

LOS ALAMOS NATIONAL LABORATORY FOUNDATION

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2014 AND 2013

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
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INDEPENDENT AUDITORS' REPORT

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 (a New Mexico nonprofit corporation), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the 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 consolidated 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 consolidated financial position of Los Alamos National Laboratory Foundation as of December 31, 2014 and 2013, 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.

Report on Consolidating Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating supplementary information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
July 27, 2015

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	\$ 545,157	\$ 428	\$ 20,689	\$ 566,274
Investments	300,000	32,082,457	43,395,130	75,777,587
Accounts Receivable, Net	1,000	729,033	57,448	787,481
Prepaid Expenses	3,108			3,108
Property and Equipment, Net	1,269,473	30,098		1,299,571
	<u>1,269,473</u>	<u>30,098</u>		<u>1,299,571</u>
Total Assets	<u>\$ 2,118,738</u>	<u>\$ 32,842,016</u>	<u>\$ 43,473,267</u>	<u>\$ 78,434,021</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 59,161	\$ 130,200	\$ -	\$ 189,361
Grants Payable, Net	-	403,729	-	403,729
Deferred Revenue	2,083	74,500	-	76,583
Notes Payable	1,020,792	-	-	1,020,792
Other Liabilities	3,570	-	-	3,570
	<u>1,085,606</u>	<u>608,429</u>	<u>-</u>	<u>1,694,035</u>
Total Liabilities	<u>1,085,606</u>	<u>608,429</u>	<u>-</u>	<u>1,694,035</u>
NET ASSETS	<u>1,033,132</u>	<u>32,233,587</u>	<u>43,473,267</u>	<u>76,739,986</u>
Total Liabilities and Net Assets	<u>\$ 2,118,738</u>	<u>\$ 32,842,016</u>	<u>\$ 43,473,267</u>	<u>\$ 78,434,021</u>

See accompanying Notes to Consolidated Financial Statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	\$ 525,812	\$ 6,748	\$ 131,938	\$ 664,498
Investments	1,370,728	27,537,709	43,163,158	72,071,595
Accounts Receivable, Net	22,027	533,081	22,410	577,518
Prepaid Expenses	10,444	-	-	10,444
Property and Equipment, Net	1,323,507	34,460	-	1,357,967
	<u>1,323,507</u>	<u>34,460</u>	<u>-</u>	<u>1,357,967</u>
Total Assets	<u>\$ 3,252,518</u>	<u>\$ 28,111,998</u>	<u>\$ 43,317,506</u>	<u>\$ 74,682,022</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 112,958	\$ -	\$ -	\$ 112,958
Grants Payable, Net	1,097,743	-	-	1,097,743
Deferred Revenue	197,490	-	-	197,490
Notes Payable	1,038,166	-	-	1,038,166
Other Liabilities	3,570	-	-	3,570
Total Liabilities	<u>2,449,927</u>	<u>-</u>	<u>-</u>	<u>2,449,927</u>
Net Assets	<u>802,591</u>	<u>28,111,998</u>	<u>43,317,506</u>	<u>72,232,095</u>
Total Liabilities and Net Assets	<u>\$ 3,252,518</u>	<u>\$ 28,111,998</u>	<u>\$ 43,317,506</u>	<u>\$ 74,682,022</u>

