



**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Consolidated Financial Statements and  
Reports in Accordance with the Requirements  
of OMB Circular A-133

Year Ended September 30, 2005

(With Independent Auditors' Report Thereon)

# UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

September 30, 2005 and 2004

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**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## **Independent Auditors' Report**

The Board of Trustees  
University Corporation for Atmospheric Research  
Boulder, Colorado:

We have audited the accompanying consolidated statements of financial position of the University Corporation for Atmospheric Research (UCAR) as of September 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of UCAR's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 UCAR'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of UCAR as of September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005, on our consideration of UCAR's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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

December 22, 2005

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Consolidated Statements of Financial Position

September 30, 2005 and 2004

(In thousands)

<b>Assets</b>	<b>2005</b>	<b>2004</b>
Current assets:		
Cash and cash equivalents (note 4)	\$ 5,751	6,792
Investments (notes 2 and 4)	3,860	7,988
Receivables:		
Government agencies	19,538	10,494
Other (net of allowance for doubtful accounts of \$30 at 2005 and 2004)	2,493	4,992
Other current assets	709	689
Total current assets	32,351	30,955
Property (notes 3 and 4):		
Land and improvements	5,089	4,758
Building and building construction	73,543	51,035
Equipment	30,745	29,610
Total	109,377	85,403
Less accumulated depreciation on building and equipment	(39,215)	(35,292)
Property, net	70,162	50,111
Other noncurrent assets:		
Cash equivalents for investment in property and permanently restricted (note 4)	3,514	12,616
Investments (notes 2, 4, and 8)	51,820	55,317
Deferred bond charges (note 4)	2,720	2,877
Total other assets	58,054	70,810
Total assets	\$ 160,567	151,876
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 15,494	10,397
Accrued vacation liability	10,032	9,187
Other accrued liabilities	7,992	7,109
Deferred revenue	3,918	2,171
Line of credit (note 5)	983	917
Current portion of bonds payable (note 4)	4,445	4,460
Total current liabilities	42,864	34,241
Noncurrent liabilities:		
Bonds payable (note 4)	82,800	87,245
Accrued postretirement benefit obligation (note 7)	14,716	8,133
Other	815	893
Total noncurrent liabilities	98,331	96,271
Net assets:		
Unrestricted	19,003	21,035
Temporarily restricted	310	329
Permanently restricted	59	—
Total net assets	19,372	21,364
Total liabilities and net assets	\$ 160,567	151,876

See accompanying notes to consolidated financial statements.

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Consolidated Statements of Activities

Years ended September 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
National Science Foundation Cooperative Agreement:		
National Science Foundation funds	\$ 114,299	104,785
Other government award funds	17,364	16,496
Other government award funds	58,639	55,700
Other contract funds	9,563	10,045
Donated property	267	—
Membership fees	27	54
License fees and royalties	265	236
Investment income (note 2)	4,756	4,857
Total revenues and gains	<u>205,180</u>	<u>192,173</u>
Net assets released from restrictions	90	62
Total revenues, gains, and other support	<u>205,270</u>	<u>192,235</u>
Expenses and losses:		
Program expenses:		
Scientific programs	122,521	118,439
Scientific support facilities	66,365	58,420
Total program expenses	<u>188,886</u>	<u>176,859</u>
Management and general expenses	17,902	17,486
Total expenses (note 9)	<u>206,788</u>	<u>194,345</u>
Loss on disposal of property	463	53
Unrealized loss from derivative obligation (note 11)	51	—
Total expenses and losses	<u>207,302</u>	<u>194,398</u>
Decrease in unrestricted net assets	<u>(2,032)</u>	<u>(2,163)</u>
Changes in temporarily restricted net assets:		
Other contract funds	68	39
Investment income (note 2)	3	3
Net assets released from restrictions	(90)	(62)
Decrease in temporarily restricted net assets	<u>(19)</u>	<u>(20)</u>
Changes in permanently restricted net assets:		
Contributions	59	—
Increase in permanently restricted net assets	<u>59</u>	<u>—</u>
Change in net assets	(1,992)	(2,183)
Net assets, beginning of year	<u>21,364</u>	<u>23,547</u>
Net assets, end of year	\$ <u>19,372</u>	\$ <u>21,364</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Consolidated Statements of Cash Flows

Years ended September 30, 2005 and 2004

(In thousands)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,992)	(2,183)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property	(267)	—
Net realized and unrealized gains on investments	(2,567)	(1,624)
Depreciation and amortization	6,112	6,347
Loss on disposal of property	463	53
Changes in operating assets and liabilities:		
Receivables	(6,545)	1,038
Other current assets	21	1,218
Accounts payable and accrued liabilities	6,825	6,040
Deferred revenue	1,747	(136)
Accrued postretirement benefit obligation	6,583	6,614
Other noncurrent liabilities	(78)	127
Net cash provided by operating activities	<u>10,302</u>	<u>17,494</u>
Cash flows from investing activities:		
Purchase of property	(26,243)	(6,932)
Purchase of investments	(24,214)	(40,937)
Proceeds from sale of investments	34,406	11,205
(Increase) decrease in cash equivalents for investment in property and permanently restricted	9,102	(137)
Net cash used in investing activities	<u>(6,949)</u>	<u>(36,801)</u>
Cash flows from financing activities:		
Proceeds from bond issuance	—	25,000
Payments of bonds payable	(4,460)	(4,460)
Proceeds from line of credit	66	917
Payments for bond issuance costs	—	(909)
Net cash (used in) provided by financing activities	<u>(4,394)</u>	<u>20,548</u>
Increase (decrease) in cash and cash equivalents	(1,041)	1,241
Cash and cash equivalents, beginning of year	<u>6,792</u>	<u>5,551</u>
Cash and cash equivalents, end of year	\$ <u><u>5,751</u></u>	<u><u>6,792</u></u>
Supplemental cash flow information:		
Interest paid	\$ 4,168	4,042
Other current asset reclassification from noncurrent assets	41	8
Donated property	267	—

See accompanying notes to consolidated financial statements.

# UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

## (1) Organization and Significant Accounting Policies

### (a) Organization

The University Corporation for Atmospheric Research (UCAR) is a nonprofit membership corporation engaged in scientific and educational activities in atmospheric research and related fields. UCAR operates the National Center for Atmospheric Research (NCAR) under cooperative agreement with the National Science Foundation (NSF), and also operates other scientific projects funded principally by other United States government agencies. In connection with its operations, UCAR has incurred bond indebtedness (see note 4) and other indebtedness and commitments (see notes 5, 7, and 8) for which repayment is primarily dependent upon funding by NSF and other United States government agencies. The ability of NSF and other United States government agencies in any year to provide monies to UCAR is dependent on annual Congressional appropriations.

The prior cooperative agreement with NSF became effective October 1, 1998 and had an original expiration date of September 30, 2003, which date has now been extended three years to complete expenditure of funds under that cooperative agreement. UCAR and NSF have executed the current cooperative agreement, which has a term from October 1, 2003 through September 30, 2008.

Performance of work under United States government awards may be terminated whenever the sponsoring government agency shall determine that such termination is in the best interest of the United States government. Funding under all federal awards is subject to availability of funding as determined by the United States Congress. UCAR's management is unaware of any significant changes to the cooperative agreement or other federal grants in the upcoming year that will significantly impact UCAR's cash flows and its ability to pay current obligations as they become due.

The consolidated financial statements of UCAR include the University Corporation for Atmospheric Research Foundation (Foundation) and the Foundation's subsidiary, Peak Weather Resources, Inc. (Peak). All significant intercompany transactions have been eliminated. The Foundation was incorporated by UCAR for the purpose of engaging in technology transfer and other scientific, educational, and charitable activities in support of UCAR's mission. UCAR's board of trustees approves the election of the members of the board of directors of the Foundation. The Foundation's revenues relate primarily to license fees and royalties from transferred technology. Peak was formed for the purpose of commercializing UCAR-developed technology.

### (b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The net assets, revenues, gains, and other support in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UCAR and changes therein are classified and reported as follows:

#### *Unrestricted Net Assets*

Unrestricted net assets are net assets not subject to donor-imposed restrictions.

# UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

## Notes to Consolidated Financial Statements

September 30, 2005 and 2004

### *Temporarily Restricted Net Assets*

Temporarily restricted net assets are those whose use by UCAR has been limited by donors for a specific purpose, which is generally related to scientific and education activities in atmospheric research.

### *Permanently Restricted Net Assets*

Permanently restricted net assets are those whose use by UCAR has been restricted by donors to be maintained permanently but permits UCAR to spend the income derived for a specific purpose, which is generally related to scientific and education activities in atmospheric research.

### **(c) *Use of Estimates***

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.

### **(d) *Cash Equivalents***

UCAR considers money market mutual funds and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents, excluding amounts for investment in property and permanently restricted cash receipts.

### **(e) *Investments***

Investments in equity, government, and other fixed income securities are measured at fair value in the consolidated statements of financial position. These securities are publicly traded and have readily determined fair values. The guaranteed insurance contract is not publicly traded and is recorded at cost. Investment income or loss (including realized and unrealized gains and losses, interest, and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by the donor or law.

### **(f) *Receivables from Government Agencies***

Receivables from government agencies consist of amounts owed to UCAR from the federal government based on costs incurred but not yet reimbursed under federal grants or cooperative agreement. No allowance is established for these receivables, as they are considered fully collectible from the federal government.

### **(g) *Concentrations of Credit Risk***

UCAR's credit risk is primarily concentrated in receivables from the NSF and other United States government agencies. In the opinion of management, this concentration does not result in increased credit risk due to the nature of the receivables.

# UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

## Notes to Consolidated Financial Statements

September 30, 2005 and 2004

**(h) Property**

Property with title vested in UCAR is capitalized and recorded at cost if the acquisition cost is \$5,000 or more. Donated property is recorded at estimated fair market value at the time of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the property ranging from 3 to 40 years.

Property with title vested in the federal government and other sponsors is not recorded in the consolidated statements of financial position (see note 3).

**(i) Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value. For the years ended September 30, 2005 and 2004, management believes there has been no impairment of UCAR's long-lived assets.

**(j) Deferred Bond Charges**

Certain costs incurred by UCAR in connection with the issuance of bonds are deferred and are amortized using the straight-line method, which approximates the effective interest method, over the period that the related bonds are outstanding.

**(k) Accrued Vacation Liability**

In accordance with Colorado State Statutes (*Section 8-4-101, Definitions*), UCAR is required to pay upon separation from employment all vacation and paid time off (PTO) leave earned in accordance with the terms of UCAR's leave policy. Vacation and PTO leave is 100% vested and accrues when earned based on the employee's length of service and/or job position. Earned leave is funded through an indirect cost rate application charged to scientific programs and scientific support facilities. UCAR has recorded the fully funded accrued vacation and PTO liability in the accompanying consolidated financial statements.

**(l) Revenue and Expense Recognition**

Funds from awards and contracts, considered to be exchange transactions, are recognized as revenues when expenses under the award or contract are incurred. Expenses charged to federal awards are subject to government agency audit and possible adjustment. In the opinion of management, such adjustments, if any, will not have a significant impact on the accompanying consolidated financial statements.

