

# **California Institute of Technology**

**EIN: 95-1643307**

**Report on Audit of Financial Statements  
and on Federal Awards Programs  
in Accordance With OMB Circular A-133**

**For the Year Ended September 30, 2004**

**California Institute of Technology**  
**Index to Report on Audit of Financial Statements and on Federal Awards**  
**For the Year Ended September 30, 2004**

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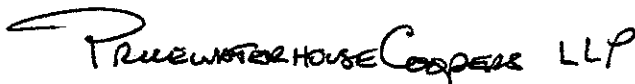
**Report of Independent Auditors**

To the Board of Trustees of  
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 California Institute of Technology (the "Institute") at September 30, 2004 and 2003, 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 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 audits 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 the significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004 on our consideration of the Institute'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 for the year ended September 30, 2004. The purpose of that report is to describe the scope of our testing of internal controls 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.

The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2004 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

  
PRICEWATERHOUSECOOPERS LLP

November 12, 2004

**California Institute of Technology**  
**Balance Sheets**  
**At September 30, 2004 and 2003**  
(Dollars in Thousands)

	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,122	\$ 753
Advances on grants and contracts	2,935	2,033
Security deposits	244,665	251,551
Accounts and notes receivable, net of allowance for doubtful accounts of \$6,170 and \$6,336, respectively:		
United States government	145,411	148,802
Other	18,884	23,608
Contributions receivable, net (Note C)	302,870	246,831
Investments, including securities pledged or on loan of \$239,868 and \$246,619, respectively (Note D)	1,540,028	1,460,381
Deferred United States government billings (Note E)	249,194	217,582
Prepaid expenses and other assets	69,611	63,751
Property, plant, and equipment, net (Note F)	651,985	635,411
	<u>\$ 3,231,705</u>	<u>\$ 3,050,703</u>
<b>Total assets</b>		
<b>LIABILITIES and NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 270,391	\$ 252,210
Security deposits	244,665	251,551
Deferred revenue and refundable advances	29,140	29,465
Annuities, trust agreements and agency funds	72,549	73,165
Bonds and notes payable (Note G)	239,688	244,470
Accumulated postretirement benefit obligation (Note J)	271,910	232,433
	<u>1,128,343</u>	<u>1,083,294</u>
<b>Total liabilities</b>		
Commitments and contingencies (Note K)		
<b>Net assets (Note H):</b>		
Unrestricted	1,180,069	1,140,867
Temporarily restricted	370,820	307,555
Permanently restricted	552,473	518,987
	<u>2,103,362</u>	<u>1,967,409</u>
<b>Total net assets</b>		
<b>Total liabilities and net assets</b>		
	<u>\$ 3,231,705</u>	<u>\$ 3,050,703</u>

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

**California Institute of Technology**  
**Statements of Activities**  
**For the Years Ended September 30, 2004 and 2003**  
**(Dollars in Thousands)**

	2004	2003
<b>Changes in unrestricted net assets:</b>		
Revenues:		
Tuition and fees, net of student financial aid of \$32,795 and \$27,470, respectively	\$ 17,549	\$ 17,682
Investment return	168,757	132,504
Gifts	21,342	24,703
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,585,669	1,421,894
Other United States government - direct	157,145	161,242
Non-United States government - direct	9,397	10,813
Indirect cost recovery and management allowance	97,437	96,395
Auxiliary enterprises	32,881	30,065
Other	16,305	34,271
Net assets released from restrictions	29,783	67,760
<b>Total revenues</b>	<b>2,136,265</b>	<b>1,997,329</b>
Expenses:		
Instruction and academic support	214,219	187,469
Organized research:		
Jet Propulsion Laboratory	1,585,669	1,421,894
Other Institute research	189,241	186,376
Institutional support	75,920	70,345
Auxiliary enterprises	33,585	33,169
<b>Total expenses</b>	<b>2,098,634</b>	<b>1,899,253</b>
<b>Excess of revenues over expenses</b>	<b>37,631</b>	<b>98,076</b>
Other changes in net assets:		
Redesignations and reclassifications of net assets	1,571	(1,811)
<b>Increase in unrestricted net assets</b>	<b>\$ 39,202</b>	<b>\$ 96,265</b>
<b>Changes in temporarily restricted net assets:</b>		
Gifts	\$ 83,992	\$ 122,013
Investment return	5,057	9,335
Net assets released from restrictions	(29,783)	(67,760)
Redesignations and reclassifications of net assets	3,999	(1,564)
<b>Increase in temporarily restricted net assets</b>	<b>\$ 63,265</b>	<b>\$ 62,024</b>
<b>Changes in permanently restricted net assets:</b>		
Gifts	\$ 33,921	\$ 9,398
Investment return	5,079	6,445
Other income	56	52
Redesignations and reclassifications of net assets	(5,570)	3,375
<b>Increase in permanently restricted net assets</b>	<b>\$ 33,486</b>	<b>\$ 19,270</b>
Increase in total net assets	\$ 135,953	\$ 177,559
Net assets at beginning of year	1,967,409	1,789,850
<b>Total net assets at end of year</b>	<b>\$ 2,103,362</b>	<b>\$ 1,967,409</b>

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, 2004 and 2003**  
**(Dollars in Thousands)**

	2004	2003
Cash flows from operating activities:		
Increase in net assets	\$ 135,953	\$ 177,559
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	39,195	38,895
Contributions restricted for long-term investment and capital projects	(72,691)	(9,398)
Realized and unrealized gains on investments	(151,552)	(121,910)
Gifts of property, plant, and equipment	(47)	(2,554)
Gifts and other in-kind distributions of securities	(18,209)	(77,628)
Actuarial change in trust liability	(44)	(8,611)
(Gain) loss on sales of property, plant, and equipment	(1,435)	2,035
Changes in assets and liabilities:		
Accounts and notes receivable, net	8,115	29,357
Contributions receivable, net	(56,039)	(31,605)
Deferred United States government billings	(31,612)	(22,976)
Prepaid expenses and other assets	(5,860)	3,227
Accounts payable and accrued expenses	(5,152)	(8,147)
Deferred revenue and refundable advances	(325)	(1,576)
Agency funds	(295)	934
Accumulated postretirement benefit obligation	39,477	28,959
<b>Net cash used in operating activities</b>	<b>(120,521)</b>	<b>(3,439)</b>
Cash flows from investing activities:		
Purchases of investments	(1,843,606)	(1,606,757)
Proceeds from sale of investments	1,942,197	1,613,500
Purchases of property, plant, and equipment	(54,554)	(80,162)
Proceeds from sale of property, plant, and equipment	4,140	-
<b>Net cash provided by (used in) investing activities</b>	<b>48,177</b>	<b>(73,419)</b>
Cash flows from financing activities:		
Change in book overdraft position	19,678	-
Change in advances on grants and contracts	(902)	1,383
Proceeds from issuance of long-term debt	-	70,000
Contributions restricted for long-term investment and capital projects	72,691	9,398
Net (repayments) borrowings on lines of credit	(5,000)	3,500
Contributions received for split-interest agreements	4,186	3,054
Payments made under split-interest agreements	(12,940)	(10,504)
<b>Net cash provided by financing activities</b>	<b>77,713</b>	<b>76,831</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,369</b>	<b>(27)</b>
Cash and cash equivalents at beginning of year	753	780
<b>Cash and cash equivalents at end of year</b>	<b>\$ 6,122</b>	<b>\$ 753</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 9,192	\$ 8,117
Securities lending	\$ 244,665	\$ 251,551

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

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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**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 and 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 operating activities are reflected in the Institute's balance sheets. The direct costs of organized research and the related reimbursement of the costs arising from JPL's activities are segregated in the statements of activities. The management allowances earned under this contract also are included as an indirect cost recovery and management allowance in the statements of activities.

