California Institute of Technology

Financial Statements
For the Years Ended September 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Trustees of the
California Institute of Technology

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the "Institute") at September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B to the financial statements, during the year ended September 30, 2009, the Institute adopted a new accounting standard that governs the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act for endowment funds. In addition, as discussed in Note B to the financial statements, the Institute adopted a new accounting standard that required it to change the measurement date of its pension and postretirement plan assets and liabilities to coincide with its September 30, 2009 year end.

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January 24, 2011

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California Institute of Technology
Balance Sheets
At September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
ASSETS		
Cash and cash equivalents (Notes B and D)	$ 42,733	$ 28,190
Advances and deposits	5,088	3,305
Accounts and notes receivable, net		
United States government	192,323	182,074
Other	15,724	15,631
Contributions receivable, net	131,969	197,931
Investments	1,833,665	1,740,089
Prepaid expenses and other assets	75,919	55,960
Deferred United States government billings	480,725	449,713
Property, plant, and equipment, net	847,206	838,624
Total assets	$ 3,625,352	$ 3,511,517
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 409,800	$ 379,315
Deferred revenue and refundable advances	20,032	21,116
Annuities, trust agreements, and agency funds	72,980	81,093
Bonds and notes payable	427,137	435,195
Accumulated postretirement benefit obligation	539,632	502,278
Total liabilities	1,469,581	1,418,997
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted	692,704	566,186
Temporarily restricted	700,740	815,190
Permanently restricted	762,327	711,144
Total net assets	2,155,771	2,092,520
Total liabilities and net assets	$ 3,625,352	$ 3,511,517

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

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
Changes in unrestricted net assets:		
Revenue and net assets released from restrictions:		
Tuition and fees, net of student financial aid	$ 29,586	$ 29,162
Investment return/(loss)	63,345	(173,249)
Gifts	19,348	35,212
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,678,512	1,853,440
Other United States government - direct	227,014	207,615
Non-United States government - direct	20,726	20,928
Indirect cost recovery and management allowance	109,814	107,682
Auxiliary enterprises	32,589	34,295
Other	47,175	39,198
Net assets released from restrictions	180,786	98,138
Total revenue and net assets released from restrictions	2,408,895	2,252,421
Expenses:		
Instruction and academic support	236,354	243,700
Organized research:		
Jet Propulsion Laboratory	1,678,512	1,853,440
Other Institute research	284,672	272,024
Institutional support	68,037	65,229
Auxiliary enterprises	31,735	36,593
Total expenses	2,299,310	2,470,986
Excess/(deficit) of revenues over/under expenses	109,585	(218,565)
Other changes in unrestricted net assets:		
Changes in postemployment benefit obligations	1,476	(32,300)
Redesignations and reclassifications of net assets	15,457	(10,828)
Total other changes in unrestricted net assets	126,518	(261,693)
Change in accounting principle for endowment funds	-	(467,791)
Change in accounting principle for pension and postretirement plans	-	(1,938)
Increase/(decrease) in unrestricted net assets	$ 126,518	$ (731,422)
Changes in temporarily restricted net assets:		
Gifts	$ 33,497	$ 35,266
Investment return	60,010	30,933
Net assets released from restrictions	(180,786)	(98,138)
Redesignations and reclassifications of net assets	(27,171)	(10,393)
Total changes in temporarily restricted net assets	(114,450)	(42,332)
Change in accounting principle for endowment funds	-	467,791
(Decrease)/increase in temporarily restricted net assets	$ (114,450)	$ 425,459
Changes in permanently restricted net assets:		
Gifts	$ 38,090	$ 28,077
Investment return/(loss)	1,355	(189)
Other income/(loss)	24	(11)
Redesignations and reclassifications of net assets	11,714	21,221
Increase in permanently restricted net assets	$ 51,183	$ 49,098
Increase/(decrease) in total net assets	$ 63,251	$ (256,865)
Net assets at beginning of year	2,092,520	2,349,385
Total net assets at end of year	$ 2,155,771	$ 2,092,520

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

California Institute of Technology
Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009
(Dollars in Thousands)

	2010	2009
Cash flows from operating activities:		
Increase/(decrease) in net assets	$ 63,251	$ (256,865)
Adjustments to reconcile increase/(decrease) in net assets to net cash used in operating activities:		
Depreciation, accretion, and amortization	60,413	57,266
Change in accounting principle for pension and postretirement plans	-	1,938
Change in pension and postretirement benefit obligations	(1,476)	32,300
Contributions restricted for long-term investment and capital projects	(35,004)	(30,196)
Investment return restricted for long-term investment and capital projects	(761)	(1,074)
Realized and unrealized (gains)/losses on investments	(112,611)	152,543
In-kind receipt of securities, property, plant, and equipment	(1,303)	(1,972)
Actuarial change in trust liability	(3,209)	2,323
Losses on disposals of property, plant, and equipment	3,543	10,555
Changes in assets and liabilities:		
Advances and deposits	(1,783)	2,318
Accounts and notes receivable, net	(10,342)	20,007
Contributions receivable, net	34,503	12,218
Prepaid expenses and other assets	(19,475)	(3,299)
Deferred United States government billings	(31,012)	(121,509)
Accounts payable and accrued expenses	16,470	2,696
Deferred revenue and refundable advances	552	(9,873)
Agency funds	724	(221)
Accumulated postretirement benefit obligation	38,997	127,206
Net cash provided by/(used in) operating activities	1,477	(3,639)
Cash flows from investing activities:		
Purchases of investments	(385,038)	(563,854)
Proceeds from sales and maturities of investments	440,547	569,023
Purchases of property, plant, and equipment	(71,596)	(103,305)
Proceeds from sale of property, plant, and equipment	86	607
Net cash used in investing activities	(16,001)	(97,529)
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	38,984	17,974
Investment return restricted for long-term investment and capital projects	761	1,074
Cash received under split-interest agreements	4,180	17,990
Cash payments made under split-interest agreements	(6,588)	(6,822)
Proceeds from issuance of bonds	-	80,000
Net (repayments)/borrowings on short-term debt	(8,270)	10,100
Net cash provided by financing activities	29,067	120,316
Net increase in cash and cash equivalents	14,543	19,148
Cash and cash equivalents at beginning of year	28,190	9,042
Cash and cash equivalents at end of year	$ 42,733	$ 28,190

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

A. Description of the California Institute of Technology

The California Institute of Technology (the "Institute") is a private, not-for-profit institution of higher education based in Pasadena, California. Founded in 1891, the Institute provides education and training services, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the government of the United States of America.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements include the accounts of the Institute's main campus and satellite facilities ("Campus"), as well as the Jet Propulsion Laboratory ("JPL"), a Federally Funded Research and Development Center managed by the Institute for the National Aeronautics and Space Administration ("NASA").

