

Sandia National Laboratories



Controller's 2006 Annual Report

Fiscal Year Ending September 30, 2006



Sandia
National
Laboratories

About Sandia



Sandia came into being as an ordnance design, testing, and assembly facility, and was located on Sandia Base in Albuquerque, New Mexico, to be close to an airfield and to work closely with the military. Known as Z Division, part of what's now Los Alamos National Laboratory, Sandia was born out of America's atomic bomb development effort—the Manhattan project.

In 1949, President Harry Truman wrote a letter to the American Telephone and Telegraph Company president offering the company “an opportunity to render an exceptional service in the national interest” by managing Sandia. AT&T accepted, began managing Sandia on November 1, 1949, and continued in that role for nearly 44 years. Sandia's original mission—providing engineering design for all non-nuclear components of the nation's nuclear weapons—continues today, but Sandia now also performs a wide variety of national security R&D work.

Lockheed Martin Corporation has managed Sandia since October 1, 1993, for the U.S. Department of Energy (DOE). Most of Sandia's DOE-sponsored work is for the National Nuclear Security Administration (NNSA), but we also work for other federal agencies, including the Department of Defense and Department of Homeland Security. We work cooperatively with a number of government, U.S. industry, and academic partners in accomplishing our missions. Today, Sandia employs about 8,600 people and has two primary facilities: a large laboratory and headquarters in Albuquerque and a smaller laboratory in Livermore, California.

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Jennifer S. Crooks

Controller & Director,
Controller and Pension Plan Center

Controller's Statement

I am pleased to present the CFO's FY06 Financial Report for Sandia National Laboratories (SNL). As a contractor to DOE and other government agencies, the bulk of SNL's revenue is from tax dollars. SNL's FY06 total revenue, total expenditures, and total employment levels were slightly below the FY05 record high levels. Throughout FY06, SNL business staff continued to improve SNL's financial stewardship of entrusted taxpayer funds through implementation of best-in-class practices in financial business operations and internal control policies and procedures to ensure compliance with all accounting standards and provide accountability to our customers.

Our FY06 efforts focused on process certification and improvement, implementing OMB Circular A-123, achieving assurance activities, implementation of a Financial Management Competency Program throughout SNL, and continuous assessment of trends and emerging issues.

Certification and Improvement: Based on positive audit results, Procurement retained its ISO 9001 certification in FY06 and NNSA increased SNL's contract approval authority to \$20M from \$10M.

OMB Circular A-123: NNSA's FY06 implementation focused on material financial accounts and processes identified as high risks in their risk ranking. SNL successfully met all the milestones in FY06 that required risk assessments, extensive documentation of processes and internal controls, validation testing, and necessary remediation. No material weaknesses were identified. An "outstanding" initial rating on this effort was received from the NNSA Service Center. FY06 was the first time that executive management was required to submit a written attestation of SNL's internal controls over financial reporting. The signed attestation was submitted to NNSA in August 2006.

Assurance Activities: There were no repeat findings from audits completed in FY06. All issues and findings have been closed or are on schedule to be closed with necessary interim risk mitigation. The risk areas identified in prior years were project management, cost estimation, and financial management competency. The Project Management Resource Office provided significant support across SNL to help projects and programs meet customer requirements, in an ever-changing environment, by providing earned value management and project management support to multiple major projects. Further, *Pathways to Success*, our business competency program, was developed to provide personal career development, skill, and knowledge building throughout SNL—as well as to ensure that the SNL Business Community can manage and mitigate risks in a changing business environment.

Financial Executive Summary

Sandia National Laboratories as of September 30, 2006

- \$2.270 billion total revenue received
- 8,722 employees
- 188,327 acres of land mass
- ~ 12,400 total workers, counting contractors, consultants, and students at all sites
- 1,197 buildings with 7.0 million square feet of floor space
- 48 leased buildings with 419,000 square feet of floor space



Controller and Pension Plan Organization Chart

SNL Financial Information

FY05 & FY06 Actual Revenue by Customer Source

Charts 1 and 2 below illustrate SNL’s source of revenue for the years ending September 30, 2005 and 2006, respectively. SNL’s total revenue received in FY06, \$2.270 billion, represents a \$58.8 million (2.5%) decrease from the previous year. The majority of SNL’s income, 67%, came from DOE—51% for weapons work and 16% for all other DOE programs. The remaining 33% came from “Work for Others” customers, comprising other federal agencies, state and local governments (including universities), and private companies partnering with SNL.