The Institute (including JPL) is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). The Institute is also generally exempt from payment of California state income, gift, estate, and inheritance taxes.

The financial statements of the Institute have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, "Not-for-Profit Organizations," which requires the Institute to classify its net assets 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 principal be invested in perpetuity. Generally, donors permit the unrestricted use of all or part of the investment return on these assets. Capital gains or losses, both realized and unrealized, related to permanently restricted investments are reported as unrestricted revenue unless their use is restricted by donor-imposed stipulations.

Temporarily restricted net assets include 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

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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contributions receivable upon which the donor has placed certain restrictions. These restrictions are removed either through the passage of time or when certain actions are taken by the Institute to fulfill such restrictions. Expirations of temporary restrictions on net assets due to the fulfillment of donor-imposed restrictions and/or the passage of time 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.

**Reclassifications**

Certain balances at September 30, 2003, and for the year then ended have been reclassified to conform to the current year presentation.

**Redesignations**

Certain amounts previously received from donors have been transferred among net asset categories due to changes in donor designations.

**Cash and Cash Equivalents**

Cash and cash equivalents include resources invested in money market funds and short-term investments with original maturities of three months or less, when purchased. Any such investments held by external investment managers are classified as investments in the balance sheets and are not included in cash and cash equivalents.

Under the Institute's cash management system, checks issued but not presented to banks frequently 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. These balances were \$0 and \$19,678 at September 30, 2004 and 2003, respectively.

**Advances on Grants and Contracts**

Advances on grants and contracts include certain cash balances, totaling \$2,935 and \$2,033 at September 30, 2004 and 2003, respectively, restricted for use in connection with United States government research.

**Security Deposits**

Security deposits consist of collateral related to securities lending in the Institute's investment portfolio.



**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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**Investments**

Investments are stated at fair value. The fair value of marketable securities and short-term investments is based on quoted market prices. When a quoted market value is not readily determinable, quoted market prices of similar financial instruments are used. The fair value of alternative investments, including limited partnerships and similar interests, is based on information provided by external investment managers at the most recent valuation date prior to year-end. The fair value of real estate and other investments is estimated by professional appraisers or Institute management. Mortgages, notes receivable, and guaranteed investment contracts are carried at cost, which approximates fair value. 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.

The Institute engages a number of outside parties to manage its investment portfolio. The Institute's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market and credit risk in excess of amounts recorded in the financial statements. Some of the Institute's money managers use interest-rate futures contracts to modify the interest-rate sensitivity of investments in fixed income securities. Management believes that the risk associated with these derivatives is not material to the Institute at September 30, 2004.

All investments of endowment and similar funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Pooled endowment and similar funds are invested on a total return basis to provide both income and investment appreciation. The Institute utilizes a pooled endowment spending policy that establishes allocations for current spending, consistent with an annual budget plan approved by the Board of Trustees. The spending policy allows the expenditure of a prudent amount of the total investment return over a period of time that preserves the future purchasing power of endowment principal.

As a result of market declines, the fair market value of certain donor-restricted endowment funds is less than the historical cost value of such funds. As the market value of the portfolio increases, this deficiency will reverse. These unrealized losses are recorded in unrestricted net assets in accordance with Statement of Financial Accounting Standards 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations."

The Institute participates in a securities lending program, in which it lends a portion of its investments to third party borrowers through an agreement with its custodian bank. All securities loaned are collateralized by cash and debt instruments in amounts equal to 102% of the market value of the securities loaned. The bank monitors the value and quality of collateral and credit worthiness of borrowers. Collateral received must maintain a weighted-average maturity of 90 days or less and must meet credit quality standards defined in the lending agreement. The Institute does not have the ability to pledge or sell the securities held as collateral without a borrower default. Collateral held and the Institute's obligation to repay such collateral are recorded in the balance sheets as "security deposits."

At September 30, 2004 and 2003, investments include guaranteed investment contracts valued at \$39,896 and \$51,061, respectively, that were purchased with unexpended proceeds from the Series 2003A California Educational Facilities Authority revenue bonds. These investment assets are limited to use in specific construction projects.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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**Property, Plant, and Equipment**

Campus property, plant, and equipment is recorded at the cost of construction or acquisition, or at the appraised value at the date of the gift. Interest expense related to debt used for construction of assets is included in the cost of construction. Depreciation on all assets is calculated over the estimated useful life of each class of depreciable asset, which ranges from three to fifty years, and is computed using the straight-line method. Depreciation on campus buildings used in sponsored research is calculated based on the useful lives of each major building component. The Institute provides for the renewal and replacement of Campus assets from various sources set aside for this purpose. Property, plant, and equipment acquired under both federal and nonfederal grants in which title does not ultimately transfer to the Institute is not recorded in the Institute's financial statements.

The Institute reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

**Split-Interest Agreements**

The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder trusts for which the Institute serves as trustee. Assets held in these trusts are included in investments in the balance sheets 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 based on the present value of future payments discounted at a rate of 4.8% and 3.2% for the years ended September 30, 2004 and 2003, respectively, and the 1990 Group Annuity Mortality Tables. The liabilities are adjusted during the term of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits.

The Institute is also the beneficiary of certain trusts held and administered by others. The present values of the estimated future cash flows from the trusts are included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

**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. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Tuition support from Institute sources is displayed as a tuition discount.
- *Investment Return (Loss)* - Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses are reported as increases or decreases to the appropriate net asset category.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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- *Gifts* - Gifts from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Contributions receivable are reported at their discounted present values, and an allowance for amounts estimated to be uncollectable is provided. Gift revenue includes adjustments required to reflect the year-end market value of securities pledged. 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. The temporarily restricted net assets resulting from these gifts are released to unrestricted net assets when the donor-imposed restrictions are fulfilled. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted. Conditional promises to give are not recorded until the conditions have been substantially met.
- *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.

**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 each functional area's average equipment purchases. Interest expense on external debt, net of amounts capitalized, is allocated to the functional categories that have benefited from the proceeds of such debt.

**Fair Value of Financial Instruments**

For those financial instruments for which it is practical, the following methods and assumptions are used to estimate fair value:

- *Cash and cash equivalents* - Cost approximates fair value.
- *Accounts and notes receivable* - Amounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts, which approximates fair value. Student accounts and notes receivable of \$13,691 and \$16,446 at September 30, 2004 and 2003 are carried at cost, less an allowance for doubtful accounts. Determination of the fair value of student accounts and notes receivable could not be made without incurring excessive costs.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
(Dollars in Thousands)

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- *Bonds and notes payable* - The fair value of bonds payable is estimated based on quoted market prices for the bonds or similar financial instruments and was \$202,752 and \$196,143 at September 30, 2004 and 2003, respectively. Amounts outstanding under the revolving bank credit facility and the money market loan program are carried at cost, which approximates fair value.

**C. Contributions Receivable, net**

Contributions receivable consists of unconditional promises to give to the Institute in the future and are recorded after discounting to the present value of the future cash flows at the appropriate risk-free rate at the date of the gift. Discount rates ranging from 2.75% to 5.84% and 2.75% to 6.00% are used for the fiscal years ended September 30, 2004 and 2003, respectively.