The Institute manages JPL under a cost-reimbursable contract with NASA. JPL's land, buildings, and equipment are owned by the United States government and are excluded from the Institute's financial statements. Receivables and liabilities arising from JPL's activities are reflected in the Institute's balance sheets. The direct costs of JPL's activities and the related reimbursement of those costs are segregated in the statements of activities. The management allowances earned under the NASA contract also are included as an indirect cost recovery and management allowance in the statements of activities.

The Institute is generally exempt from federal income taxes under the provisions of Internal Revenue Code ("IRC") Section 501(c)(3). The Institute is also generally exempt from payment of California state income, gift, estate, and inheritance taxes. The Institute has no uncertain tax positions.

The Institute's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Net assets are classified into three categories according to donor-imposed restrictions or provisions of law: permanently restricted, temporarily restricted, and unrestricted.

> Permanently restricted net assets include gifts, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and contributions receivable in which donors have stipulated that the original value of their contributions and, if applicable, any subsequent accumulations, be invested in perpetuity.
>
> Temporarily restricted net assets include endowment earnings related to permanent endowments that have not been appropriated for expenditures and gifts for which donor-imposed restrictions have not been met, including funds restricted for future capital projects, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and related contributions receivable. These restrictions are expected to be removed through the passage of time, the appropriation of endowment earnings by the

Institute, and/or the occurrence of expenditures that meet donors' restrictions. Expirations of temporary restrictions on net assets are reported as releases from temporarily restricted to unrestricted net assets in the statements of activities. Donor-restricted gifts that are received and either spent or deemed spent within the same fiscal year are reported as unrestricted revenues.

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Redesignations
Net assets related to certain contributions received in prior periods have been transferred among net asset categories due to changes in donor designations.

Reclassifications
Certain balances at September 30, 2009, and for the year then ended have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents
Cash and cash equivalents includes bank account balances, investments in money market funds, as well as other short-term investments that have remaining maturities of three months or less when purchased. The Institute classifies all cash and cash equivalents held as part of the investment portfolio as investments. At September 30, 2010 and 2009, short-term investments, as disclosed in Note D, included $271,969 and $453,885, respectively, in cash and cash equivalents. Carrying amounts of cash and cash equivalents approximate fair value due to the relatively short maturities of these instruments.

Under the Institute's cash management system, checks issued but not presented to banks may result in overdraft balances for accounting purposes and are included in accounts payable and accrued expenses in the balance sheets if an overdraft situation exists. There were no overdrafts at September 30, 2010 and 2009.

Advances and Deposits
Advances include certain cash balances, totaling $3,780 and $2,336 at September 30, 2010 and 2009, respectively, that are restricted for use in connection with United States government-sponsored research. Deposits include $1,308 and $969 at September 30, 2010 and 2009, respectively, in cash withheld from employees for health and dependent care spending accounts.

Accounts and Notes Receivable
Accounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts. The allowance for doubtful accounts was $767 and $872 at September 30, 2010 and 2009, respectively. Student accounts and notes receivable of $7,096 and $7,012 at September 30, 2010 and

2009, respectively, are carried at cost; doubtful accounts are charged to expense when they are deemed to become uncollectible. The value of receivables at cost, less any applicable allowances, approximates fair value.

Investments

Investments are recorded at fair values based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as discussed in Note K. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined based on the average cost of securities sold. There were no outstanding purchases or sales at September 30, 2010 or September 30, 2009.

The Institute engages a number of outside parties to manage portions of its investment portfolio. The Institute's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market and credit risk.

Alternative investments include holdings in limited partnerships, limited liability companies, and off-shore investment funds. These investments may not be readily marketable or redeemable, and may specify penalties for early liquidation from the related funds. The Institute reviews and evaluates the values provided by external investment managers and has agreed with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ from the values that could have been determined had a ready market for these securities existed.

At September 30, 2010 and 2009, investments included short-term investments valued at $22,997 and $50,259, respectively, that were purchased with unexpended proceeds from the 2009 Series California Educational Facilities Authority (CEFA) revenue bonds. These assets are limited to use in specific construction projects.

Endowment

Endowment net assets are those held for long-term investment in support of the Institute. All investments of endowment assets are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Endowment net assets include donor-restricted endowments and board-designated endowments. Gift annuities, interests in trusts held by others, contributions receivable, and unexpended funds appropriated from endowment earnings that are subject to remaining purpose restrictions are not considered endowment net assets.

Pursuant to its interpretation of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as enacted in California, the Institute classifies as permanently restricted net assets (a) the original value of gifts to permanent endowments, (b) the original value of subsequent gifts to permanent endowments, and (c) the value of accumulations to permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA and Institute policies. In accordance with UPMIFA, the

Institute considers the following factors in making a determination to appropriate endowment earnings:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute

The Institute appropriates endowment earnings for expenditures based on current spending rates and, if applicable, the incurrence of specific expenditures in accordance with donors' purpose restrictions.

A primary Institute endowment investment objective is to provide a predictable stream of funding to programs by investing endowment assets to earn an average annual total return that exceeds inflation by at least the amount required to support the endowment's contribution to the operating budget. This objective relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) as well as current yield (interest and dividends). The Institute targets a diversified asset allocation, including investments in both public markets and in alternative investments, within prudent risk constraints.

In accordance with the Institute's 2010 spending policy, 5.75% of the average of the twelve calendar quarters' endowment market values immediately preceding a given fiscal year is available each year for distribution to the operating budget. If current-year interest, dividends, and gains are not sufficient to support the current-year distribution, the balance is provided from prior years' accumulated earnings.

As a result of market declines, the fair value of certain donor-restricted endowment funds is less than the historical value of such funds. The aggregate deficiencies for donor-restricted endowment funds were $48,485 and $63,439 at September 30, 2010 and 2009, respectively, and are recorded in unrestricted net assets. Such deficiencies reverse with market value appreciation. Reversals of these deficiencies increase unrestricted net assets.

Derivatives

The Institute uses an interest rate swap to manage the interest rate exposure of a portion of its variable rate debt. The swap is recorded at fair value, which is the estimated amount that the Institute would receive or pay to terminate the agreement, taking into account current interest rates and the current credit-worthiness of the swap counterparty. Realized losses of $5,556 and $4,891 resulted from regular settlements with the counterparty during the years ended September 30, 2010 and 2009, respectively, and are included in investment return in the statements of activities. Changes in the swap's fair value during the years ended September 30, 2010 and 2009, resulted in unrealized losses of $14,101 and $15,466, respectively, and are included in investment return in the statements of activities. The fair value of the swap was a liability of $41,458 and $27,357 at September 30, 2010 and 2009, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

The Institute's externally-managed investment funds may include derivatives. The fair value of any such derivatives is included in the calculation of the fair values of the Institute's investments in such funds.