See accompanying Notes to Consolidated Financial Statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
DECEMBER 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 257,582	\$ 385,870	\$ 125,292	\$ 768,744
Grants and Contracts	143,772	1,353,618	30,469	1,527,859
Annual Educational Conferences	17,000	-	-	17,000
Investment Income (Loss)	859,798	5,600,598	-	6,460,396
Other Income	25,000	143,363	-	168,363
Net Assets Released from Restrictions	3,361,860	(3,361,860)	-	-
Total Support and Revenue	<u>4,665,012</u>	<u>4,121,589</u>	<u>155,761</u>	<u>8,942,362</u>
EXPENSES				
Program:				
Educational Enrichment Grants	1,131,625	-	-	1,131,625
Educational Outreach Grants	51,000	-	-	51,000
Scholarships	381,500	-	-	381,500
First Born	10,000	-	-	10,000
Inquiry Science Education Consortium	281,319	-	-	281,319
Annual Educational Conferences	77,607	-	-	77,607
Program Operating Expenses	<u>1,967,206</u>	<u>-</u>	<u>-</u>	<u>1,967,206</u>
Total Program Expenses	<u>3,900,257</u>	<u>-</u>	<u>-</u>	<u>3,900,257</u>
General and Administrative	394,369	-	-	394,369
Fundraising	<u>139,845</u>	<u>-</u>	<u>-</u>	<u>139,845</u>
Total Expenses	<u>4,434,471</u>	<u>-</u>	<u>-</u>	<u>4,434,471</u>
CHANGES IN NET ASSETS	230,541	4,121,589	155,761	4,507,891
Net Assets - Beginning of Year	<u>802,591</u>	<u>28,111,998</u>	<u>43,317,506</u>	<u>72,232,095</u>
NET ASSETS - END OF YEAR	<u>\$ 1,033,132</u>	<u>\$ 32,233,587</u>	<u>\$ 43,473,267</u>	<u>\$ 76,739,986</u>

See accompanying Notes to Consolidated Financial Statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
DECEMBER 31, 2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 20,001	\$ 270,793	\$ 49,802	\$ 340,596
Grants and Contracts	153,278	2,426,749	12,678	2,592,705
Annual Educational Conferences	70,653	-	-	70,653
Investment Income (Loss)	861,327	9,241,984	-	10,103,311
Other Income	32,048	329,270	-	361,318
Net Assets Released from Restrictions	4,329,930	(4,329,930)	-	-
Total Support and Revenue	<u>5,467,237</u>	<u>7,938,866</u>	<u>62,480</u>	<u>13,468,583</u>
EXPENSES				
Program:				
Educational Enrichment Grants	2,100,000	-	-	2,100,000
Educational Outreach Grants	100,000	-	-	100,000
Scholarships	390,000	-	-	390,000
First Born	136,255	-	-	136,255
Inquiry Science Education Consortium	471,336	-	-	471,336
Annual Educational Conferences	100,558	-	-	100,558
Program Operating Expenses	<u>1,731,781</u>	<u>-</u>	<u>-</u>	<u>1,731,781</u>
Total Program Expenses	5,029,930	-	-	5,029,930
General and Administrative	347,958	-	-	347,958
Fundraising	<u>145,290</u>	<u>-</u>	<u>-</u>	<u>145,290</u>
Total Expenses	<u>5,523,178</u>	<u>-</u>	<u>-</u>	<u>5,523,178</u>
CHANGES IN NET ASSETS	(55,941)	7,938,866	62,480	7,945,405
Net Assets - Beginning of Year	<u>858,532</u>	<u>20,173,132</u>	<u>43,255,026</u>	<u>64,286,690</u>
NET ASSETS - END OF YEAR	<u>\$ 802,591</u>	<u>\$ 28,111,998</u>	<u>\$ 43,317,506</u>	<u>\$ 72,232,095</u>

See accompanying Notes to Consolidated Financial Statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 4,507,891	\$ 7,945,405
Adjustments to Reconcile Changes in Net Assets to Net Cash Used by Operating Activities:		
Depreciation Expense	79,233	129,572
Unrealized Gain on Investments	(4,752,183)	(8,744,427)
Capital Gain Distributions and Realized Gains on Investments	(950,131)	(636,300)
Contributions Restricted for Long-Term Purposes, Including Accounts Receivable	(155,761)	(62,480)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(209,963)	(37,470)
Prepaid Expenses	7,336	21,565
Accounts Payable and Accrued Expenses	76,403	10,778
Grants Payable	(694,014)	(306,637)
Deferred Revenue	(120,907)	144,463
Total Adjustments	(6,719,987)	(9,480,936)
Net Cash Used by Operating Activities	(2,212,096)	(1,535,531)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(68,394)	(88,410)
Reinvested Interest, Dividends and Capital Gains	(748,285)	82,195
Proceeds from Investments	2,813,001	1,656,544
Purchase of Property and Equipment	(20,837)	(16,633)
Net Cash Provided by Investing Activities	1,975,485	1,633,696
 CASH FLOWS FROM FINANCING ACTIVITIES		
Notes Payable Principal Paid	(17,374)	(16,283)
Contributions Restricted to Investment in Endowment	155,761	62,480
Net Cash Provided by Financing Activities	138,387	46,197
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(98,224)	144,362
Cash and Cash Equivalents - Beginning of Year	664,498	520,136
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 566,274	\$ 664,498
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 66,969	\$ 71,050

See accompanying Notes to Consolidated Financial Statements.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

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.

