

UNAVCO, INC.
Boulder, Colorado

FINANCIAL STATEMENTS
December 31, 2010

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Independent Auditor's Report

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

We have audited the accompanying statement of financial position of UNAVCO, INC. (UNAVCO) as of December 31, 2010, 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 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 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2011 on our consideration of UNAVCO's internal control over financial reporting and on 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of UNAVCO taken as a whole. The accompanying schedule of expenditure 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 audits of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Broomfield, Colorado
June 9, 2011

UNAVCO, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

ASSETS

Cash and cash equivalents	\$ 220,778
Restricted cash	83,981
Investments	250,000
Federal grants receivable	948,414
Deposits	40,673
Other receivables	485,087
Prepaid expenses	95,988
Property and equipment, net	<u>226,731</u>

TOTAL ASSETS **\$ 2,351,652**

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 632,068
Accrued liabilities	923,901
Capital lease obligations	<u>8,436</u>
Total liabilities	<u>1,564,405</u>

NET ASSETS

Unrestricted	<u>787,247</u>
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TOTAL LIABILITIES AND NET ASSETS **\$ 2,351,652**

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

UNAVCO, INC.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2010

REVENUES AND OTHER SUPPORT

Federal grant revenue	
Federal grants	\$ 18,114,089
Other income	<u>80,385</u>
Total federal grant revenue	18,194,474
Membership contributions	13,000
Fee for service	566,325
Interest income	<u>420</u>
Total revenues and other support	<u>18,774,219</u>

EXPENSES

Program services	
Plate boundary observatory (PBO)	9,444,933
Facility cooperative agreement	4,288,201
Network enhancement	898,473
Data products and archiving	530,772
Polar programs	363,615
Education and outreach	351,264
Other	254,552
Principal investigator programs	212,554
Commercial	<u>137,169</u>
Total program services	16,481,533
General and administrative	<u>2,271,113</u>
Total expenses	<u>18,752,646</u>

CHANGE IN NET ASSETS	21,573
NET ASSETS, BEGINNING OF YEAR	<u>765,674</u>
NET ASSETS, END OF YEAR	<u><u>\$ 787,247</u></u>

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

UNAVCO, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 21,573
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	169,158
Effects of changes in operating assets and liabilities:	
Federal grants receivable	(25,770)
Other receivable	(291,429)
Prepaid expenses	68,856
Deposits	1,401
Accounts payable	(120,290)
Accrued liabilities	<u>306,325</u>
Net cash provided by operating activities	<u>129,824</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of certificates of deposit	<u>(250,000)</u>
Net cash used in investing activities	<u>(250,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments of capital lease obligations	<u>(13,730)</u>
Net cash used in financing activities	<u>(13,730)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(133,906)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>438,665</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 304,759</u>

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

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the lead organization for community based planning and management of new initiatives such as the Plate Boundary Observatory. The 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 (NSF), for support of these communities.

Basis of Presentation

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, 2010, UNAVCO had no temporarily or permanently restricted net assets.

Basis of Accounting

UNAVCO records transactions on the accrual basis of accounting in conformity with generally accepted accounting principles.

Use of Estimates in Preparing Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Administrative expenses include those expenses that are not directly identifiable with another specific function but provide for the overall support of UNAVCO.

Income Tax Status

UNAVCO qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for Federal income taxes has been provided. As of December 31, 2010, the Internal Revenue Service has not proposed any adjustments that would result in a material change to the organization's financial position. The organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for the years ended December 31, 2006 and prior.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments

Certificates of deposit are classified as investments if they do not meet the definition of a cash equivalent due to original term to maturity of over three months. UNAVCO's investments consist of certificates of deposits with maturities of nine months to five years.

Prepays

UNAVCO pays building lease expense, insurance expense, and maintenance contracts in advance of the related periods. These amounts are reported as prepaid expenses on the statement of financial position.

