



UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

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

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Reports Required by OMB Circular A-133	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	32
Independent Auditors' 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 <i>Government Auditing Standards</i>	33
Independent Auditors' Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	35
Schedule of Findings and Questioned Costs for the year ended September 30, 2008	37



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, 2008 and 2007, 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 consolidated 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 consolidated financial statements, assessing the accounting principles used and the 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the consolidated financial statements, effective September 30, 2007, UCAR implemented Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2009, 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 audits.

Our audits were performed for the purpose of forming an opinion on the consolidated 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 consolidated 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 consolidated financial statements taken as a whole.

KPMG LLP

January 20, 2009

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Consolidated Statements of Financial Position

September 30, 2008 and 2007

(In thousands)

Assets	2008	2007
Current assets:		
Cash and cash equivalents (note 4)	\$ 16,648	2,772
Investments (notes 2 and 4)	4,733	8,165
Receivables:		
Government agencies	12,800	15,212
Other (net of allowance for doubtful accounts of \$30 at 2008 and 2007)	2,867	2,830
Other current assets	660	1,564
Total current assets	<u>37,708</u>	<u>30,543</u>
Property (notes 3 and 4):		
Land and improvements	5,025	5,025
Building and building construction	76,888	76,778
Equipment	31,514	30,911
Total	<u>113,427</u>	<u>112,714</u>
Less accumulated depreciation on building and equipment	<u>(53,433)</u>	<u>(48,497)</u>
Property, net	<u>59,994</u>	<u>64,217</u>
Other noncurrent assets:		
Long-term notes receivable	487	367
Restricted cash (note 4)	6,289	4,118
Investments (notes 2, 4, and 8)	37,700	49,217
Deferred bond charges and other noncurrent assets (note 4)	2,179	2,304
Total other noncurrent assets	<u>46,655</u>	<u>56,006</u>
Total assets	<u>\$ 144,357</u>	<u>150,766</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 6,354	7,546
Accrued vacation liability	11,280	11,336
Other accrued liabilities (note 11)	6,369	4,486
Deferred revenue	2,846	2,725
Current portion of bonds payable and note payable (notes 4 and 5)	4,179	4,223
Total current liabilities	<u>31,028</u>	<u>30,316</u>
Noncurrent liabilities:		
Bonds payable (note 4)	68,776	73,005
Accrued postretirement benefit obligation (note 7)	4,438	32,183
Note payable (note 5)	822	846
Total noncurrent liabilities	<u>74,036</u>	<u>106,034</u>
Net assets:		
Unrestricted	38,604	13,680
Temporarily restricted	286	402
Permanently restricted	403	334
Total net assets	<u>39,293</u>	<u>14,416</u>
Total liabilities and net assets	<u>\$ 144,357</u>	<u>150,766</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Consolidated Statements of Activities
 Years ended September 30, 2008 and 2007
 (In thousands)

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Revenues, gains, and other support:		
National Science Foundation Cooperative Agreement:		
National Science Foundation funds	\$ 104,546	108,443
Other government agency funds	16,671	18,484
Other government award funds	67,124	59,193
Other contract funds	20,673	13,531
Donated property	—	247
Membership fees	56	30
License fees and royalties	332	139
Proceeds from sale of assets	12	—
Investment (loss) income (note 2)	(5,739)	6,614
Total revenues and gains	<u>203,675</u>	<u>206,681</u>
Net assets released from restrictions	<u>223</u>	<u>63</u>
Total revenues, gains, and other support	<u>203,898</u>	<u>206,744</u>
Expenses and losses:		
Program expenses:		
Scientific programs	130,295	127,783
Scientific support facilities	60,385	58,255
Total program expenses	<u>190,680</u>	<u>186,038</u>
Management and general expenses	<u>20,448</u>	<u>19,496</u>
Total expenses (note 9)	<u>211,128</u>	<u>205,534</u>
Loss on disposal of property (net of proceeds from sale of assets)	22	10
Unrealized loss (gain) from derivative obligations (note 11)	591	(146)
Total expenses and losses	<u>211,741</u>	<u>205,398</u>
Effect of adoption of SFAS No. 158 (note 1(p) and note 7)	—	4,910
Effect of plan change for postretirement benefit obligation (note 1(p) and note 7)	(22,373)	—
Postretirement benefit related changes other than net periodic costs (note 7)	(10,602)	—
Effect of change to equity accounting of subsidiary	208	—
Increase (decrease) in unrestricted net assets	<u>24,924</u>	<u>(3,564)</u>
Changes in temporarily restricted net assets:		
Other contract funds	96	73
Investment income (note 2)	11	19
Net assets released from restrictions	(223)	(63)
Increase (decrease) in temporarily restricted net assets	<u>(116)</u>	<u>29</u>
Changes in permanently restricted net assets:		
Contributions	69	127
Increase in permanently restricted net assets	<u>69</u>	<u>127</u>
Change in net assets	24,877	(3,408)
Net assets, beginning of year	<u>14,416</u>	<u>17,824</u>
Net assets, end of year	<u>\$ 39,293</u>	<u>14,416</u>

See accompanying notes to consolidated financial statements.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Consolidated Statements of Cash Flows

