

LOS ALAMOS
NATIONAL LABORATORY
FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2015



WEINER & COMPANY P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Los Alamos National Laboratory Foundation, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, 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 audit. We conducted our audit 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, 2015, 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 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 entities, 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.

Weiner & Company, P.C.

May 11, 2016
Santa Fe, New Mexico

December 31, 2015

Assets:

Cash and cash equivalents	\$ 801,210
Investments	75,091,459
Accounts receivable, net	203,108
Notes receivable	100,000
Prepaid expenses	7,013
Property and equipment, net	1,241,729
	<u>\$ 77,444,519</u>

Liabilities:

Accounts payable and accrued expenses	\$ 164,077
Grants payable, net	14,957
Deferred revenue	93,256
Notes payable	1,002,255
Other liabilities	3,570
	<u>1,278,115</u>

Net Assets:

Unrestricted	1,185,697
Temporarily restricted	31,416,698
Permanently restricted	43,564,009
	<u>76,166,404</u>
	<u>\$ 77,444,519</u>

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions	\$ 1,000	\$ 530,006	\$ 63,472	\$ 594,478
Grants and contracts	60,813	382,723	27,270	470,806
Annual educational conferences	37,000	-	-	37,000
Investment income	8,765	1,715,147	-	1,723,912
Other income	25,783	8,325	-	34,108
Net assets released from restrictions	3,453,090	(3,453,090)	-	-
	<u>3,586,451</u>	<u>(816,889)</u>	<u>90,742</u>	<u>2,860,304</u>
Expenses:				
Program:				
Educational enrichment grants	161,731	-	-	161,731
Educational outreach grants	124,500	-	-	124,500
Scholarships	426,500	-	-	426,500
First born	21,698	-	-	21,698
Inquiry science education consortium	427,781	-	-	427,781
Annual educational conference	34,516	-	-	34,516
Program operating expenses	1,651,228	-	-	1,651,228
	<u>2,847,954</u>	<u>-</u>	<u>-</u>	<u>2,847,954</u>
General and administrative	432,537	-	-	432,537
Fundraising	153,395	-	-	153,395
	<u>3,433,886</u>	<u>-</u>	<u>-</u>	<u>3,433,886</u>
Changes in Net Assets	152,565	(816,889)	90,742	(573,582)
Net Assets:				
Beginning of year	1,033,132	32,233,587	43,473,267	76,739,986
End of year	<u>\$ 1,185,697</u>	<u>\$ 31,416,698</u>	<u>\$ 43,564,009</u>	<u>\$ 76,166,404</u>

For the Year Ended December 31, 2015

Cash Flows From Operating Activities:

Changes in net assets	\$ (573,582)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation expense	55,194
Unrealized gain on investments	(129,951)
Capital gain distributions and realized gains on investments	(950,653)
Contributions restricted for long-term purposes, including accounts receivable	(90,742)
Donated common stock	(200,000)
Vehicle donated by Foundation	12,481
Effects of changes in operating assets and liabilities:	
Accounts receivable, net	584,373
Prepaid expenses	(3,905)
Accounts payable and accrued expenses	(25,284)
Grants payable, net	(388,772)
Deferred revenue	16,673
	<u>(1,694,168)</u>

Cash Flows From Investing Activities:

Purchases of investments	(81,781)
Reinvested interest, dividends and capital gains	(634,543)
Proceeds from sale of investments	2,683,056
Purchases of property and equipment	(9,833)
Advances on note receivable	(100,000)
	<u>1,856,899</u>

Cash Flows From Financing Activities:

Notes payable principal paid	(18,537)
Contributions restricted to investment in endowment	90,742
	<u>72,205</u>

Cash and Cash Equivalents:

Net Increase in Cash and Cash Equivalents	234,936
Cash and cash equivalents - beginning of year	566,274
Cash and cash equivalents - end of year	<u>\$ 801,210</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	<u>\$ 65,806</u>
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NOTE A - 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 B - 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 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:

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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 2015, the Foundation has maintained cash balances in excess of insured limits. At December 31, 2015, 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, 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, 2015.

