



FERMI RESEARCH ALLIANCE, LLC
Financial Statements and Schedule
September 30, 2008 and 2007
(With Independent Auditors' Report Thereon)

FERMI RESEARCH ALLIANCE, LLC

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KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Trustees
Fermi Research Alliance, LLC:

We have audited the accompanying statements of financial position of Fermi Research Alliance, LLC (FRA) as of September 30, 2008 and 2007, and the related statements of activities and changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of FRA's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FRA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fermi Research Alliance, LLC as of September 30, 2008 and 2007, and the changes in its members' equity and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental combining schedules of activities and changes in members' equity is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 19, 2009

FERMI RESEARCH ALLIANCE, LLC

Statements of Financial Position

September 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 1,691,667	1,651,578
Related-party receivable – DOE	210,904	1,536
Related-party receivable – URA	125,504	186,975
Related-party receivable – UChicago	15,204	—
Receivables – other	6,895	14
Working capital advance – DOE	140,000	140,000
Inventory	23,534	31,570
Prepaid expenses	159,916	124,226
Other assets	880,138	897,774
Total assets	\$ 3,253,762	3,033,673
Liabilities and Members' Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 530,630	588,800
Related-party payable – DOE	306,382	292,570
Related-party payable – URA	115,250	517,873
Related-party payable – UChicago	87,012	—
Other short-term liabilities	444,799	—
Long-term liabilities	880,138	897,774
Total liabilities	2,364,211	2,297,017
Members' equity	889,551	736,656
Total liabilities and members' equity	\$ 3,253,762	3,033,673

See accompanying notes to financial statements.

FERMI RESEARCH ALLIANCE, LLC

Statements of Activities and Changes in Members' Equity

Years ended September 30, 2008 and 2007

	2008	2007
Revenue:		
Government contract	\$ 337,038,074	254,321,331
Grants primarily from NASA and NSF	1,342,083	1,373,169
Other revenue	1,034,790	578,676
Net investment income	19,443	13,709
	339,434,390	256,286,885
Expenses:		
Salaries, wages, and related costs	193,337,544	143,092,258
Subcontracts and purchased services	60,265,871	48,112,659
Electric power	28,448,263	18,995,710
Materials and supplies	23,399,589	18,286,039
Travel, relocation, and other employee allowances	8,310,812	6,692,239
Inventory usage	4,126,742	3,788,467
Fermilab support	929,760	399,848
Scholarships	554,604	300,796
Accounting and auditing	163,925	174,300
Other administrative expense	180,622	162,323
Legal and management consulting	393	50,203
Cost of property, plant, and equipment constructed for the Department of Energy (net)	18,526,716	15,695,387
	338,244,841	255,750,229
Change in members' equity before members' transactions	1,189,549	536,656
Members' contributions	—	200,000
Members' distributions	(1,036,654)	—
Change in members' equity	152,895	736,656
Members' equity at beginning of year	736,656	—
Members' equity at end of year	\$ 889,551	736,656

See accompanying notes to financial statements.

FERMI RESEARCH ALLIANCE, LLC

Statements of Cash Flows

Years ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in members' equity	\$ 152,895	736,656
Adjustments to reconcile change in members' equity to net cash provided by operating activities:		
Members' contributions	—	(200,000)
Members' distributions	1,036,654	—
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Related-party receivable – DOE	(209,368)	(1,536)
Related-party receivable – URA	61,471	(186,975)
Related-party receivable – UChicago	(15,204)	—
Receivables – other	(6,881)	(14)
Working capital advance – DOE	—	(140,000)
Inventory	8,036	(31,570)
Prepaid expenses	(35,690)	(124,226)
Other assets	17,636	(897,774)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(58,170)	588,800
Related-party payable – DOE	13,812	292,570
Related-party payable – URA	(402,623)	517,873
Related-party payable – UChicago	87,012	—
Other short-term liabilities	444,799	—
Long-term liabilities	(17,636)	897,774
Net cash provided by operating activities	1,076,743	1,451,578
Cash flows from financing activities:		
Proceeds from members' contributions	—	200,000
Payment of members' distributions	(1,036,654)	—
Net cash (used in) provided by financing activities	(1,036,654)	200,000
Change in cash and cash equivalents	40,089	1,651,578
Cash and cash equivalents at beginning of year	1,651,578	—
Cash and cash equivalents at end of year	\$ 1,691,667	1,651,578

See accompanying notes to financial statements.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

(1) Organization

Fermi Research Alliance, LLC (FRA) was formed in August 2006. On November 1, 2006, the U.S. Department of Energy (DOE) awarded a five-year contract No. DE-AC02-07CHI1359 (the Contract) effective January 1, 2007 to FRA for the management and operation of Fermi National Accelerator Laboratory (Fermilab). FRA is organized as a Limited Liability Company under Section 501(c)(3) of the Internal Revenue Service (IRS) code and is owned in equal shares by its members, Universities Research Association, Inc. (URA) and the University of Chicago (UChicago). Prior to January 1, 2007, Fermilab was managed and operated by URA. The accompanying financial statements include the operations of Fermilab under the contract for the year ended September 30, 2008 and for the nine months ended September 30, 2007.