Years ended September 30, 2008 and 2007

(In thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 24,877	(3,408)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donated property	—	(247)
Net realized and unrealized losses (gains) on investments	7,815	(4,258)
Depreciation and amortization	6,852	7,251
Loss on disposal of property	22	10
Net accretion of bonds payable premiums	(74)	(79)
Changes in operating assets and liabilities:		
Receivables	2,255	(6,920)
Other current assets	904	(938)
Accounts payable and accrued liabilities	635	1,517
Deferred revenue	121	(3,515)
Accrued postretirement benefit obligation	(27,745)	10,526
Net cash provided by operating activities	15,662	(61)
Cash flows from investing activities:		
Purchase of property	(2,603)	(2,115)
Purchase of investments	(7,933)	(16,319)
Proceeds from sale of investments	15,067	18,049
Proceeds from sale of assets	12	—
Effect of change to equity accounting of subsidiary	66	—
Increase in cash equivalents for investment in property and permanently restricted	(2,171)	(3,468)
Net cash provided by (used in) investing activities	2,438	(3,853)
Cash flows from financing activities:		
Payments of bonds and notes payable	(4,224)	(6,112)
Payments of line of credit	—	(39)
Net cash used in financing activities	(4,224)	(6,151)
Increase (decrease) in cash and cash equivalents	13,876	(10,065)
Cash and cash equivalents, beginning of year	2,772	12,837
Cash and cash equivalents, end of year	\$ 16,648	2,772
Supplemental cash flow information:		
Interest paid	\$ 3,618	3,952
Donated property	—	247
Effect of change to equity accounting of subsidiary	142	—

See accompanying notes to consolidated financial statements.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(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, 8, and 11) 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.

During 2008, UCAR was operating under two cooperative agreements with NSF. The first became effective October 1, 1998 and had an original expiration date of September 30, 2003, which was extended five years through September 30, 2008 to complete expenditure of funds under that cooperative agreement. The second became effective October 1, 2003 and had an original expiration date of September 30, 2008, which was extended one year to expire on September 30, 2009.

Additionally, in January 2007, NSF issued solicitation NSF 07-542 entitled Competition for the Management and Operation of NCAR. UCAR submitted a two-phase proposal consistent with the requirements of the solicitation. On May 8, 2008, UCAR was notified that its proposal was successful after the decision was made by the National Science Board. Effective October 1, 2008, UCAR was awarded a new five-year cooperative agreement for the management and operation of NCAR. The agreement can be extended for another five years without competition.

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), UCAR Child Care LLC, and the Foundation's subsidiaries, and Peak Weather Resources, Inc. (Peak) and, in 2007, included Advanced Radar Corporation (ARC). In 2008, the Foundation's 39.52% ownership of ARC is accounted for under the equity method and is, therefore, not consolidated. 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. UCAR Child Care LLC was formed for the purpose of overseeing UCAR's child care facility and its outside operator. Peak was formed as a Colorado for-profit entity for the purpose of commercializing

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

UCAR-developed technology. ARC was incorporated on November 1, 2006 as a Delaware for-profit corporation with majority shareholders to commercialize UCAR-developed technology related to weather radars.

(b) *Basis of Presentation*

The accompanying consolidated 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.

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 educational activities in atmospheric research.

(c) *Use of Estimates*

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Cash and Cash Equivalents*

UCAR considers cash as not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in which UCAR may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. Cash and cash equivalents include highly liquid investments with a maturity of three months or less.

(e) *Investments*

Investments in equity, government, and other fixed income securities are measured at fair value in the consolidated statements of financial position. Fair value of alternative investments is based on information provided by the various fund managers. The guaranteed insurance contract is not

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

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.

(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, 2008 and 2007, 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 fully funded and recorded accrued vacation and PTO liability in the accompanying consolidated financial statements.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(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.

(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 from unrestricted net assets.

(o) Tax Status

UCAR and the Foundation are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in Section 501(c)(3). However, income generated from activities unrelated to the entities' exempt purpose is subject to tax under Section 511 of the IRC. Peak is a taxable entity and accounts for income taxes in accordance with the liability method. Peak had cumulative net tax losses of \$11,000 and \$38,000 in 2008 and 2007, respectively. UCAR Child Care LLC is a single-member LLC of UCAR and passes any income to UCAR.

(p) Effect of New Accounting Pronouncements

UCAR adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* in fiscal year 2007. SFAS No. 158 requires the recognition of the funded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and recognizes the changes in that funded status in the year in which the changes occur through changes in unrestricted assets. UCAR sponsors certain medical and dental benefits for employees and their eligible dependents meeting certain criteria and, as of September 30, 2007, recognized an additional liability

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

of \$4,910,000. This amount is equal to the difference between the accrued postretirement benefit obligation of \$32,183,000 and the net amount recognized for the plan of \$27,274,000 as of September 30, 2007.

In May 2008 and effective January 1, 2009, UCAR management determined that retirees age 65 and over will no longer be eligible for coverage under UCAR's retiree health insurance plan. This revision to the plan will allow medicare-eligible retirees to purchase private insurance at lower rates than those offered in the current UCAR plans. This change results in a reduction of \$22,373,000 in the postretirement benefit obligations.

In August 2008, the FASB issued Financial Accounting Standard (FAS) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, effective for organizations with fiscal years ending after December 15, 2008. UCAR management has evaluated the potential impact of adoption of this pronouncement and believes the application of this pronouncement will have no material impact on the consolidated financial statements. On July 13, 2006, the National Conference of Commissioners on Uniform State Laws approved a revised version of the Uniform Management of Institutional Funds Act entitled the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The revision updates the prudence standard that applies to the management and investment of charitable funds and modernizes the rules governing expenditures from endowment funds, both to provide better guidance on spending from endowment funds and to give institutions the ability to cope more easily with fluctuations in the value of the endowment. Finally, UPMIFA adopts provisions governing the release and modification of restrictions on charitable funds to permit more efficient management of these funds. Colorado has adopted UPMIFA, and therefore, the guidance in UPMIFA applies to UCAR. UPMIFA did not have a significant impact on UCAR's consolidated financial statements.

