u>	<u>\$ 84,915,916</u>	<u>\$ 41,517,792</u>

Privately Held Common Stock

On June 4, 2015, the Foundation Board of Directors agreed to accept the stock subject to the stipulation that the Foundation will not sell the granted shares for at least two (2) years from the date of receipt and may not sell more than twenty percent (20%) of the shares in any twelve-month period. In the event of a change in control of the privately held corporation, this stipulation will cease to exist. In 2018 and 2017, 10,000 shares were sold as per the agreement. The common stock is publicly traded, but is not listed on any exchange. The corporation's board includes a Foundation's board member. The common stock value is determined based on quoted market prices in an inactive market since the stock is not traded on a regular basis; therefore, it is considered a Level 2 security.

Net Asset Value (NAV)

Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments measured at NAV include commingled funds which are invested in the General Endowment Pool (GEP) managed by the University of California.

General Endowment Pool

The General Endowment Pool managed by the University of California is invested in the following at December 31:

	2018	2017
Public equity	38.60%	45.00%
Cash and fixed income	14.60%	21.30%
Absolute return	22.40%	17.50%
Private equity	13.30%	10.10%
Real estate and real assets	11.10%	6.10%
	<u>100.00%</u>	<u>100.00%</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 3 – Fair Value of Financial Instruments (continued)

The following are the fair values of assets measured on a recurring basis at December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Investments				
Privately held common stock	\$ -	\$ 270,000	\$ -	\$ 270,000
Investments measured at net asset value				79,935,979
Total investments				\$ 80,205,979
	2017			
	Level 1	Level 2	Level 3	Total
Investments				
Privately held common stock	\$ -	\$ 280,000	\$ -	\$ 280,000
Investments measured at net asset value				84,635,916
Total investments				\$ 84,915,916

Net investment (loss) income consisted of the following for the years ending December 31:

	2018	2017
Interest and dividends on long-term investments	\$ 556,606	\$ 665,391
Realized gain on investments, net	2,070,568	2,966,739
Unrealized (loss) gain on investments, net	(3,877,878)	7,522,789
Total	\$ (1,250,704)	\$ 11,154,919

Note 4 – Accounts Receivable, net

Accounts receivable, net consisted of the following at December 31:

	2018	2017
Scholarship program pledges, net of \$21,520 and \$19,583, respectively, allowance for doubtful accounts	\$ 206,148	\$ 224,520
Other receivables	4,452	1,200
Total	\$ 210,600	\$ 225,720

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 5 – Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 165,711	\$ 165,711
Building and improvements	1,308,813	1,308,813
Furniture	207,981	207,981
Computers, equipment and software	407,749	407,749
Vehicle	<u>25,333</u>	<u>25,333</u>
	2,115,587	2,115,587
Less accumulated depreciation and amortization	<u>(991,637)</u>	<u>(953,299)</u>
	<u><u>\$ 1,123,950</u></u>	<u><u>\$ 1,162,288</u></u>

Depreciation expense for the years ending December 31, 2018 and 2017 was \$38,338 and \$41,403, respectively.

Note 6 – Grants Payable, Net

Grants payable, net consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Educational enrichment	\$ 14,957	\$ 14,957
Scholarship payable	<u>-</u>	<u>1,000</u>
	<u><u>\$ 14,957</u></u>	<u><u>\$ 15,957</u></u>

Grants authorized but unpaid at year-end are reported as liabilities. All outstanding grants are expected to be paid in 2019.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 7 – Notes Payable

Notes payable of the Foundation consisted of the following at December 31:

	2018	2017
Mortgage, payable to Los Alamos National Bank, due on demand, but if no demand is made, monthly payments of \$5,923, with one balloon payment at the end of the loan term which is March 1, 2025, with a fixed rate of interest of 4.464%. The note is secured by a mortgage on the LLC office building.	\$ 934,254	\$ 961,372
Less: current portion	29,981	27,117
	\$ 904,273	\$ 934,255

If no demand is made on the mortgage payable, the future scheduled maturities of debt are as follows for the years ending December 31:

2019	\$ 29,981
2020	31,347
2021	32,775
2022	34,269
2023	35,830
Thereafter	770,052
	\$ 934,254

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 8 – Donor Restricted Net Assets

	2018		2017	
	Restricted by Purpose or Time	Restricted in Perpetuity	Restricted by Purpose or Time	Restricted in Perpetuity
Educational enrichment	\$ 31,520,829	\$ 41,444,726	\$ 36,110,271	\$41,444,726
Early childhood	161,126	-	249,114	-
Domenici endowment	481,411	773,204	559,007	761,115
Tim Martin endowment	7,516	74,320	12,150	70,165
Leadership endowment	68,164	348,863	91,583	336,202
Scholarships	3,415,700	1,465,657	3,402,902	1,257,321
Mueller endowment	(5,367)	100,000	-	-
Hiskey endowment	(1,315)	33,750	-	16,750
	<u>\$ 35,648,064</u>	<u>\$ 44,240,520</u>	<u>\$ 40,425,027</u>	<u>\$43,886,279</u>

All of the scholarships awarded by the Foundation are one to 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. At December 31, 2018, conditional scholarship awards comprised \$714,700 of the \$3,972,791 restricted by purpose or time for scholarships. At December 31, 2017, conditional scholarship awards comprised \$695,250 of the \$4,065,621 restricted by purpose or time for scholarships.