Unconditional promises to give and unconditional pledges are recognized as revenue in the period received, and are classified as either temporarily restricted, permanently restricted, or unrestricted net assets based upon the existence or absence of donor-imposed restrictions. Contributions with donor-imposed stipulations are reported as temporarily restricted revenue and are reclassified to unrestricted net assets when restrictions are met.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments. Investments are reported at market value, which results in unrealized gains and losses being recognized as market 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 unrestricted and temporarily restricted net assets balances in proportion to their average monthly equity in the pooled investment portfolio.

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 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 13 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 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 in 2015.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue. Revenues from exchange transactions are recognized when the service is rendered. At December 31, 2015, the Foundation had received public school district contract payments in advance of performing program services. 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.

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

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

In 2006, the Financial Accounting Standards Board (FASB) issued authoritative guidance relating to the accounting for the uncertainty in income taxes, which was effective for the Foundation for the year ending December 31, 2015. 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, 2015, 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2015, 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, 2011 and forward.

The Foundation would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in general and administrative expense. There was no such interest or penalties recorded for the year ended December 31, 2015.

NOTE C - 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 2015, 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.

NOTE C - ENDOWMENT FUNDS (continued)

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 at December 31,

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	<u>\$ 28,735,127</u>	<u>\$ 43,564,009</u>	<u>\$ 72,299,136</u>

Interpretation of Relevant Law

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

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

NOTE C - ENDOWMENT FUNDS (continued)

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

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

	2015		Total
	Temporarily Restricted	Permanently Restricted	
Endowment net assets, December 31, 2014	\$ 29,470,466	\$ 43,473,267	\$ 72,943,733
Investment return:			
Investment gain	1,715,147	-	1,715,147
Contributions	-	90,742	90,742
Appropriations of endowment:			
Assets for expenditures	(2,450,486)	-	(2,450,486)
Endowment net assets, December 31, 2015	<u>\$ 28,735,127</u>	<u>\$ 43,564,009</u>	<u>\$ 72,299,136</u>

NOTE C - ENDOWMENT FUNDS (continued)

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, 2015.

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 2015, 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.

NOTE C - ENDOWMENT FUNDS (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 23.3% of the entire portfolio at December 31, 2015. 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. 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 D - 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:

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

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

	2015	
	Market Value	Cost
General endowment pool, managed by the University of California	\$ 74,891,459	\$ 41,273,558
Privately held common stock - restricted	200,000	200,000
	<u>\$ 75,091,459</u>	<u>\$ 41,473,558</u>

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	<u>2015</u>
US equity	21.42%
Developed equity	13.02%
Emerging market equity	7.56%
Opportunistic equity	0.00%
Core fixed income	3.70%
High yield bond	2.90%
Emerging market debt	2.20%
TIPS	2.20%
Private equity	11.00%
Absolute return strategies	23.30%
Cross-asset class strategy	0.00%
Real assets	2.30%
Real estate	5.90%
Cash	4.50%
	<u>100.00%</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 corporation, this stipulation will cease to exist. The common stock is publicly traded, but is not listed on any exchange. The corporation's board includes a Foundation's board member.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Net investment income consisted of the following for the year ended December 31,

	<u>2015</u>
Interest on short-term funds	\$ 8,765
Interest and dividends on long-term investments	634,543
Realized gain on investments	950,653
Unrealized gains on investments	129,951
	<u>\$ 1,723,912</u>

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

	<u>2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General endowment pool, managed by the University of California	\$ -	\$ -	\$ 74,891,459	\$ 74,891,459
Privately held common stock - restricted	-	-	200,000	200,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,091,459</u>	<u>\$ 75,091,459</u>

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Investments of the Foundation are recorded at fair value based upon Level 3 inputs. The Foundation's investments are either: (1) managed by the University of California and held in collective/common pooled funds and do not have an active market price, or (2) privately held and publically traded, but not listed on any exchange.

The following table provides a summary of changes in fair value of the Foundation's Level 3 investments in the Investments General Endowment Pool for the year ended December 31, 2015.