Federal Grants and Other Receivable

UNAVCO receives grants from federal agencies for investment in UNAVCO's mission related projects. Federal grants receivable consist of funding commitments from those agencies which have not been received. Management believes that all receivable amounts are collectible as of year-end. For the year ended December 31, 2010, there were no amounts written off as uncollectible receivables.

Accounts Receivable

Accounts receivable are unsecured customer obligations related to non-government contracts. Accounts receivable are stated at the invoice amount. Management believes that all receivable amounts are collectible as of year-end. For the year ended December 31, 2010, there were no amounts written off as uncollectible receivables.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. UNAVCO capitalizes items having a useful life greater than one year and a cost or fair value greater than \$5,000. Property and equipment is depreciated using the straight-line method over the estimated useful lives as follows:

	<u>Useful Life</u>
Leasehold improvements	5 years
Furniture and fixtures	5 years
Computer software and equipment	3 years
Vehicles	5 years

The cost of certain equipment used by UNAVCO in operations is not reflected in the statement of financial position because the asset title remains with the federal government. See Note 2.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

UNAVCO reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell. There were no impairments recognized by UNAVCO for the year ended December 31, 2010.

Accrued Vacation

UNAVCO employees earn between 160 and 256 hours of paid time off each year, 432 of which can be carried over from year to year. At January 1 of each year any amount accrued greater than 432 hours is forfeited. Accrued hours carried over from year to year are recorded as accrued wages payable at year-end. As of December 31, 2010, total accrued vacation is \$619,630 which is included as a component of accrued liabilities.

Revenue Recognition

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.

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.

Other revenue is recognized when earned.

Subsequent Events

Management evaluated subsequent events through June 9, 2011, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2010, but prior June 9, 2011, that provided additional evidence about conditions that existed at December 31, 2010 have been recognized in the financial statements for the year ended December 31, 2010. Events or transactions that provided evidence about conditions that did not exist at December 31, 2010 but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended December 31, 2010.

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 2 – PROPERTY AND EQUIPMENT

Property with title vested in UNAVCO, including property designated as to a particular purpose, is recorded in the financial statements. Property and equipment at December 31, 2010 consists of the following:

Leasehold improvements	\$ 158,600
Furniture and equipment	5,244
Computer software and equipment	118,671
Vehicles	<u>766,300</u>
	1,048,815
Less accumulated depreciation	<u>(822,084)</u>
Net property and equipment	<u>\$ 226,731</u>

Total depreciation expense for the year ended December 31, 2010 was \$169,158.

Equipment with title vested in the U.S. Government and other sponsors is not recorded in the statement of financial position. Purchases of such equipment are recorded as expense in the statement of activities. Gross additions in 2010 were \$1,125,872 and the accumulated total of Federal property as of December 31, 2010 was approximately \$22,478,765. UNAVCO has the responsibility of maintaining property records and reporting balances to the respective government agency.

NOTE 3 – LEASES

Capital Leases

UNAVCO entered into various capital lease arrangements for the purchase of vehicles which expire in 2011. Vehicles under these leases had a total cost of \$64,943 and related accumulated depreciation of \$62,928 at December 31, 2010.

Future minimum payments required under capital leases consist of the following:

2011	<u>\$ 8,559</u>
Total minimum lease payments	8,559
Less amounts representing interest	<u>(123)</u>
Present value of net minimum lease payments (including \$8,436 classified as current)	<u>\$ 8,436</u>

Operating Leases

UNAVCO leases office space and equipment under several operating lease agreements with various obligation amounts and terms ranging from one to 15 years. UNAVCO is able to terminate the office lease agreements if it does not receive its annual funding from NSF. Future minimum payments required under the aforementioned agreements as of December 31, 2010 consist of the following:

UNAVCO, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 3 – LEASES (CONTINUED)

2011	\$ 321,879
2012	304,104
2013	286,104
2014	286,104
2015	286,104
Thereafter	<u>786,787</u>
Total minimum lease payments	<u>\$ 2,271,084</u>

Rental expense related to operating leases was \$470,602 for the year ended December 31, 2010.