In early 2005, UCAR engaged in a campaign to raise funds to support two scientific fellowships via donations. The investment income earned on the donations is intended to fund the expenses of the fellowships with the principal balance remaining permanently intact. One fellowship will create the opportunity to bring distinguished visitors to work for varying amounts of time to address specific problems such as the 2-6 hour forecasting of thunderstorm growth, movement, and dissipation. The second fellowship will focus on research and/or policy work at the interdisciplinary intersection of the fields of climate science and population theory. The two campaigns officially ended in December 2008. Total endowed funds as of September 30, 2008 were \$403,000. To date, no earnings from these endowments have been expended. Investment earnings have been reported as temporarily restricted net assets.

To date, donations for these two fellowships have not met expectations. In 2009, UCAR officers will develop options for spending the donated funds to date that are consistent with the general aims of the original solicitation. These options will be communicated to the donors for their consideration and approval.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(2) Investments

UCAR's investments are pooled for investment management purposes. Of UCAR's total investments, \$6,215,000 and \$6,559,000 for the years ended September 30, 2008 and 2007, respectively, were held in investments managed by the Commonfund for which readily determinable fair values are not available. 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 either current or noncurrent investments (see note 4(g)). UCAR's remaining investments are unrestricted. Investments consist of the following as of September 30:

	Fair value	
	2008	2007
	(In thousands)	
Corporate investments	\$ 38,867	51,029
Bond trustee held investments	3,566	6,353
Total	\$ 42,433	57,382
Government securities	\$ 8,500	14,995
Equity securities	26,717	33,501
Guaranteed insurance contract	3,150	3,150
Other fixed income securities	4,066	5,736
Total	\$ 42,433	57,382

UCAR's investment income for the years ended September 30 comprises the following:

	Fair value	
	2008	2007
	(In thousands)	
Interest and dividends, net	\$ 2,087	2,375
Net realized gains	1,128	941
Net unrealized gains (losses)	(8,943)	3,317
Total	\$ (5,728)	6,633

(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 \$12,774,000 and \$13,049,000 in 2008 and 2007, 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

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

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:

	2008	2007
	(In thousands)	
Real property – NSF titled	\$ 30,372	29,796
Equipment:		
NSF titled	139,338	138,754
Other sponsors – federal	53,726	53,391
Other sponsors – nonfederal	976	738
Total equipment	194,040	192,883
Total	\$ 224,412	222,679

(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 Bonds & 1996 Series 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.

As of September 30, 2008 and 2007, the outstanding balance of the 1996 Series A Bonds was \$2,735,000 and \$2,865,000, respectively. The 1996 Series A Bonds bear interest and mature serially as follows (in thousands):

5.50% maturing September 1, 2009	\$ 135
5.50% maturing September 1, 2010	140
5.50% maturing September 1, 2011	150
5.50% maturing September 1, 2012	160
5.50% maturing September 1, 2013	165
5.50% thereafter	1,985
Total	\$ 2,735

The 1996 Series A Bonds maturing in 2016 and 2021 are subject to mandatory redemption beginning in 2009. The 1996 Series A Bonds mature on September 1, 2021. The 1996 Series B Bonds were called on September 4, 2007 and paid in full.

The 1996 Series A 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 Bonds are not collateralized by the related property. Certain

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

costs incurred by UCAR in connection with the 1996 Series A Bonds & 1996 Series B Bonds were deferred. The 1996 Series A Bonds costs are being amortized over the period that the bonds are outstanding. The 1996 Series B Bonds are now amortized to zero as of September 30, 2008.

(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. The 1999 Bonds mature on September 1, 2014.

As of September 30, 2008 and 2007, the outstanding balance of the 1999 Bonds was \$2,565,000 and \$3,135,000, respectively. The bonds bear interest and mature serially as follows (in thousands):

4.10% maturing September 1, 2009	\$	535
4.25% maturing September 1, 2010		345
4.35% maturing September 1, 2011		145
4.45% maturing September 1, 2012		100
4.55% maturing September 1, 2013		55
4.63% thereafter		1,385
Total	\$	<u>2,565</u>

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 the 1999 Bonds are outstanding.

(c) 2001 Bonds

UCAR borrowed \$30,030,000 on November 27, 2001 through the issuance of County of Boulder, Colorado 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. The 2001 Bonds mature on September 1, 2032.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

As of September 30, 2008 and 2007, the outstanding balance of the 2001 Bonds was \$23,715,000 and \$24,650,000, respectively. The bonds bear interest and mature serially as follows (in thousands):

4.50% maturing September 1, 2009	\$	975
4.00% maturing September 1, 2010		1,020
4.00% maturing September 1, 2011		1,060
4.10% maturing September 1, 2012		1,100
4.20% maturing September 1, 2013		1,150
4.75% – 5.50% thereafter		<u>18,410</u>
Total	\$	<u><u>23,715</u></u>

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 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, Colorado 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, 2008 and 2007, the outstanding balance of the 2002 Bonds was \$21,810,000 and \$23,050,000, respectively. The bonds bear interest and mature serially as follows (in thousands):

5.00% maturing September 1, 2009	\$	1,240
3.60% maturing September 1, 2010		1,240
3.80% maturing September 1, 2011		1,240
5.00% maturing September 1, 2012		1,240
4.00% maturing September 1, 2013		1,125
4.13% – 5.38% thereafter		<u>15,725</u>
Total	\$	<u><u>21,810</u></u>

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

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

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, Colorado 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.

