



REPORT OF INDEPENDENT AUDITORS AND CONSOLIDATED
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

**LOS ALAMOS NATIONAL LABORATORY
FOUNDATION**

December 31, 2017 and 2016

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4–5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7–23
Supplementary Information	
Consolidating statements of financial position	24–25
Consolidating statements of activities	26–27

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, 2017, and the related consolidated statements of activities and cash flows for the years 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 financial position of Los Alamos National Laboratory Foundation as of December 31, 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.

Prior Period Financial Statements

The consolidated financial statements of Los Alamos National Laboratory Foundation as of and for the year ended December 31, 2016, were audited by other auditors whose report dated August 11, 2017, expressed an unmodified opinion on those statements.

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.

Mess Adams LLP

Albuquerque, New Mexico
May 21, 2018

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Los Alamos National Laboratory Foundation
Consolidated Statements of Financial Position

ASSETS

	December 31,	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 889,115	\$ 1,457,316
Investments	4,072,043	212,500
Accounts receivable, net	225,720	191,680
Prepaid expenses	10,955	1,249
	<u>5,197,833</u>	<u>1,862,745</u>
NONCURRENT ASSETS		
Investments - long term	80,843,873	75,517,961
Property and equipment, net	1,162,288	1,196,950
	<u>82,006,161</u>	<u>76,714,911</u>
	<u>\$ 87,203,994</u>	<u>\$ 78,577,656</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 344,465	\$ 198,593
Grants payable, net	15,957	14,957
Deferred revenue	25,700	5,766
Current portion of notes payable	27,117	21,302
Other liabilities	698	3,570
	<u>413,937</u>	<u>244,188</u>
LONG-TERM LIABILITIES		
Notes payable, less current portion	934,255	961,174
	<u>1,348,192</u>	<u>1,205,362</u>
NET ASSETS		
Unrestricted	1,544,496	1,196,712
Temporarily restricted	40,425,027	32,507,449
Permanently restricted	43,886,279	43,668,133
	<u>85,855,802</u>	<u>77,372,294</u>
	<u>\$ 87,203,994</u>	<u>\$ 78,577,656</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 14,123	\$ 302,661	\$ 153,768	\$ 470,552
Grants and contracts	91,147	611,028	64,378	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	2,669,671	(2,669,671)	-	-
Total support and revenue	<u>4,332,746</u>	<u>7,917,578</u>	<u>218,146</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	485,142	-	-	485,142
Fundraising	148,103	-	-	148,103
Total expenses	<u>3,984,962</u>	<u>-</u>	<u>-</u>	<u>3,984,962</u>
INCREASE IN NET ASSETS	347,784	7,917,578	218,146	8,483,508
NET ASSETS				
Beginning of year	<u>1,196,712</u>	<u>32,507,449</u>	<u>43,668,133</u>	<u>77,372,294</u>
End of year	<u>\$ 1,544,496</u>	<u>\$ 40,425,027</u>	<u>\$ 43,886,279</u>	<u>\$ 85,855,802</u>

Los Alamos National Laboratory Foundation
Consolidated Statements of Activities
December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 2,555	\$ 340,898	\$ 68,407	\$ 411,860
Grants and contracts	41,133	334,150	35,717	411,000
Investment income	9,646	4,302,401	-	4,312,047
Other income	26,000	185,903	-	211,903
Net assets released from restrictions	<u>4,072,601</u>	<u>(4,072,601)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,151,935</u>	<u>1,090,751</u>	<u>104,124</u>	<u>5,346,810</u>
EXPENSES				
Program				
Educational enrichment grants	62,488	-	-	62,488
Educational outreach grants	125,000	-	-	125,000
Scholarships	465,250	-	-	465,250
Early childhood	273,764	-	-	273,764
Inquiry science education consortium	2,064,276	-	-	2,064,276
Other	32,000	-	-	32,000
Program operating expenses	<u>536,864</u>	<u>-</u>	<u>-</u>	<u>536,864</u>
Total program expenses	3,559,642	-	-	3,559,642
General and administrative	473,571	-	-	473,571
Fundraising	<u>107,707</u>	<u>-</u>	<u>-</u>	<u>107,707</u>
Total expenses	<u>4,140,920</u>	<u>-</u>	<u>-</u>	<u>4,140,920</u>
CHANGES IN NET ASSETS	11,015	1,090,751	104,124	1,205,890
NET ASSETS				
Beginning of year	<u>1,185,697</u>	<u>31,416,698</u>	<u>43,564,009</u>	<u>76,166,404</u>
End of year	<u>\$ 1,196,712</u>	<u>\$32,507,449</u>	<u>\$43,668,133</u>	<u>\$77,372,294</u>