NOTE 4 – LETTER OF CREDIT

UNAVCO has a line of credit of \$250,000 with a financial institution. UNAVCO also holds an irrevocable letter of credit with the United States Department of Agriculture Forest Service for \$62,000 for the cleanup and restoration of a study site. As of December 31, 2010 there were no outstanding draws on these credit facilities.

NOTE 5 – EMPLOYEE BENEFIT PLAN

UNAVCO has a 403(b) Plan that is administered by the Teachers Insurance Annuities Association's College Retirement Equities Fund (TIAA/CREF). Employees are required to participate in the plan if employed as a regular full-time or regular part-time employee. 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, 2010 were \$595,583.

NOTE 6 – SIGNIFICANT CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Revenues from Major Federal Contracts

For the year ended December 31, 2010, approximately 93% of UNAVCO's revenues were from the National Science Foundation. At December 31, 2010, approximately 66% of accounts receivable are due from 3 customers, the National Science Foundation (NSF) (36%), U.S. Geological Survey (USGS) (24%), and the National Aeronautics and Space Administration (NASA) (6%).

Concentration of Risks

UNAVCO maintains all of its cash and temporary investments in a commercial bank located in Colorado. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. UNAVCO had balances in excess of FDIC limits at December 31, 2010, which were uninsured. UNAVCO believes it is not exposed to any significant risk on cash and cash equivalents.

This information is an integral part of the accompanying financial statements.

SINGLE AUDIT REPORTS AND SCHEDULES

UNAVCO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

Federal Grantor and Program Title	Federal CFDA Number	Identifying Number	Federal Expenditures
Research and Development Cluster			
<i>The National Science Foundation</i>			
Workshops for continuation GPS monitoring of tectonic, atmospheric, hydrologic, and volcanic processes in Mexico	47.050	EAR-0946379	\$ 34,649
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance	47.050	EAR-0732947	9,884,978
Collaborative Research: Structural Architecture and Evolutionary Plate-Boundary Processes along the San Jacinto Fault Zone	47.050	EAR-0908501	193,718
Passed-Through Rapid Response Research (RAPID) for the April 4, 2010 Mw El Mayor-Cucapah Earthquake, Northern Baja California	47.050	EAR-1041582	42,459
Collaborative Instrumentation: COCONet (Continuously Operating Caribbean GPS Observational Network)	47.050	EAR-1042906	50,595
Collaborative Research: Development of a Power and Communication System for Remote Autonomous GPS and Seismic Stations in Antarctica	47.078	ANT-0619908	55,521
Collaborative Research: Facility Support: Building the Interface Facility for Cm-Scale, 3D Digital Field Geology	47.050	EAR-0651566	141,249
Support for UNAVCO, Inc. and Facility Support: Geodesy Advancing Earth Science	47.050	EAR-0735156	4,744,028
Passed-Through Convergence of Space Geodesy In Plate Boundary Research and Geoscience Education	47.050	EAR-0955560	43,007
Passed-Through The Greenland GPS Network (GNET) Geodetic Constraints on Climate Cycles, Climate Change, and Ice Mass Balance in Greenland	47.078	ARC-1023566	12,654
Passed Through Collaborative Research: The Influence of Hydrofracture and Melt Variability on Greenland Ice Sheet Flow	47.078	ARC-1023364	7,723
Collaborative Research MRI: Acquisition of Terrestrial Laser Scanning Surface Systems for Earth Sciences Research	47.050	EAR-0923539	145,754
Data Communications Support for GPS Observations of Crustal Deformation Associated with the 2010 Chile Earthquake	47.050	EAR-1036939	126,309
Passed-Through the University of California - Santa Cruz Collaborative Research: Integrative Study of Marine Ice Sheet Stability & Subglacial Life Habitats in W. Antarctica - Lake and Ice Stream Subglacial Access Research Drilling (WISSARD) (ARRA)	47.082 (ARRA)	EAR-0839142	172,395
Enhanced Support for GPS Networks and Terrestrial Laser Scanning in Polar Regions	47.078	ANT-1053220	365,126