Contributions receivable consisted of the following at September 30, 2004 and 2003:

	2004	2003
Contributions receivable at beginning of year, net	\$ 246,831	\$ 215,226
Discount at beginning of year	16,487	20,156
Allowance for doubtful accounts at beginning of year	<u>1,205</u>	<u>1,830</u>
<b>Contributions receivable at beginning of year, gross</b>	<b>264,523</b>	<b>237,212</b>
New contributions received	165,385	11,893
Contribution payments received	(53,010)	(92,763)
Adjustments to fair value of contributed securities	(53,900)	113,398
Less: Write-offs and other adjustments	<u>(1,234)</u>	<u>(5,217)</u>
<b>Contributions receivable at end of year, gross</b>	<b>321,764</b>	<b>264,523</b>
Discount at end of year	(16,699)	(16,487)
Allowance for doubtful accounts at end of year	<u>(2,195)</u>	<u>(1,205)</u>
<b>Contributions receivable at end of year, net</b>	<b><u>\$ 302,870</u></b>	<b><u>\$ 246,831</u></b>

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
(Dollars in Thousands)

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Gross contributions receivable carried the following restrictions at September 30, 2004 and 2003:

	2004	2003
Endowment for programs, activities, and scholarships	\$ 36,464	\$ 38,416
Building construction	64,256	16,030
Education and general	<u>221,044</u>	<u>210,077</u>
<b>Total contributions receivable, gross</b>	<b><u>\$ 321,764</u></b>	<b><u>\$ 264,523</u></b>

Gross contributions receivable are expected to be realized as follows at September 30, 2004 and 2003:

	2004	2003
Within one year	\$ 104,643	\$ 78,874
Between one year and five years	209,027	174,404
More than five years	<u>8,094</u>	<u>11,245</u>
<b>Total contributions receivable, gross</b>	<b><u>\$ 321,764</u></b>	<b><u>\$ 264,523</u></b>

During the year ended September 30, 2002, the Gordon and Betty Moore Foundation informed the Institute of its intention to fund research and educational projects totaling \$300,000 over ten years. Payments are conditional upon the Foundation's acceptance of project proposals submitted by the Institute. At September 30, 2004, projects totaling \$132,955 were approved to date. Of this total, \$58,962 of the Foundation's commitment had been received in cash, and \$73,993 is included in contributions receivable at September 30, 2004.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
(Dollars in Thousands)

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**D. Investments**

Investments consisted of the following at September 30, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Short-term investments	\$ 174,313	\$ 104,109
Government fixed income securities	102,733	189,409
Corporate fixed income securities	66,493	133,019
Domestic equity securities	368,553	342,522
International equity securities	194,596	155,707
Guaranteed investment contracts	39,896	51,061
Alternative investments:		
Absolute return strategies	183,003	175,597
Private equity	179,029	136,790
Inflation hedges	220,055	152,662
Real estate mortgages, notes, and other investments	11,357	19,505
	<u>1,540,028</u>	<u>1,460,381</u>
<b>Total investments</b>	<b>\$ 1,540,028</b>	<b>\$ 1,460,381</b>

Investments were categorized as follows at September 30, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Consolidated endowment pool	\$ 1,257,737	\$ 1,168,382
Separately invested endowments	49,676	47,086
Subtotal endowment investments	<u>1,307,413</u>	<u>1,215,468</u>
Trusts, annuities, and other	232,615	244,913
	<u>1,540,028</u>	<u>1,460,381</u>
<b>Total investments</b>	<b>\$ 1,540,028</b>	<b>\$ 1,460,381</b>

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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Investment return consisted of the following for the years ended September 30, 2004 and 2003:

	2004	2003
Interest and dividend income	\$ 27,341	\$ 26,374
Net realized gains	36,368	639
Net unrealized appreciation	118,521	124,649
Less: management fees	<u>(3,337)</u>	<u>(3,378)</u>
<b>Total investment return</b>	<b><u>\$ 178,893</u></b>	<b><u>\$ 148,284</u></b>

At September 30, 2004 and 2003, the Institute had committed to invest \$129,300 and \$91,100, respectively, with alternative investment managers over the next ten years

**E. Deferred United States Government Billings**

Deferred United States government billings consisted of the following at September 30, 2004 and 2003:

	2004	2003
Accumulated postretirement benefit obligation - JPL	\$ 210,579	\$ 181,500
Pension benefit asset - JPL	(3,044)	(2,759)
Accrued vacation benefits - JPL	<u>41,659</u>	<u>38,841</u>
<b>Total deferred United States government billings</b>	<b><u>\$ 249,194</u></b>	<b><u>\$ 217,582</u></b>

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs should the Institute's contract ever be terminated. Therefore, the Institute has recorded a deferred United States government billing related to JPL's accumulated postretirement benefit obligation, which is offset by JPL's pension benefit asset, as the Institute expects to recover the net of these amounts through future charges to United States government grants and contracts. The Institute has also recorded a deferred United States government billing related to JPL's accrued vacation benefits, which are also covered by similar contract provisions. 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 insist that such funding be made available.

**California Institute of Technology**  
**Notes to Financial Statements**  
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**F. Property, Plant, and Equipment, net**

Property, plant, and equipment consisted of the following at September 30, 2004 and 2003:

	2004	2003
Land and land improvements	\$ 55,149	\$ 55,011
Buildings and building improvements	483,844	487,611
Equipment	413,021	398,739
Construction in progress	80,142	58,286
Less: accumulated depreciation	<u>(380,171)</u>	<u>(364,236)</u>
<b>Property, plant and equipment, net</b>	<b><u>\$ 651,985</u></b>	<b><u>\$ 635,411</u></b>

Depreciation expense for the years ended September 30, 2004 and 2003 was \$38,977 and \$38,186, respectively.

**G. Bonds and Notes Payable**

Bonds and notes payable consisted of the following at September 30, 2004 and 2003:

	2004	2003
California Educational Facilities Authority (CEFA) revenue bonds:		
Series 2003A due October 2032, with interest at 5.0% (including premium of \$458 and \$474, respectively)	\$ 70,458	\$ 70,474
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of \$2,743 and \$2,857, respectively)	47,822	47,708
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of \$2,892 and \$3,012, respectively)	50,408	50,288
Series 1994 due January 2024, with a variable interest rate reset weekly (1.67%; 0.99%, respectively)	30,000	30,000
Total revenue bonds	<u>198,688</u>	<u>198,470</u>
Other bonds and notes payable:		
Bank of America revolving bank credit facility (uncollateralized) expiring September 2005, with variable interest rates (average 2.02% at 9/30/04; 1.30% at 9/30/03)	32,000	34,000
Bank of America non-revolving bank credit facility (uncollateralized) expired June 2004, with variable interest rates (average 1.30% at 9/30/03)	-	12,000
JPMorgan Chase money market loan program (uncollateralized) with no expiration date, with variable interest rates (average 2.00% at 9/30/04)	9,000	-
Total other bonds and notes payable	<u>41,000</u>	<u>46,000</u>
Total bonds and notes payable	<b><u>\$ 239,688</u></b>	<b><u>\$ 244,470</u></b>



**California Institute of Technology**  
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The CEFA Series 2003A and CEFA Series 1998 revenue bonds are subject to an early redemption premium if redeemed prior to October 11, 2011 and October 1, 2010, respectively

The Bank of America revolving lines of credit have individual limits of \$50,000; the JPMorgan Chase money market program has an individual limit of \$62,000. The Institute has an internal aggregate limit on borrowings under the two Bank of America revolving lines of credit and the JPMorgan Chase money market program of \$50,000 for borrowings to finance working capital and a separate \$50,000 limit for borrowings to finance acquisitions of real estate and temporary funding for capital projects.