**(m) Functional Expenses**

UCAR's Scientific Programs encompass basic and applied research, education and training, technology transfer and fostering research and operational partnerships within the geosciences community. Scientific Support Facilities provide a host of tools and platforms for observing, computing, data access and storage, and scientific visualization including operation and maintenance of research aircraft, supercomputing, and data systems. Management and general expenses are all costs associated with the overall management of UCAR.

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Notes to Consolidated Financial Statements

September 30, 2005 and 2004

**(n) Donor-Restricted Contributions**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The contributions are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. In the absence of donor specification that income and gains on donated funds are restricted, such income and gains are reported as income of unrestricted net assets.

**(o) Tax Status**

UCAR and the Foundation are exempt from income taxes under Internal Revenue Code Section 501(c)(3). Peak is a taxable entity and accounts for income taxes in accordance with the liability method. Peak had cumulative net tax losses of \$284,000 and \$265,000 in 2005 and 2004, respectively.

**(p) Reclassifications**

Certain prior year balances have been reclassified to conform to the current year presentation.

**(2) Investments**

UCAR's investment portfolios are pooled for investment purposes. Bond trustee held investments are restricted for the acquisition or construction of noncurrent assets or for the liquidation of long-term bonds payable and are classified as other noncurrent assets. UCAR's remaining investments are unrestricted. Investments consist of the following as of September 30:

	<b>Fair value</b>	
	<u>2005</u>	<u>2004</u>
	(In thousands)	
Corporate investments	\$ 37,280	35,672
Bond trustee held investments	18,400	27,633
Total	<u>\$ 55,680</u>	<u>63,305</u>
Government securities	\$ 27,244	35,992
Equity securities	22,317	18,969
Guaranteed insurance contract	3,150	3,150
Other fixed income securities	2,969	5,194
Total	<u>\$ 55,680</u>	<u>63,305</u>

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Notes to Consolidated Financial Statements

September 30, 2005 and 2004

UCAR's investment income for the years ended September 30 is comprised of the following:

	<b>Fair value</b>	
	<b>2005</b>	<b>2004</b>
	(In thousands)	
Interest and dividends, net	\$ 2,192	3,236
Net realized losses	(35)	(319)
Net unrealized gains	2,602	1,943
Total	\$ 4,759	4,860

**(3) Property**

Property with title vested in UCAR, including property designated as to a particular purpose, is recorded in the consolidated financial statements.

Property with title vested in the U.S. Government and other sponsors is not recorded in the consolidated statements of financial position. Purchases of such property, totaling \$19,058,000 and \$15,762,000 in 2005 and 2004, respectively, are recorded as unrestricted expenses in the consolidated statements of activities. UCAR has the responsibility of maintaining property records and reporting balances to the respective sponsors. In the normal course of business, UCAR disposes of property in accordance with funding agency agreements. Government and other sponsor-owned property at cost consists of the following as of September 30:

	<b>2005</b>		<b>2004</b>	
	(In thousands)			
Real property – NSF titled	\$ 29,249		28,958	
Equipment:				
NSF titled	150,635		149,994	
Other sponsors	52,384		56,281	
Total equipment	203,019		206,275	
Total	\$ 232,268		235,233	

**(4) Bonds Payable**

**(a) 1996 Series A & B Bonds**

UCAR borrowed \$9,410,000 in fiscal 1997 through the issuance of County of Boulder, Colorado Development Revenue Bonds, Series 1996 A & B (1996 Series A & B Bonds) to assist in the purchase of a building and to finance the costs of computer networking, maintenance, and other equipment and capital improvements.

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Notes to Consolidated Financial Statements

September 30, 2005 and 2004

As of September 30, 2005 and 2004, the outstanding balance of the 1996 Series A Bonds was \$3,730,000 and \$4,310,000, respectively. The 1996 Series A Bonds bear interest and mature serially as follows (in thousands):

5.00% maturing September 1, 2006	\$	320
5.00% maturing September 1, 2007		545
5.13% maturing September 1, 2008		130
5.50% maturing September 1, 2009		135
5.50% maturing September 1, 2010		140
5.50% thereafter		<u>2,460</u>
Total	\$	<u><u>3,730</u></u>

The 1996 Series A Bonds maturing in 2016 and 2021 are subject to mandatory redemption beginning in 2009.

As of September 30, 2005 and 2004, the outstanding balance of the 1996 Series B Bonds was \$1,230,000 and \$1,265,000, respectively. The 1996 Series B Bonds are taxable and bear interest and mature serially as follows (in thousands):

7.00% maturing September 1, 2006	\$	35
7.63% maturing September 1, 2021		<u>1,195</u>
Total	\$	<u><u>1,230</u></u>

The 1996 Series B Bonds are subject to mandatory redemption annually at a redemption price of 100% of the principal amount plus any accrued interest. Pursuant to the mandatory sinking fund requirements of the 1996 Series B Bonds, UCAR is required to make annual debt service payments to redeem portions of the 1996 Series B Bonds. As of September 30, 2005, mandatory redemptions of bond principal for the next five years and thereafter are as follows (in thousands):

Year ending September 30:		
2006	\$	35
2007		40
2008		45
2009		45
2010		50
Thereafter		<u>1,015</u>
Total	\$	<u><u>1,230</u></u>

The 1996 Series A & B Bonds are subject to optional redemption after September 1, 2007, in whole or in part at the option of UCAR, at a redemption price of 100% of the principal amount redeemed plus any accrued interest. The 1996 Series A & B Bonds are not collateralized by the related property. Certain costs incurred by UCAR in connection with the 1996 Series A & B Bonds were deferred and are being amortized over the period that the 1996 Series A & B Bonds are outstanding.