UNAVCO, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010
(Continued)

Federal Grantor and Program Title	Federal CFDA Number	Identifying Number	Federal Expenditures
EarthScope Comprehensive SAR Archive	47.050	EAR-0952375	21,515
PBO Nucleus: Support for an Integrated Existing Geodetic Network in the Western U.S.	47.050	EAR-0453975	18,728
Support for UNAVCO, Inc. and Track 2 Research and Education in Solid Earth Science for Students (RESESS): Adapting SOARS to Solid Earth	47.050	GEO-0503613	2,124
Support for UNAVCO, Inc. and US-Africa: Workshop for the Evaluation, Monitoring, and Communication of Volcanic and Seismic Hazards in East Africa	47.050	OISE-0913230	2,604
Support of UNAVCO, Inc. and Track 2: Developing a Sustainable RESESS Program	47.050	GEO-0914704	288,567
Facility Support of the WInSAR Archive for Crustal Dynamics Research	47.050	EAR-0733437	37,452
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance (ARRA)	47.082 (ARRA)	EAR-0732947	16,170
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance (ARRA)	47.082 (ARRA)	EAR-0732947	772,926
MRI-R2: Acquisition of GPS Equipment for Africa Array (ARRA)	47.082 (ARRA)	EAR-0960160	<u>270,394</u>
Total National Science Foundation			<u>17,450,645</u>
NASA Grants			
Discovery and Delivery of Space Geodetic Data Products from Distributed Archives	4F1V9	NNX10AF07A	280,594
Science Data Systems for Satellite and Airborne LIDAR Data	4F1V9	NNX10AF12A	<u>88,471</u>
Total NASA Grants			<u>369,065</u>
USGS Grants			
WinSAR Data Archive	47.050	G09AC00002	8,766
USGS Replacement of Borehole Strainmeters in California (ARRA)	Unavailable	G10AC00076	103,092
Installation of Permanent GPS Networks in Northern California to Support Crustal Deformation Monitoring by the USGS (ARRA)	Unavailable	G10AC00075	252,435
Upgrade Telemetry on GPS-Yellowstone (ARRA)	Unavailable	G10PX01799	<u>2,291</u>
Total USGS Grants			<u>366,584</u>
Total			<u>\$ 18,186,294</u>

UNAVCO, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2010

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of UNAVCO for the year ended December 31, 2010.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal financial assistance provided to subrecipients is treated as an expenditure when it is paid to the subrecipient.

Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures, UNAVCO provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Support for UNAVCO, Inc. and Facility Support Geodesy Advancing Earth Science	47.050	\$ 159,687
Support for UNAVCO, Inc. and Collaborative Research: EarthScope Facility Operation and Maintenance (PBO)	47.050	828,889
Support of UNAVCO, Inc. and Track 2: Developing a Sustainable RESESS Program	47.050	15,350
Discovery and Delivery of Space Geodetic Data Products from Distributed Archives	None	196,695
Science Data Systems for Satellite and Airborne LIDAR Data	None	54,966
Data Communications Support for GPS Observations of Crustal Deformation Associated with the 2010 Chile Earthquake	47.050	<u>12,345</u>
		<u>\$ 1,267,932</u>

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

We have audited the financial statements of UNAVCO, Inc. (UNAVCO) as of and for the year ended December 31, 2010, and have issued our report thereon dated June 9, 2011. 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 UNAVCO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, as described in the accompanying *schedule of findings and questioned costs* as 2010-01 and 2010-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UNAVCO's 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 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*.

UNAVCO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit UNAVCO's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management, and 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.

Clifton Gunderson LLP

Broomfield, Colorado
June 9, 2011

**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
with OMB Circular A-133**

Board of Directors
UNAVCO, Inc.
Boulder, Colorado

Compliance

We have audited the compliance of UNAVCO, Inc. (UNAVCO) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2010. UNAVCO's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of UNAVCO's management. Our responsibility is to express an opinion on UNAVCO'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 UNAVCO'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 UNAVCO's compliance with those requirements.