Under the 5-year contract expiring on December 31, 2011, FRA will receive an annual performance fee for administering the construction, equipping, and operating activities of Fermilab. Performance of work under the Contract can be terminated by the DOE in whole or, from time to time, in part, whenever the DOE shall determine such termination is in the best interests of the United States government. Performance of work under the Contract is authorized on a periodic basis by the DOE by increasing the budget authority through contract modifications. The following table reflects budget authority for the year ended September 30, 2008 and the nine months ended September 30, 2007:

	<u>2008</u>	<u>2007</u>
Budget authority carried over from prior year	\$ 80,819,608	69,746,096
Current fiscal year budget authority	360,604,227	348,279,368
Current fiscal year expenditures	<u>(340,457,093)</u>	<u>(337,205,856)</u>
Budget authority to be carried to next year	<u>\$ 100,966,742</u>	<u>80,819,608</u>

The revenue (\$337,038,074 and \$254,321,331 in 2008 and 2007, respectively) on this contract, which is considered an exchange transaction, is recognized in the year earned. Contract revenue in 2008 includes approximately \$3,600,000 received from the UChicago in a work for others arrangement for the purpose of research activities at Fermilab. Based on the contract, FRA has recorded a provisional performance fee of \$3,390,280 and \$2,662,000 in 2008 and 2007, respectively. Management does not anticipate that this amount will be revised significantly. FRA also receives variable reimbursement for allowable general and administrative costs for administering the construction, equipping, and operating activities of Fermilab. This amount is recorded as revenue as the allowable costs are incurred. At September 30, 2008 and 2007, FRA had advanced working capital to DOE in the amount of \$140,000. For routine September expenses that were reimbursed subsequent to year end, at September 30, 2008 and 2007, FRA owed DOE \$306,382 and \$292,570, respectively.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

(2) Summary of Significant Accounting Principles

(a) *Basis of Presentation*

Members' equity, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Revenues are reported as increases in unrestricted members' equity unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted members' equity. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted members' equity unless their use is restricted by explicit donor stipulations or by law. All members' equity is considered to be unrestricted. There is neither temporarily nor permanently restricted members' equity as of September 30, 2008 and 2007.

The Fermilab Contract provides that assets acquired and liabilities incurred to carry out the contract are those of DOE. As a result, only the revenue and expenses of the Fermilab contract are recorded and presented along with the revenue and expenses of FRA in the accompanying statements of activities.

(b) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Cash and Cash Equivalents*

FRA considers each highly liquid instrument with an original maturity of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents include cash and money market funds and are stated at cost plus accrued interest, which approximates fair value.

(d) *Income Taxes*

FRA has received a letter from the IRS indicating that it has been recognized by the IRS as tax exempt under Section 501(c)(3) of the Internal Revenue Code and, as such, except for taxes pertinent to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements as FRA has not had unrelated business income.

(e) *Other Revenue*

Several institutions have agreed to provide goods and services, in kind, to FRA over the course of the contract period. These are considered exchange transactions; revenue and expense are recorded as the agreements are fulfilled. During the years ended September 30, 2008 and 2007, FRA recognized revenue and a related expense of approximately \$1,035,000 and \$578,000, respectively.

(f) *Inventory*

Inventory is valued at cost and consists of supplies maintained by Chez Leon and the Science Center.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

(g) Reclassifications

Certain 2007 amounts have been reclassified to conform to 2008 presentation.

(3) Commitments and Contingencies

FRA is a party to certain commitments (such as subcontracts) entered into by Fermilab. However, in the event it is necessary to terminate these commitments, any financial responsibilities of FRA would, in turn, be the obligation of DOE under its contract with FRA. In the opinion of management, the ultimate resolution of all such commitments will not have a material effect on the financial position or activities of FRA. Unallowable costs incurred at Fermilab, if any, are not reimbursable under the Fermilab contract and, therefore, are the responsibility of FRA.