Note 9 – Endowment Funds

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

Educational Enrichment Endowment

The purpose of this endowment is to support public school children in the vicinity of Los Alamos National Laboratory. In addition, a portion of the endowment earnings may support the operations of the Foundation. During 2018 and 2017, the disbursement of funds was focused in the areas of inquiry science education, as well as funding small educational projects benefiting K-12 public education students.

Domenici Endowment, John and Marti Browne Leadership Endowment, Scholarship Endowment, Tim Martin Endowment, Mueller Endowment, and Hiskey 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 with donor restriction net assets which are restricted in perpetuity. Donor restricted net assets are restricted in perpetuity net assets are valued at the original value of all gifts donated to the endowments.

Los Alamos National Laboratory Foundation Notes to Consolidated Financial Statements

Note 9 – Endowment Funds (continued)

The historic dollar value of endowment contributions received must be maintained inviolate. Income earned from endowment investments is classified with donor restriction net assets but restricted by purpose or time based upon the donor-imposed restrictions.

When a donor restriction is met, the net assets are reclassified to net assets without donor restrictions. Donor restricted endowment earnings that are used to support the operations of the Foundation are reclassified to net assets without donor restrictions upon board approval of the annual operating budget.

The composition of endowment net assets by type of fund consisted of the following at December 31:

	2018		
	Restricted by Time or Purpose	Restricted in Perpetuity	Total
Donor-restricted funds	\$ 33,389,602	\$44,240,520	\$77,630,122
	2017		
	Restricted by Time or Purpose	Restricted in Perpetuity	Total
Donor-restricted funds	\$ 37,429,163	\$43,886,279	\$81,315,442

Interpretation of Relevant Law

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 net assets restricted in perpetuity as:

- 1) The original value of gifts donated to the permanent endowment, and 2) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund not classified as restricted in perpetuity is classified as net assets restricted by time or purpose 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 spend:

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

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 9 – Endowment Funds (continued)

The following are changes in endowment and similar net assets for the year ending December 31:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2017	\$ -	\$ 81,315,442	\$ 81,315,442
Investment return			
Investment loss	-	(1,268,706)	(1,268,706)
Contributions	-	354,238	354,238
Appropriations of endowment Assets for expenditures	-	(2,770,852)	(2,770,852)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 77,630,122</u>	<u>\$ 77,630,122</u>

The following are changes in endowment and similar net assets for the year ending December 31:

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2016	\$ -	\$ 73,426,298	\$ 73,426,298
Investment return			
Investment gain	-	11,142,213	11,142,213
Contributions	-	218,146	218,146
Appropriations of endowment Assets for expenditures	-	(3,471,215)	(3,471,215)
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 81,315,442</u>	<u>\$ 81,315,442</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. These deficiencies can result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the governing board. No deficiencies of this nature are reported at December 31, 2018 or 2017.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 9 – 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 earnings restricted by time or purpose 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.

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 (UC) GEP and Short Term Investment Pool (STIP). 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. The GEP is a balanced portfolio and the primary investment vehicle offered by the UC 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. The STIP investments are investment held at net asset value. Investments in these funds consist of approximately .69% and .74% of the entire portfolio at December 31, 2018 and 2017, respectively. Investment fees are eight 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 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. 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

Note 10 – Contributions

Contributions consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Individuals and business:		
Scholarship program	\$ 261,008	\$ 238,284
Scholarship endowments	354,238	218,146
General and other	<u>17,783</u>	<u>14,122</u>
	<u>\$ 633,029</u>	<u>\$ 470,552</u>

Note 11 – Grants and Contracts

Grants and contracts consisted of the following for the years ending December 31:

	<u>2018</u>	<u>2017</u>
Los Alamos National Security, LLC	\$ 291,550	\$ 250,000
W. K. Kellogg Foundation	365,337	508,853
Daniels Fund	10,000	-
Brindle Foundation	50,000	-
Other	<u>-</u>	<u>7,700</u>
Total	<u>\$ 716,887</u>	<u>\$ 766,553</u>

Note 12 – Rental Income

The LLC leases a portion of the office building also occupied by the Foundation to another entity. Building lease income for the years ending December 31, 2018 and 2017 was \$6,300 and \$16,700, respectively. This lease expired on June 30, 2018 and was not renewed.