Scheduled principal repayments on bonds and notes payable were as follows at September 30, 2004:

<u>Year Ending September 30</u>	<u>Amount</u>
2005	\$ 32,000
2006	-
2007	-
2008	-
2009	-
Thereafter	<u>207,688</u>
Total	<u>\$ 239,688</u>

**H. Components of Net Assets**

The following tables present the net asset categories by purpose at September 30, 2004 and 2003:

	<b>2004</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Operating funds	\$ (34,690)	\$ 21,989	\$ -	\$ (12,701)
Contributions receivable	-	268,490	34,380	302,870
Student loan funds	-	-	15,483	15,483
Invested in plant	397,888	-	-	397,888
Unexpended plant funds	-	22,486	-	22,486
Life income and annuity funds	-	23,743	33,968	57,711
Endowment and other funds functioning as endowment	816,871	34,112	468,642	1,319,625
<b>Total net assets</b>	<u>\$ 1,180,069</u>	<u>\$ 370,820</u>	<u>\$ 552,473</u>	<u>\$ 2,103,362</u>

**California Institute of Technology**  
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	2003			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating funds	\$ 3,050	\$ 16,976	\$ -	\$ 20,026
Contributions receivable	-	213,842	32,989	246,831
Student loan funds	-	-	14,028	14,028
Invested in plant	406,943	-	-	406,943
Unexpended plant funds	-	11,024	-	11,024
Life income and annuity funds	-	30,856	29,237	60,093
Endowment and other funds functioning as endowment	730,874	34,857	442,733	1,208,464
<b>Total net assets</b>	<b>\$ 1,140,867</b>	<b>\$ 307,555</b>	<b>\$ 518,987</b>	<b>\$ 1,967,409</b>

**I. Retirement Plans**

The Institute's retirement plans cover substantially all of its employees. Academic and senior administrative staff are covered by a defined contribution pension plan. Certain qualified non-academic staff who participated in a defined benefit pension plan that was terminated in 1993 are covered by a successor defined benefit pension plan.

Retirement benefits under the successor defined benefit 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 June 30 measurement date.

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2004 and 2003:

	2004	2003
Change in the benefit obligation:		
Benefit obligation at beginning of year	\$ 31,158	\$ 31,223
Service cost	65	72
Interest cost	1,788	2,089
Benefits paid	(2,617)	(2,411)
Actuarial loss	2,558	185
<b>Benefit obligation at end of year</b>	<b>\$ 32,952</b>	<b>\$ 31,158</b>

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	2004	2003
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 31,510	\$ 32,981
Actual return on plan assets	4,630	1,040
Benefits paid	(2,617)	(2,411)
Plan expenses	(98)	(100)
	<u>33,425</u>	<u>31,510</u>
<b>Fair value of plan assets at end of year</b>	<b>\$ 33,425</b>	<b>\$ 31,510</b>
Funded status at valuation date:		
Funded status	\$ 473	\$ 352
Unrecognized net actuarial loss	2,880	2,668
	<u>3,353</u>	<u>3,020</u>
<b>Net amount recognized at end of year</b>	<b>\$ 3,353</b>	<b>\$ 3,020</b>

The accumulated benefit obligation for the defined benefit pension plan was \$32,927 and \$31,124 at the valuation date.

Net periodic benefit related to the plan for the years ended September 30, 2004 and 2003 included the following components:

	2004	2003
Service cost	\$ 65	\$ 72
Interest cost	1,788	2,089
Expected return on plan assets	(2,186)	(2,370)
	<u>(333)</u>	<u>(209)</u>
<b>Net periodic benefit</b>	<b>\$ (333)</b>	<b>\$ (209)</b>

Estimated contributions to the retirement plan in the next fiscal year will be \$0.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2004 and 2003**  
**(Dollars in Thousands)**

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

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2005	\$ 3,039
2006	3,041
2007	3,063
2008	3,008
2009	2,938
2010-2014	13,640

The Institute contributes amounts sufficient to maintain retirement plan assets at levels adequate to cover all accrued benefit obligations. Approximately 90% of the plan's assets at September 30, 2004 and 2003 were designated by the plan's funding agent to back annuity contracts distributed to retirees under the plan's immediate participation guarantee agreement with the contract issuer. Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed income securities. Assets not designated for annuity contracts are invested in separate accounts by the funding agent and carry a target allocation of 62% equities and 38% fixed income. At September 30, 2004 and 2003, total retirement plan assets were invested as follows:

	<b>2004</b>	<b>2003</b>
Equity securities	56%	55%
Fixed income securities	44%	45%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the successor defined benefit plan at September 30, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Discount rate	6.00%	6.00%
Long term rate of compensation increase	4.00%	3.50%

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. The average investment return of the plan has been 7.65% over the past 8 calendar years. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in choice of 7.25% for the expected return on plan assets.

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**Notes to Financial Statements**  
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The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the successor defined benefit plan for the years ended September 30, 2004 and 2003:

	2004	2003
Discount rate	6.00%	7.00%
Expected return on plan assets	7.25%	7.50%
Long-term rate of compensation increase	3.50%	4.00%

Pension costs for the defined contribution plans for the years ended September 30, 2004 and 2003 were \$16,307 and \$15,840, respectively, for the Campus and \$50,396 and \$47,186, respectively, for JPL.

**J. Postretirement and Postemployment Benefits Other Than Pensions**

The Institute provides certain postretirement health and life insurance benefits. The Institute's obligation related to these benefits is actuarially determined, and any actuarial deferrals resulting from changes in the accumulated postretirement benefit obligation are amortized over the average future working lifetime of its employees.

The Institute's Consolidated Welfare Plan is funded on a pay-as-you-go basis so 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, 2004 and 2003, and is based on a June 30 measurement date:

	2004	2003
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 438,636	\$ 337,103
Service cost	14,442	10,180
Interest cost	25,861	23,147
Participant contributions	1,161	1,139
Benefits paid	(13,261)	(12,230)
Actuarial loss	(60,413)	79,297
	<u>406,426</u>	<u>438,636</u>
<b>Benefit obligation at end of year</b>	<b>\$ 406,426</b>	<b>\$ 438,636</b>

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	2004	2003
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	12,100	11,091
Participant contributions	1,161	1,139
Benefits paid	<u>(13,261)</u>	<u>(12,230)</u>
<b>Fair value of plan assets at end of year</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
Funded status at valuation date:		
Funded status	\$ (406,426)	\$ (438,636)
Unrecognized actuarial loss	<u>134,516</u>	<u>206,203</u>
<b>Net amount recognized at end of year</b>	<b><u>\$ (271,910)</u></b>	<b><u>\$ (232,433)</u></b>

Net periodic benefit cost related to the plan for the years ended September 30, 2004 and 2003 includes the following components:

	2004	2003
Service cost	\$ 14,442	\$ 10,180
Interest cost	25,861	23,147
Amortization of loss	<u>11,274</u>	<u>6,722</u>
<b>Net periodic benefit cost</b>	<b><u>\$ 51,577</u></b>	<b><u>\$ 40,049</u></b>

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2004 and 2003:

	2004	2003
Discount rate	6.25%	6.00%
Health care cost trend rate	10.00%	10.00%

**California Institute of Technology**  
**Notes to Financial Statements**  
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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, 2004 and 2003:

	2004	2003
Discount rate	6.00%	7.00%
Health care cost trend rate	10.00%	12.00%

The health care cost trend rates for subsequent years are as follows:

Year Ending September 30	Health Care Cost Trend Rate
2005	9.00%
2006	8.00%
2007	7.00%
2008	6.50%
2009	6.00%
2010-2014	5.50%

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	\$ 8,536	\$ (6,609)
Effect on accumulated postretirement benefit obligation	\$ 64,715	\$ (52,126)

The Institute expects to contribute approximately \$14,500 (including \$1,183 in retiree contributions) to the plan during the next fiscal year.