As of September 30, 2008 and 2007, the outstanding balance of the 2003 Bonds was \$21,685,000 and \$23,010,000, respectively. The bonds bear interest and mature serially as follows (in thousands):

3.00% maturing September 1, 2009	\$	1,270
3.00% maturing September 1, 2010		1,210
3.38% maturing September 1, 2011		1,205
4.00% maturing September 1, 2012		1,195
4.00% maturing September 1, 2013		1,195
3.80% – 5.00% thereafter		<u>15,610</u>
Total	\$	<u><u>21,685</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 are being amortized over the period that the 2003 Bonds are outstanding.

(f) Arbitrage Liability

The 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, 2008 and 2007, UCAR has no liability for cumulative arbitrage.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(g) Bond Assets

As of September 30, 2008 and 2007, included in cash, restricted cash for investment in property or reserve funds, and investments purchased in accordance with the related bond documents are the following amounts either held in a reserve or bond funds for payment of bond principal for the 1996, 1999, 2001, 2002, and 2003 Bonds or otherwise restricted under the bond agreements:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Cash (overdraft):		
2003 Bonds	\$ 510	352
2002 Bonds	(552)	(455)
2001 Bonds	559	633
1999 Bonds	(373)	(853)
1996 Series A Bonds & 1996 Series B Bonds	<u>644</u>	<u>211</u>
Total cash	<u>788</u>	<u>(112)</u>
Restricted cash:		
2003 Bonds	2,899	4,064
2002 Bonds	415	22
2001 Bonds	1,496	
1999 Bonds	1,148	25
1996 Series A Bonds & 1996 Series B Bonds	<u>331</u>	<u>7</u>
Total restricted cash	<u>6,289</u>	<u>4,118</u>
Current investments:		
2003 Bonds	478	—
2002 Bonds	481	—
2001 Bonds	<u>293</u>	<u>—</u>
Total current investments	<u>1,252</u>	<u>—</u>
Noncurrent investments:		
2003 Bonds	292	—
2002 Bonds	1,241	2,063
2001 Bonds	495	2,196
1999 Bonds	287	1,437
1996 Series A Bonds & 1996 Series B Bonds	<u>—</u>	<u>657</u>
Total noncurrent investments	<u>2,315</u>	<u>6,353</u>
Total	\$ <u>10,644</u>	\$ <u>10,359</u>

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(h) Unamortized Premium/Discounts on Bonds Payable

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Bonds payable	\$ 72,510	76,710
Net unamortized premiums/discounts	<u>421</u>	<u>495</u>
Total payable plus net unamortized premiums/discounts	<u>\$ 72,931</u>	<u>77,205</u>
1996 Series A & 1996 Series B Bonds payable	\$ 2,735	2,865
Net unamortized premiums/discounts	<u>(35)</u>	<u>(37)</u>
Subtotal 1996 Series A & 1996 Series B Bonds payable	<u>2,700</u>	<u>2,828</u>
1999 Bonds payable	2,565	3,135
Unamortized discounts	<u>(4)</u>	<u>(5)</u>
Subtotal 1999 Bonds payable	<u>2,561</u>	<u>3,130</u>
2001 Bonds payable	23,715	24,650
Net unamortized premiums/discounts	<u>132</u>	<u>154</u>
Subtotal 2001 Bonds payable	<u>23,847</u>	<u>24,804</u>
2002 Bonds payable	21,810	23,050
Net unamortized premiums/discounts	<u>177</u>	<u>214</u>
Subtotal 2002 Bonds payable	<u>21,987</u>	<u>23,264</u>
2003 Bonds payable	21,685	23,010
Net unamortized premiums/discounts	<u>151</u>	<u>169</u>
Subtotal 2003 Bonds payable	<u>21,836</u>	<u>23,179</u>
Grand total	<u>\$ 72,931</u>	<u>77,205</u>

(5) Other Debt

UCAR has a \$2,200,000 borrowing base under a bank line-of-credit agreement. The line-of-credit agreement matures on April 30, 2010, and borrowings thereunder will accrue interest at the variable rate of LIBOR plus 2.00% (6.05% at September 30, 2008). The line of credit is collateralized by investments in the amount of the current outstanding balance held at the bank. There was \$0 and \$0 outstanding on this line of credit as of September 30, 2008 and 2007, respectively.

UCAR borrowed \$900,000 on May 12, 2006 under a seven-year term note for the purpose of replacing the line of credit used for the purchase of real estate. The note bears a fixed interest rate of 6.64% and requires monthly installments of approximately \$6,800, including interest. The loan is collateralized by investments in the amount of the current outstanding balance held at the bank. There was \$846,000 and \$869,000 outstanding as of September 30, 2008 and 2007, respectively.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The note matures as follows (in thousands):

Fiscal year:			
2009	\$		24
2010			27
2011			29
2012			31
2013			735
Thereafter			—
Total	\$		<u><u>846</u></u>

(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 \$9,733,000 and \$10,171,000 for the years ended September 30, 2008 and 2007, 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.