Basis of Consolidation

As described above, the accompanying consolidated financial statements for 2014 and 2013 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 three classes of net assets - permanently restricted, temporarily restricted, or unrestricted, as follows:

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.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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.

Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and investments. Beginning January 1, 2013, all of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category. Periodically throughout 2014 and 2013, the Foundation has maintained cash balances in excess of insured limits. At December 31, 2014, 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 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

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 6% of the campaign year accrual of payroll pledges receivable. The allowance for doubtful accounts is \$15,432 and \$14,707 for December 31, 2014 and 2013, respectively.

Investments

Investments are reported at market value, which results in unrealized gains and losses being recognized as market value changes. All 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 statements of activities. Investment income is presented net of investment management fees. Investment income is pooled and allocated to unrestricted and temporarily net assets balances in proportion to their average monthly equity in the pooled investment portfolio.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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.

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 \$-0- in contributed services for 2014 and \$9,000 in contributed services for 2013.

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 one grant payable that will extend beyond the subsequent year; all others will be paid in the subsequent year (see Note 7).

Allocation of Functional Expenses

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

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014. 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, 2014, 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 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 December 31, 2014, 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, 2010 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, 2014.

Reclassifications

Certain disclosures from the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 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 provide sustaining educational support in the New Mexico counties in the vicinity of Los Alamos National Laboratory. In addition, a portion of the endowment earnings may support the operations of the Foundation. In 2014, 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 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 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 consisted of the following as of December 31:

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Funds	<u>\$ 29,470,466</u>	<u>\$ 43,473,267</u>	<u>\$ 72,943,733</u>

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Funds	<u>\$ 25,658,669</u>	<u>\$ 43,317,506</u>	<u>\$ 68,976,175</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 ENDOWMENT FUNDS (CONTINUED)

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
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 years ended December 31 are as follows:

	2014		Total
	Temporarily Restricted	Permanently Restricted	
Endowment Net Assets, December 31, 2013	\$ 25,658,669	\$ 43,317,506	\$ 68,976,175
Investment Return:			
Investment Gain	5,600,598	-	5,600,598
Contributions	-	155,761	155,761
Appropriations of Endowment Assets for Expenditures	(1,788,801)	-	(1,788,801)
Endowment Net Assets, December 31, 2014	<u>\$ 29,470,466</u>	<u>\$ 43,473,267</u>	<u>\$ 72,943,733</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 ENDOWMENT FUNDS (CONTINUED)

	2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, December 31, 2012	\$ 18,229,785	\$ 43,255,026	\$ 61,484,811
Investment Return:			
Investment Gain	9,241,984	-	9,241,984
Contributions	-	62,480	62,480
Appropriations of Endowment Assets for Expenditures	(1,813,100)	-	(1,813,100)
Endowment Net Assets, December 31, 2013	<u>\$ 25,658,669</u>	<u>\$ 43,317,506</u>	<u>\$ 68,976,175</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 as of December 31, 2014 and 2013.

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.

During 2014, for purposes of budget planning, the Foundation used a 5% annual rate of return for endowment funds. The Foundation revises this expected rate of return annually. 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. The 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.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 3 ENDOWMENT FUNDS (CONTINUED)

Strategies Employed for Achieving Objectives (Continued)

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 22.5% and 22.7% of the entire portfolio at December 31, 2014 and 2013, 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 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.