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**Notes to Financial Statements**  
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Estimated future benefit payments are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2005	\$ 15,275
2006	16,978
2007	18,682
2008	20,295
2009	21,836
2010-2014	130,018

During the year ended September 30, 2004, the federal Medicare Prescription Drug, Improvement and Modernization Act of 2003 took effect. Under this law, a federal subsidy for prescription drug benefits could affect the calculation of the Institute's liabilities for postretirement health benefits. Adoption of the relevant accounting guidance was not required during the year ended September 30, 2004; accordingly, the liability for postretirement benefits and net periodic postretirement benefit costs for the year ended September 30, 2004 do not reflect the effects of the subsidy.

**K. Commitments and Contingencies**

**Contingencies**

The Institute receives funding or reimbursement from agencies of the United States government for various activities, which 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 has been 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 million, of the NASA/JPL Superfund site. The Institute believes that it will have recourse to the United States government for any material liabilities it may incur in connection with being named a PRP for that site.

The Institute has been named as one of the defendants in a False Claims Act action brought by a qui tam relator corporation. The complaint, which was filed in the federal district court in Washington, D.C., and served on the Institute in July 2002, alleges that the Institute engaged in misconduct in connection with certain patents obtained relating to the DNA sequencer. Damages and penalties under the False Claims Act include fines of five thousand five hundred dollars to eleven thousand dollars per claim, treble damages, and attorneys' fees. The Department of Justice investigated the allegations of the complaint and declined to intervene in the case on behalf of the United States. The relator opted to pursue the case on its own. On July 3, 2003, the district court in Washington, D.C., granted the defendants' motion for change of venue to the central district of California. The Institute filed a motion to dismiss the complaint on July 28, 2003. After hearing oral argument, the court granted the motion, dismissing the case in its



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entirety. The court issued its opinion on October 17, 2003. On November 6, 2003, the relator filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. The matter has now been briefed but has not yet been scheduled for argument. The Institute continues to defend this matter vigorously.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matters discussed in the preceding two paragraphs will have on the Institute's financial position or operating results.

**Commitments**

At September 30, 2004, the Institute was committed under certain construction contracts in the amount of approximately \$14,000.

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS</b>			
<b>Research and Development Program</b>			
<b>Direct Funds</b>			
<b>Executive Office of the President</b>			
Office of Science and Technology Policy	27 011		\$ 93,512
<b>Department of Agriculture</b>			
United States Department of Agriculture	10 206		29,404
<b>Department of Commerce</b>			
National Institute of Standards and Technology	11 609		4,484
National Oceanic & Atmospheric Administration	11 431		<u>60,025</u>
Total Department of Commerce			<u>64,509</u>
<b>Department of Defense</b>			
Air Force	12	IPA - SERCEL	222,283
Air Force	12	F49620-02-1-0085	100,403
Air Force	12	W30898	15,836
Air Force	12	W30906	42,126
Air Force	12.63		581,872
Air Force	12.8		2,755,526
Air Force	12.91		1,699,027
Army	12	DASW01-03-C-0037	538,843
Army	12	W911NF-04-1-0201	16,026
Army	12.42		103,767
Army	12.431		5,044,903
Navy	12	N00173-04-P-0251	13,726
Navy	12	N00244-02-C-0032	4,040,995
Navy	12	N66001-04-1-8913	79,220
Navy	12.3		5 099,521
Navy	12 91		2,088,972
National Imagery and Mapping Agency	12.431		53,767
National Reconnaissance Office	12	W30897	3,335
National Security Agency	12.901		29,495
Defense Advanced Research Projects Agency	12 91		<u>2,154,119</u>
Total Department of Defense			<u>24,683,762</u>
<b>Department of Education</b>			
Department of Education	84 116		35,551
<b>Department of Energy</b>			
Department of Energy	81	DE-AC26-99BC15217	(5,754)
Department of Energy	81	DE-FC26-02NT15383	425,864
Department of Energy	81	DE-FC26-02NI41581	260,243
Department of Energy	81	DE-FC26-02NI41631	311,047
Department of Energy	81	DE-FG02-01ER45950	33,339
Department of Energy	81	DE-FG02-04ER41316	79,726
Department of Energy	81 049		190,987
Department of Energy	81 064		13,165,262
Department of Energy	81 087		<u>5,978</u>
Total Department of Energy			<u>14,466,692</u>

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
<b>Department of Health and Human Services</b>			
National Institutes of Health	93 121		\$ 469,486
National Institutes of Health	93 172		2,901,162
National Institutes of Health	93 173		1,035,688
National Institutes of Health	93 242		1,722,460
National Institutes of Health	93 279		869,815
National Institutes of Health	93 282		333,961
National Institutes of Health	93 286		290,438
National Institutes of Health	93 306		773,916
National Institutes of Health	93 398		771,299
National Institutes of Health	93 393		316,396
National Institutes of Health	93 396		735,375
National Institutes of Health	93 398		273,006
National Institutes of Health	93 821		4,574,369
National Institutes of Health	93 837		124,724
National Institutes of Health	93 847		1,271,433
National Institutes of Health	93 848		147,687
National Institutes of Health	93 849		255,261
National Institutes of Health	93 853		6,321,772
National Institutes of Health	93 854		606,832
National Institutes of Health	93 855		372,109
National Institutes of Health	93 856		1,474,380
National Institutes of Health	93 859		3,915,729
National Institutes of Health	93 862		2,621,259
National Institutes of Health	93 864		1,002,654
National Institutes of Health	93 865		1,090,271
National Institutes of Health	93 866		1 278,047
National Institutes of Health	93 867		<u>2,167,480</u>
Total Health and Human Services			<u>37,717,009</u>
<b>Department of the Interior</b>			
United States Geological Survey	15	HM158204C0017	27,318
United States Geological Survey	15	NBCHC030105	327,550
United States Geological Survey	15 807		941,610
United States Geological Survey	15 808		<u>162,231</u>
Total Department of Interior			<u>1,458,709</u>
<b>Environmental Protection Agency</b>			
United States Environmental Protection Agency ("EPA")	66 509		288,398
United States Environmental Protection Agency ("EPA")	66 6		<u>76,884</u>
Total Environmental Protection Agency			<u>365,282</u>
<b>Federal Communications Commission</b>			
Federal Communications Commission	32 001		911
<b>Institute of Museum and Library Services</b>			
Institute of Museum and Library Services	45 312		38,164