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Notes to Consolidated Financial Statements

September 30, 2005 and 2004

**(b) 1999 Bonds**

UCAR borrowed \$13,760,000 on February 25, 1999 through the issuance of County of Boulder, Colorado Industrial Development Revenue Bonds, Series 1999 (1999 Bonds) to fund the purchase of equipment, capital improvements, issuance costs, and a reserve fund.

As of September 30, 2005 and 2004, respectively, the outstanding balance of the 1999 Bonds was \$5,035,000 and \$6,645,000; the bonds bear interest and mature serially as follows (in thousands):

3.88% maturing September 1, 2006	\$	1,165
4.00% maturing September 1, 2007		735
4.38% maturing September 1, 2008		570
4.10% maturing September 1, 2009		535
4.25% maturing September 1, 2010		345
4.35% – 4.63% thereafter		1,685
Total	\$	5,035

The 1999 Bonds maturing on or after September 1, 2009 are subject to optional redemption prior to maturity on or after September 1, 2008, at the option of UCAR, at a redemption price equal to 100% of the principal plus any accrued interest. The 1999 Bonds are not collateralized by the related equipment or improvements purchased by UCAR. Certain costs incurred by UCAR in connection with the issuance of these bonds were deferred and are being amortized over the period that the 1999 Bonds are outstanding.

**(c) 2001 Bonds**

UCAR borrowed \$30,030,000 on November 27, 2001 through the issuance of County of Boulder, Development Revenue Refunding Bonds, Series 2001 (2001 Bonds) to refund the 1991 Building Bonds and to establish an escrow account to refund the 1996 Series B Bonds on September 1, 2007.

As of September 30, 2005 and 2004, respectively, the outstanding balance of the 2001 Bonds was \$26,440,000 and \$27,295,000. The bonds bear interest and mature serially as follows (in thousands):

3.30% maturing September 1, 2006	\$	880
3.50% maturing September 1, 2007		910
3.75% maturing September 1, 2008		935
4.50% maturing September 1, 2009		975
4.00% maturing September 1, 2010		1,020
4.00% – 5.50% thereafter		21,720
Total	\$	26,440

The 2001 Bonds maturing on or after September 1, 2012 are subject to optional redemption on or after September 1, 2011, in whole or part on any date, at a redemption price equal to 100% of the principal amount plus any accrued interest. The 2001 Bonds maturing on September 1 in each of the years 2022, 2026, and 2032 are subject to mandatory sinking fund redemption at a redemption price

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September 30, 2005 and 2004

of 100% of the principal amount redeemed plus interest accrued to the redemption date beginning September 1, 2021 and continuing through September 1, 2032. The 2001 Bonds are not collateralized. Certain costs incurred by UCAR in connection with the issuance of these bonds were deferred and are being amortized over the period that the 2001 Bonds are outstanding.

**(d) 2002 Bonds**

UCAR borrowed \$29,335,000 on December 18, 2002 through the issuance of County of Boulder, Development Revenue Bonds, Series 2002 (2002 Bonds) to pay in full the \$16,500,000 bank line of credit, refurbish and equip such facilities, and build-out of a 20,000 square foot expansion, and refurbish, improve, and equip other existing facilities of UCAR. The maturity date of the 2002 Bonds is September 1, 2033.

As of September 30, 2005 and 2004, respectively, the outstanding balance of the 2002 Bonds was \$25,810,000 and \$27,190,000. The bonds bear interest and mature serially as follows (in thousands):

2.50% maturing September 1, 2006	\$	1,380
3.88% maturing September 1, 2007		1,380
3.10% maturing September 1, 2008		1,240
5.00% maturing September 1, 2009		1,240
3.60% maturing September 1, 2010		1,240
3.80% – 5.38% thereafter		19,330
Total	\$	25,810

The 2002 Bonds maturing on or after September 1, 2013 are subject to optional redemption on or after September 1, 2012, in whole or part on any date, at a redemption price equal to 100% of the principal amount plus any accrued interest. The 2002 Bonds maturing on September 1 in each of the years 2016, 2018, 2021, 2027, and 2033 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date beginning September 1, 2016 and continuing through September 1, 2033. The 2002 Bonds are not collateralized. Certain costs incurred by UCAR in connection with the issuance of these bonds were deferred and are being amortized over the period that the 2002 Bonds are outstanding.

**(e) 2003 Bonds**

UCAR borrowed \$25,000,000 on December 4, 2003 through the issuance of County of Boulder, Development Revenue Bonds, Series 2003 (2003 Bonds) to construct and equip a new 80,000 square foot research laboratory and office building, and to refurbish, improve, and equip other existing facilities of UCAR. The maturity date of the 2003 Bonds is September 1, 2035.

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### Notes to Consolidated Financial Statements

September 30, 2005 and 2004

As of September 30, 2005 and 2004, the outstanding balance of the 2003 Bonds was \$25,000,000. The bonds bear interest and mature serially as follows (in thousands):

2.00% maturing September 1, 2006	\$	665
2.10% maturing September 1, 2007		1,325
2.45% maturing September 1, 2008		1,325
3.00% maturing September 1, 2009		1,270
3.00% maturing September 1, 2010		1,210
3.38% – 5.00% thereafter		<u>19,205</u>
Total	\$	<u><u>25,000</u></u>

The 2003 Bonds maturing on or after September 1, 2014 are subject to optional redemption on or after September 1, 2013, in whole or part on any date, at a redemption price equal to 100% of the principal amount plus any accrued interest. The 2003 Bonds maturing on September 1 in each of the years 2023, 2028, and 2035 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount redeemed plus interest accrued to the redemption date beginning September 1, 2023 and continuing through September 1, 2035. The 2003 Bonds are not collateralized. Certain costs incurred by UCAR in connection with the issuance of these bonds were deferred and will be amortized over the period that the 2003 Bonds are outstanding.