Note 13 – 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 consolidated financial statements through the consolidating entries.

The Foundation leases a warehouse facility for storage of its Inquiry Science Education Consortium supplies. Total lease cost for this space for the years ending December 31, 2018 and 2017 was \$68,400 and \$77,074, respectively.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 13 – Operating Leases (continued)

The Foundation leases office equipment under long-term operating lease agreements. Total lease costs for this office equipment for the years ending December 31, 2018 and 2017 was \$8,013 and \$7,319, respectively.

The minimum future office equipment and warehouse facility rental payments under these leases are as follows for the years ending December 31:

2019	\$ 76,842
2020	36,942
2021	<u>704</u>
	<u>\$ 114,488</u>

Note 14 – 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 a discretionary employer-paid benefit. For both 2018 and 2017, the benefit was 5% of annual compensation. The retirement expense was \$62,150 and \$53,439 for the years ending December 31, 2018 and 2017, respectively.

Note 15 – Advertising and Interest Expense

The Foundation uses advertising to promote its programs among the public it serves. Advertising and interest expense are expensed as incurred. The Foundation included the following in the Consolidated Statement of Activities expenses for the years ending December 31:

	<u>2018</u>	<u>2017</u>
Advertising	<u>\$ 22,296</u>	<u>\$ 9,391</u>
Interest	<u>\$ 47,870</u>	<u>\$ 63,240</u>

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 \$131,427 and \$23,301 from members of the Board and employees for the years ending December 31, 2018 and 2017, respectively.

A member of the board is also a board member of the bank which holds the LLC mortgage note payable, see Note 7.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 17 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following:

Financial Assets as of December 31, 2018

Cash and cash equivalents	\$ 986,309
Investments	80,205,979
Accounts receivables	210,600
Total Financial Assets	<u>81,402,888</u>

Less those unavailable for general expenditure within one year due to:

Scholarship commitments greater than one year	(462,500)
Restrictions by purpose or time subject to appropriation beyond one year	(31,383,000)
Perpetual endowments	<u>(44,240,520)</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 5,316,868

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation has a cash management policy to hold cash in the STIP account with UC to cover approximately three months of operating expenses, which is approximately \$900,000. The Foundation can draw on the endowment quarterly up to the spending policy of 5%. The Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 18 – Contingency

The Foundation has received funds from federal agencies in the past. 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. Management does not believe any disallowed amounts would be material.

Note 19 – Subsequent Events

Subsequent events are events or transactions that occur after the Statement of Financial Position date but before the financial statements are issued. The organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Statement of Financial Position, including the estimates inherent in the process of preparing the financial statements. The organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued. The Organization has evaluated subsequent events through May 21, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Los Alamos National Laboratory Foundation
Consolidating Statements of Financial Position
December 31, 2018

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 974,014	\$ 12,295	\$ -	\$ 986,309
Investments	4,090,703	-	-	4,090,703
Accounts receivable, net	210,600	-	-	210,600
Due from LLC	52,182	-	(52,182)	-
Prepaid expenses	20,000	-	-	20,000
Total current assets	5,347,499	12,295	(52,182)	5,307,612
NONCURRENT ASSETS				
Investments - long term	76,115,276	-	-	76,115,276
Property and equipment, net	5,126	1,118,824	-	1,123,950
Investment in LLC	144,206	-	(144,206)	-
Total noncurrent assets	76,264,608	1,118,824	(144,206)	77,239,226
Total assets	\$ 81,612,107	\$ 1,131,119	\$ (196,388)	\$ 82,546,838
CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 210,804	\$ 477	\$ -	\$ 211,281
Grants payable, net	14,957	-	-	14,957
Deferred revenue	-	-	-	-
Due to Foundation	-	52,182	(52,182)	-
Current portion of notes payable	-	29,981	-	29,981
Other liabilities	-	-	-	-
Total current liabilities	225,761	82,640	(52,182)	256,219
LONG-TERM LIABILITIES				
Notes payable, less current portion	-	904,273	-	904,273
Total liabilities	225,761	986,913	(52,182)	1,160,492
NET ASSETS	81,386,346	144,206	(144,206)	81,386,346
TOTAL LIABILITIES AND NET ASSETS	\$ 81,612,107	\$ 1,131,119	\$ (196,388)	\$ 82,546,838

Los Alamos National Laboratory Foundation
Consolidating Statements of Financial Position
December 31, 2017