In our opinion, UNAVCO complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-03, 2010-04, 2010-06 and 2010-07.

Internal Control Over Compliance

The management of UNAVCO is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UNAVCO'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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the entity's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-03, 2010-04, 2010-05, 2010-06 and 2010-07. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

UNAVCO's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit UNAVCO's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, management, and 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.

Clifton Gunderson LLP

Broomfield, Colorado
June 9, 2011

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ yes _____ no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes _____ none reported
 Noncompliance material to financial statements
 noted? _____ yes _____ no

Federal Awards

Internal control over major program:
 Material weakness(es) identified? _____ yes _____ no
 Significant deficiency(ies) identified that are
 not considered to be material weaknesses? _____ yes _____ none reported

Type of auditor's report issued on compliance
 for major program: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with section
 510(a) of OMB Circular A-133? _____ yes _____ no

Identification of major program:

CFDA Number(s)	Name of Federal Program or Cluster
Various	Research and Developments Cluster

Dollar threshold used to distinguish between
 Type A and Type B programs: \$545,589

Auditee qualified as low-risk auditee? _____ yes _____ no

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2010-01

Significant Deficiency

Criteria: Duties involving accounting functions should be adequately segregated to ensure that UNAVCO's assets are properly safeguarded.

Condition: We noted the following areas where a lack of segregation of duties exists:

Bank Reconciliations – Bank reconciliations, which are performed by the accountant, are not reviewed and formally approved by someone other than the person who performed the reconciliation either electronically or by signing a printed copy of the reconciliation.

Journal Entry Approval – Journal entries made by the Controller or the Accountant are not reviewed for accuracy, appropriateness, and agreement to supporting documentation and are not approved by someone separate from the preparer.

Cash Disbursements – The Controller is an approved signor for UNAVCO's bank accounts and can print checks, make wire transfers, and is responsible for approving wire transfers.

Payroll – The Accountant has the ability to edit payroll information within TriNet, including adding one time bonus payments. There is no review and approval of payroll reports, edits, or reconciliations performed by the Accountant.

Effect: The possibility exists that error or fraud could occur without being prevented or detected on a timely basis.

Cause: UNAVCO has not adequately separated its accounting duties.

Recommendation: We recommend the following for the above noted areas:

Bank Reconciliations – All bank reconciliations should be reviewed by someone at least one level above the person who performed them. This review should ensure the bank reconciliation is mathematically correct and all reconciling items have been properly investigated and resolved. UNAVCO should retain documentation of this review.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

Finding 2010-01 (Continued)

Journal Entry Approval – All journal entries should be approved either electronically or on a paper copy by someone other than the person who prepared the entries. This review should be documented.

Cash Disbursements – Access controls should be implemented so that no one person can process disbursements, including checks and wires, and approve those disbursements. The Controller's ability to print checks should be removed within Solomon access rights. In addition, the Controller's ability to make wire transfers should be removed.

Payroll – The payroll reconciliation, all payroll edits made by the Accountant, and related documentation should be reviewed and approved each pay period by someone other than the accountant who completed the edits and reconciliation. This review should be documented.

Views of responsible officials and planned corrective actions:

UNAVCO agrees that the four segregation of duties findings will help UNAVCO strengthen our internal control processes. To provide segregation of duties, UNAVCO will implement the following:

Bank Reconciliations – The Controller will review and sign bank reconciliations monthly.

Journal Entry Approval – The Controller will review and sign the Staff Accountant's journal entries and the PSS Director will review and sign the Controller's journal entries.

Cash Disbursements – Wire initiation access in the JP Morgan website has been removed for the Controller. Check printing access rights in the accounting software have been removed for the Controller.

Payroll – The HR Generalist will sign the spreadsheet that transmits timecard information to TriNet for payroll processing.

Contact Information: Gail Strobel, Director, Programs and Support Services.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

Finding 2010-02

Significant Deficiency

Criteria: Procedures should be performed at year-end to ensure that all liabilities have been recorded.