**(f) *Arbitrage Liability***

The Internal Revenue Code (IRC), as amended, requires that cumulative income earned from investing tax-exempt bond proceeds in excess of the related bond interest expense (arbitrage) be rebated to the federal government, generally every five years or upon repayment of the underlying bonds. As of September 30, 2005 and 2004, UCAR has no liability for cumulative arbitrage. UCAR has \$3,000 and \$26,000 in cash and cash equivalents as of September 30, 2005 and 2004, respectively, that are held by the trustee for payment of such liabilities.

**(g) *Capitalized Interest***

Interest cost incurred on borrowed funds during the period of construction of fixed assets is capitalized as a component of the cost of acquiring those assets. Interest cost capitalized during the years ended September 30, 2005 and 2004 is \$1,012,000 and \$750,000, respectively.

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

**(h) Bond Assets**

As of September 30, 2005 and 2004, included in cash and cash equivalents, cash equivalents for investment in property, and investments purchased in accordance with the related bond documents, are the following amounts either held in a reserve fund for payment of bond principal for the 1996, 1999, 2001, 2002, and 2003 Bonds or otherwise restricted under the bond agreements:

	<u>2005</u>	<u>2004</u>
	(In thousands)	
Cash (overdraft) and cash equivalents:		
2003 Bonds	\$ (347)	—
2002 Bonds	(247)	(495)
2001 Bonds	625	623
1999 Bonds	(2,935)	(3,043)
1996 Series A & B Bonds	<u>467</u>	<u>753</u>
Total cash and cash equivalents	<u>(2,437)</u>	<u>(2,162)</u>
Cash equivalents for investment in property:		
2003 Bonds	1,927	7,230
2002 Bonds	174	2,682
1999 Bonds	1,374	2,059
1996 Series A & B Bonds	<u>—</u>	<u>645</u>
Total cash equivalents for investment in property	<u>3,475</u>	<u>12,616</u>
Current investments:		
2001 Bonds	75	75
1999 Bonds	<u>—</u>	<u>707</u>
Total current investments	<u>75</u>	<u>782</u>
Noncurrent investments:		
2003 Bonds	9,964	15,389
2002 Bonds	2,523	6,976
2001 Bonds	3,348	3,408
1999 Bonds	1,852	1,078
1996 Series A & B Bonds	<u>638</u>	<u>—</u>
Total noncurrent investments	<u>18,325</u>	<u>26,851</u>
Total	\$ <u><u>19,438</u></u>	\$ <u><u>38,087</u></u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

**(5) Other Debt**

UCAR has a \$3,000,000 borrowing base under a bank line of credit agreement. The line of credit agreement matures on February 28, 2006 and borrowings thereunder will accrue interest at the variable rate of LIBOR plus 2% (5.86% at September 30, 2005). The line of credit is collateralized by cash equivalents held at the bank. There was \$983,000 and \$917,000 outstanding as of September 30, 2005 and 2004, respectively.

**(6) Retirement Contribution Plan**

UCAR has a defined contribution plan available to all regular full-time and part-time employees. Participants are required to contribute 5% of regular salary excluding overtime, and may contribute an additional amount in accordance with IRC guidelines. UCAR is required to contribute 10% of the participant's annual regular salary. UCAR reserves the right to modify or discontinue the plan at any time. Amounts paid under the plan by UCAR were \$9,538,000 and \$8,632,000 for the years ended September 30, 2005 and 2004, respectively.

**(7) Postretirement Benefits**

UCAR sponsors certain medical and dental benefits for employees and their eligible dependents, who were full-time employees, have worked 15 years, and have retired after age 50. Premiums for medical and dental benefits are paid by the retirees. Such premiums are, however, effectively subsidized by UCAR allowing the retirees to pay companywide rates, which are derived using actuarial assumptions attributable to both active and retired employees.

On September 30, 1998, UCAR amended its retiree medical plan (the Plan). Under the amendment, UCAR may terminate its subsidy of retiree medical premiums. Continuation of the subsidy is primarily contingent on the periodic renewal of the NSF cooperative agreement. Based on UCAR's history of providing these benefits, the postretirement benefit obligation has been calculated assuming the Plan will continue in perpetuity.

The following table sets forth the components of the accrued postretirement benefit obligation as of September 30, all of which are unfunded based on the amended plan:

	<u>2005</u>	<u>2004</u>
	(In thousands)	
Accumulated postretirement benefit obligation:		
Retirees	\$ 10,347	9,121
Fully eligible active employees	14,727	12,982
Other active participants	<u>13,372</u>	<u>11,788</u>
Total	<u>\$ 38,446</u>	<u>33,891</u>
Accrued postretirement benefit obligation	<u>\$ 14,716</u>	<u>8,133</u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

The following table sets forth the components of UCAR's expense for postretirement benefits for the years ended September 30:

	<b>2005</b>	<b>2004</b>
	(In thousands)	
Service cost of benefits earned	\$ 2,018	1,785
Interest cost on accumulated postretirement benefit obligation	2,011	2,122
Amortization	3,309	3,309
Postretirement benefit expense	\$ 7,338	7,216
Benefit payment	\$ 755	603

UCAR's expected benefit payments are as follows (in thousands):

Year ending September 30:	
2006	\$ 793
2007	832
2008	874
2009	917
2010	963
2011-15	5,589
Expected benefit payments	\$ 9,968

For the years ended September 30, 2005 and 2004, the postretirement benefit obligation was measured using a 13% annual rate of increase in health care costs for those under age 65 and 16% for those over age 65 decreasing to 5% and 6%, respectively, in 2008. The weighted average discount rate used in determining the accumulated postretirement benefit obligations is 6% as of September 30, 2005 and 2004. A 1% increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of September 30, 2005 by \$6,728,000 and the aggregate service and interest cost in 2005 by \$1,329,607.