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
National Aeronautics and Space Administration ("NASA") NASA	43		\$ 18,589,199
<b>National Science Foundation</b>			
National Science Foundation	47		39,996
National Science Foundation	47 041		4,364,818
National Science Foundation	47.049		53,110,717
National Science Foundation	47 05		3 874,464
National Science Foundation	47.07		6,101,993
National Science Foundation	47 074		1,662,430
National Science Foundation	47.075		886,285
National Science Foundation	47 076		2,794,033
National Science Foundation	47 078		<u>1,021,553</u>
Total National Science Foundation			<u>73,856,289</u>
Total Research and Development – Direct Funds			<u>171,398,993</u>
<b>Pass-Through Funds</b>			
<b>Department of Commerce</b>			
National Institute of Standards and Technology	11 612	DOC-RAH-CIT-001	17,391
<b>Department of Defense</b>			
<b>Air Force</b>			
Aeropath Corporation	12	F49620-02-C-0071	(475)
Alphatech, Inc	12	F33615-01-C-3149	30,477
Alphatech, Inc	12 3	F33615-02-C-3262	55,853
Brown University	12.8	F49620-99-1-0272	251,266
Cornell University	12 91	F30602-01-2-0577	27,760
Duke University	12.91	F30602-01-2-0561	6,679
ERC Inc	12	F04611-99-C-0025	155,871
HRI Laboratories, LLC	12	F33615-02-C-1184	176,811
Massachusetts Institute of Technology	12.91	F49620-00-C-0035	49,937
Morton Consulting	12	F33615-03-M-3333	27,500
OptiComp Corporation	12	FA9550-04-C-0016	40,000
Stanford University	12.63	F49620-01-1-0365	98,540
Universal Technology Corporation	12	F33615-98-C-2807	(3,000)
Universal Technology Corporation	12	F33615-02-D-2299	73,204
University of California Los Angeles	12	F49620-01-1-0361	(4,286)
University of California Los Angeles	12 8	F33615-01-C-3149	264,320
University of California San Diego	12.8	F49620-01-1-0497	58,271
University of Minnesota	12.63	F49620-98-1-0433	(143)
University of Southern California	12	F30602-02-C-0213	<u>93,933</u>
Total Air Force Pass-Through			<u>1,402,518</u>

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Army</b>			
Cornell University	12.431	DAAD19-01-1-0541	\$ 230,636
General Electric Company	12	DABT-63-C-0001	98
Microwave Bonding Instruments, Inc	12	MBI.000001	14,382
Stanford University	12.431	DAAD19-03-1-0199	121,350
Trex Enterprises	12	DASG60-03-C-0008	24,202
Trex Enterprises	12	DAAH01-02-C-0031	50,715
University of California Los Angeles	12	DAAH01-01-1-R002	304,549
University of California Santa Barbara	12	DAAD19-03-D-0004	1,073,898
University of Chicago	12	W911NF-04-1-071	<u>16,514</u>
Total Army Pass-Through			<u>1,836,344</u>
<b>Navy</b>			
Boeing Company	12	N00421-02-D-3223	276,276
Colorado School of Mines	12.3	N00014-02-1-0665	454,145
Cornell University	12.3	N00014-01-1-0765	58,898
Cornell University	12.3	N00014-03-1-0243	40,308
Harvard University	12.3	N00014-01-0651	356,489
Harvard University	12	N00014-04-1-0591	109,585
Louisiana State University	12.91	N66001-01-1-8968	14,668
Massachusetts Institute of Technology	12.3	N00014-02-1-0915	119,719
Naval Research Laboratory	12.3	N00173-01-P-1550	18,123
Northrop Corporation	12.3	N65236-98-C-5820	(96,106)
Princeton University	12.3	N00014-02-1-0826	213,595
Princeton University	12.91	N66001-02-1-8929	564,228
Stanford University	12.3	N00014-02-1-0589	147,195
TRW Incorporated	12.3	N66001-97-C-8609	(3,120)
University of California Berkeley	12.3	N00014-01-1-0890	206,087
University of California Los Angeles	12	N66001-02-C-8042	107,160
University of California Los Angeles	12.91	N66001-00-1-8937	53,194
University of California Los Angeles	12.91	N66001-00-C-8092	35,041
University of California Los Angeles	12.3	N00014-02-1-0180	80,269
University of California San Diego	12.3	N00014-02-1-0666	66,668
University of California Santa Barbara	12.3	N00014-01-1-0764	158,757
University of Colorado At Boulder	12.3	N00014-02-1-0714	37,347
University of Washington	12.3	N00014-04-1-0094	63,253
University of Washington	12	N00014-01-1-0676	<u>166,511</u>
Total Navy Pass-Through			<u>3,248,290</u>
<b>National Reconnaissance Office</b>			
Massachusetts Institute of Technology	12	NRO 000-00-C-0102	25,754

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Defense Advanced Research Projects Agency</b>			
Hewlett Packard	12	MDA972-01-3-0005	\$ 938,183
Lockheed Martin Energy Systems	12	PP4-536109	10,695
Massachusetts Institute of Technology	12	2003-MIT-887	214,020
Oregon State University	12.91	HR0011-04-1-0023	39,576
Technical Basis, LLC	12.3	DAAH01-03-C-R288	45,991
University of California Berkeley	12	2003-DI-660	111,108
University of California Los Angeles	12.91	MDA972-02-2-001	9,455
University of California San Diego	12.91	MDA972-00-1-0019	106,603
University of Massachusetts	12	MDA972-95-C-0004	<u>71,201</u>
Total Defense Advanced Research Projects Agency – Pass-Through			<u>1,546,832</u>
Total Department of Defense Pass-Through			<u>8,059,738</u>
<b>Department of Energy</b>			
Argonne National Laboratory	81.049	W-31-109-ENG-48	(79,549)
Carnegie Institute	81	DE-FC03-03NA00144	47,753
Cornell University	81	DE-FG02-03ER46072	46,002
Fermilab National Accelerator Laboratory	81	DE-AC02-76CH03000	332,440
Lawrence Berkeley National Laboratory	81.049	DE-AC03-76SF00098	343,302
Lawrence Livermore National Laboratory	81.064	W-7405-ENG-48	4,743,419
Los Alamos National Laboratory	81.064	W-7405-ENG-36	141,717
National Renewable Energy Laboratory	81.064	DE-AC36-99GO-10337	541,945
Oak Ridge National Laboratory	81	DE-AC05-00OR22725	102,585
Sandia National Laboratories	81	DE-AC04-94AL 85000	179,283
University of California Los Angeles	81	DE-FG03-91ER40662	3,593
University of California Los Angeles	81	DE-FG03-01ER45949	254,354
University of Nevada	81.065	DE-FC28-98NV12081	271,847
University of Nevada	81.065	DE-FC28-04RW12232	<u>339,830</u>
Total Department of Energy – Pass-Through			<u>7,268,521</u>
<b>Department of Health and Human Services</b>			
<b>National Institutes of Health</b>			
Childrens Hospital Los Angeles	93.394	5 U01 CA88199	84,002
Childrens Hospital Los Angeles	93.856	R01 AI40567	782
City of Hope	93.371	R01 RR06217	82,587
Cornell University	93.853	7 R01 NS34998-05	7,054
Harvard University	93.903	P50 GM068763	85,674
Indiana University	93.849	P01 DK43881	122,495
Jackson Laboratory	93.172	2 P41 HG002273	137,153
Johns Hopkins University	93.849	1 P50 DK57325-01	308,312
Lawrence Berkeley National Laboratory	93.939	R01 CA80792	31,491
Loma Linda University	93.393	R01 CA85779	(5,449)
Massachusetts Institute of Technology	93.242	P20-MH66239-01	57,376
Massachusetts Institute of Technology	93.172	U54 HG002045-06	15,847
Medical University of South Carolina	93.837	2 P01 HL 52813-06	33,701
Molecular Sciences Institute	93	1 P50-HG02370	203,746