In May 2008, UCAR management determined that effective January 1, 2009 retirees age 65 and over will no longer be eligible for coverage under UCAR’s retiree health insurance plan. This revision to the plan will allow medicare-eligible retirees to purchase private insurance at lower rates than those offered in the current UCAR plans. This change results in a reduction of \$22,373,000 in the postretirement benefit obligations.

As mentioned in note 1(p), UCAR adopted SFAS No. 158, as of September 30, 2007. SFAS No. 158 requires balance sheet recognition of the net asset or liability for the overfunded or underfunded status of the postretirement benefit plans and recognition of changes in the funded status in the year in which the changes occur.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

The incremental effect of applying SFAS No. 158 on individual line items on the statement of position as of September 30, 2007 was as follows (in thousands):

	<u>Before application</u>	<u>Application adjustment</u>	<u>After application</u>
Accrued postretirement benefit obligation	\$ 27,274	4,910	32,183
Decrease in unrestricted net assets	1,346	(4,910)	(3,564)

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>2008</u>	<u>2007</u>
	(In thousands)	
Accumulated postretirement benefit obligation:		
Retirees	\$ 783	11,254
Fully eligible active employees	1,679	10,687
Other active participants	1,976	10,242
Total	<u>\$ 4,438</u>	<u>32,183</u>
Accrued postretirement benefit obligation	\$ 4,438	32,183

The following table sets forth the items not yet recognized as a component of net periodic postretirement benefit:

	<u>2008</u>	<u>2007</u>
Net actuarial gain	\$ (19,989)	(12,696)
Prior service cost	(8,077)	17,606
Total	<u>\$ (28,066)</u>	<u>4,910</u>

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

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Service cost of benefits earned	\$ 1,377	1,484
Interest cost on accumulated postretirement benefit obligation	2,003	1,965
Amortization of prior service cost	3,309	3,309
Recognized net actuarial gain	(667)	(387)
Postretirement benefit expense	<u>\$ 6,022</u>	<u>6,371</u>
Benefit payment	\$ 793	755

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Amounts included in the separate line on the consolidated statement of activities, effect of adoption of SFAS No. 158, were as follows for the year ended September 30, 2007 (in thousands):

Prior unrecognized service cost:	
Prior year balance	\$ 20,915
Current year amortization	3,309
	<u>17,606</u>
Net actuarial gain:	
Prior year balance	(8,889)
Current year amortization	(4,194)
Loss arising during current period	387
	<u>(12,696)</u>
Prior unrecognized transition obligation:	
Prior year balance	—
Current year amortization	—
	<u>—</u>
Total	\$ <u><u>4,910</u></u>

The estimated prior service cost, net gain, and transition obligation expected to be amortized from the separate line on the consolidated statement of activities, effect of adoption of SFAS No. 158, into net periodic benefit cost in fiscal year 2009 are \$(980), \$(1,401) and \$0, respectively.

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

Year ending September 30:	
2009	\$ 236
2010	220
2011	238
2012	268
2013	317
2014 – 18	<u>2,189</u>
Expected benefit payments	\$ <u><u>3,468</u></u>

For the years ended September 30, 2008 and 2007, the postretirement benefit obligation was measured using a 9.0% and 9.5% annual rate of increase in healthcare costs, respectively, decreasing to 5% and 5%, respectively, in 2017. The weighted average discount rate used in determining the accumulated postretirement benefit obligations is 7.6% and 6.3% as of September 30, 2008 and 2007, respectively. A 1% increase in the assumed healthcare cost trend rate would increase the accumulated postretirement benefit obligation as of September 30, 2008 by \$495,000 and the aggregate service and interest cost in 2008 by \$781,000.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(8) Commitments

As a part of its investment portfolio, UCAR has committed to invest up to \$704,000, \$500,000, and \$1,000,000 in three limited investment partnerships. As of September 30, 2008 and 2007, UCAR has invested \$584,000 and \$500,000, respectively, in one partnership, \$473,000 and \$471,000, respectively, in the second partnership, and \$101,000 and \$19,000, respectively, in the third partnership. These investments are in equity securities without 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 \$1,215,000 and \$1,221,000, respectively, for 2008 and 2007.

As of September 30, 2008, 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:		
2009	\$	1,232
2010		1,217
2011		812
2012		1,298
2013		132
Thereafter		<u>1,187</u>
Total minimum lease payments required	\$	<u><u>5,878</u></u>

At September 30, 2008 and 2007, UCAR had unfilled purchase order commitments of approximately \$34,889,000 and \$34,289,000, respectively.

UCAR is a party to potential litigation arising in the normal course of business. However, there is no such litigation as of September 30, 2008 and 2007, which would impact UCAR's consolidated financial statements.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(9) Expenses

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

	2008	2007
	(In thousands)	
Salaries and employee benefits	\$ 128,175	125,548
Postretirement benefit expense	6,022	6,371
Applied indirect costs (net of depreciation and amortization)	725	(2,847)
Purchased services	32,531	33,537
Purchases of property titled with the sponsor (note 3)	12,774	13,049
Materials and supplies	8,454	7,771
Travel	12,060	11,073
Depreciation	6,735	7,101
Amortization	117	150
Interest	3,535	3,781
Total	\$ 211,128	205,534

(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.

The carrying amounts reported in the consolidated statements of financial position for cash, 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 and investments managed by the Commonfund, 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. For investments managed by the Commonfund, which include hedge funds and private equity investments, fair values are based on estimates reported by fund managers where quoted prices do not exist.