**(8) Commitments**

As a part of its investment portfolio, UCAR has committed to invest up to \$704,000 and \$500,000 in two limited investment partnerships. As of September 30, 2005 and 2004, respectively, UCAR has invested \$204,069 and \$114,316, respectively, in one partnership and \$450,750 and \$424,500, respectively, in the second partnership. These investments are in equity securities with readily determinable fair market values. These investments are included in the equity securities line item disclosed in note 2.

UCAR leases property under operating leases. Total rental expense under all operating leases was approximately \$1,128,000 and \$1,353,000, respectively, for 2005 and 2004.

## UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

### Notes to Consolidated Financial Statements

September 30, 2005 and 2004

As of September 30, 2005, UCAR's future minimum rentals under operating leases, which may be terminated by UCAR in the event of insufficient funding, are as follows (in thousands):

Year ending September 30:		
2006	\$	1,148
2007		1,177
2008		312
2009		118
2010		121
Thereafter		3,636
Total minimum lease payments required	\$	6,512

At September 30, 2005 and 2004, UCAR had unfilled purchase order commitments of approximately \$30,319,000 and \$46,246,000, respectively.

UCAR is a party to litigation arising in the normal course of business. Management does not believe that such litigation will have a material adverse impact on UCAR's consolidated financial statements.

#### (9) Expenses

Expenses for operating activities for the years ended September 30 are as follows:

	2005	2004
	(In thousands)	
Salaries and employee benefits	\$ 119,505	113,949
Postretirement benefit expense	7,338	7,216
Applied indirect costs (net of depreciation and amortization)	3,092	2,388
Purchased services	30,982	27,485
Purchases of property titled with the sponsor (see note 3)	19,058	15,762
Materials and supplies	7,595	7,899
Travel	10,032	10,112
Depreciation	5,996	6,231
Amortization	116	116
Interest	3,074	3,187
Total	\$ 206,788	194,345

#### (10) Fair Value of Financial Instruments

UCAR has estimated the fair value of its financial instruments using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data in order to develop the estimates of fair value. Accordingly, the estimates herein are not necessarily indicative of the amounts UCAR could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Notes to Consolidated Financial Statements

September 30, 2005 and 2004

The carrying amounts reported in the consolidated statements of financial position for cash and cash equivalents, receivables, accounts payable, accrued liabilities, and the line of credit approximate fair value due to their short maturities. The fair value of investments, with the exception of the guaranteed insurance contract, is based on quoted market prices, and the fair value of bonds payable is based on current traded values. The carrying amount of the guaranteed insurance contract approximates fair value.

The carrying amounts and fair values of UCAR’s investments and bonds payable as of September 30, 2005 and 2004 are as follows:

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)			
Investments	\$ 55,680	55,680	63,305	63,305
Bonds payable	87,245	90,460	91,705	95,923

**(11) Derivative Financial Instruments**

*2005 Swaption*

As a means to lower its borrowing costs, UCAR entered into a swaption contract that provided UCAR with an up-front payment of \$1,123,000 on June 9, 2005. A “swap option” or swaption conveys to the purchaser the option (but not the obligation) to enter into a swap at a future date. A swap is an agreement between two parties to exchange (or swap) a set of cash flows at future points in time. The swaption gives the counterparty the option to make UCAR enter into a receive-fixed, pay-variable interest rate swap on August 31, 2011. The swaption is based on the notional amount of \$21,325,000 based on the 2001 Bond debt payment schedule. If the option is exercised in 2011, UCAR would receive interest at the fixed rate of 4.27% while paying a variable rate payment based upon the greater of 68% of USD one-month LIBOR-British Bankers’ Association (BBA) or 57% of USD one-month LIBOR-BBA plus .44%. UCAR has the option in the contract to terminate the contract at any time prior to August 31, 2011 and receive the fair market value of the swaption.

At September 30, 2005, the swaption had a fair value of \$1,174,000. The mark to market is calculated by modeling the terms and conditions of the swap and then determining the difference between the present values of the original and prevailing swap rates.

**REPORTS REQUIRED BY OMB CIRCULAR A-133**

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>CFDA</u>	<u>Expenditure</u>
Research and Development Cluster:			
Direct federal expenditures:			
Department of Commerce:			
National Institute of Standards	DOC Research & Development	11.000	\$ 13
National Oceanic and Atmospheric Administration	DOC Research & Development	11.000	1,915
			1,928
National Oceanic and Atmospheric Administration	Climate & Atmospheric Research	11.431	14,873
National Oceanic and Atmospheric Administration	Meteorologic and Hydrologic Modernization Development	11.467	5,221
			22,022
Department of Defense:			
Department of Defense	DOD Research & Development	12.000	438
Department of Air Force Weather Agency	DOD Research & Development	12.000	4
Naval Research Laboratory	DOD Research & Development	12.000	580
Office of Naval Research	DOD Research & Development	12.000	138
Space and Naval Warfare Systems Center	DOD Research & Development	12.000	4
U.S. Air Force	DOD Research & Development	12.000	1,718
U.S. Army	DOD Research & Development	12.000	8,561
U.S. Navy	DOD Research & Development	12.000	5
			11,448
Naval Research Laboratory	Basic and Applied Scientific Research	12.300	241
Office of Naval Research	Basic and Applied Scientific Research	12.300	179
			420
U.S. Air Force	Air Force Defense Research Sciences Program	12.800	105
			11,973
Department of the Interior:			
U.S. Geological Survey	DOI Research & Development	15.000	40
			40
Department of Energy:			
Department of Energy	DOE Research & Development	81.000	1,266
Department of Energy	Office of Science Financial Assistance Program	81.049	2,747
			4,013