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Health and Human Services (Continued)</b>			
<b>National Institutes of Health (continued)</b>			
Oregon Health Sciences University	93 859	1 P01 GM067166	\$ 25,196
Purdue University	93 856	1 P01 A1055672-01	444,596
The Scripps Research Institute	93 821	1 R01 GM57148	57,954
The Scripps Research Institute	93 821	5 R01 GM057148-07	129,823
University of California Irvine	93 309	GM-69013	44,533
University of California Los Angeles	93 242	R01 MH61223-01	161,527
University of California Los Angeles	93 389	5 P41 RR13642-04	355,494
University of California Los Angeles	93 396	3 P01 CA032737	76,274
University of California Los Angeles	93 929	1 R01 HD044830	18,180
University of California San Francisco	93 821	R01 GM034993	64,757
University of North Carolina	93 242	U54 MH66418	81,822
University of Southern California	93 866	1 R01 AG13860-01	(3,093)
University of Tennessee	93 853	R01 NS046356-01	75,181
University of Texas Southwestern Medical Center	93 862	5 U54 GM62114	44,630
University of Texas Southwestern Medical Center	93 859	U54 GM62114	1 564,096
University of Texas Southwestern Medical Center	93 859	1 U54 GM62114-01	81,542
University of Utah	93 821	P01 GM66521	307,069
Whitehead Institute For Biomedical Research	93 172	U54 HG002045	<u>126,169</u>
Total National Institutes of Health – Pass-Through			<u>4,820,521</u>
Total Department of Health and Human Services – Pass-Through			<u>4,820,521</u>
<b>Department of Interior</b>			
<b>United States Geological Survey ("USGS")</b>			
University of Southern California	15 807	02HQA G0008	193,457
<b>Department of State</b>			
Nat'l Council For Eurasian and East European Research	19 3	Title VIII Grant	15,309
<b>Environmental Protection Agency ("EPA")</b>			
Harvard University	66 5	RD-83095901	77,955
Howard University	66.5	R-82962601-0	(6,765)
University of California Riverside	66	CR 827331-01	<u>(7,759)</u>
Total EPA Pass-Through			<u>63,431</u>
<b>National Aeronautics and Space Administration ("NASA")</b>			
Case Western Reserve University	43	NAG5-12723	110,382
Emcore Corporation	43	NAS3-02201	93,146
Harvard University	43	NAG5-5396	1,118
Lockheed Martin Corporation	43	NAS2-03004	28,727
National Space Biomedical Research Institute	43	NCC-9-58-317	37,376
Pennsylvania State University	43	NAG5-13620	36,134
Smithsonian Astrophysical Observatory	43	NAS8-39073	267,297
Smithsonian Astrophysical Observatory	43	NAS8-03060	67,935

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Aeronautics and Space Administration ("NASA")</b>			
<b>(Continued)</b>			
Space Telescope Science Institute	43	NAS5-26555	\$ 1,167,836
Universities of Space Research Association	43	NCC3-975	175,017
Universities of Space Research Association	43	NAS5-97001	550,540
University of Alabama In Huntsville	43	NCC8-200	(1,734)
University of California Berkeley	43	NAS5-00133	1,494,475
University of California Berkeley	43	NAG5-11200	48,816
University of California Los Angeles	43	NCC2-1364	168,370
University of Colorado at Boulder	43	NAG5-11911	11,458
University of Maryland	43	NAG5-10876	1 086
University of Maryland	43	NAG5-8877	70,060
University of Southern California	43	NCC2-1224	18,994
University of Washington	43	NCC2-1273	<u>60,630</u>
Total National Aeronautics and Space Administration – Pass-Through			<u>4,407,663</u>
<b>National Science Foundation</b>			
Brown University	47.07	CCR-0086065	97,139
California Association For Research In Astronomy	47.049	AST-9613615	877,256
California State University Los Angeles	47.049	DMR-0351848	36,832
Cornell University	47.049	AST-0138263	113,220
Florida International University	47.049	PHY-0312038	114,999
Incorporated Research Institute For Seismology	47.05	EAR-0004370	132,609
Johns Hopkins University	47.049	PHY-9980044	(5,261)
Johns Hopkins University	47.049	AST-0122449	621 138
Massachusetts Institute of Technology	47.049	PHY-0326281	47,641
Michigan State University	47.074	DEB-9981397	77,345
National Bureau of Economic Research, Inc	47.075	SES-0214013	3,110
National Radio Astronomy Observatory	47.049	AST-9223814	137,131
National Radio Astronomy Observatory	47.049	AST-0223851	2,709
New Jersey Institute of Technology	47.049	AST-9987366	100,229
New York University	47.041	CTS-0103002	181,041
Northeastern University	47.049	PHY-0204786	347,450
Northwestern University	47.049	AST-0243156	7,721
Pennsylvania State University	47.049	DMS-0101360	81,849
Rice University	47	DMR-0073046	92 355
UNAVCO Inc.	47.05	EAR-0318549	143,416
University of California Berkeley	47.074	MCB-0313546	97,017
University of California Berkeley	47.078	OPP-0091840	52,065
University of California Berkeley	47.041	EEC-9701568	211,703
University of California Irvine	47.074	EF-0330786	1,062,887
University of California Los Angeles	47	CCR-0121778	112,045
University of California Los Angeles	47.041	ECS-0103559	15,054
University of California San Diego	47.07	ACI-96-19020	864,159
University of California San Diego	47.041	EEC-0088130	(2,612)
University of California San Diego	47.07	ACI-0122272	1,676,764
University of California San Diego	47.07	ACI-0332113	289,513
University of California Santa Cruz	47.049	AST-9876783	118,256



**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (Continued)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Science Foundation (Continued)</b>			
University of Chicago	47.049	ASI-0096913	\$ 297,412
University of Delaware	47.07	EIA-0103723	106,217
University of Florida	47.07	ACI-0086044	213,867
University of Florida	47.049	PHY-0122557	85,381
University of Georgia	47.041	CMS-0404031	2,098
University of Illinois	47.07	ACI-9619019	64,950
University of Illinois	47.041	DMI-0328162	118,290
University of Iowa	47.05	ATM-0205198	154,724
University of Southern California	47.05	EAR-0106924	125,494
University of Southern California	47.05	EAR-0137983	17,263
University of Southern California	47	EEC-0310723	288,171
University of Southern California	47.041	ESC-0335110	57,628
University of Texas	47.049	DMR-0103134	147,346
University of Virginia	47.075	SES-0094800	49,054
University of Washington	47.049	DMR-0120967	319,840
US Civilian Research and Development Foundation	47.075	INT-9531011	<u>14,000</u>
Total National Science Foundation – Pass-Through Funds			<u>9,768,515</u>
Total Research and Development – Pass-Through Funds			<u>34,614,546</u>
Total Research and Development Program			<u>206,013,539</u>
<b>Department of Education</b>			
<b>Student Financial Assistance Cluster</b>			
<b>Direct Funds</b>			
<b>Department of Education</b>			
Federal Work Study Program		84.033	382,228
Federal Supplemental Educational Opportunity Grant		84.007	533,988
Federal Pell Grant Program		84.063	<u>445,551</u>
Total Student Financial Assistance Cluster			<u>1,361,767</u>
Total Major Programs			<u>207,375,306</u>