Property, Plant, and Equipment
Property, plant, and equipment is recorded at the cost of construction or acquisition, or at the fair value of contributed assets at the date of the gift. Interest costs related to debt used for construction of assets are capitalized and included in the cost of construction. Depreciation on all assets is calculated over the estimated useful lives as defined for each class of depreciable asset, which range from three to fifty years, and is computed using the straight-line method. Depreciation on buildings is calculated based on the useful lives of each major building component. The Institute provides for the renewal and replacement of assets from various sources set aside for this purpose. The Institute routinely acquires or constructs equipment under federal and non federal research grants. Assets acquired or constructed under both federal and nonfederal grants in which title does not ultimately transfer to the Institute are not recorded as property, plant, and equipment.

The Institute records conditional asset retirement obligations primarily related to asbestos removal and disposal for future remediation activity. Asset retirement cost, net of accumulated depreciation, at September 30, 2010 and 2009 was $1,118 and $1,256, respectively, and is included in property, plant, and equipment in the balance sheets. The asset retirement obligation at September 30, 2010 and 2009 was $11,043 and $10,638, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

Split-Interest Agreements
The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts for which the Institute serves as trustee. For irrevocable agreements, assets contributed are included in Institute investments at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.2% to 11.2%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled $60,514 and $61,074 at September 30, 2010 and 2009, respectively, and are included in liabilities for annuities, trust agreements and agency funds in the balance sheets. The Annuity 2000 Mortality Table was used for the years ended September 30, 2010 and 2009.

The Institute is also the trustee for certain revocable agreements. Assets contributed are included in Institute investments at fair value, and amounts equal to the value of assets are included in liabilities for annuities, trust agreements, and agency funds. Total assets and liabilities for revocable agreements were $3,166 and $11,464 at September 30, 2010 and 2009, respectively.

Beneficial Interests
The Institute is the beneficiary of charitable remainder and perpetual trusts held and administered by others. The fair value of the Institute's interest in these trusts is determined by the fair value of trust assets, multiplied by the Institute's percentage interest in the various trusts and is included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the

trusts are established. Distributions from perpetual trusts are recorded as contribution revenues, and the carrying value of the beneficial interests is adjusted for changes in the values of the underlying assets. These assets totaled $20,063 and $11,972 at September 30, 2010 and 2009, respectively.

Retirement Plans
The Institute's retirement plans cover substantially all of its employees. Except for a small number of former employees who participated in a defined benefit pension plan that was terminated in 1993 and who are covered by a successor defined benefit pension plan, the Institute provides a defined contribution retirement program for its qualified academic and administrative employees. Contributions to IRC Section 403(b) defined contribution plans for the years ended September 30, 2010 and 2009, were $21,637 and $21,592, respectively, for the Campus and $64,275 and $64,358, respectively, for JPL. The Institute has no assets or liabilities related to these plans.

At September 30, 2010 and 2009, respectively, prepaid expenses and other assets included $42,992 and $37,503 in assets held pursuant to IRC section 457 retirement plans. The assets are invested with external investment managers and are recorded at fair value. The Institute's liabilities related to these funds were $41,913 and $36,999 at September 30, 2010 and 2009, respectively, and are included in accounts payable and accrued expenses in the balance sheets.

Funds Held for Others
The Institute held assets totaling $9,300 and $8,554 in agency funds at September 30, 2010 and 2009, respectively. The assets held are primarily included in investments in the balance sheets. The corresponding liability, which is equal to assets held, is included in annuities, trust agreements, and agency funds on the balance sheets.

Compensated Absences
Employees at the Institute are entitled to paid vacation based upon length of service and other factors. The Institute accrues a liability for vacation benefits that employees have earned but not yet taken. At September 30, 2010 and 2009, accrued compensated absences of $73,917 and $71,348, respectively, are included in accounts payable and accrued expenses in the balance sheets.

Workers' Compensation Insurance
The Institute provides workers' compensation insurance to its employees. Liabilities for the Institute's retained risk related to such coverage are determined by an actuary and are included in accounts payable and accrued expenses in the balance sheets. At September 30, 2010 and 2009, the estimated liabilities for workers' compensation amounted to $7,810 and $9,292, respectively.

Revenue Recognition
The Institute's revenue recognition policies are as follows:

- *Tuition and fees* - Student tuition and fees are recorded as revenues during the year the related academic services are rendered and displayed net of financial aid on the statements of activities. Tuition and fees totaled $71,506 and $68,030 at September 30, 2010 and 2009, respectively. Student financial aid totaled $41,920 and $38,868 at September 30, 2010 and 2009, respectively. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

- *Investment return (loss)* - Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases to the appropriate net asset category.

- *Gifts* - Gifts from donors, including contributions receivable from unconditional promises to give, are recorded as revenues in the year received. Gifts are recorded at fair value using quoted market prices, market prices for similar assets, independent appraisals, or as estimated by Institute management. Gift revenue from contributions to be collected in the form of securities or other investments is adjusted to reflect the year-end value of securities and/or investments to be contributed. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Gifts of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Gifts restricted to the acquisition or construction of long-lived assets are reported as temporarily restricted revenue and released to unrestricted net assets when long-lived assets are placed in service. Gifts that are subject to other time or purpose restrictions are reported as temporarily restricted revenue and released to unrestricted net assets when donor restrictions are fulfilled. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted revenue. Conditional promises to give are not recorded until donor-imposed conditions have been substantially met. Conditional promises to give totaled $108,904 and $127,657 at September 30, 2010 and 2009, respectively. At September 30, 2010 and 2009, respectively, conditional promises included $77,500 and $85,000 for research programs from a foundation that shares a common board member with the Institute.

- *Grants and contracts* - Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Certain grants and contracts provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with the Office of Naval Research, the Institute's federal cognizant agency for the negotiation and approval of facilities and administrative and other indirect cost rates. Amounts received in excess of expenditures are recorded as deferred revenue.

- *Auxiliary enterprises* - Revenues from supporting services, such as dining facilities, faculty and student housing, and bookstores are recorded at time of delivery of a product or service. Amounts received in advance of deliveries of products or services are recorded as deferred revenue.

Expenses

Expenses are generally reported as decreases in unrestricted net assets. The statements of activities present expenses by functional classification in accordance with the overall educational and research mission of the Institute.

Building and improvements depreciation and plant operation expenses are allocated to functional classifications based on square footage occupancy of Institute facilities. Equipment depreciation is allocated to functional classifications based on average equipment purchases attributed to each classification. Interest expense on external debt, net of amounts capitalized, is allocated to the functional categories that have benefited from the proceeds of such debt. Interest expense, net of

capitalized interest, for the years ended September 30, 2010 and 2009, was $8,436 and $5,959, respectively, and capitalized interest was $1,078 and $926, respectively.

New Accounting Pronouncements
During the year ended September 30, 2010, the Institute adopted a new accounting standard that expanded pension and other postretirement benefit plan disclosures related to the fair value of each plan's assets. Adoption of this standard had no material impact on the financial statements.