NOTE 4 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
DECEMBER 31, 2014 AND 2013**

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The investments are maintained in the General Endowment Pool managed by the University of California. The fair value of investments as of December 31 is as follows:

	2014		2013	
	Market Value	Cost	Market Value	Cost
General Endowment Pool, Managed by the University of California	\$ 75,777,587	\$ 42,289,650	\$ 72,071,595	\$ 43,335,887

General Endowment Pool

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

	2014	2013
U.S. Equity	16.20%	15.40%
Developed Equity	11.10%	12.50%
Emerging Market Equity	6.50%	6.30%
Opportunistic Equity	9.20%	8.00%
Core Fixed Income	3.50%	4.50%
High Yield Bond	2.20%	2.50%
Emerging Market Debt	2.60%	2.30%
TIPS	2.00%	2.10%
Private Equity	10.30%	9.20%
Absolute Return Strategies	22.50%	22.70%
Cross-Asset Class Strategy	2.70%	4.10%
Real Assets	2.80%	2.20%
Real Estate	7.80%	7.70%

Net investment income consisted of the following for the years ended December 31:

	2014	2013
Interest on Short-Term Funds	\$ 9,797	\$ 11,326
Interest and Dividends on Long-Term Investments	748,285	711,258
Realized Gain on Investments	950,131	636,300
Unrealized Gains on Investments	4,752,183	8,744,427
Net Investment Income	<u>\$ 6,460,396</u>	<u>\$ 10,103,311</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of assets measured on a recurring basis on December 31 are as follows:

	2014			Total
	Level 1	Level 2	Level 3	
General Endowment Pool, Managed by the University of California	\$ -	\$ -	\$ 75,777,587	\$ 75,777,587
	2013			
	Level 1	Level 2	Level 3	Total
General Endowment Pool, Managed by the University of California	\$ -	\$ -	\$ 72,071,595	\$ 72,071,595

Investments of the Foundation are recorded at fair value based upon Level 3 inputs. The Foundation's investments are held in collective/common pooled funds and do not have an active market price.

The following table provides a summary of changes in fair value of the Foundation's Level 3 investments for the years ended December 31:

	Investments General Endowment Pool
Balance as of December 31, 2012	\$ 64,341,197
Purchases of Investments	88,410
Proceeds from Sales of Investments	(1,656,544)
Realized Gain	636,300
Unrealized Gains	8,744,427
Reinvested Interest, Dividends, Capital Gains	(82,195)
Balance as of December 31, 2013	72,071,595
Purchases of Investments	68,394
Proceeds from Sales of Investments	(2,813,001)
Realized Gain	950,131
Unrealized Gains	4,752,183
Reinvested Interest, Dividends, Capital Gains	748,285
Balance as of December 31, 2014	\$ 75,777,587

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable at December 31 consisted of the following:

	2014	2013
Conference	\$ -	\$ 13,000
First Born [®] Program - W.K. Kellogg Foundation	600,000	400,000
Scholarship Program Pledges, Net of \$15,432 and \$14,707 Allowance for Doubtful Accounts for 2014 and 2013, Respectively	145,953	155,089
NM Children, Youth and Families Department	-	4,603
Susan Herrera Scholarship Endowment, Net of \$472 Allowance for Doubtful Accounts for 2014	36,294	-
Other Receivables	5,234	4,826
Total	<u>\$ 787,481</u>	<u>\$ 577,518</u>

Certain receivables will be received over a period of greater than one year. For 2014, a discount was taken for receivables over one year. No discount was taken in 2013 as the amount was deemed immaterial.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2014	2013
Land	\$ 165,711	\$ 165,711
Building and Improvements	1,308,813	1,308,813
Furniture	194,908	194,908
Computers, Equipment and Software	404,248	401,251
Vehicle	43,172	25,333
Total	<u>2,116,852</u>	<u>2,096,016</u>
Less Accumulated Depreciation and Amortization	<u>(817,281)</u>	<u>(738,049)</u>
Property and Equipment, Net	<u>\$ 1,299,571</u>	<u>\$ 1,357,967</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$79,233 and \$129,572, respectively.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 7 GRANTS PAYABLE

Grants payable consisted of the following at December 31:

	2014	2013
Smithsonian Institution - LASER i3 Match	\$ 300,000	\$ 600,000
Educational Enrichment	88,729	497,178
Small Grants	15,000	13,800
Total	403,729	1,110,978
Less Discount on Pledges	-	(13,235)
Grants Payable, Net	\$ 403,729	\$ 1,097,743

Grants authorized but unpaid at year-end are reported as liabilities. All grants are expected to be paid in 2015.

During 2011, the Foundation entered into a multi-year grant agreement with the Smithsonian Institution for \$1,500,000 of non-federal match funds to be paid over the course of five years to support science education research. In 2014, the Foundation paid its fourth installment of \$300,000.