Chart 1

FY05 Actual Revenue by Source: \$2,328.6M

DOE Weapons Activities 54%, \$1,257M

Other DOE 15%, \$355M

WFO 31%, \$717M

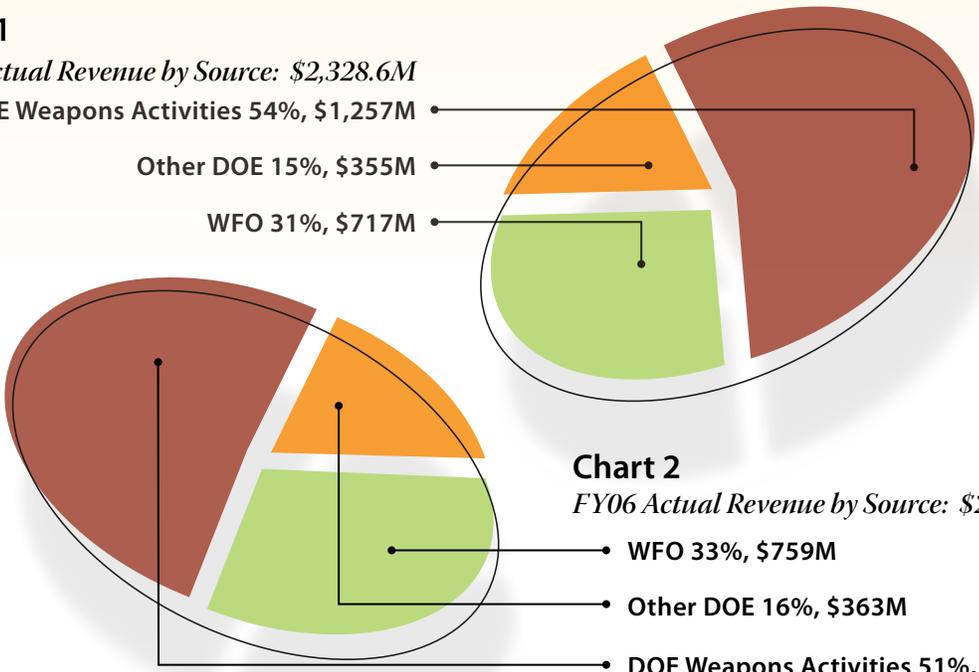


Chart 2

FY06 Actual Revenue by Source: \$2,269.8M

WFO 33%, \$759M

Other DOE 16%, \$363M

DOE Weapons Activities 51%, \$1,148M

Another way of looking at the division of SNL revenue is to categorize it by (1) operations and maintenance, (2) capital equipment, and (3) construction. This table shows the division of revenue for the past two fiscal years.

Table 1

Financial Summary (Budget Authority in Millions)

TOTAL REVENUE BY CATEGORY	FY05	FY06	% Change
OPERATIONS AND MAINTENANCE	2,100.1	2,124.3	1.2%
CAPITAL EQUIPMENT	76.4	54.4	-28.9%
CONSTRUCTION	152.1	91.2	-40.0%
TOTAL SNL REVENUE	2,328.6	2,269.8	-2.5%

While the Operations and Maintenance funding was slightly higher than FY05, significant declines occurred in equipment and construction. Capital equipment declined in FY06 to normal equipment funding levels since completion of major computer acquisitions in FY05. The decrease in construction revenue is due to the completion of two construction projects in FY06 - the Center for Integrated Nanotechnologies and the Exterior Communications Infrastructure Modernization Project. Further, funding for the Microsystems Engineering and Science Applications Complex is decreasing as the project nears completion over the next two years.

Table 2

FY05-FY06 Funding by Customer Source (Budget Authority in Millions)

TOTAL REVENUE BY SOURCE	FY05	FY06	% Change
ENERGY & WATER DEVELOPMENT APPROPRIATIONS			
Weapons Activities	1,257.2	1,148.5	-8.6%
Defense Nuclear Nonproliferation	158.6	187.7	18.4%
TOTAL NNSA	1,415.8	1,336.2	-5.6%
Energy Supply Programs	39.6	51.7	30.5%
Science Programs	75.3	45.1	-40.1%
Environmental Technology	44.3	23.8	-46.3%
Other Defense Activities	20.9	16.3	-21.8%
Other DOE (Radioactive Waste, etc.)	1.5	16.9	1009.8%
Fossil Energy R&D	2.6	3.9	51.7%
Energy Conservation	10.4	11.4	9.1%
Strategic Petroleum Reserve	2.7	5.7	113.6%
TOTAL DOE FUNDING	1,613.0	1,511.0	-6.3%
NON-DOE (Work for Others) FUNDING	715.6	758.8	6.0%
TOTAL SNL REVENUE	2,328.6	2,269.8	-2.5%

The above table identifies the major DOE programs managed by SNL and the associated funding for FY05 and FY06.