During the year ended September 30, 2009, the Institute adopted a new accounting standard that required the Institute to change the measurement date of its defined benefit pension and other postretirement plan assets and obligations to coincide with its fiscal year-end date. The following table summarizes the incremental effects of the measurement date provision on the Institute's balance sheet at September 30, 2009:

	Before measurement date change	Adjustment	After measurement date change
Deferred United States government billings	$ 443,984	$ 5,729	$ 449,713
Total assets	3,505,788	5,729	3,511,517
Accounts payable and accrued expenses	379,266	49	379,315
Accumulated postretirement benefit obligation	494,660	7,618	502,278
Total liabilities	1,411,330	7,667	1,418,997
Unrestricted net assets	568,124	(1,938)	566,186
Total net assets	2,094,458	(1,938)	2,092,520
Total liabilities and net assets	3,505,788	5,729	3,511,517

During the year ended September 30, 2009, the Institute adopted a new accounting standard that governs how not-for-profit organizations classify the net assets of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The new standard requires that net appreciation related to permanent endowments be classified as temporarily restricted net assets until appropriated for expenditures. In addition, the standard requires enhanced disclosures for all endowment funds. The State of California adopted UPMIFA effective January 1, 2009. As of the enactment date, the Institute recorded an adjustment to reclassify $467,791 from unrestricted to temporarily restricted net assets related to the adoption of this standard.

In September 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2009-12, which allows the Institute to measure the fair value of its investments in certain entities, as defined by the standard, at net asset value (NAV). The investments covered by the

standard are generally classified as alternative investments by the Institute. The Institute chose to early adopt the recognition and valuation provisions of the standard for the year ended September 30, 2009. The Institute has historically used NAV as a basis for determining the fair value of applicable investments and therefore the adoption had no material impact on the financial statements. During the year ended September 30, 2010, the Institute adopted the disclosure requirements of this standard.

In January 2010, the FASB issued an update to ASU 2009-12. The update expands required disclosures about fair value measurements. In particular, this guidance requires: (1) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers; (2) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements; (3) fair value measurement disclosures for each class of assets and liabilities; and (4) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. This guidance is effective for the Institute's fiscal year beginning October 1, 2010 except for (2) above, which is effective for the fiscal year beginning October 1, 2011. The Institute is currently evaluating the impact that this guidance will have on its financial statement disclosures.

C. Contributions Receivable, net

Contributions receivable consist of unconditional promises to give to the Institute in the future. Contributions receivable are initially recorded at fair value including a discount to the present value of the future cash flows at an appropriate risk-adjusted rate. Discount rates on all outstanding contributions at September 30, 2010 and 2009 range from 2.64% to 5.84%.

Contributions receivable consisted of the following at September 30, 2010 and 2009:

	2010	2009
Contributions receivable at beginning of year, net	$ 197,931	$ 212,964
Discount at beginning of year	15,266	18,275
Allowance for doubtful accounts at beginning of year	197	236
Contributions receivable at beginning of year, gross	213,394	231,475
New contributions received	3,508	50,379
Contribution payments received	(74,741)	(64,280)
Adjustments to fair value of securities to be contributed	505	(2,310)
Write offs and other adjustments	64	(1,870)
Contributions receivable at end of year, gross	142,730	213,394
Discount at end of year	(10,662)	(15,266)
Allowance for doubtful accounts at end of year	(99)	(197)
Contributions receivable at end of year, net	$ 131,969	$ 197,931

Gross contributions receivable carried the following restrictions at September 30, 2010 and 2009:

	2010	2009
Endowment for programs, activities, and scholarships	$ 27,452	$ 40,550
Building construction	1,414	1,937
Education, general and time restrictions	113,864	170,907
Total contributions receivable, gross	$ 142,730	$ 213,394

Gross contributions receivable are expected to be realized as follows at September 30, 2010 and 2009:

	2010	2009
Within one year	$ 54,615	$ 62,526
Between one year and five years	65,897	124,670
More than five years	22,218	26,198
Total contributions receivable, gross	$ 142,730	$ 213,394

At September 30, 2010 and 2009, contributions receivable of $75,611 and $97,808, respectively, were due from a foundation that shares a common board member with the Institute. At September 30, 2010 and 2009, contributions receivable of $19,200 and $37,671, respectively, were due from this board member in the form of securities.

At September 30, 2010 and 2009, contributions receivable of $14,507 and $19,024 were due from another foundation that shares a common board member with the Institute.

D. Investments

Investments consisted of the following at September 30, 2010 and 2009:

	2010	2009
Short-term investments	$ 321,147	$ 455,099
Fixed-income securities	69,815	69,401
Equity securities	522,553	419,955
Other investment funds	-	19,039
Alternative investments:		
Absolute return strategies	513,511	408,864
Private equity	176,491	151,621
Real Assets	205,073	188,271
Real estate mortgages, notes, and other investments	25,075	27,839
Total investments	$ 1,833,665	$ 1,740,089

At September 30, 2010 and 2009, short-term investments included $271,969 and $453,885, respectively, in cash and cash equivalents.

At September 30, 2009, other investment funds consisted of amounts held by a fund whose trustee had restricted redemptions by shareholders. During the year ended September 30, 2010, the Institute redeemed its holdings in the fund in exchange for cash.

Investments were categorized as follows at September 30, 2010 and 2009:

	2010	2009
Investment pool	$ 1,600,757	$ 1,462,206
Separately invested endowments	45,536	53,242
Trusts, annuities, and other	187,372	224,641
Total investments	$ 1,833,665	$ 1,740,089

At September 30, 2010 and 2009, endowment investments were $1,631,076 and $1,508,460, respectively.

Investment return/(loss) consisted of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Interest and dividend income	$ 12,099	$ 10,038
Net realized gains/(losses)	96,899	(24,829)
Net unrealized appreciation/(depreciation)	15,712	(127,714)
Total investment return/(loss)	$ 124,710	$ (142,505)

Investment return includes realized and unrealized losses related to the interest rate swap agreement as discussed in Note B.

E. Deferred United States Government Billings

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs incurred but not yet billed to the JPL contract. Therefore, the Institute has recorded deferred United States government billings related to the portion of its accumulated postretirement benefit obligation, accrued vacation, workers' compensation, and pension benefit liabilities attributable to JPL, as the Institute expects to recover these amounts through future charges to JPL contracts. Although these deferred billing amounts may not be currently funded, and therefore may need to be funded as part of future NASA budgets, the Institute believes it has the contractual right to require that such funding be made available at the time these employee benefit costs become payable by the Institute.