Under its proposal to manage and operate Fermilab, FRA agreed to provide financial support for Fermilab during the term of the contract by accepting responsibility for certain noncontract expenses incurred by Fermilab, such as augmentation of key personnel salary and other expenses that would be considered unallowable under the DOE contract. These items are expensed by FRA as incurred. During the years ended September 30, 2008 and 2007, respectively, FRA incurred approximately \$1,500,000 and \$700,000 in costs to support Fermilab.

(4) Retirement Plan

FRA has a noncontributory money purchase defined-contribution retirement plan covering all of its employees, including those funded by the Fermilab contract, who have met minimum service requirements. The contributions to the plan equal 10% of an eligible participating employee's gross salary. Contributions on behalf of FRA employees at Fermilab were approximately \$13,645,000 and \$10,558,000 for the year ended September 30, 2008 and the nine months ended September 30, 2007, respectively.

(5) Employee Health Benefits

Employees of FRA participate in a contributory health benefit plan (the Plan), which includes postretirement health benefits. The Plan primarily provides certain medical and prescription drug benefits to all eligible FRA and Fermilab retired employees, their spouses, and dependent children. DOE establishes both the terms of the Plan as well as the assumptions used to value the Plan's liability and funds the Plan as claims are incurred. DOE is responsible for liabilities incurred under the Plan, including postretirement benefits. Therefore, in the event the contract between FRA and DOE to manage Fermilab ceases, DOE will assume the postretirement benefit liability of benefit-eligible contract employees, FRA headquarter employees, and benefit-eligible noncontract employees. As such, this liability is recorded on DOE's books and records, and is not included in FRA's financial statements. DOE has recorded liabilities of \$185,054,892 and \$195,986,728 as of September 30, 2008 and 2007, respectively, representing the full postretirement benefit obligation of the Plan.

The measurement date for the Plan is October 1, 2007 and 2006 for fiscal years ended September 30, 2008 and 2007, respectively. The Plan's liability is valued as of September 30, 2008 and 2007.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

The following table sets forth the Plan's funded status and amounts recognized in the DOE's financial statements at September 30, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Accumulated postretirement benefit obligation	\$ 185,054,892	195,986,728
Plan assets at fair value	—	—
Funded status	<u>\$ (185,054,892)</u>	<u>(195,986,728)</u>
Amounts recognized in DOE financial statements:		
Postretirement healthcare benefits payable	\$ (185,054,892)	(195,986,728)
Net periodic postretirement benefit cost	16,957,257	14,988,401
Contributions by DOE	5,386,845	4,891,690
Benefits paid	(5,947,714)	(5,396,078)
Participant contributions	560,869	504,388

(a) Actuarial Assumptions

The weighted average annual assumed rate of increase in the per capita cost of covered medical and prescription drug benefits (i.e., healthcare cost trend rate) for 2008 is 9.50% for individuals in point of service, HMOs, PPOs, or similar plans and 10.25% for the traditional indemnity or similar plans. Each of these rates is assumed to decrease gradually to 5.00% for 2016 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.50% and 6.25% at September 30, 2008 and 2007, respectively. The assumptions used in the above calculations are established by the DOE.

The healthcare cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed healthcare cost trend rates by one percentage point would increase the accumulated postretirement benefit obligation as of September 30, 2008 by approximately \$43 million and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2008 by approximately \$4.6 million.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

(b) Benefit Payments

The following benefit payments are expected to be paid by DOE for each of the next five fiscal years and the aggregate five fiscal years thereafter ending September 30:

Fiscal year:	<u>Post- retirement healthcare benefits</u>
2009	\$ 6,548,000
2010	7,496,000
2011	8,602,000
2012	9,542,000
2013	10,600,000
2014 – 2018	68,950,000

To the extent that these costs are incurred during the time in which FRA holds the contract to manage Fermilab, they will be considered contract costs and corresponding contract revenue, and reflected in the activities of FRA.

(c) Prescription Drug Act

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The law provides for a federal subsidy of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. In 2004, it was determined that the plan is actuarially equivalent to the Medicare Part D plan and will be eligible for the employer subsidy provided by Medicare. This subsidy is 28% of the total eligible prescription costs in the range \$265-\$5,350 per person (calendar year 2007) and \$275-\$5,600 per person (calendar year 2008). The result is an estimated reduction in APBO of \$435,449 and \$361,517 for the years ended September 30, 2008 and 2007, respectively, as the subsidy offsets a portion of Plan expenses.