Table 3 *FY06 Actual Revenue, Costs and Uncosted (\$ in Millions)*

	Beginning Uncosted	Revenue	Costs	Ending Uncosted
OPERATING & MAINTENANCE	732.5	2,124.3	2,077.2	779.5
CAPITAL EQUIPMENT	54.9	54.4	73.7	35.5
CONSTRUCTION	150.8	91.2	151.9	90.1
TOTALS	938.2	2,269.8	2,302.9	905.1

SNL's FY06 ending uncosted balance in Table 3 above decreased by 3.5%. A major portion of the year-end uncosted balance is related to the receipt of funding from our Work For Others customers late in the fiscal year.

FY05 & FY06 Actual Revenue by Strategic Management Unit (SMU)

SNL's programmatic mission in national security spans several key areas that are performed through four SMUs:

- Nuclear Weapons (NW) – Ensure the nation's nuclear weapons stockpile is safe, secure, reliable, and fully capable of supporting our nation's deterrence policy indefinitely.
- Defense Systems & Assessment (DS&A) – Supply advanced engineered systems and intelligence assessment capabilities to our defense and national security communities.
- Energy, Resources & Nonproliferation (ER&N) – Reduce the threat to the U.S. from proliferation and use of weapons of mass destruction; provide performance and vulnerability assessments of both U.S. and foreign technical capabilities along with the development of associated assessment tools and technologies. Develop and implement technologies and systems for the U.S. and other nations.
- Homeland Security & Defense (HS&D) – Establish an enduring relationship with the DHS initially and, in the longer term, expand to a more comprehensive set of programs touching all levels of government. SNL's contributions will be distinguished by the systems and tools we provide across the spectrum of threat understanding, vulnerability assessment, and the mitigating and response capabilities that will help make the nation immune to terrorism.

The FY05 and FY06 total revenue provided by SNL's customers was allocated to these four SMUs to conduct the missions assigned to SNL by our customers as illustrated in Charts 3 and 4.

The Nuclear Weapons SMU continues to be the largest. Charts 3 and 4 illustrate the distribution of revenue from SNL's customers to the SMUs for performance of customer assigned missions.

Chart 3

FY05 SNL Revenue by SMU: \$2,328.6M
(Budget Authority in Millions)

- DS&A \$562M, 24%
- ER&N \$326M, 14%
- HS&D \$113M, 5%
- NW \$1,328M, 57%

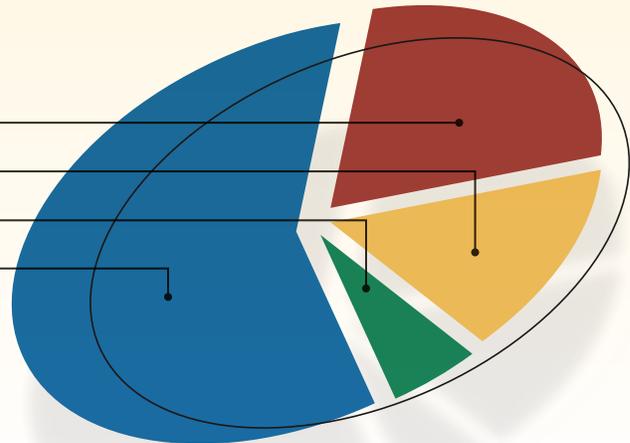


Chart 4

FY06 SNL Revenue by SMU: \$2,269.8M
(Budget Authority in Millions)

- HS&D \$144M, 6%
- ER&N \$349M, 16%
- DS&A \$566M, 25%
- NW \$1,211M, 53%

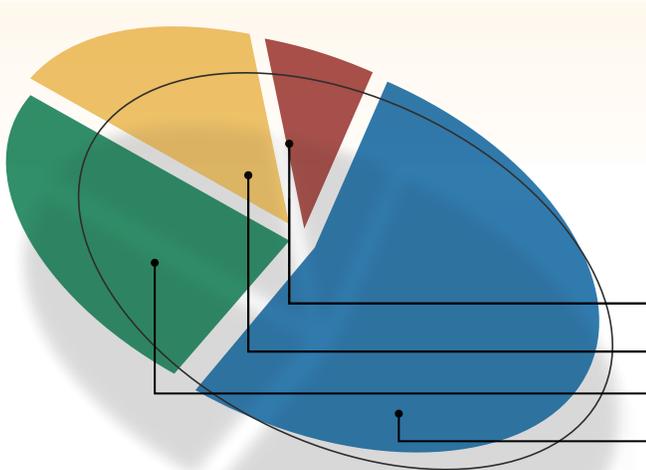


Table 4

Revenue by SMU (Budget Authority in Millions)

TOTAL REVENUE BY SMU	FY05	FY06	% Change
NUCLEAR WEAPONS	1,328.4	1,211.0	-8.8%
DEFENSE SYSTEMS & ASSESSMENTS	562.2	566.2	0.7%
ENERGY, RESOURCES & NONPROLIFERATION	325.5	348.8	7.2%
HOMELAND SECURITY & DEFENSE	112.5	143.8	27.8%
TOTAL SNL REVENUE	2,328.6	2,269.8	-2.5%

The Nuclear Weapons SMU experienced a decline in revenue that was significantly more than escalation. The revenue received by the other three SMUs exceeded their FY05 funding levels.