The carrying amounts and fair values of UCAR's investments and bonds payable as of September 30, 2008 and 2007 are as follows (in thousands):

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments	\$ 42,433	42,433	57,382	57,382
Bonds payable	72,510	70,808	76,710	78,851

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(11) Derivative Financial Instruments

(a) *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 pay interest at the fixed rate of 4.27% while receiving 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 0.44%. UCAR has the option in the contract to terminate the contract at any time prior to August 31, 2011 and receive or pay the fair market value of the swaption.

At September 30, 2008 and 2007, the swaption had a fair value of \$(1,433,000) and \$(896,000), respectively, recorded in other accrued liabilities. 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.

(b) *2006 Constant Maturity Swap in Connection with 2005 Swaption*

As a means of taking advantage of a flat yield curve, UCAR entered into a constant maturity swap in connection with the 2005 swaption. Under the 2005 swaption, if the option is exercised in 2011, UCAR would receive from its counterparty a floating rate equal to the greater of 68% of one-month LIBOR or 57% of one-month LIBOR plus 0.44% in 2011. UCAR converted that swaption rate through an amendment to the swaption known as a Constant Maturity Swap or CMS to reference the rate of 61% of the five-year LIBOR rate without unwinding the existing swaption. In addition to the payments under the swaption, UCAR would receive interest at the variable rate based upon the greater of 68% of USD one-month LIBOR-BBA or 57% of USD one-month LIBOR-BBA plus 0.44% while paying a variable rate based on 61% of the five-year LIBOR rate. UCAR has the option to terminate the contract at any time prior to August 31, 2011 and receive or pay the fair market value of the CMS.

At September 30, 2008 and 2007, the CMS had a fair value of \$(156,000) and \$(102,000), respectively, recorded in other accrued liabilities. 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.

(12) Subsequent Event

Subsequent to September 30, 2008, UCAR’s equity and fixed securities have suffered a further decline in market value of approximately \$6.15 million through November 30, 2008. UCAR’s intent is to hold these securities long-term and the decrease in value will not affect UCAR’s ongoing operations. UCAR believes that over the long-term the price of these securities will recover.

REPORTS REQUIRED BY OMB CIRCULAR A-133

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>CFDA No.</u>	<u>Expenditures</u>
Research and Development Cluster:			
Direct federal expenditures:			
Department of Commerce (DOC):			
National Oceanic and Atmospheric Administration	DOC Research and Development	11.000	\$ 2,830
National Oceanic and Atmospheric Administration	Climate and Atmospheric Research	11.431	16,606
National Oceanic and Atmospheric Administration	Environmental Sciences, Application, Data and Education	11.440	117
National Oceanic and Atmospheric Administration	Meteorologic and Hydrologic Modernization Development	11.467	5,481
			25,034
Department of Defense (DOD):			
Department of Defense	DOD Research and Development	12.000	784
Naval Research Laboratory	DOD Research and Development	12.000	2
Office of Naval Research	DOD Research and Development	12.000	318
U.S. Air Force	DOD Research and Development	12.000	5,226
U.S. Army	DOD Research and Development	12.000	5,511
U.S. Navy	DOD Research and Development	12.000	291
			12,132
Naval Research Laboratory	Basic and Applied Scientific Research	12.300	1,520
Office of Naval Research	Basic and Applied Scientific Research	12.300	51
			1,571
			13,703
Department of the Interior (DOI):			
Bureau of Land Management	DOI Research and Development	15.000	75
U.S. Geological Survey	DOI Research and Development	15.000	22
			97

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>CFDA No.</u>	<u>Expenditures</u>
Department of Energy (DOE):			
Department of Energy	DOE Research and Development	81.000	\$ 1,817
Department of Energy	Office of Science Financial Assistance Program	81.049	2,313
			<u>4,130</u>
Department of Transportation (DOT):			
Division of Transportation	DOT Research and Development	20.000	1,726
Federal Aviation Administration	Aviation Research Grants	20.108	6,360
			<u>8,086</u>
Environmental Protection Agency (EPA):			
Environmental Protection Agency	EPA Research and Development	66.000	105
			<u>105</u>
National Aeronautics and Space Administration (NASA):			
National Aeronautics and Space Administration	NASA Research and Development	43.000	15,788
National Aeronautics and Space Administration	Aerospace Education Services	43.001	213
			<u>16,001</u>
National Science Foundation (NSF):			
National Science Foundation	NSF Research and Development	47.000	99
National Science Foundation	Mathematical and Physical Sciences	47.049	54
National Science Foundation	Geosciences	47.050	105,522
National Science Foundation	Computer and Information Science and Engineering	47.070	581
National Science Foundation	Social, Behavioral, and Economic Sciences	47.075	24
National Science Foundation	Education and Human Resources	47.076	3,697
National Science Foundation	Polar Programs	47.078	2,239
National Science Foundation	Office of Cyberinfrastructure	47.080	205
			<u>112,421</u>

