
UNAVCO, INC.

Financial Statements As Of December 31, 2002

Together With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
UNAVCO, Inc.:

We have audited the accompanying statement of financial position of UNAVCO, Inc. ("UNAVCO") as of December 31, 2002, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of UNAVCO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNAVCO, Inc. as of December 31, 2002, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

JDS Professional Group

Englewood, Colorado
February 4, 2003

Members:

American Institute of Certified Public Accountants Colorado Society of Certified Public Accountants
5655 South Yosemite Street, Suite 100 Englewood, Co 80111-3218 303 771 0123 303 771 0078 fax
www.jdscpagroup.com

UNAVCO, INC.

Statement Of Financial Position
As Of December 31, 2002

Page -3-

ASSETS	
Cash and cash equivalents	\$ 57,829
Federal contracts receivable	81,925
Membership contributions receivable	11,000
Prepaid expenses	16,056
Property and equipment, net of accumulated depreciation of \$534	<u>9,070</u>
TOTAL ASSETS	<u><u>\$ 175,880</u></u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable and accrued liabilities	\$ 88,868
Deferred revenue - federal contracts	<u>54,674</u>
Total Liabilities	143,542
Net Assets:	
Unrestricted	<u>32,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 175,880</u></u>

The accompanying notes are an integral part of the financial statements.

UNAVCO, INC.

Statement Of Activities
For The Year Ended December 31, 2002

Page -4-

Support And Revenue:	
Federal contracts	\$ 303,251
Membership contributions	9,000
Interest income	<u>5</u>
Total Support And Revenue	<u>312,256</u>
Expenses:	
Program -	
Community services	177,689
Supporting -	
General and administrative	<u>119,628</u>
Total Expenses	<u>297,317</u>
CHANGE IN NET ASSETS	14,939
Net Assets, Beginning Of Year	<u>17,399</u>
NET ASSETS, END OF YEAR	<u><u>\$ 32,338</u></u>

The accompanying notes are an integral part of the financial statements.

UNAVCO, INC.Statement Of Cash Flows
For The Year Ended December 31, 2002

Page -5-

Cash flows from operating activities:	
Change in net assets	\$ 14,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	534
Changes in assets and liabilities -	
(Increase) in federal contracts receivable	(81,925)
(Increase) in membership fees receivable	(2,000)
(Increase) in prepaid expenses	(16,056)
Increase in accounts payable	88,868
Increase in deferred revenue - federal contracts	<u>54,674</u>
Net cash provided by operating activities	<u>59,034</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(9,604)</u>
Net cash (used in) investing activities	<u>(9,604)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,430
Cash And Cash Equivalents, Beginning Of Year	<u>8,399</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 57,829</u></u>

The accompanying notes are an integral part of the financial statements.

(1) **Nature Of The Organization**

UNAVCO, Inc. ("UNAVCO") is a non-profit membership-governed organization that supports and promotes Earth science by advancing high-precision geodetic and strain techniques such as the Global Positioning System. UNAVCO is a community-centered organization committed to providing services that benefit the community through savings in the cost of scientific research and by enhancing communication both within the community and with sponsors. The organizational structure is designed to accommodate anticipated growth and breadth in the application of geodetic research in Earth science by the governance of its member representatives.

UNAVCO was formed in response to community support of its role as lead organization for community-based planning and management of new initiatives such as the Plate Boundary Observatory. The recent incorporation is intended to enable better community oversight of and input into UNAVCO activities. It will also enable application and receipt of funds from federal agencies, such as the National Science Foundation, for support of these communities.

(2) **Summary Of Significant Accounting Policies**

Method Of Accounting

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

Basis Of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, UNAVCO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2002, UNAVCO had no temporarily or permanently restricted net assets.

Use Of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash And Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and demand deposit accounts. UNAVCO considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Property And Equipment

Property and equipment is stated at cost, or fair value if contributed. Expenditures for maintenance, repairs and minor replacements are charged to operations, and expenditures for major replacements and betterments with a useful life in excess of one year are capitalized. Property and equipment is depreciated on a straight line basis over the estimated useful life of three years.

The capitalization policy of UNAVCO is to capitalize purchases of \$5,000 and greater and to expense purchases under \$5000. However, based upon UNAVCO's current funding level, the capitalization policy used for these financial statements was \$500. Based upon anticipated growth, the \$5,000 threshold is expected to be used in future years.

Contributions

UNAVCO accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Deferred Revenue

Revenue from government contracts is deemed to be earned when UNAVCO has incurred costs or other expenditures which satisfy the terms imposed by the respective grants or contracts. Funds received from government sources in excess of costs incurred are reported as deferred revenues. For costs incurred in excess of funds received from sources, revenue and related receivables are recognized to the extent of such costs.

(3) **Tax Exempt Status**

UNAVCO has previously received notice from the Internal Revenue Service of exemption from income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. As such, donors are entitled to a charitable deduction for their contribution to UNAVCO. Accordingly, the accompanying financial statements contain no provision for income taxes.

(4) **Concentration Of Credit Risk**

The majority of UNAVCO's support and revenue is derived from federal contracts. During the year ended December 31, 2002, the National Science Foundation provided approximately 97% of UNAVCO's funding. The ability of UNAVCO to continue functioning at its current level of operations is dependent upon its ability to generate similar future funding. Additionally, 100% of the federal contracts receivable balance as of December 31, 2002, is from the National Science Foundation.

(5) **Commitments**

UNAVCO leases office space under an operating lease which expires in September 2003. The remaining future operating lease commitment, under this lease, as of December 31, 2002, amounted to \$39,002, which includes UNAVCO's share of operating costs. Rent expense for the year ended December 31, 2002 was \$10,232.

(6) **Employee Benefit Plan**

Permanent employees of UNAVCO participate in the Teachers Insurance Annuities Association's College Retirement Equities Fund (TIAA/CREF). For UNAVCO employees who make their minimum contribution of 5% to TIAA/CREF, UNAVCO also contributes 10% of the employee's salary. UNAVCO's contributions to the TIAA/CREF for the year ended December 31, 2002 were \$12,679.

(7) **Related Party Transaction**

University Corporation for Atmospheric Research, Inc. ("UCAR") provides the use of certain furniture, desktop computers and associated equipment and materials and supplies to UNAVCO. The above items were purchased by UCAR with government funds awarded in support of UNAVCO activities, for which reimbursement is not made to UCAR by UNAVCO. The anticipated plan is that when certain UCAR staff transition from UCAR employment to UNAVCO employment, UNAVCO will be granted by UCAR a primary interest in this furniture, desktop computers and associated equipment and materials and supplies.

No amounts have been reflected in the financial statements for these transactions.

Additionally, UNAVCO contracted with UCAR to conduct the EarthScope Workshop on Active Magmatic Systems. Such contract was based upon a cost reimbursable basis at an amount not-to-exceed \$50,000. The amount owed to UCAR as of December 31, 2002, was \$50,000 and is reflected in accounts payable and accrued liabilities on the financial statements.