Los Alamos National Laboratory Foundation
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 8,483,508	\$ 1,205,890
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation expense	41,403	44,779
Unrealized gain on investments	(7,522,789)	(2,261,134)
Realized gains on investments	(2,966,739)	(1,391,685)
Contributions restricted for long-term purposes, including accounts receivable	-	(104,124)
Provision for losses	19,583	-
Effects of changes in operating assets and liabilities		
Accounts receivable, net	(53,623)	11,428
Prepaid expenses	(9,706)	5,764
Accounts payable and accrued expenses	145,872	34,516
Grants payable, net	1,000	-
Other liabilities	(2,872)	-
Deferred revenue	19,934	(87,490)
	<u>(1,844,429)</u>	<u>(2,542,056)</u>
Net cash used by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,504,251)	(63,598)
Reinvested interest, dividends and capital gains	(665,391)	(649,582)
Proceeds from sale of investments	4,473,715	3,726,997
Purchases of property and equipment	(6,740)	-
Repayments of advances on note receivable	-	(10,000)
Repayments on note receivable	-	110,000
	<u>1,297,333</u>	<u>3,113,817</u>
Net cash provided by investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Notes payable principal paid	(21,105)	(19,779)
Contributions restricted to investment in endowment	-	104,124
	<u>(21,105)</u>	<u>84,345</u>
Net cash (used from) provided by financing activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	(568,201)	656,106
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,457,316</u>	<u>801,210</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 889,115</u>	<u>\$ 1,457,316</u>
SUPPLEMENTAL DISCLOSURES OF CASH		
Cash paid for interest	<u>\$ 63,240</u>	<u>\$ 64,564</u>

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, and fair value measurements of investments.

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:

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

Note 2 – Summary of Significant Accounting Policies (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.

Concentration of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and investments. During 2017 and 2016, 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 (\$250,000), for each deposit insurance ownership category. Periodically throughout 2017 and 2016, the Foundation has maintained cash balances in excess of insured limits. At December 31, 2017 and 2016, 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, 2017 and 2016.

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.

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 unrestricted and temporarily restricted 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

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, 2017 and 2016.

Deferred Revenue

Revenues from exchange transactions are recognized when the service is rendered. At December 31, 2017 and 2016, 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.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year consolidated financial statements.

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, 2017 or 2016. 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, 2017 and 2016. Accordingly, a provision for income taxes has not been established in the accompanying consolidated financial statements.

Recent Accounting Pronouncements-

ASU 2016-14

The FASB issued Accounting Standards Update 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 and early adoption is permitted. Management is evaluating the effect that implementation of ASU 2016-14 will have on the consolidated financial statements of the Foundation.

ASU 2015-07

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2105-07 is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted.

The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient (NAV practical expedient). ASU 2015-07 has been adopted for the December 31, 2017 year end; however, the retrospective approach requires that an investment for which fair value is measured using a NAV practical expedient be removed from the fair value hierarchy in all periods presented in the consolidated financial statements. Accordingly, the investment disclosures in Note 4 have been modified as of December 31, 2016 as well.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

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 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 2017 and 2016, 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 at December 31:

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	<u>\$37,429,163</u>	<u>\$43,886,279</u>	<u>\$81,315,442</u>
	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	<u>\$29,758,165</u>	<u>\$43,668,133</u>	<u>\$73,426,298</u>

Los Alamos National Laboratory Foundation Notes to Consolidated Financial Statements

Note 3 – Endowment Funds (continued)

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 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.