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract pass-through identifying number</u>	<u>CFDA No.</u>	<u>Expenditures</u>
Pass-through federal expenditures:				
Department of Commerce (DOC):				
Stockholm Environment Institute	DOC Research and Development	RAL06379	11.000	\$ 26
New Mexico Tech	DOC Research and Development	RAL07077	11.000	22
East-West Center	DOC Research and Development	HC12267	11.000	10
University of Texas at San Antonio	DOC Research and Development	090002UCAR01	11.000	18
Stratus Consulting	DOC Research and Development	R0094C0690	11.000	(5)
				71
The Boeing Company Defense and Space Group	Climate and Atmospheric Research	16433	11.431	103
University of Washington	Climate and Atmospheric Research	290228	11.431	58
Eastern Michigan University	Climate and Atmospheric Research	2007210	11.431	53
University of Texas at Austin	Climate and Atmospheric Research	UTA07-621	11.431	15
New Mexico Tech	Climate and Atmospheric Research	RAL08357	11.431	13
				242
University of Maryland	Environmental Sciences, Applications, Data and Education	Z798901	11.440	1
				1
Mississippi State University	Special Oceanic and Atmospheric Project	1910003635901	11.460	222
				222
				536
Total for Department of Commerce				
Department of Defense (DOD):				
The Pennsylvania State University	DOD Research and Development	3485-UCAR-USDD-0076-SC	12.000	347
Lockheed Martin Information – Mgt and Data Systems	DOD Research and Development	7100018679	12.000	283
CFD Research Corporation	DOD Research and Development	06-397	12.000	98
Propagation Research Associates, Inc.	DOD Research and Development	PRA-SC-05-001	12.000	45
CFD Research Corporation	DOD Research and Development	959	12.000	42
CFD Research Corporation	DOD Research and Development	07-503	12.000	2
Science and Technology Corporation	DOD Research and Development	6007-011	12.000	1
				818
Oregon State University	Basic and Applied Scientific Research	N0198A-A	12.300	15
				15
				833
Total for Department of Defense				

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract pass-through identifying number</u>	<u>CFDA No.</u>	<u>Expenditures</u>
Department of Energy (DOE):				
University of Minnesota	DOE Research and Development	X5306654101	81.000	\$ 120
Battelle Institute	DOE Research and Development	4000053796	81.000	68
University of Minnesota	DOE Research and Development	X5306789101	81.000	45
Battelle Institute	DOE Research and Development	52578	81.000	2
Battelle Institute	DOE Research and Development	16420	81.000	1
				236
				236
Total for Department of Energy				
Department of Transportation (DOT):				
MDA Federal Inc.	Aviation Research Grants	EX12601	20.108	21
				21
				21
Total for Department of Transportation				
National Aeronautics and Space Administration (NASA):				
University of Colorado	NASA Research and Development	BS0054778	43.000	1,894
Lockheed Martin Corp. Missiles & Space	NASA Research and Development	8100000772	43.000	603
Stanford University	NASA Research and Development	1456792 PY-2345	43.000	289
University of Alabama in Huntsville	NASA Research and Development	SUB2006-221	43.000	273
Science Systems and Applications Inc.	NASA Research and Development	2616-06-073	43.000	160
Georgia Institute of Technology	NASA Research and Development	D5459-G2	43.000	147
Science Systems and Applications Inc.	NASA Research and Development	261608022	43.000	87
Science Systems and Applications Inc.	NASA Research and Development	261608025	43.000	84
Jet Propulsion Laboratory	NASA Research and Development	1306105	43.000	63
Colorado State University	NASA Research and Development	G-1949-1	43.000	36
University of Central Florida	NASA Research and Development	EASTES 16296044	43.000	28
Bigelow Laboratory	NASA Research and Development	2008-1	43.000	28
Washington State University	NASA Research and Development	105641_G002125	43.000	27
Southwest Research Institute	NASA Research and Development	798001LU	43.000	20
Johns Hopkins University/Applied Physics Lab	NASA Research and Development	919715	43.000	20
Jet Propulsion Laboratory	NASA Research and Development	1316354	43.000	18
Purdue University	NASA Research and Development	521-0355-01	43.000	14
Jet Propulsion Laboratory	NASA Research and Development	1317500	43.000	14
University of Wisconsin Madison	NASA Research and Development	381H942	43.000	14
Princeton University	NASA Research and Development	1453	43.000	9

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract pass-through identifying number</u>	<u>CFDA No.</u>	<u>Expenditures</u>
University of Washington	NASA Research and Development	508876	43.000	\$ 7
Johns Hopkins University/Applied Physics Lab	NASA Research and Development	922054	43.000	5
California Institute of Technology	NASA Research and Development	65P-1084823	43.000	2
University of Wisconsin	NASA Research and Development	G074594	43.000	2
Lockheed Martin Corp. Missiles & Space	NASA Research and Development	8100001800	43.000	1
The Ohio State University Research Foundation	NASA Research and Development	RF01129824	43.000	1
Lockheed Martin Corp. Missiles & Space	NASA Research and Development	8100000882	43.000	(1)
University of Washington	NASA Research and Development	889366	43.000	(3)
				<u>3,842</u>
Woods Hole Oceanographic	Aerospace Education Services	A100422	43.001	26
University of Miami	Aerospace Education Services	P791055	43.001	20
				<u>46</u>
University of Rhode Island	Technology Transfer	072304/0000234	43.002	30
University of Colorado-Boulder	Technology Transfer	62896	43.002	26
University of Colorado	Technology Transfer	65114	43.002	19
University of Colorado	Technology Transfer	58458	43.002	11
University of Colorado-Boulder	Technology Transfer	62449	43.002	9
Oregon State University	Technology Transfer	NSF195A-A	43.002	1
University of Colorado-Boulder	Technology Transfer	55105	43.002	(1)
				<u>95</u>
Total for National Aeronautics and Space Administration				<u>3,983</u>
National Science Foundation (NSF):				
Boston University	NSF Research and Development	GC177085NGA	47.000	647
Colorado State University	NSF Research and Development	G-3045-7	47.000	157
University of Colorado-Boulder	NSF Research and Development	53995	47.000	91
US Media Services	NSF Research and Development	7-2995	47.000	79
AURA, Inc.	NSF Research and Development	P55638B	47.000	73
University of California San Diego	NSF Research and Development	10217581	47.000	52
UNAVCO, Inc.	NSF Research and Development	02309	47.000	49
ASRC Aerospace Corporation	NSF Research and Development	AS4127	47.000	43
Utah State University	NSF Research and Development	061203001	47.000	42
University of Colorado – Denver	NSF Research and Development	54092	47.000	40
Millersville University	NSF Research and Development	SP162101	47.000	36
AURA, Inc.	NSF Research and Development	MOU – ATST	47.000	36