	General Investment Pool	Privately Held Stock
Balance as of December 31, 2014	\$ 75,777,587	\$ -
Gift of stock		200,000
Purchases of investments	81,781	-
Proceeds from sales of investments	(2,683,056)	-
Realized gain	950,653	-
Unrealized gains	129,951	-
Reinvested interest, dividends, capital gains	634,543	-
Balance as of December 31, 2015	<u>\$ 74,891,459</u>	<u>\$ 200,000</u>

NOTE E - ACCOUNTS RECEIVABLE, NET

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

	2015
Scholarship program pledges, net of \$14,608 allowance for doubtful accounts	\$ 179,495
Susan Herrera Scholarship Endowment	21,747
Other receivables	1,866
	<u>\$ 203,108</u>

All accounts receivable are expected to be collected in 2016.

NOTE E - ACCOUNTS RECEIVABLE, NET (continued)

At December 31, 2015, the Foundation has a \$111,000 conditional grant receivable pending satisfactory completion of an Interim Report due on June 1, 2016.

NOTE F - NOTE RECEIVABLE

Note receivable consisted of the following at December 31,

	<u>2015</u>
Note receivable due from a New Mexico non-profit corporation, interest at a rate of zero percent per annum, payable in full on May 31, 2016. Unsecured.	<u>\$ 100,000</u>

During 2015, the Foundation transferred the First Born program to another non-profit organization. The loan was advanced to assist with financing the other non-profit's initial grant program expenses, while it was waiting for grant program expense reimbursement from a government agency.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31,

	<u>2015</u>
Land	\$ 165,711
Building and improvements	1,308,813
Furniture	201,242
Computers, equipment and software	407,749
Vehicle	25,333
	<u>2,108,848</u>
Less accumulated depreciation and amortization	<u>(867,119)</u>
	<u>\$ 1,241,729</u>

Depreciation expense for the year ended December 31, 2015 was \$55,194.

NOTE H - GRANTS PAYABLE, NET

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

	<u>2015</u>
Educational enrichment	<u>\$ 14,957</u>

Grants authorized but unpaid at year-end are reported as liabilities. All outstanding grants are expected to be paid in 2016.

NOTE I - NOTES PAYABLE AND LINE OF CREDIT

Debt of the Foundation and LLC consisted of the following at December 31,

	<u>2015</u>
Mortgage payable (LLC), payable to Los Alamos National Bank, due on demand, but if no demand is made, monthly payments of \$7,029, maturing on October 1, 2038, with a fixed rate of interest of 6.5%. The note is secured by a mortgage on the property owned by Building Equity, LLC.	<u>\$ 1,002,255</u>

At December 31, 2015, the Foundation did not have a line of credit. On February 23, 2016, the Foundation signed a \$750,000 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 bank prime, with a floor of 4.75%. The line of credit matures on October 1, 2016.

NOTE I - NOTES PAYABLE AND LINE OF CREDIT (continued)

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

	<u>Amount</u>
2016	\$ 19,969
2017	21,302
2018	22,725
2019	24,242
2020	25,861
Thereafter	888,156
	<u>\$ 1,002,255</u>

NOTE J - RESTRICTED NET ASSETS

Restricted net assets consisted of the following at December 31,

	<u>2015</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Educational Enrichment	\$ 27,995,995	\$ 41,444,726
First Born Program	237,462	-
Domenici Endowment	397,912	733,569
Tim Martin Endowment	7,505	59,451
Leadership Endowment	40,320	290,236
Scholarships	2,737,504	1,036,027
	<u>\$ 31,416,698</u>	<u>\$ 43,564,009</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, 2015, conditional scholarship awards comprised \$598,000 of the \$3,183,241 temporarily restricted for scholarships.

NOTE K - CONTRIBUTIONS

Contributions consisted of the following at December 31,

	<u>2015</u>
Individuals and business:	
Scholarship program	\$ 330,006
Scholarship endowments	63,472
General and other	<u>201,000</u>
	<u>\$ 594,478</u>

NOTE L - GRANTS AND CONTRACTS

Grants and contracts consisted of the following at December 31,

	<u>2015</u>
Los Alamos National Security, LLC	\$ 248,397
W.K. Kellogg Foundation	111,000
Daniels Fund	111,000
Other	<u>409</u>
	<u>\$ 470,806</u>

NOTE M - RENTAL INCOME

The LLC leases a portion of the office building also occupied by the Foundation to another entity. Building lease income for the year ended December 31, 2015 was \$25,000. This lease was extended through June 30, 2016.