Deferred United States government billings related to deferred reimbursements of the following liabilities at September 30, 2010 and 2009:

	2010	2009
Accumulated postretirement benefit obligation	$ 416,280	$ 386,278
Accrued vacation benefits	59,363	57,640
Other benefit liabilities	5,082	5,795
Total deferred United States government billings	$ 480,725	$ 449,713

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2010 and 2009:

	2010	2009
Land and land improvements	$ 55,961	$ 50,634
Buildings and building improvements	822,245	723,580
Equipment	500,475	495,890
Construction in progress	77,925	142,795
Less: accumulated depreciation	(609,400)	(574,275)
Total property, plant, and equipment, net	$ 847,206	$ 838,624

Depreciation expense for the years ended September 30, 2010 and 2009, was $59,454 and $55,355, respectively.

G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2010 and 2009:

Bonds Payable:	2010	2009
California Educational Facilities Authority (CEFA) revenue bonds:		
2009 Series due November 1, 2039, with interest at 5.00% (gross of issue premium of $668 and $691, respectively)	$ 80,668	$ 80,691
2006 Series A due October 2036, with variable interest rates reset weekly (0.20% and 0.22%, respectively)	82,500	82,500
2006 Series B due October 2036, with variable interest rates reset weekly (0.18% and 0.30%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of $2,057 and $2,172, respectively)	48,508	48,393
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of $2,169 and $2,289, respectively)	51,131	51,011
Series 1994 due January 2024, with variable interest rates reset weekly (0.20% and 0.22%, respectively)	30,000	30,000
Total bonds	375,307	375,095
Notes payable:		
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.42% and 0.41%, respectively)	51,830	5,100
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.37% at September 30, 2009)	-	50,000
Bank of America revolving bank credit facility expiring June 2013, with variable interest rates	-	-
Commercial paper note program ($100,000 authorized), weighted-average interest (0.25% at September 30, 2009)	-	5,000
Bank of New York money market loan program with no expiration date, with variable interest rates	-	-
JPMorgan Chase money market loan program with no expiration date, with variable interest rates	-	-
Wells Fargo revolving bank credit facility expiring June 2013, with variable interest rates	-	-
Total notes payable	51,830	60,100
Total bonds and notes payable	$ 427,137	$ 435,195

As of September 30, 2010, the Institute had available to it six unsecured revolving lines of credit (the "Lines of Credit"). The Institute has internally-mandated aggregate borrowing limits under the Lines of Credit, which include the following amounts: $100.0 million for borrowings to finance working capital; $25.0 million for borrowings to finance acquisitions of real estate and temporary funding for capital projects; and $200.0 million for borrowings secured to preserve liquidity. All credit facilities and money market loan program agreements are uncollateralized.

The table below summarizes the material terms of the Lines of Credit, including permitted uses of any funds drawn under each individual Line of Credit at September 30, 2010:

Financial Institution	Permitted Maximum Amount	Outstanding Amounts	Facility Maturity	Purpose
Bank of America	$ 100,000	$ 51,830	January 2011	General working capital and capital projects
JPMorgan Chase	62,000	-	None	General working capital and capital projects
Bank of America	50,000	-	January 2011	General working capital and capital projects
Bank of New York	50,000	-	None	General working capital and capital projects
Bank of America	50,000	-	June 2013	Liquidity for variable rate bonds and commercial paper
Wells Fargo	50,000	-	June 2013	Liquidity for variable rate bonds and commercial paper

The lines of credit from Bank of New York, JPMorgan Chase, and the Bank of America line of credit for $50,000 maturing in January 2011 all are uncommitted. Maturity dates for individual advances made by these institutions are to be determined at the time advances are made.

Financial covenants under certain of the Lines of Credit require that the Institute maintain a ratio of unrestricted cash and investments to total adjusted debt outstanding equal to at least 0.5 to 1.0.

In July 2009, the Institute activated a facility that permits the issuance of an aggregate total of $100,000 in taxable or tax-exempt commercial paper to finance capital projects. Currently, the Institute has imposed an internal limit on borrowing under the commercial paper program of $20,000.

Principal repayments on bonds and notes payable were as follows at September 30, 2010:

Year Ending September 30	Amount
2011	$ 246,830
2012	-
2013	-
2014	-
2015	-
Thereafter	180,307
Total	$ 427,137

Under certain circumstances, the CEFA Series 1994 and 2006 Series A and 2006 Series B variable rate revenue bonds could fail to be remarketed, requiring the Institute to repurchase the outstanding bonds totaling approximately $195,000. Therefore, those bonds have been classified as repayable in the following year in the table above.

The fair value of bonds payable and commercial paper is estimated based on quoted market prices for the bonds or paper or similar financial instruments and was $385,926 and $390,969 at September 30, 2010 and 2009, respectively. Amounts outstanding under the Lines of Credit totaling $51,830 and $55,100 at September 30, 2010 and 2009, respectively, are carried at cost, which approximates fair value.

In 2006, the Institute entered into an interest rate swap agreement in conjunction with issuance of the 2006 Series A and B variable rate revenue bonds. Under the terms of the agreement, which expires October 1, 2036, the Institute pays the counterparty a fixed interest rate of 3.549% and receives a variable rate, indexed at 67% of one-month LIBOR (0.17% at September 30, 2010), on a $165,000 underlying notional principal amount.

H. Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2010 and 2009:

	2010	2009
Educational and research funds	$ 91,936	$ 105,747
Contributions receivable	107,944	164,299
Capital projects	264	78,592
Life income and annuity funds	32,275	23,882
Endowments	468,321	442,670
Total temporarily restricted net assets	$ 700,740	$ 815,190

The changes in temporarily restricted net assets related to capital projects are due primarily to the completion of three major Campus buildings and the release of temporarily restricted gifts related to construction.

Permanently restricted net assets were available for the following purposes at September 30, 2010 and 2009:

	2010	2009
Student loan funds	$ 15,470	$ 14,962
Contributions receivable	24,025	33,632
Life income and annuity funds	30,282	27,742
Endowments	692,550	634,808
Total permanently restricted net assets	$ 762,327	$ 711,144

Reclassifications and redesignations of net assets in the Statement of Activities for the year ended September 30, 2010 include the effects of out-of-period reclassifications among unrestricted, temporarily restricted, and permanently restricted net asset categories. The reclassifications increased unrestricted net assets by $25,046, decreased temporarily restricted net assets by $26,058, and increased permanently restricted net assets by $1,012. The reclassifications are primarily due to the recognition of the effect of expirations of temporary donor restrictions on gifts for acquisition of buildings and equipment that were not appropriately released to unrestricted net assets in the period that the related fixed assets were placed into service, primarily in the fiscal year ended September 30, 2009. The adjustments did not affect overall net assets and were not considered material to the financial statements.