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 883,582	\$ 5,533	\$ -	\$ 889,115
Investments	4,072,043	-	-	4,072,043
Accounts receivable, net	225,020	700	-	225,720
Due from LLC	38,676	-	(38,676)	-
Prepaid expenses	10,955	-	-	10,955
Total current assets	5,230,276	6,233	(38,676)	5,197,833
NONCURRENT ASSETS				
Investments - Endowment	80,843,873	-	-	80,843,873
Property and equipment, net	8,977	1,153,311	-	1,162,288
Investment in LLC	157,583	-	(157,583)	-
Total noncurrent assets	81,010,433	1,153,311	(157,583)	82,006,161
Total assets	\$ 86,240,709	\$ 1,159,544	\$ (196,259)	\$ 87,203,994
CURRENT LIABILITIES				
Accounts payable and accrued expense	\$ 343,950	\$ 515	\$ -	\$ 344,465
Grants payable, net	15,957	-	-	15,957
Deferred revenue	25,000	700	-	25,700
Due to Foundation	-	38,676	(38,676)	-
Current portion of notes payable	-	27,117	-	27,117
Other liabilities	-	698	-	698
Total current liabilities	384,907	67,706	(38,676)	413,937
LONG-TERM LIABILITIES				
Notes payable, less current portion	-	934,255	-	934,255
Total liabilities	384,907	1,001,961	(38,676)	1,348,192
NET ASSETS	85,855,802	157,583	(157,583)	85,855,802
TOTAL LIABILITIES AND NET ASSETS	\$ 86,240,709	\$ 1,159,544	\$ (196,259)	\$ 87,203,994

Los Alamos National Laboratory Foundation
Consolidating Statements of Activities
Year Ended December 31, 2018

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
SUPPORT AND REVENUE				
Contributions	\$ 633,029	\$ -	\$ -	\$ 633,029
Grants and contracts	716,887	-	-	716,887
Investment loss	(1,250,704)	-	-	(1,250,704)
Other income	62,729	98,920	(79,243)	82,406
	<u>161,941</u>	<u>98,920</u>	<u>(79,243)</u>	<u>181,618</u>
EXPENSES				
Program:				
Educational enrichment grants	249,394	-	-	249,394
Educational outreach grants	164,052	-	-	164,052
Scholarships	601,616	-	-	601,616
Early childhood	513,865	-	-	513,865
Inquiry science education consortium	1,141,919	-	-	1,141,919
Community outreach grants	54,000	-	-	54,000
Teacher awards	7,000	-	-	7,000
Program operating expenses	1,302,792	-	-	1,302,792
Total program expenses	<u>4,034,638</u>	<u>-</u>	<u>-</u>	<u>4,034,638</u>
General and administrative	430,894	104,099	(92,620)	442,373
Fundraising	165,865	8,198	-	174,063
Total expenses	<u>4,631,397</u>	<u>112,297</u>	<u>(92,620)</u>	<u>4,651,074</u>
CHANGES IN NET ASSETS	(4,469,456)	(13,377)	13,377	(4,469,456)
NET ASSETS				
Beginning of year	<u>85,855,802</u>	<u>157,583</u>	<u>(157,583)</u>	<u>85,855,802</u>
End of year	<u>\$ 81,386,346</u>	<u>\$ 144,206</u>	<u>\$ (144,206)</u>	<u>\$ 81,386,346</u>

Los Alamos National Laboratory Foundation
Consolidating Statements of Activities
Year Ended December 31, 2017

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
SUPPORT AND REVENUE				
Contributions	\$ 470,552	\$ -	\$ -	\$ 470,552
Grants and contracts	766,553	-	-	766,553
Investment income	11,154,919	-	-	11,154,919
Other income	27,184	109,320	(60,058)	76,446
	<u>12,419,208</u>	<u>109,320</u>	<u>(60,058)</u>	<u>12,468,470</u>
EXPENSES				
Program:				
Educational enrichment grants	137,397	-	-	137,397
Educational outreach grants	125,000	-	-	125,000
Scholarships	547,167	-	-	547,167
Early childhood	303,886	-	-	303,886
Inquiry science education consortium	1,450,751	-	-	1,450,751
Other	92,553	-	-	92,553
Program operating expenses	694,963	-	-	694,963
Total program expenses	<u>3,351,717</u>	<u>-</u>	<u>-</u>	<u>3,351,717</u>
General and administrative	464,650	113,112	(92,620)	485,142
Fundraising	141,011	7,092	-	148,103
Total expenses	<u>3,957,378</u>	<u>120,204</u>	<u>(92,620)</u>	<u>3,984,962</u>
CHANGES IN NET ASSETS	8,461,830	(10,884)	32,562	8,483,508
NET ASSETS				
Beginning of year	<u>77,393,972</u>	<u>168,467</u>	<u>(190,145)</u>	<u>77,372,294</u>
End of year	<u>\$ 85,855,802</u>	<u>\$ 157,583</u>	<u>\$ (157,583)</u>	<u>\$ 85,855,802</u>