NOTE 8 NOTES PAYABLE AND LINE OF CREDIT

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

	2014	2013
Mortgage payable (LLC), payable to Los Alamos National 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.	\$ 1,020,792	\$ 1,038,166

The Foundation also has a \$1,000,000 bank line of credit with First National Bank of Santa Fe secured by property, equipment, fixtures, accounts receivable, inventory and funds received from Los Alamos National Security, LLC. The interest rate for the line of credit is 4.75%. At December 31, 2014 and 2013, the balance on the line of credit was \$-0-.

The future scheduled maturities of debt are as follows:

Year Ending December 31,	Amount
2015	\$ 18,538
2016	19,779
2017	21,104
2018	22,517
2019	24,025
Thereafter	914,829
Total	\$ 1,020,792

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 9 RESTRICTED NET ASSETS

Restricted net assets consisted of the following at December 31:

	2014		2013	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Educational Enrichment	\$ 28,654,597	\$ 41,444,726	\$ 25,034,802	\$ 41,444,726
Educational Outreach	-	-	1,654	-
Inquiry Science				
Education Consortium	44,966	-	-	-
First Born [®] Program	726,172	-	752,197	-
Domenici Endowment	433,054	709,390	380,897	681,203
Tim Martin Endowment	13,707	54,396	10,001	49,264
Leadership Endowment	52,108	273,605	42,008	261,367
Scholarships	2,308,983	991,150	1,890,439	880,946
Total	<u>\$ 32,233,587</u>	<u>\$ 43,473,267</u>	<u>\$ 28,111,998</u>	<u>\$ 43,317,506</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. As of December 31, 2014, conditional scholarship awards comprised \$596,000 of the \$2,807,853 temporarily restricted for scholarships. As of December 31, 2013, conditional scholarship awards comprise approximately \$590,000 of the \$2,323,345 temporarily restricted for scholarships.

NOTE 10 CONTRIBUTIONS

Contributions consisted of the following at December 31:

	2014	2013
Individuals and Business:		
Scholarship Program	\$ 409,370	\$ 258,143
Scholarship Endowments	125,292	49,802
General and Other	234,082	32,651
Total	<u>\$ 768,744</u>	<u>\$ 340,596</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 11 GRANTS & CONTRACTS

Grants and contracts consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Department of Energy/Los Alamos National Security, LLC	\$ -	\$ 1,000,000
Los Alamos National Security LLC	476,603	371,434
W.K. Kellogg Foundation	924,940	1,000,000
Daniels Fund	-	110,000
St. Joseph Community Health	-	50,000
County of McKinley	87,351	31,399
Brindle Foundation	-	25,017
Los Alamos Technical Associates, Inc.	34,591	-
Other	4,374	4,855
Total	<u>\$ 1,527,859</u>	<u>\$ 2,592,705</u>

The Foundation has an institutional agreement with Los Alamos National Security, LLC (LANS) for funding of \$225,000 to support the Inquiry Science Education Consortium Program. LANS also provides matching funds, up to \$250,000, for employee contributions to the Los Alamos Employees' Scholarship Fund.

NOTE 12 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, 2014 and 2013 was approximately \$25,000 and \$32,000, respectively. This lease was extended from July 1, 2014 through June 30, 2015.

Due in One Year or Less	<u>\$ 12,500</u>
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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 financial statements through the consolidating entries. In 2013, the Foundation entered into office leases for buildings located in Farmington, New Mexico; Gallup, New Mexico; and the Zuni Pueblo in New Mexico to help run the Northwest New Mexico First Born[®] Program. These leases are all one-year leases with option to renew.

The Foundation leases two copiers and computer equipment under long-term lease agreements. It also rents a warehouse facility for storage of its Inquiry Science Education Consortium supplies. This facility was previously located in Pojoaque, New Mexico.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

NOTE 13 OPERATING LEASES (CONTINUED)

However, effective September 24, 2012, the Foundation moved the warehouse and supplies to a larger facility in Chimayo, New Mexico. Total lease costs for this space and equipment in 2014 and 2013 were approximately \$66,950 and \$92,000, respectively.