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 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

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

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2016	\$29,758,165	\$43,668,133	\$73,426,298
Investment return			
Investment gain	11,142,213	-	11,142,213
Contributions	-	218,146	218,146
Appropriations of endowment			
Assets for expenditures	<u>(3,471,215)</u>	<u>-</u>	<u>(3,471,215)</u>
Endowment net assets, December 31, 2017	<u>\$37,429,163</u>	<u>\$43,886,279</u>	<u>\$81,315,442</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 3 – Endowment Funds (continued)

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

	2016		Total
	Temporarily Restricted	Permanently Restricted	
Endowment net assets, December 31, 2015	\$28,735,127	\$43,564,009	\$72,299,136
Investment return			
Investment gain	4,289,901	-	4,289,901
Contributions	-	104,124	104,124
Appropriations of endowment			-
Assets for expenditures	<u>(3,266,863)</u>	<u>-</u>	<u>(3,266,863)</u>
Endowment net assets, December 31, 2016	<u>\$29,758,165</u>	<u>\$43,668,133</u>	<u>\$73,426,298</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, 2017 or 2016.

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.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 3 – Endowment Funds (continued)

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) 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 University for endowed gift funds. The investment policy of the fund is established by the Regents of the University, and carried out by the University's Chief Investment Officer.

The GEP includes absolute return hedge funds. Investments in these funds are valued by the University of California at the Foundation's pro rata interest in the GEP. The STIP investments are investment held at net asset value. Investments in these funds consist of approximately .74% and .89% of the entire portfolio at December 31, 2017 and 2016, 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. 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.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 4 – Fair Value of Financial Instruments (continued)

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:

	2017		2016	
	Market Value	Cost	Market Value	Cost
General endowment pool, managed by the University of California	\$ 80,843,873	\$ 37,715,595	\$ 75,517,961	\$ 39,651,425
General non-endowment pool, managed by the University of California	3,792,043	3,642,197	-	-
Privately held common stock	280,000	160,000	212,500	200,000
	<u>\$ 84,915,916</u>	<u>\$ 41,517,792</u>	<u>\$ 75,730,461</u>	<u>\$ 39,851,425</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 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. Prior year leveling was Level 3 and was updated to reflect current year presentation.

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 GEP managed by the University of California.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 4 – 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>2017</u>	<u>2016</u>
U.S. equity	28.50%	21.38%
Non-U.S. equity	18.50%	14.58%
Emerging market equity	8.00%	10.56%
Core fixed income	12.50%	3.71%
High yield bond	2.50%	3.05%
Emerging market debt	2.50%	1.32%
TIPS	4.50%	2.45%
Private equity	8.00%	11.13%
Absolute return strategies	6.50%	18.23%
Real assets	3.00%	5.42%
Real estate	5.50%	2.16%
Cash	0.00%	6.01%
	<u>100.00%</u>	<u>100.00%</u>

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

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Privately held common stock	\$ -	\$ 280,000	\$ -	\$ 280,000
Investments measured at net asset value				84,635,916
Total investments				<u>\$ 84,915,916</u>
	<u>2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Privately held common stock	\$ -	\$ 212,500	\$ -	\$ 212,500
Investments measured at net asset value				75,517,961
Total investments				<u>\$ 75,730,461</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 4 – Fair Value of Financial Instruments (continued)

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

	<u>2017</u>	<u>2016</u>
Interest and dividends on long-term investments	\$ 665,391	\$ 659,228
Realized gain on investments, net	2,966,739	1,391,685
Unrealized gains on investments, net	<u>7,522,789</u>	<u>2,261,134</u>
Total	<u>\$ 11,154,919</u>	<u>\$ 4,312,047</u>

Note 5 – Accounts Receivable, net

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

	<u>2017</u>	<u>2016</u>
Scholarship program pledges, net of \$19,583 and \$22,896, respectively, allowance for doubtful accounts	\$ 224,520	\$ 188,997
Other receivables	<u>1,200</u>	<u>2,683</u>
Total	<u>\$ 225,720</u>	<u>\$ 191,680</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 6 – Property and Equipment

Property and equipment consisted of the following at December 31:

	2017	2016
Land	\$ 165,711	\$ 165,711
Building and improvements	1,308,813	1,308,813
Furniture	207,981	201,242
Computers, equipment and software	407,749	407,749
Vehicle	25,333	25,333
	2,115,587	2,108,848
Less accumulated depreciation and amortization	(953,299)	(911,898)
	\$ 1,162,288	\$ 1,196,950

Depreciation expense for the years ending December 31, 2017 and 2016 was \$41,403 and \$44,779, respectively.