Endowment net assets consisted of the following at September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (59,580)	$ 468,321	$ 692,550	$ 1,101,291
Board-designated endowment funds	530,668	-	-	530,668
Total endowment net assets	$ 471,088	$ 468,321	$ 692,550	$ 1,631,959

Endowment net assets consisted of the following at September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (63,439)	$ 442,670	$ 634,808	$ 1,014,039
Board-designated endowment funds	492,980	-	-	492,980
Total endowment net assets	$ 429,541	$ 442,670	$ 634,808	$ 1,507,019

Changes in endowment net assets for the years ended September 30, 2010 and 2009, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2008	$ 1,026,043	$ 39,208	$ 594,207	$ 1,659,458
Effect of change in accounting principle	(429,493)	429,493	-	-
Investment return:				
Investment income	5,911	3,680	55	9,646
Net (decline) appreciation in market value	(158,008)	22,848	(124)	(135,284)
Total investment return	(152,097)	26,528	(69)	(125,638)
Contributions and pledge payments	12,136	450	32,764	45,350
Additions to board-designated endowments	29,691	-	-	29,691
Appropriation for expenditure	(49,729)	(45,112)	(676)	(95,517)
Redesignations, reclassifications and other	(7,010)	(7,897)	8,582	(6,325)
Balance as of September 30, 2009	**429,541**	**442,670**	**634,808**	**1,507,019**
Investment return:				
Investment income	436	-	-	436
Net appreciation in market value	73,950	70,417	1,340	145,707
Total investment return	74,386	70,417	1,340	146,143
Contributions and pledge payments	-	675	45,949	46,624
Additions to board-designated endowments	29,148	-	-	29,148
Appropriation for expenditure	(53,686)	(48,021)	(775)	(102,482)
Redesignations, reclassifications and other	(8,301)	2,580	11,228	5,507
Balance as of September 30, 2010	**$ 471,088**	**$ 468,321**	**$ 692,550**	**$ 1,631,959**

The $429,493 effect of the change in accounting principle noted above is included in the overall effect of the change in accounting principle related to endowments in the statement of activities for the year ended September 30, 2009. The amount above excludes $38,298 of the overall effect of the change in accounting principle for endowments that is related to items not considered endowment net assets under the Institute's definition.

I. Retirement Plans

A small number of employees who participated in a defined benefit pension plan that was terminated in 1993 participate in a successor defined benefit pension plan. Retirement benefits under that plan are determined based on years of service and career average compensation, and accrued partially on a fixed-dollar basis and partially on a variable-dollar basis. Financial and actuarial information for the plan is based on a September 30 measurement date.

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2010 and 2009:

	2010	2009
Change in the benefit obligation:		
Benefit obligation at beginning of year	$ 4,871	$ 4,828
Service cost	34	35
Interest cost	239	254
Measurement date change	-	51
Benefits paid	(152)	(98)
Actuarial loss/(gain)	379	(199)
Benefit obligation at end of year	$ 5,371	$ 4,871

The accumulated benefit obligation for the defined benefit pension plan was $5,347 and $4,853, respectively, at September 30, 2010 and 2009.

	2010	2009
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 3,033	$ 2,426
Actual return on plan assets	224	145
Employer contributions	404	444
Benefits paid	(152)	(98)
Measurement date change	-	118
Plan expenses	(3)	(2)
Fair value of plan assets	$ 3,506	$ 3,033

	2010	2009
Funded status at valuation date:		
Funded status	$ (1,865)	$ (1,838)
Net amount recognized at end of year	$ (1,865)	$ (1,838)

The unfunded benefit obligation is recognized in accounts payable and accrued expenses in the balance sheets. The statements of activities include the effects of changes in the accumulated benefit obligation that are not otherwise recognized in periodic pension cost. The effect for the Campus was a decrease in unrestricted net assets of $164 and $14 for the years ended September 30, 2010 and 2009, respectively, and is recorded in other changes in unrestricted net assets. The effect related to JPL for the years ended September 30, 2010 and 2009, respectively, was an increase of $146 to JPL direct expense and revenue and to deferred U.S. government billings, and a decrease to JPL direct expense and revenue of $188, and to deferred U.S. government billings, respectively, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was $11 for the year ended September 30, 2009, and is reflected in accounts payable and accrued expenses in the balance sheets and as a change in accounting principle for pension and postretirement plans in the statements of activities. The adjustment related to JPL was $38 for the year ended September 30, 2009, and is reflected in accounts payable and accrued expenses in the balance sheets, as well as in both JPL direct expense and revenue, and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

Differences between accumulated periodic pension expense and the unfunded accumulated pension obligation are recorded in unrestricted net assets. At September 30, 2010 and 2009, those differences were as follows:

	2010	2009
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$ 749	$ 438
Total amounts recognized as unrestricted net assets	$ 749	$ 438

Net periodic cost related to the plan for the years ended September 30, 2010 and 2009, included the following components:

	2010	2009
Service cost	$ 34	$ 35
Interest cost	239	254
Recognized actuarial loss	6	43
Expected return on plan assets	(160)	(137)
Net periodic cost	$ 119	$ 195

Estimated contributions to the retirement plan in the next year are $474.

Estimated future benefit payments are expected to be paid as follows:

Year Ending September 30	Benefit Payments
2011	$ 242
2012	271
2013	323
2014	348
2015	363
2016-2020	1,948

Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed-income securities. Plan assets are invested in separate accounts by the funding agent and carry a target allocation of 19% equities, 76% fixed-income, and 5% short-term investments. At September 30, 2010 and 2009, total retirement plan assets were invested as follows:

	2010	2009
Equity securities	16.00%	16.00%
Fixed-income securities	81.00%	83.00%
Cash	3.00%	1.00%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the plan at September 30, 2010 and 2009:

	2010	2009
Discount rate	4.90%	5.70%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in the selection of 5.25% for the expected return on plan assets.

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2010 and 2009:

	2010	2009
Discount rate	5.70%	7.00%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

As described in Note K, the Institute uses a hierarchy to report the fair value of invested assets, including the invested assets for the defined benefit Plan. All of the Plan's investments fall within Level 2 of that hierarchy.

The following table summarizes the investments of the Institute's defined benefit plan assets as of September 30, 2010 and 2009:

	2010	2009
Short-term investments	$ 95	$ 39
Fixed income securities	2,850	2,510
International equity securities	326	276
Domestic equity securities	235	208
Total	$ 3,506	$ 3,033

J. Postretirement and Postemployment Benefits Other Than Pensions

The Institute's employees may be eligible for certain health and life insurance benefits upon retirement. The Institute's obligation related to these benefits is actuarially determined and has been recorded in the accompanying balance sheets. Any actuarial deferrals resulting from changes in the accumulated postretirement benefit obligation are amortized over the average future working lifetime of Institute employees.

The Institute's postretirement benefits are funded on a pay-as-you-go basis; therefore, there are no plan assets. As a result, a formal investment policy has not been developed.