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract pass-through identifying number</u>	<u>CFDA No.</u>	<u>Expenditures</u>
University of Colorado-Boulder	NSF Research and Development	63198	47.000	\$ 32
Indiana University	NSF Research and Development	153748	47.000	19
University of Miami	NSF Research and Development	P125806	47.000	2
University of Illinois at Urbana-Champaign	NSF Research and Development	2005-06559-01	47.000	—
University of Miami	NSF Research and Development	P795220	47.000	—
WGBH Educational Foundation	NSF Research and Development	K2005000531	47.000	—
AURA, Inc.	NSF Research and Development	P53893B	47.000	—
American Institute of Biological Sciences	NSF Research and Development	N38	47.000	—
				<u>1,398</u>
University of Minnesota	Geosciences	T5306678101	47.050	178
University of Colorado-Boulder	Geosciences	SPO 46476	47.050	171
Technical Education Research Centers, Inc.	Geosciences	4205	47.050	122
Colorado State University	Geosciences	G30459	47.050	118
Cornell University	Geosciences	54868-8632	47.050	83
Drexel University	Geosciences	235435	47.050	62
The University of Iowa	Geosciences	88272	47.050	60
University of Miami	Geosciences	66122L	47.050	60
University of Hawaii	Geosciences	Z833895	47.050	20
Indiana University	Geosciences	10404-0128	47.050	7
				<u>881</u>
University of California, Davis Campus	Computer and Information Science and Engineering	9323-01	47.070	91
University of Chicago	Computer and Information Science and Engineering	30085-T	47.070	1
				<u>92</u>
University of Miami		P777606	47.075	43
				<u>43</u>
Syracuse University	Education and Human Resources	3535951-S01	47.076	46
The Ohio State University Research Foundation	Education and Human Resources	RF01098318	47.076	29
				<u>75</u>
Open Source Project for a Network Data Access	Office of Cyberinfrastructure	UNI07128	47.080	142
				<u>142</u>
Total for National Science Foundation				<u>2,631</u>

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Expenditures of Federal Awards

Year ended September 30, 2008

(In thousands)

<u>Grantor</u>	<u>Program description</u>	<u>Contract pass-through identifying number</u>	<u>CFDA No.</u>	<u>Expenditures</u>
Environmental Protection Agency (EPA):				
University of Wisconsin	EPA Research and Development	296H295	66.000	\$ 42
University of Texas at Austin	EPA Research and Development	UTA06-034	66.000	—
				<u>42</u>
Washington State University	Science To Achieve Results (STAR) Program	106814-G002229	66.509	94
				<u>94</u>
				<u>136</u>
Total for Environmental Protection Agency				
National Endowment For The Arts	National Endowment for the Arts	22572-01684 SO1	45.000	19
				<u>19</u>
Total for National Endowment for the Arts				<u>19</u>
Library of Congress	Library of Congress	10282523	42.000	25
				<u>25</u>
Total for Library of Congress				<u>25</u>
Total pass-through federal expenditures				<u>8,420</u>
Total research and development cluster expenditures				<u>\$ 188,341</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, 2008

(1) Basis of Presentation

The University Corporation for Atmospheric Research (UCAR) operates the National Center for Atmospheric Research under a 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 statements of activities under revenues from NSF cooperative agreement and other government agency and award funds.

(2) Federal Property

During fiscal year 2008, UCAR expended approximately \$12 million of federal funds to purchase property for which title is vested with the U.S. government. As of September 30, 2008, UCAR had responsibility for approximately \$223 million of property for which title is vested with the U.S. government. Property with title vested in the federal government is not recorded in the consolidated statements of financial position.

(3) Subrecipients

UCAR passed through approximately \$7 million to subrecipients in the research and development cluster for the year ended September 30, 2008.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' 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, 2008, and have issued our report thereon dated January 20, 2009. 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 as basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of UCAR's internal control over financial reporting. Accordingly, we do not express an opinion on internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's basic financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the entity's internal control.

Our consideration on internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management, the Board of Trustees, the Audit and Finance Committee, others within the entity, 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

January 20, 2009



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' 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, 2008. 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, 2008.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UCAR's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Board of Trustees, the Audit and Finance Committee, others within the entity, 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

January 20, 2009

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

Schedule of Findings and Questioned Costs

Year ended September 30, 2008

I. Summary of Auditors' Results

1. The independent auditors' report on the consolidated financial statements expressed an unqualified opinion.
2. No significant deficiencies or material weaknesses in internal control over financial reporting were identified.
3. No instances of noncompliance considered material to the consolidated financial statements were disclosed by the audit.
4. No significant deficiencies 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 (various CFDA numbers)
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 Costs Section

No findings.