(6) Other Assets and Long-Term Liabilities

To properly reflect the existence of a deferred compensation plan established in accordance with Section 457 of the IRS code, other assets and a corresponding and equal liability of \$880,138 and \$897,774 are recorded as of September 30, 2008 and 2007, respectively. Under this plan, certain employees have elected to have portions of their current salary withheld and invested by FRA at the direction of the employee, with such accounts distributable to the respective employees at a later date upon retirement or separation from employment. In accordance with Section 457, asset holdings within the Plan are in the name of FRA and are invested in funds administered by TIAA-CREF.

FERMI RESEARCH ALLIANCE, LLC

Notes to Financial Statements

September 30, 2008 and 2007

(7) Functional Expenses

FRA provides research and technical assistance, scholarships, and direct and administrative support to Fermilab in addition to expenses charged directly to the DOE contract. FRA identifies its expenses on a functional basis according to the program or supporting services benefited. Expenses related to providing these services for the year ended September 30, 2008 and the nine months ended September 30, 2007, respectively, are as follows:

	<u>2008</u>	<u>2007</u>
Program expenses:		
Fermilab operations charged to the DOE contract	\$ 332,936,946	251,659,331
Research and technical assistance, in conjunction with grants, primarily from NSF and NASA	1,342,083	1,373,169
Scholarships	554,604	300,796
Other program expenses	<u>929,760</u>	<u>399,848</u>
Total program expenses	335,763,393	253,733,144
Supporting expenses:		
Administrative	<u>2,481,448</u>	<u>2,017,085</u>
Total	<u>\$ 338,244,841</u>	<u>255,750,229</u>

(8) Other Short-Term Liabilities

During fiscal year 2008, FRA identified an overcharge to the Fermilab contract in the amount of \$444,799. At the time of identification, management assumed responsibility for the liability and will reimburse the contract accordingly.

FERMI RESEARCH ALLIANCE, LLC
Combining Schedule of Activities and Changes in Members' Equity
Years ended September 30, 2008 and 2007

	Fermilab		Grants		Corporate		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenue:								
Government contract	\$ 332,936,946	251,659,331	—	—	4,101,128	2,662,000	337,038,074	254,321,331
Grants primarily from NASA and NSF	—	—	1,342,083	1,373,169	—	—	1,342,083	1,373,169
Contributions other revenue	—	—	—	—	1,034,790	578,676	1,034,790	578,676
Net investment income	—	—	—	—	19,443	13,709	19,443	13,709
Total revenue	332,936,946	251,659,331	1,342,083	1,373,169	5,155,361	3,254,385	339,434,390	256,286,885
Expenses:								
Salaries, wages, and related costs	191,782,098	141,954,335	532,017	454,530	1,023,429	683,393	193,337,544	143,092,258
Subcontracts and purchased services	58,803,140	46,853,643	453,874	377,982	1,008,857	881,034	60,265,871	48,112,659
Electric power	28,448,263	18,995,710	—	—	—	—	28,448,263	18,995,710
Materials and supplies	23,110,983	17,774,927	88,295	345,943	200,311	165,169	23,399,589	18,286,039
Travel, relocation, and other employee allowances	8,139,004	6,596,862	87,275	32,391	84,533	62,986	8,310,812	6,692,239
Inventory usage	4,126,742	3,788,467	—	—	—	—	4,126,742	3,788,467
Fermilab support	—	—	—	—	929,760	399,848	929,760	399,848
Scholarships	—	—	—	—	554,604	300,796	554,604	300,796
Accounting and auditing	—	—	—	—	163,925	174,300	163,925	174,300
Other administrative expense	—	—	180,622	162,323	—	—	180,622	162,323
Legal and management consulting	—	—	—	—	393	50,203	393	50,203
Cost of property, plant, and equipment constructed for the Department of Energy (net)	18,526,716	15,695,387	—	—	—	—	18,526,716	15,695,387
Total expenses	332,936,946	251,659,331	1,342,083	1,373,169	3,965,812	2,717,729	338,244,841	255,750,229
Change in members' equity before members' transactions	—	—	—	—	1,189,549	536,656	1,189,549	536,656
Members' contributions	—	—	—	—	—	200,000	—	200,000
Members' distributions	—	—	—	—	(1,036,654)	—	(1,036,654)	—
Change in members' equity	\$ —	—	—	—	152,895	736,656	152,895	736,656
Members' equity, beginning of year					736,656	—	736,656	—
Members' equity, end of year					\$ 889,551	736,656	889,551	736,656

See accompanying independent auditors' report.