Certain financial information regarding the plan was as follows for the years ended September 30, 2010 and 2009, and is based on a September 30 measurement date:

	2010	2009
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 502,278	$ 344,259
Service cost	15,385	10,119
Interest cost	29,074	23,689
Participant contributions	3,987	3,192
Measurement date change	-	8,452
Benefits paid	(18,897)	(20,870)
Actuarial loss	7,805	133,437
Benefit obligation at end of year	$ 539,632	$ 502,278

	2010	2009
Components of net periodic postretirement benefit cost:		
Service cost	$ 15,385	$ 10,119
Interest cost	29,074	23,689
Amortization of prior year service credit	(3,337)	(3,337)
Amortization of loss	7,093	-
Net periodic benefit cost	$ 48,215	$ 30,471

	2010	2009
Change in the fair value of plan assets:		
Employer contributions	$ 14,910	$ 14,267
Participant contributions	3,987	2,344
Benefits paid	(18,897)	(16,611)
Fair value of plan assets at end of year	$ -	$ -

The accumulated postretirement benefit obligation is recognized as a liability in the balance sheets. The statements of activities include the effects of changes in the postretirement benefit obligation that are not otherwise recognized in periodic postretirement benefit cost. The effect for the Campus was an increase in unrestricted net assets of $1,643 and a decrease in unrestricted net assets of $34,224 for the years ended September 30, 2010 and 2009, respectively, and is recorded in other changes in unrestricted net assets. The effect related to JPL for the years ended September 30, 2010 and 2009, respectively, was an increase of $5,692 and $111,003 to both JPL direct expense and revenue and to deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was $1,927 for the year ended September 30, 2009, and is reflected in the accumulated postretirement benefit obligation in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was $5,691 for the year ended September 30, 2009, and is reflected in the balance sheets, as well as in both JPL direct expense and revenue, and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

	2010	2009
Funded status at valuation date:		
Funded status	$ (539,632)	$ (502,278)
Net amount recognized at end of year	$ (539,632)	$ (502,278)

	2010	2009
Amounts recognized in the balance sheets:		
Accumulated postretirement obligation	$ (539,632)	$ (502,278)
Total amounts recognized in balance sheets	$ (539,632)	$ (502,278)

	2010	2009
Amounts recognized as changes in unrestricted net assets:		
Prior service credit	$ (18,568)	$ (21,905)
Net loss	141,471	140,759
Total amounts recognized in unrestricted net assets	$ 122,903	$ 118,854

An estimated prior service credit of $3,337 and net loss of $7,060 will be amortized from unrestricted net assets into net periodic benefit cost during the year ending September 30, 2011.

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2010 and 2009:

	2010	**2009**
Discount rate	5.20%	5.90%
Health care cost trend rate	10.00%	11.00%

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2010 and 2009:

	2010	**2009**
Discount rate	5.90%	7.10%
Health care cost trend rate	11.00%	9.00%

At September 30, 2010, the assumed health care cost trend rates for subsequent years were as follows:

Year Ending September 30	Health Care Cost Trend Rate
2011	9.25%
2012	8.50%
2013	8.00%
2014	7.50%
2015	7.00%
2016	6.50%
2017	6.25%
2018	6.00%
2019	5.75%
2020	5.50%
2021	5.25%
2022	5.00%
2023	4.75%
2024 and thereafter	4.50%

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on the total of service and interest cost components	$ 8,932	$ (7,008)
Effect on accumulated postretirement benefit obligation	$ 86,642	$ (69,979)

The Institute and its retirees are expected to contribute approximately $17,788, and $4,413, respectively during the year ending September 30, 2011.

At September 30, 2010, the estimated future benefit payments were as follows:

Year Ending September 30	Benefit Payments
2011	$ 19,400
2012	21,200
2013	23,000
2014	24,700
2015	26,300
2016-2020	152,700

K. Fair Value

During the year ended September 30, 2009, the Institute adopted a new accounting standard which establishes a fair value hierarchy that ranks the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest ranking to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as noted below.

Fair value for Level 1 is based upon quoted prices in active markets that the Institute has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange dealer markets. The Institute does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is generally based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the instruments. Inputs are obtained from various sources, including market participants, dealers, and brokers.

Interest rate swap arrangements have inputs that can generally be corroborated by market data and are therefore generally classified as Level 2. Interest rate swaps are valued using observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered

reliable. In instances in which models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as assets and liabilities in Level 3 trade infrequently or not at all. Assets and liabilities included in Level 3 primarily consist of the Institute's ownership in alternative investments.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a summary of the levels within the fair value hierarchy for the Institute's assets and liabilities as of September 30, 2010 and 2009:

	Level 1	Level 2	Level 3	2010 Total
Assets:				
Cash & cash equivalents	$ 42,733	$ -	$ -	$ 42,733
Investments:				
Short-term investments	321,137	10	-	321,147
Fixed-income securities	27,767	41,993	55	69,815
Equity securities	410,025	109,315	3,213	522,553
Alternative investments:				
Absolute return strategies	-	-	513,511	513,511
Private equity	-	-	176,491	176,491
Real assets	-	-	205,073	205,073
Real estate & other	-	-	25,075	25,075
Total investments	758,929	151,318	923,418	1,833,665
Interests in trusts held by others			20,063	20,063
Defined contribution plans	7,716	20,328	14,948	42,992
Total assets	$ 809,378	$ 171,646	$958,429	$1,939,453
Liabilities:				
Interest rate swap	$ -	$ 41,458	$ -	$ 41,458
Defined contribution plans	7,633	19,370	14,910	41,913
Total liabilities	$ 7,633	$ 60,828	$ 14,910	$ 83,371

	Level 1	Level 2	Level 3	2009 Total
Assets:				
Cash & cash equivalents	$ 28,190	$ -	$ -	$ 28,190
Investments:				
Short-term investments	455,097	2	-	455,099
Fixed-income securities	27,207	42,141	53	69,401
Equity securities	184,420	232,493	3,042	419,955
Other	-	-	19,039	19,039
Alternative investments:				-
Absolute return strategies	-	-	408,864	408,864
Private equity	-	-	151,621	151,621
Real assets	-	-	188,271	188,271
Real estate & other	-	3	27,836	27,839
Total investments	666,724	274,639	798,726	1,740,089
Interests in trusts held by others	-	-	11,972	11,972
Defined contribution plans	6,191	16,496	14,816	37,503
Total assets	$701,105	$291,135	$825,514	$1,817,754
Liabilities:				
Interest rate swap	$ -	$ 27,357	$ -	$ 27,357
Defined contribution plans	6,152	16,048	14,799	36,999
Total liabilities	$ 6,152	$ 43,405	$ 14,799	$ 64,356

The Institute generally uses net asset value (“NAV”) to determine the fair value of investments that (a) do not have readily determinable fair values and (b) either have certain specific attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Accordingly, in circumstances in which NAV per share of any such investment is determinative of fair value, the Institute estimates the fair value using NAV per share of the investment (or its equivalent) without further adjustment as a practical expedient. Funds valued using NAV invest in both marketable securities as well as securities that do not have readily determinable fair values. The fair values of the securities that do not have readily determinable fair values are determined by each fund’s general partner and are based on appraisals or other estimates that include considerations such as the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. At September 30, 2010, the Institutes’ related investments by major investment category were as follows:

Fixed Income Securities

This category includes an investment in a bond fund that invests in sovereign debt instruments of global markets. The fund has a fair value of $38,991 at September 30, 2010 and allows for monthly redemptions with a ten-day notice.