Note 7 – Grants Payable, Net

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

	2017	2016
Educational enrichment	\$ 14,957	\$ 14,957
Community outreach	1,000	-
	\$ 15,957	\$ 14,957
	\$ 15,957	\$ 14,957

Grants authorized but unpaid at year-end are reported as liabilities. All outstanding grants are expected to be paid in 2018.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 8 – Notes Payable

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

	<u>2017</u>	<u>2016</u>
Mortgage, 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 LLC office building. On March 15, 2018, the mortgage was refinanced, see Note 18.	\$ 961,372	\$ 982,476
Less: current portion	<u>27,117</u>	<u>21,302</u>
	<u>\$ 934,255</u>	<u>\$ 961,174</u>

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

2018	\$ 27,117
2019	29,981
2020	31,347
2021	32,775
2022	34,269
Thereafter	<u>805,883</u>
	<u>\$ 961,372</u>

On November 16, 2016, the Foundation extended a \$750,000 bank line of credit with First National Bank of Santa Fe secured by property, equipment, fixtures, inventory and accounts receivable. The interest rate for the line of credit is bank prime, with a floor of 4.75%. The line of credit matured on October 1, 2017 and was not renewed.

Los Alamos National Laboratory Foundation Notes to Consolidated Financial Statements

Note 9 – Restricted Net Assets

	2017		2016	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Educational enrichment	\$ 36,110,271	\$ 41,444,726	\$ 28,918,276	\$ 41,444,726
Early childhood	249,114	-	110,519	-
Domenici endowment	559,007	761,115	414,420	741,500
Tim Martin endowment	12,150	70,165	6,469	64,068
Leadership endowment	91,583	336,202	36,963	305,061
Scholarships	3,402,902	1,257,321	3,020,802	1,112,778
Hiskey Endowment	-	16,750	-	-
	<u>\$ 40,425,027</u>	<u>\$ 43,886,279</u>	<u>\$ 32,507,449</u>	<u>\$ 43,668,133</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, 2017, conditional scholarship awards comprised \$841,750 of the \$3,402,902 temporarily restricted for scholarships. At December 31, 2016, conditional scholarship awards comprised \$705,750 of the \$3,020,802 temporarily restricted for scholarships.

Note 10 – Contributions

Contributions consisted of the following at December 31:

	2017	2016
Individuals and business:		
Scholarship program	\$ 238,284	\$ 340,898
Scholarship endowments	218,146	68,407
General and other	14,122	2,555
	<u>\$ 470,552</u>	<u>\$ 411,860</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 11 – Grants and Contracts

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

	<u>2017</u>	<u>2016</u>
Los Alamos National Security, LLC	\$ 250,000	\$ 250,000
W. K. Kellogg Foundation	508,853	-
Daniels Fund	-	111,000
Brindle Foundation	-	50,000
Other	7,700	-
	<u>7,700</u>	<u>-</u>
Total	<u>\$ 766,553</u>	<u>\$ 411,000</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, 2017 and 2016 was \$16,700 and \$25,000, respectively. This lease was extended through June 30, 2018.

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, 2017 and 2016 was \$77,074 and \$71,027, respectively.

The Foundation leases office equipment under long-term operating lease agreements. Total lease costs for this office equipment for the years ending December 31, 2017 and 2016 was \$7,319 and \$7,016, respectively.

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

2018	\$ 76,842
2019	76,842
2020	36,942
2021	704
	<u>704</u>
	<u>\$ 191,330</u>

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

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 2017 and 2016, the benefit was 5% of annual compensation. The retirement expense was \$53,439 and \$43,425 for the years ending December 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
Advertising	<u>\$ 9,391</u>	<u>\$ 13,272</u>
Interest	<u>\$ 63,240</u>	<u>\$ 64,564</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 \$23,301 and \$43,377 from members of the Board and employees for the years ending December 31, 2017 and 2016, respectively.

A member of the board is also a board member of the bank which holds the LLC mortgage note payable, see Note 8.

Los Alamos National Laboratory Foundation

Notes to Consolidated Financial Statements

Note 17 – 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 18 – 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 Foundation has evaluated subsequent events through May 21, 2018, which is the date the financial statements were available to be issued. Based on this evaluation, as noted in Note 8, the mortgage payable to Los Alamos National Bank was refinanced on March 17, 2018. The note is due on demand, but if no demand is made, monthly payments of \$5,923 will be made with one balloon payment at the end of the loan term, which is March 1, 2025. The terms of the note also changed to a seven year fixed rate of 4.464% and a seven-year balloon.