Condition: We noted 15 invoices that were improperly excluded from accounts payable at year-end.

Effect: Audit adjustments totaling \$202,561 were made to properly accrue the liabilities owed as of December 31, 2010.

Cause: UNAVCO has not implemented year-end cut off procedures to ensure liabilities are properly accrued at year-end.

Recommendation: UNAVCO should implement a formal cut-off policy to ensure liabilities are properly accrued at year-end. This policy should require that accounting staff receive formal training regarding proper cut-off procedures. A formal notification should be sent to those responsible for coding invoices after year-end to remind those employees of proper accrual techniques. We recommend that the Controller work with the accounting staff to educate them on when to accrue payables at year-end. Lastly, the Controller or accountant should consider performing a review of material checks paid after year-end to ensure they are properly recorded.

Views of responsible officials and planned corrective actions: Procedures will be implemented to ensure all liabilities are recorded in the period incurred.

Contact Information: Gail Strobel, Director, Programs and Support Services.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2010-03

Research and Development Cluster

Cash Management

Significant Deficiency, Noncompliance

- Criteria: When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury or federal agency and disbursement. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§____.21) and OMB Circular A-110 (2 CFR section 215.22).
- Condition: Cash advance estimates are made based on needs of the entity within four business days. This includes payroll estimates, aged payables, estimated wire transfers and an additional amount of \$30,000 to account for other invoices incurred but not received from staff. Further, of the eleven cash draws selected for testing, two did not have adequate supervisor approval. More specifically, out of a total of \$2,932,749 in advances selected for testing, \$826,619 was unsupported by an immediate cash disbursement (3 – 4 business days). However, process improvements have been implemented during June 2010 to reduce the amount of excess cash on hand.
- Additionally, draw requests from the National Science Foundation (NSF) include all expenses for the period, which includes those related to the National Aeronautics and Space Administration (NASA) and U.S. Geological Survey (USGS) grants. During the next month, the NSF draw is reduced by the amount of the NASA and USGS draw in order to reimburse the NSF program. However, during a period, the NASA and USGS grants are being funded by these programs.
- Effect: Draw requests are not supported by an accounts payable aging listing or equivalent, causing draws to be in excess of UNAVCO's immediate cash needs. Additionally, NSF grant money is being used to fund NASA and USGS program expenditures.
- Questioned Costs: None.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-03 (Continued)

Cause: Under previous management in July 2010, UNAVCO was requesting cash draws to cover all of the entity's expenses, which included a portion related to commercial projects. This was in violation of federal regulations. Therefore, the current management implemented a new cash management policy in July 2010. Prior to the implementation of the new cash management policy, there was no accounts payable aging and the accounts payable listing was used to compute the draws. UNAVCO determined that this listing was incomplete and UNAVCO incurred additional expenditures in excess of this listing. Therefore, during each weekly draw, they requested an additional \$30,000 that was unsupported by an accounts payable aging. At year-end, it was determined that this reserve could not be supported to be drawn down under federal regulations.

Recommendation: Policies and procedures should be established to ensure the time elapsed between draw request and grant expenditures incurred is minimized. Additionally, money that is received related to the NSF should be held in a separate account to ensure this money is not being used to fund NASA and USGS project expenditures.

Views of responsible officials and planned corrective actions: UNAVCO continues to refine cash management policy in the increasingly complex environment of multiple sponsors and various sources for funds. There remains opportunity to improve the process. The movement from paying all approved invoices each week to a more responsible "when due" process was part of the change. UNAVCO received the first cash management finding from NSF in June 2010 and has been in the process of improving cash management since by implementing procedures described below.

In the second half of the year, UNAVCO dealt with opening lines of credit with NASA and USGS, which required substantial amounts of time and set-up effort. In November 2010, it was necessary for UNAVCO to draw on its bank line of credit in order to fund operations for 5 days due to delays in a new USGS draw process.