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

Year Ending December 31,	Amount
2015	\$ 142,333
2016	92,620
2017	92,620
2018	30,873
Total Minimum Lease Payments	\$ 358,446

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 2014 and 2013, the benefit was 5% of annual compensation. The retirement expense was \$47,161 and \$38,391 for 2014 and 2013, respectively.

NOTE 15 RELATED PARTY TRANSACTIONS

Members of the Board and employees of the Foundation provide financial assistance to the Foundation through restricted and unrestricted support. Included in contributions is \$30,900 and \$19,755 from members of the Board and employees for the years ended December 31, 2014 and 2013, respectively.

NOTE 16 CONTINGENCY

The Foundation receives funds from federal 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 17 SUBSEQUENT EVENTS

Management has evaluated and identified the following subsequent events as of July 27, 2015:

- As the current CEO, Susan Herrera, will retire, the CEO Search Committee has chosen her successor, Jennifer M. Parks, who will start working for the LANL Foundation in January 2015.

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014**

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
ASSETS				
Cash and Cash Equivalents	\$ 558,779	\$ 7,495	\$ -	\$ 566,274
Investments	75,777,587	-	-	75,777,587
Accounts Receivable	787,481	-	-	787,481
Due from LLC	55,091	-	(55,091)	-
Prepaid Expenses	3,108	-	-	3,108
Property and Equipment, Net	52,959	1,246,612	-	1,299,571
Investment in LLC	190,145	-	(190,145)	-
	<u>\$ 77,425,150</u>	<u>\$ 1,254,107</u>	<u>\$ (245,236)</u>	<u>\$ 78,434,021</u>
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 189,361	\$ -	\$ -	\$ 189,361
Grants Payable	403,729	-	-	403,729
Deferred Revenue	74,500	2,083	-	76,583
Due to Foundation	-	55,091	(55,091)	-
Notes Payable	-	1,020,792	-	1,020,792
Other Liabilities	-	3,570	-	3,570
Total Liabilities	<u>667,590</u>	<u>1,081,536</u>	<u>(55,091)</u>	<u>1,694,035</u>
NET ASSETS	<u>76,757,560</u>	<u>172,571</u>	<u>(190,145)</u>	<u>76,739,986</u>
Total Liabilities and Net Assets	<u>\$ 77,425,150</u>	<u>\$ 1,254,107</u>	<u>\$ (245,236)</u>	<u>\$ 78,434,021</u>

**LOS ALAMOS NATIONAL LABORATORY FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
DECEMBER 31, 2014**

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
SUPPORT AND REVENUE				
Contributions	\$ 768,744	\$ -	\$ -	\$ 768,744
Grants and Contracts	1,527,859	-	-	1,527,859
Annual Educational Conferences	17,000	-	-	17,000
Investment Gain (Loss) Income	6,460,396	-	-	6,460,396
Other Income	143,363	117,620	(92,620)	168,363
Total Support and Revenue	<u>8,917,362</u>	<u>117,620</u>	<u>(92,620)</u>	<u>8,942,362</u>
EXPENSES				
Program:				
Educational Enrichment Grants	1,131,625	-	-	1,131,625
Educational Outreach Grants	51,000	-	-	51,000
Scholarships	381,500	-	-	381,500
First Born®	10,000	-	-	10,000
Inquiry Science Education Consortium	281,319	-	-	281,319
Annual Educational Conferences	77,607	-	-	77,607
Program Operating Expenses	1,867,378	99,828	-	1,967,206
Total Program Expenses	3,800,429	99,828	-	3,900,257
General and Administrative	460,442	26,547	(92,620)	394,369
Fundraising	130,770	9,075	-	139,845
Total Expenses	<u>4,391,641</u>	<u>135,450</u>	<u>(92,620)</u>	<u>4,434,471</u>
CHANGES IN NET ASSETS	4,525,721	(17,830)	-	4,507,891
Net Assets - Beginning of Year	<u>72,231,839</u>	<u>190,401</u>	<u>(190,145)</u>	<u>72,232,095</u>
NET ASSETS - END OF YEAR	<u>\$ 76,757,560</u>	<u>\$ 172,571</u>	<u>\$ (190,145)</u>	<u>\$ 76,739,986</u>