Equity Securities
At September 30, 2010, this category includes $109,161 in funds that invest in publicly traded equity securities of companies in global markets. The funds allow either daily or monthly redemptions with up to 15 days notice.

Absolute Return Strategies
This category includes investments in hedge funds whose investment objectives are to earn significant risk-adjusted returns by investing and trading in various securities and financial instruments, including publically traded and privately issued common and preferred shares of domestic and foreign companies, corporate debt, bonds, swaps, options, futures contracts and commodities. Investments with a total fair value of $432,865 allow redemptions from quarterly to triennially, with notice periods ranging from 45 to 180 days. One investment with a fair value of $19,355 allows monthly redemptions with a ten-day notice. In addition, investments with a total fair value of $61,291 and unfunded commitments of $8,107 do not allow redemptions and have remaining lives of up to seven years.

Private Equity
This category consists of several investments in private equity funds. The funds' holdings primarily include privately-owned foreign and domestic companies (or in other funds with investments in privately-owned foreign and domestic companies) in a wide variety of industries. The total unfunded commitment for these investments was $76,021 at September 30, 2010. The Institute does not have any redemption rights in these investments and the investments have remaining lives of up to eight years.

Real Assets
This category includes investments in limited partnerships that invest in foreign and domestic real estate, domestic energy, or domestic timber industries. The fair value of these investments was $176,393, and the total unfunded commitment was $65,751 at September 30, 2010. The Institute does not have any redemption rights in these investments, and the investments have remaining lives of up to ten years.

This category also includes an investment in a fund with an investment objective to earn the returns of a commodities benchmark as selected by the Institute, plus an additional return, with the use of various strategies in the fixed income markets. The fair value of this investment at September 30, 2010 is $28,680. The investment allows redemptions annually with a 90-day notice.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different estimates of fair value.

The following table is a summary of changes in the fair value of the Institute's Level 3 instruments for the year ended September 30, 2010:

	Beginning Balance	Net Purchases / (Sales)	Change in Fair Value	Ending Balance
Assets:				
Investments:				
Fixed-income securities	$ 53	$ 1	$ 1	$ 55
Equity securities	3,042	200	(29)	3,213
Other	19,039	(19,012)	(27)	-
Alternative investments:				
Absolute return strategies	408,864	37,292	67,355	513,511
Private equity	151,621	262	24,608	176,491
Real assets	188,271	22,425	(5,623)	205,073
Real estate and other	27,836	(289)	(2,472)	25,075
Total investments	798,726	40,879	83,813	923,418
Interests in trusts held by others	11,972	7,778	313	20,063
Defined contribution plans	14,816	(486)	618	14,948
Total assets	$ 825,514	$ 48,171	$ 84,744	$ 958,429
Liabilities:				
Defined contribution plans	$ 14,799	$ (504)	$ 615	$ 14,910
Total liabilities	$ 14,799	$ (504)	$ 615	$ 14,910

During the year ended September 30, 2010 and 2009, there were no transfers between Level 3 and other levels.

Changes in the fair value of investments are included in investment return in the statement of activities. Changes in the fair value of interests in trusts held by others are included in gifts in the statements of activities.

L. Commitments and Contingencies

Contingencies

The Institute receives funding or reimbursement from agencies of the United States government for various activities that are subject to audit, and is a defendant in various legal actions incident to the conduct of its activities. Except as specifically discussed below, management does not expect that liabilities, if any, related to these audits or legal actions will have a material impact on the Institute's financial position.

The Institute was named as a potentially responsible party ("PRP") by NASA under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended. As a PRP, the Institute may be jointly liable for contribution towards clean-up costs, estimated to be in excess of $100,000, of the NASA/JPL Superfund site.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matter will have on the Institute's financial position or changes in its net assets. However, the Institute believes that it will have recourse to the United States government for any liabilities it may incur in connection with being named a PRP for that site.

Commitments

The Institute was committed under certain construction and services contracts in the amount of approximately $73,505 and $52,947 at September 30, 2010 and 2009, respectively.

At September 30, 2010 and 2009, the Institute had outstanding commitments to invest $149,879 and $207,591, respectively, with alternative investment managers and/or limited partnerships over the next ten years.

The Institute's workers' compensation insurance carrier requires that the Institute maintain an unsecured letter of credit for claims that do not exceed certain deductible amounts. At September 30, 2010 and 2009, the amount of the letter of credit facility was $7,350. The letter of credit was not used during the years ended September 30, 2010 or 2009, and therefore no liability has been recorded in the balance sheets.

The Institute is currently providing funding for the operation of certain local water treatment facilities, subject to receipt of funding from NASA. Annual costs are not expected to exceed $5,000.

The Institute leases equipment and buildings, primarily for JPL, under operating leases expiring at various dates through 2015. Rent expense incurred under operating lease obligations was $6,875 and $6,973 for the years ended September 30, 2010 and 2009, respectively.

At September 30, 2010, future minimum payments under operating leases of greater than one year in duration were as follows:

Year Ending September 30	Amount
2011	$ 6,355
2012	6,308
2013	5,727
2014	811
2015	-
Total	$ 19,201

Approximately $19,060 of the future minimum lease payments listed above may be recoverable from JPL under the Institute's cost-reimbursable contract with NASA.

The Institute rents equipment and buildings to students, faculty, and other organizations under operating leases expiring at various dates through 2015. Rental income received under operating lease obligations was $8,562 and $8,525 at September 30, 2010 and 2009, respectively.

At September 30, 2010, minimum future rentals from operating leases of greater than one year in duration were as follows:

Year Ending September 30		Amount
2011	$	8,077
2012		7,792
2013		6,398
2014		5,167
2015		4,961
Total	$	32,395

M. Supplemental Cash Flow Information

The following are additional supplemental disclosures related to the statements of cash flows:

		2010		2009
Cash paid during the year for interest, net of amounts capitalized	$	7,104	$	4,970
Non-cash investing and financing activities:				
Securities received to satisfy pledge payments		22,237		14,908
In-kind receipt of securities, property, plant, and equipment		5,887		1,972
Accrued purchases of property, plant, and equipment at year end		6,448		6,851

N. Subsequent Events

Subsequent events were evaluated from September 30, 2010, through January 24, 2011, which was the date the financial statements were issued.