Given the turnover in UNAVCO and the significant changes in cash management process, it was considered the most effective strategy to manage cash very closely on a weekly basis by reviewing the exact position and providing some cushion for contingencies, given the weekly expenditure levels and the size of UNAVCO's bank line of credit to fund even one day's delay in funding. UNAVCO

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-03 (Continued)

responds to earthquake events worldwide, and when they occur in third world countries, UNAVCO must be able to respond with cash outlays within 24 hours.

While UNAVCO understands the requirement not to hold federal funds, it is also the case that NSF and other agencies do not ensure that draws will be received in a given window and therefore place UNAVCO in the position of managing risk in the best interest of all parties.

Management will revise procedures related to cash management during 2011.

Contact Information: Gail Strobel, Director, Programs and Support Services.

Finding 2010-04

Research and Development Cluster

Equipment Management
Significant Deficiency, Noncompliance

Criteria: According to the NSF award provisions, UNAVCO subawardees are required to have appropriate property management systems in place in accordance with OMB standards and maintain the items of equipment purchased with government funds following those standards. In accordance with the provisions of UNAVCO's subawards, subawardees are required to submit an annual equipment inventory report to the UNAVCO Property Officer.

Condition: UNAVCO has the responsibility to report government-owned assets of subawardees to NSF as part of its annual inventory report. UNAVCO's inventory report did not reflect the equipment items purchased under UNAVCO subawards.

Effect: The listing of government property provided to NSF is not complete as it does not contain total equipment purchased under subawards.

Questioned Costs: None.

Cause: UNAVCO does not have the policies and procedures in place to obtain a listing of all equipment purchased by subawardees.

Recommendation: UNAVCO should develop a process to properly identify and report the equipment of its subrecipients.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-04 (Continued)

Views of responsible officials and planned corrective actions:

This corrective action has been noted earlier and the efforts to bring all subaward equipment reporting into compliance is planned for the 2011 monitoring year. All such reporting will be in place at the time of the next inventory report in October, 2011.

Contact Information: Gail Strobel, Director, Programs and Support Services.

Finding 2010-05

Research and Development Cluster

Reporting
Significant Deficiency

Criteria: UNAVCO is required to prepare and remit numerous reports, including financial and performance, reports under the requirements of various grant agreements. In testing internal controls and compliance over financial reporting, OMB Circular A-133 states that the information reported should agree with supporting documentation.

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, (OMB Circular A-133) stipulates that entities receiving federal funds should maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: During our testing over the American Recovery and Reinvestment Act (ARRA) Section 1512 Report and Federal Financial Report for quarters three and four (SF - 425), no controls were noted that were performed by UNAVCO to verify completeness and accuracy of the reports prior to submission.

Effect: The federal oversight agencies depend on accurate reports to measure program results and maintain compliance with federal requirements. UNAVCO risks the loss of federal awards if it does not comply with federal requirements.

Questioned Costs: None.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-05 (Continued)

Cause: UNAVCO has not instituted a supervisory review and approval process for amounts included on required reports.

Recommendation: UNAVCO should improve controls over federal reporting by instituting a secondary review and approval process to ensure amounts recorded on reports are accurately reported and supported by source documentation.

Views of responsible officials and planned corrective actions: UNAVCO agrees that it is appropriate to document a review of the report submitted by a second person. The expected implementation date is July 31, 2011.

Contact Information: Gail Strobel, Director, Programs and Support Services.

Finding 2010-06 Research and Development Cluster

Procurement, Suspension and Debarment
Significant Deficiency and Noncompliance

Criteria: Per 2 CFR part 180, non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition: Of the eleven purchase orders and/or contracts selected for Suspension and Debarment testing, one was not reviewed for suspended or debarred parties.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-06 (Continued)

Effect: UNAVCO may be executing contracts, or issuing purchase orders, with suspended or debarred parties.

Questioned Costs: None.

Cause: Procedures to review for suspension and debarment are not consistently followed.

Recommendation: Revise procedures related to suspension and debarment from a contract perspective. For contracts and purchase orders that are to be paid with federal funding. UNAVCO should ensure vendors are examined to verify the entity is not contracting with suspended or debarred parties.