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>CFDA</u>	<u>Expenditure</u>
Department of Transportation:			
Division of Transportation	DOT Research & Development	20.000	\$ 52
Federal Aviation Administration	DOT Research & Development	20.000	38
Federal Railroad Administration	DOT Research & Development	20.000	19
			109
Federal Aviation Administration	Aviation Research Grants	20.108	12,569
			12,678
Environmental Protection Agency:			
Environmental Protection Agency	EPA Research & Development	66.000	140
			140
Federal Emergency Management Agency:			
Federal Emergency Management Agency	FEMA Research & Development	83.000	12
			12
National Aeronautics and Space Administration:			
National Aeronautics and Space Administration	NASA Research & Development	43.000	14,269
National Aeronautics and Space Administration	Aerospace Education Services	43.001	370
			14,639
National Science Foundation:			
National Science Foundation	Mathematical & Physical Sciences	47.049	825
National Science Foundation	Geosciences	47.050	115,020
National Science Foundation	Computer & Information Science & Engineering	47.070	724
National Science Foundation	Social, Behavioral, and Economic Sciences	47.075	59
National Science Foundation	Education & Human Resources	47.076	416
National Science Foundation	Polar Programs	47.078	1,386
			118,430
U.S. Department of Agriculture:			
U.S. Department of Agriculture	DOA Research & Development	10.000	158
			158

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<b>Grantor</b>	<b>Program description</b>	<b>CFDA</b>	<b>Expenditure</b>
U.S. State Department: U.S. State Department	DOS Research & Development	19.000	\$ <u>1</u>
			<u>1</u>
Total direct federal expenditures			<u>184,106</u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract number/pass-through identifying number</u>	<u>CFDA</u>	<u>Expenditure</u>
Pass-through federal expenditures:				
Department of Commerce:				
RS Information Systems, Inc.	DOC Research & Development	PO04-000621	11.000	\$ 56
STRATUS	DOC Research & Development	R0094C0690	11.000	2
				<u>58</u>
University of Colorado	Climate & Atmospheric Research	0401.07.150D	11.431	18
GSSL, Inc.	Environmental Sciences, Applications, Data and Education	DG133R04CN0138	11.440	2
				<u>78</u>
Department of Defense:				
GSSL, Inc.	DOD Research & Development	2215	12.000	1
University of Miami	Basic and Applied Scientific Research	P758080	12.300	23
				<u>24</u>
Department of Energy:				
Oak Ridge Associated Universities	DOE Research & Development	11-4778	81.000	62
Battelle Institute	DOE Research & Development	13134	81.000	43
The Pennsylvania State University	DOE Research & Development	2861-NCAR-NIGEC-0009	81.000	39
Northwest Research Associates Inc.	DOE Research & Development	NWRA-04-S-074	81.000	33
University of Minnesota	DOE Research & Development	X5306654101	81.000	29
Columbia University	DOE Research & Development	JOSS0605	81.000	12
Battelle Institute	DOE Research & Development	16420	81.000	9
				<u>227</u>
University of Minnesota	State Energy Program Special Projects	T530648001	81.119	18
				<u>245</u>
Department of Transportation:				
The Boeing Company Defense & Space Group	Aviation Research Grants	KU7123	20.108	4
MIXON/HILL	Highway Planning and Construction	04018-PM001CTR0102	20.205	26
				<u>30</u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract number/pass-through identifying number</u>	<u>CFDA</u>	<u>Expenditure</u>
National Aeronautics and Space Administration:				
University of Colorado	NASA Research & Development	BS0054778	43.000	\$ 2,052
Science Applications International Corp	NASA Research & Development	4400071487	43.000	590
Stanford University	NASA Research & Development	1456792 PY-2345	43.000	395
Georgia Institute of Technology	NASA Research & Development	G-35-B86-G1	43.000	151
Colorado State University	NASA Research & Development	G-1949-1	43.000	150
Lockheed Martin Corp. Missiles & Space	NASA Research & Development	SC01R2201M	43.000	136
Science Applications International Corp	NASA Research & Development	4400096452	43.000	66
Boston University	NASA Research & Development	180001	43.000	60
Boston University	NASA Research & Development	177828	43.000	58
Georgia Institute of Technology	NASA Research & Development	G-35-B83-G1	43.000	55
University of Washington	NASA Research & Development	889366	43.000	32
University of Michigan	NASA Research & Development	F007484	43.000	31
University of California Los Angeles	NASA Research & Development	0965-G-CB470	43.000	26
QSS Group Inc.	NASA Research & Development	011787	43.000	23
University of California Santa Barbara	NASA Research & Development	KK5104	43.000	18
Space Telescope Science Institute	NASA Research & Development	HST-GO-09447.05-A	43.000	16
Science Applications International Corp	NASA Research & Development	4400107161	43.000	10
QSS Group Inc.	NASA Research & Development	012727	43.000	10
University of Illinois at Urbana-Champaign	NASA Research & Development	2-326	43.000	10
Space Telescope Science Institute	NASA Research & Development	HST-GO-09832.01A	43.000	9
North Carolina State University	NASA Research & Development	2004-0226-01	43.000	9
Space Telescope Science Institute	NASA Research & Development	HST-GO-10441.01-A	43.000	3
Hampton University	NASA Research & Development	04-16	43.000	3
Universities Space Research Association	NASA Research & Development	03491-26	43.000	1
University of Illinois at Urbana-Champaign	NASA Research & Development	02-309	43.000	(8)
				<u>3,906</u>
University of Alaska	Aerospace Education Services	UAF 03-0024	43.001	48
Woods Hole	Aerospace Education Services	A100422	43.001	10
				<u>58</u>
University of Rhode Island	Technology Transfer	072304/0000234	43.002	<u>40</u>
				<u>4,004</u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<b>Grantor</b>	<b>Program description</b>	<b>Contract number/pass-through identifying number</b>	<b>CFDA</b>	<b>Expenditure</b>
National Science Foundation:				
Boston University	NSF Research & Development	GC177085NGA	47.000	\$ 607
Carnegie Mellon University	NSF Research & Development	1120444-145302	47.000	175
University of California, Davis Campus	NSF Research & Development	009323-01	47.000	149
AURA, Inc.	NSF Research & Development	MOU – ATST	47.000	113
AURA, Inc.	NSF Research & Development	P15263B	47.000	60
Oregon State University	NSF Research & Development	S0666A-A	47.000	48
WGBH	NSF Research & Development	K2005000531	47.000	45
University of California Los Angeles	NSF Research & Development	0757 P RB993	47.000	18
University of California San Diego	NSF Research & Development	10217581	47.000	16
University of Colorado	NSF Research & Development	290233	47.000	10
				<u>1,241</u>
University of Colorado	Geosciences	SPO 46476	47.050	178
Washington State University	Geosciences	G001159	47.050	84
The University of Iowa	Geosciences	88272	47.050	18
University of Colorado	Geosciences	154-0275	47.050	10
Indiana University	Geosciences	10404-0128	47.050	6
University of Colorado	Geosciences	26917	47.050	5
				<u>301</u>
University of Miami	Social, Behavioral, and Economic Sciences	P777606	47.075	11
University of Colorado	Education & Human Resources	153-9680	47.076	44
Columbia University	Education & Human Resources	DUE-02-26292	47.076	42
Syracuse University	Education & Human Resources	3535951-S01	47.076	21
University of Michigan	Education & Human Resources	F007699	47.076	10
				<u>117</u>
				<u>1,670</u>
Environmental Protection Agency:				
University of Colorado	EPA Research & Development	154-0289	66.000	83
Washington State University	EPA Research & Development	G001499	66.000	57
				<u>140</u>

**UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract number/pass-through identifying number</u>	<u>CFDA</u>	<u>Expenditure</u>
Georgia Institute of Technology	Environmental Protection Consolidated Research	G-35-B20-S1	66.500	\$ 5
				<u>145</u>
	Total pass-through federal expenditures			<u>6,196</u>
	Total research and development cluster expenditures			<u>\$ 190,302</u>

See accompanying notes to schedule of expenditures of federal awards.

## UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

### Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2005

**(1) Basis of Presentation**

The University Corporation for Atmospheric Research (UCAR) operates the National Center for Atmospheric Research under cooperative agreement with the National Science Foundation (NSF) and also operates other scientific projects funded principally by other federal agencies for the purposes of research and development. The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Funds related to total federal expenditures in the schedule of expenditures of federal awards are included in the consolidated financial statements of UCAR in the consolidated statement of activities under revenues from NSF cooperative agreement and other government award funds.

**(2) Federal Property**

During fiscal year 2005, UCAR expended approximately \$18.5 million of federal funds to purchase property for which title is vested with the U.S. Government. As of September 30, 2005, UCAR had responsibility for approximately \$231.7 million of property for which title is vested with the U.S. Government.

**(3) Subrecipients**

UCAR passed through approximately \$5.4 million to subrecipients in the research and development cluster for the year ended September 30, 2005.



**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Consolidated Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Trustees  
University Corporation for Atmospheric Research  
Boulder, Colorado:

We have audited the consolidated financial statements of the University Corporation for Atmospheric Research (UCAR), as of and for the year ended September 30, 2005, and have issued our report thereon, dated December 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered UCAR's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UCAR's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the Audit and Finance Committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2005



**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## **Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The Board of Trustees  
University Corporation for Atmospheric Research  
Boulder, Colorado:

### **Compliance**

We have audited the compliance of the University Corporation for Atmospheric Research (UCAR) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2005. UCAR's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of UCAR's management. Our responsibility is to express an opinion on UCAR's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UCAR's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of UCAR's compliance with those requirements.

In our opinion, UCAR complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2005.

### **Internal Control over Compliance**

The management of UCAR is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UCAR's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, the Audit and Finance Committee, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 22, 2005

# UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

## Schedule of Findings and Questioned Costs

Year ended September 30, 2005

### **I. Summary of Auditors' Results**

1. The independent auditors' report on the consolidated financial statements expressed an unqualified opinion.
2. No reportable conditions or material weaknesses in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the consolidated financial statements was disclosed by the audit.
4. No reportable conditions or material weaknesses in internal control over compliance requirements applicable to major federal award programs were identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by section 510(a) of OMB Circular A-133.
7. The University Corporation for Atmospheric Research's (UCAR) major program was:  
Research and Development Cluster
8. A threshold of \$3,000,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. UCAR did qualify as a low-risk auditee as the term is defined in OMB Circular A-133.

### **II. Financial Statement Findings Section**

No findings.

### **III. Federal Award Findings and Questioned Cost Section**

No findings.