Supplementary Information

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 - long term	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 expenses	\$ 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
	\$ 86,240,709	\$ 1,159,544	\$ (196,259)	\$ 87,203,994

Los Alamos National Laboratory Foundation
Consolidating Statements of Financial Position
December 31, 2016

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,433,990	\$ 23,326	\$ -	\$ 1,457,316
Investments	212,500	-	-	212,500
Accounts receivable, net	189,597	2,083	-	191,680
Due from LLC	47,373	-	(47,373)	-
Prepaid expenses	1,249	-	-	1,249
				-
Total current assets	<u>1,884,709</u>	<u>25,409</u>	<u>(47,373)</u>	<u>1,862,745</u>
NONCURRENT ASSETS				
Investments - Endowment	75,517,961			75,517,961
Property and equipment, net	17,239	1,179,711	-	1,196,950
Investment in LLC	190,145	-	(190,145)	-
				-
Total noncurrent assets	<u>75,725,345</u>	<u>1,179,711</u>	<u>(190,145)</u>	<u>76,714,911</u>
Total assets	<u>\$ 77,610,054</u>	<u>\$ 1,205,120</u>	<u>\$ (237,518)</u>	<u>\$ 78,577,656</u>
CURRENT LIABILITIES				
Accounts payable and accrued expense	\$ 197,442	\$ 1,151	\$ -	\$ 198,593
Grants payable, net	14,957	-	-	14,957
Deferred revenue	3,683	2,083	-	5,766
Due to Foundation	-	47,373	(47,373)	-
Current portion of notes payable	-	21,302	-	21,302
Other liabilities	-	3,570	-	3,570
				-
Total current liabilities	<u>216,082</u>	<u>75,479</u>	<u>(47,373)</u>	<u>244,188</u>
LONG-TERM LIABILITIES				
Notes payable, less current portion	-	961,174	-	961,174
				-
Total liabilities	<u>216,082</u>	<u>1,036,653</u>	<u>(47,373)</u>	<u>1,205,362</u>
NET ASSETS	<u>77,393,972</u>	<u>168,467</u>	<u>(190,145)</u>	<u>77,372,294</u>
	<u>\$ 77,610,054</u>	<u>\$ 1,205,120</u>	<u>\$ (237,518)</u>	<u>\$ 78,577,656</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>

Los Alamos National Laboratory Foundation
Consolidating Statements of Activities
Year Ended December 31, 2016

	Foundation	Building Equity, LLC	Elimination Entries	Consolidated Total
SUPPORT AND REVENUE				
Contributions	\$ 411,860	\$ -	\$ -	\$ 411,860
Grants and contracts	411,000	-	-	411,000
Investment income	4,312,047	-	-	4,312,047
Other income	186,903	117,620	(92,620)	211,903
	<u>5,321,810</u>	<u>117,620</u>	<u>(92,620)</u>	<u>5,346,810</u>
EXPENSES				
Program:				
Educational enrichment grants	62,488	-	-	62,488
Educational outreach grants	125,000	-	-	125,000
Scholarships	465,250	-	-	465,250
Early childhood	273,764	-	-	273,764
Inquiry science education consortium	2,064,276	-	-	2,064,276
Other	32,000	-	-	32,000
Program operating expenses	536,864	-	-	536,864
Total program expenses	<u>3,559,642</u>	<u>-</u>	<u>-</u>	<u>3,559,642</u>
General and administrative	446,467	119,724	(92,620)	473,571
Fundraising	107,707	-	-	107,707
Total expenses	<u>4,113,816</u>	<u>119,724</u>	<u>(92,620)</u>	<u>4,140,920</u>
CHANGES IN NET ASSETS	1,207,994	(2,104)	-	1,205,890
NET ASSETS				
Beginning of year	<u>76,185,978</u>	<u>170,571</u>	<u>(190,145)</u>	<u>76,166,404</u>
End of year	<u>\$ 77,393,972</u>	<u>\$ 168,467</u>	<u>\$ (190,145)</u>	<u>\$ 77,372,294</u>