Views of responsible officials and planned corrective actions: UNAVCO is aware of the requirement to verify that its suppliers are not suspended or debarred before entering into relationship with them. However, many suppliers are used regularly throughout a year, and verifying at the end of one year for the coming year and verifying later in the second year appears to be a reasonable way to maintain efficiency and still operate at a low risk that they have been debarred. However, management agrees that the process can be improved and will revise procurement controls by August 31, 2011.

Contact Information: Gail Strobel, Director, Programs and Support Services.

Finding 2010-07 Research and Development Cluster

Procurement, Suspension and Debarment
Significant Deficiency and Noncompliance

Criteria: The requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (2 CFR sections 215.40 through 215.48), program legislation, Section 1605 of ARRA, 2 CFR part 176, Federal awarding agency regulations, and the terms and conditions of the award (including those required by ARRA). Entities are required to document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price.

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-07 (Continued)

According to UNAVCO's Procurement Policy, revised September 30, 2010, to the extent reasonable and in conjunction with good business practices, competitive pricing will be obtained by Purchasing based on the following minimum dollar thresholds:

\$5,000-\$24,999: Two oral or published quotes
\$25,000-\$99,999: Three written or published quotes.
\$100,000 and over: Solicitation of bids/proposals (three minimum)

In all cases the solicitation of quotes/bids/proposals is contingent upon the availability of potential suppliers. In some cases three or more potential suppliers may not be available. In those cases where only two bids or proposals are received, due to the unavailability of potential suppliers, cost analysis is to be used to verify that the price paid by UNAVCO is both fair and reasonable. Purchasing shall document the procurement file with the completed analysis.

Condition: Of the 40 purchase orders and/or contracts selected for procurement testing, two did not have documentation of a competitive bid process.

Effect: UNAVCO may be executing contracts, or issuing purchase orders with vendors that are not at the most qualified lowest price.

Questioned Costs: None.

Cause: UNAVCO does not follow the procurement policy requirements to ensure that competitive bids are obtained.

Recommendation: For purchases of materials, equipment and services, we recommend that management institute a check list that is maintained along with the purchase order/invoice to ensure that competitive bids are obtained where required. For all expenses where this requirement will be waived, we recommend that management update UNAVCO's purchasing policy to omit these types of items from being subject to bid procedures or otherwise document the reason for exclusion.

Views of responsible officials and planned corrective actions: UNAVCO does not dispute that cost and pricing information is required for all procurements over a threshold according to the policy. However, in certain instances vendors are selected on a single source basis due to the specificity of the technical requirements. For instance, it is not feasible to change cell phone service for remote stations each year, as full modem replacement

UNAVCO, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-07 (Continued)

would be required. Rather, this would be completed periodically to ensure the best value to the government, but maintaining operational cost effectiveness. In other instances, pricing for key suppliers are verified at the beginning of the replacement season, and once determined to be the best price, subsequent purchase orders are compared to the earlier quote rather than being quoted again.

UNAVCO agrees it would be preferable to improve the documentation for this process and is actively engaged in doing so in 2011. The purchase requisition form has been amended to require the sign-off of the procurement professional and the approving manager once the necessary procurement due diligence has been performed.

UNAVCO concurs with the recommendation to eliminate the bid requirement for suppliers of utilities, office space, communications, hotels, etc., where continuing service and geographic limitations make this impractical, from the procurement policy. The determination to exclude a vendor from the requirement will be documented in the vendor procurement file.

Contact information: Gail Strobel, Director, Programs and Support Services.

UNAVCO, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended December 31, 2010

Finding 2009-01

Significant Deficiency

Summary: There was no documentation of UNAVCO requesting and reviewing sub-recipients' audit reports in the sub-recipients' contract files as required by OMB Circular A-133.

Recommendation: UNAVCO should implement procedures to ensure personnel charged with subrecipient monitoring are aware of their policies and procedures to ensure compliance requirements are being met.

Status: Implemented.