Table 5*Integrated Enabling Services (Costs in Millions)*

INDIRECT OPERATING COSTS	FY05	FY06	% Change
LABORATORY DIRECTED RESEARCH & DEVELOPMENT*	110.8	131.7	18.9%
INDIRECT (includes G&A, site support, service centers, center support, indirect service centers, procurement, and S&S)	692.7	729.5	5.3%
OTHER (management fee, fringes and taxes)	293.8	297.6	1.3%
TOTAL INDIRECT COSTS	1,097.3	1,158.8	5.6%

*LDRD increased in FY06 from \$111M to \$132M to include overhead as directed by congress.

SNL's Integrated Enabling Services Strategic Management Unit funds the infrastructure that enables SNL to conduct their applied research and development activities. Integrated Enabling Services is committed to managing indirect operating costs to ensure value added service that enables SNL's success.

Table 6*FY05 and FY06 Staffing (Full-Time Equivalent - FTEs)*

TOTAL FTEs (SMU & INDIRECT)	FY05	FY06	Change
DIRECT FTEs by SMU (includes service centers and program management)			
Nuclear Weapons	3,247	3,107	-140
Integrated Technologies & Systems	0	8	8
Defense Systems & Assessments	1,282	1,436	154
Energy, Resources & Nonproliferation	611	589	-22
Homeland Security & Defense	315	317	2
TOTAL DIRECT FTEs	5,455	5,457	2
INDIRECT FTEs			
LDRD	431	387	-44
All Other Indirect	2,674	2,781	107
TOTAL INDIRECT FTEs	3,105	3,168	63
TOTAL SNL FTEs	8,560	8,625	65

SNL continues to actively manage staffing levels to ensure a stable and sustainable workforce of highly qualified staff delivering exceptional services to all SNL customers. Table 6 illustrates the labor effort of SNL's regular employees for FY05 and FY06.



Table 7
SNL Total Construction Funding (Budget Authority in Thousands)

PROJECT DESCRIPTION	TEC	FY05	FY06
Microsystems and Engineering Science Applications (MESA) Complex	461,956	85,816	64,908
Storm Drain, Sanitation Sewer, and Domestic Water System Modernization (SSWM)	15,242	(554)	(49)
Distributed Information Systems Lab (DISL)	36,143	(500)	(306)
Exterior Communications Infrastructure Modernization	22,494	448	–
Test Capability Revitalization (TCR), Phase 1	40,931	239	–
Test Capability Revitalization (TCR), Phase 2	62,800	1,589	4,430
New Master Substation, TA I & IV	8,195	595	6,831
TA-1 Heating System Modernization	49,976	2,976	2,894
Weapons Evaluation Test Lab (WETL), Pantex	22,126	(2)	–
Rapid Reactivation	15,427	(247)	–
LIGA Technology Facility	61,000	(320)	–
TOTAL WEAPONS FUNDED PROJECTS	796,290	90,040	78,708
SCIENCE (Basic Energy Science)			
CINT	73,751	26,951	3,002
TOTAL SNL LINE-ITEM CONSTRUCTION FUNDING	870,041	116,991	81,710
General Plant Projects and Facilities Infrastructure	44,603	35,112	9,491
TOTAL SNL CONSTRUCTION FUNDING	914,644	152,103	91,201
TOTAL SNL CONSTRUCTION COST		188,020	151,922

Table 7 shows the total estimated cost and appropriations for construction funding for FY05 and FY06.

Acronyms and Key Terms

DOE – Department of Energy
 DHS – Department of Homeland Security
 DS&A – Defense Systems & Assessments
 ER&N – Energy, Resources & Nonproliferation
 FTE – Full-Time Equivalent
 G&A – General and Administrative
 HS&D – Homeland Security and Defense
 LDRD – Laboratory Directed Research and Development

NNSA – National Nuclear Security Administration
 NW – Nuclear Weapons
 R&D – Research and Development
 S&S – Safeguards and Security
 SMU – Strategic Management Unit
 SNL – Sandia National Laboratories
 WFO – Work for Others (non-DOE)



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