NOTE N - OPERATING LEASES

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

The Foundation leases office equipment under long-term operating lease agreements. Total lease costs for this office equipment in 2015 was \$4,037.

The Foundation leases a warehouse facility for storage of its Inquiry Science Education Consortium supplies. Total lease costs for this space in 2015 was \$69,648.

NOTE O - 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 2015, the benefit was 5% of annual compensation. The retirement expense was \$45,501 for the year ended December 31, 2015.

NOTE P - ADVERTISING AND INTEREST EXPENSE

The Foundation included the following in the Consolidated Statement of Activities expenses for the year ended December 31,

	<u>2015</u>
Advertising	<u>\$ 16,711</u>
Interest	<u>\$ 65,806</u>

NOTE Q - 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 \$23,216 from members of the Board and employees for the year ended December 31, 2015.

As detailed in Note D, an organization donated \$200,000 of privately held stock (corporation). The organization and Foundation have a common officer. In addition, the officer is also a board member of the corporation.

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

NOTE R - 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 S - SUBSEQUENT EVENTS

Management has evaluated and identified the following subsequent events as of May 11, 2016.

- 1) Negotiation of a new line of credit, see Note I.
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As of December 31, 2015

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
Assets:				
Cash and cash equivalents	\$ 790,291	\$ 10,919	\$ -	\$ 801,210
Investments	75,091,459	-	-	75,091,459
Accounts receivable, net	201,025	2,083	-	203,108
Notes receivable	100,000	-	-	100,000
Due from LLC	47,373	-	(47,373)	-
Prepaid expenses	7,013	-	-	7,013
Property and equipment, net	28,879	1,212,850	-	1,241,729
Investment in LLC	190,145	-	(190,145)	-
	<u>\$ 76,456,185</u>	<u>\$ 1,225,852</u>	<u>\$ (237,518)</u>	<u>\$ 77,444,519</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 164,077	\$ -	\$ -	\$ 164,077
Grants payable	14,957	-	-	14,957
Deferred revenue	91,173	2,083	-	93,256
Due to Foundation	-	47,373	(47,373)	-
Notes payable	-	1,002,255	-	1,002,255
Other liabilities	-	3,570	-	3,570
	<u>270,207</u>	<u>1,055,281</u>	<u>(47,373)</u>	<u>1,278,115</u>
Net Assets:	<u>76,185,977</u>	<u>170,572</u>	<u>(190,145)</u>	<u>76,166,404</u>
	<u>\$ 76,456,184</u>	<u>\$ 1,225,853</u>	<u>\$ (237,518)</u>	<u>\$ 77,444,519</u>

For the Year Ended December 31, 2015

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
Support and Revenue:				
Contributions	\$ 594,478	\$ -	\$ -	\$ 594,478
Grants and contracts	470,806	-	-	470,806
Annual educational conferences	37,000	-	-	37,000
Investment gain income	1,723,912	-	-	1,723,912
Other income	9,108	117,620	(92,620)	34,108
	<u>2,835,304</u>	<u>117,620</u>	<u>(92,620)</u>	<u>2,860,304</u>
Expenses:				
Program:				
Educational enrichment grants	161,731	-	-	161,731
Educational outreach grants	124,500	-	-	124,500
Scholarships	426,500	-	-	426,500
First born	21,698	-	-	21,698
Inquiry science education consortium	427,781	-	-	427,781
Annual educational conferences	34,516	-	-	34,516
Program operating expenses	1,651,228	-	-	1,651,228
	<u>2,847,954</u>	<u>-</u>	<u>-</u>	<u>2,847,954</u>
General and administrative	405,538	119,619	(92,620)	432,537
Fundraising	153,395	-	-	153,395
	<u>3,406,887</u>	<u>119,619</u>	<u>(92,620)</u>	<u>3,433,886</u>
Changes in Net Assets	(571,583)	(1,999)	-	(573,582)
Net Assets:				
Beginning of year	76,757,560	172,571	(190,145)	76,739,986
End of year	<u>\$ 76,185,977</u>	<u>\$ 170,572</u>	<u>\$ (190,145)</u>	<u>\$ 76,166,404</u>