**California Institute of Technology**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2004**

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>NON-MAJOR PROGRAMS</b>			
<b>Student Financial Assistance Program</b>			
<b>Pass-Through Funds</b>			
<b>Department of Education</b>			
California Student Aid Commission Cal Grants	84 069A		\$ <u>10,846</u>
Total Department of Education – Pass-Through Funds			<u>10,846</u>
Total Non-Major Programs			<u>10,846</u>
Total Federal Awards			<u>\$ 207,386,152</u>

**California Institute of Technology**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2004**

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**1. Summary of Significant Accounting Policies**

***General***

The California Institute of Technology (the "Institute") is a private, not-for-profit institution of higher education based in Pasadena, California. 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 United States government.

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared in accordance with the Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments and Not-for-Profit Organizations and the American Institute of Certified Public Accountants' Audit and Accounting Guide, Government Auditing Standards and Circular A-133 Audits. The Schedule summarizes the expenditures of the Institute under programs of the federal government for the year ended September 30, 2004. Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute in accordance with accounting principles generally accepted in the United States of America.

The accompanying Schedule has been prepared on the cash basis of accounting.

Negative balances reflected in the Schedule represent adjustments to prior periods.

Expenditures for direct costs are recognized as incurred using the cash basis of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursements. Moreover, expenditures include a portion of costs associated with general institution activities (Facilities and Administrative costs) which are allocated to awards under negotiated formulas commonly referred to as indirect cost rates.

The Institute receives funding or reimbursement from Federal Government agencies primarily for research under Government grants and contracts. Grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Department of Defense's Office of Naval Research ("ONR"), the Institute's cognizant federal agency. The Institute's indirect cost reimbursements traditionally have been based on fixed rates with carry forward of under- or over-recoveries. ONR engages the Defense Contract Audit Agency ("DCAA") to audit both direct and indirect charges to the Institute's grants and contracts. ONR has approved final indirect cost rates through 2002. 2004 and 2003 actual incurred costs are currently under audit by DCAA and, in the opinion of management, the results of such audits will not have a material impact on the Schedule.

**California Institute of Technology**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2004**

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**1. Summary of Significant Accounting Policies (Continued)**

***Basis of Presentation (Continued)***

The Institute discloses its accounting policies for the purposes of direct costs and facilities and administrative costs on a Disclosure Statement, in accordance with Cost Accounting Standards. Certain revisions to the Disclosure Statement have been filed with ONR; however, final approval has not been received. In the opinion of management, the official approval process will not have a material effect on the Schedule.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Institute and agencies and departments of the federal government and all subawards to the Institute by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into major program categories in accordance with the provisions of OMB Circular A-133. The awards set forth in this Schedule do not include amounts related to the Jet Propulsion Laboratory ("JPL") which is a NASA Federally Funded Research and Development Center ("FFRDC") managed by the Institute. Please refer to the separate financial statements and related reports of the Independent Auditors of JPL and the DCAA.

**2. Loan Advances**

During the year ended September 30, 2004, the Institute advanced loans totaling \$351,044 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2004 was \$5,827,439. The Federal Perkins Loan Program is administered directly by the Institute. Balances and transactions related to this program are included in the Institute's financial statements.

**3. Federal Direct Loan Program**

During the year ended September 30, 2004, the Institute processed \$718,929 of new loans under the Federal Direct Loan Program (CFDA Number 84.268), (which includes Subsidized Stafford Loans, Parent Loans for Undergraduate Students and Unsubsidized Stafford Loans)

**4. Transfers**

During the year ended September 30, 2004, the Institute transferred \$137,697 from the Federal Work Study Program (FWS) to the Federal Supplemental Educational Opportunity Grant Program (FSEOG). The transferred amounts are reflected as revenues/expenditures recognized in the program in which the funds were expended.

**California Institute of Technology**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2004**

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**5. Federal Work Study (FWS) Carryforwards**

During the year ended September 30, 2004, the Institute spent \$55,079 of FWS funds which were carried forward from the year ended September 30, 2003. During year ended September 30, 2004, the Institute carried forward \$55,079 of FWS funds which are to be spent during the year ended September 30, 2005. The carryforward amount is reflected as revenues/expenditures recognized in the year in which the funds were expended.

**6. Subrecipient Pass-Throughs**

Of the federal expenditures presented in the Schedule, the Institute provided federal awards to subrecipients from the Institute's research and development cluster as follows:

<u>Program Title</u>	<u>Amount Provided to Subrecipients</u>
<b>Department of Commerce</b>	
National Oceanic & Atmospheric Administration	\$ 24,855
<b>Department of Defense</b>	
Air Force Office of Scientific Research	141,054
Air Force Research Laboratory	110,332
Army Research Office	932,459
Defense Advanced Research Projects Agency	197,833
National Imagery and Mapping Agency	32,529
Office of Naval Research	995,919
Space and Naval Warfare System	536,139
	<u>2,946,265</u>
<b>Department of Energy</b>	
Department of Energy	89,364
Lawrence Livermore National Laboratory	658,394
University of Nevada Reno	86,126
	<u>833,884</u>
<b>Department of Health and Human Services</b>	
National Institutes of Health	<u>2,371,266</u>
<b>National Aeronautics &amp; Space Administration</b>	
National Aeronautics & Space Administration	3,894,430
Universities of Space Research Association	45,977
	<u>3,940,407</u>
<b>National Science Foundation</b>	
National Science Foundation	<u>4,653,325</u>
Total Amount Provided to Subrecipients	<u>\$ 14,770,002</u>

**Report of Independent Auditors 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***

To the Board of Trustees  
California Institute of Technology

We have audited the financial statements of California Institute of Technology (the "Institute") as of and for the year ended September 30, 2004, and have issued our report thereon dated November 12, 2004. 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 the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Institute'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*.

We noted certain matters that we reported to management of the Institute in a separate letter dated November 12, 2004.



This report is intended solely for the information and use of the Institute's audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties

*PriceWaterhouseCoopers LLP*

November 12, 2004

**Report of Independent Auditors on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

To the Board of Trustees  
California Institute of Technology

**Compliance**

We have audited the compliance of California Institute of Technology (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004, except as described in the second paragraph of this report and except for compliance as it relates to the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by the California Institute of Technology), which is audited and reported upon as a separate entity by other auditors and us pursuant to Section 200(e) of OMB Circular A-133 and is outside the scope of this audit. The Institute's major federal programs are 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 the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

We did not audit the Institute's compliance with the requirements governing student loan billing and due diligence in collection compliance requirements specified by the Federal Perkins Loan Program and described in the OMB *Circular A-133 Compliance Supplement*. Compliance with these requirements was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the Institute's compliance with those requirements, is based solely on the report of the other auditors.

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 the Institute'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 on the Institute's compliance with those requirements.





In our opinion, based on our audit and the reports of other auditors, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying independent auditors' schedule of findings and questioned costs as items 04-1 through 04-4.

### **Internal Control Over Compliance**

The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except as noted in the second paragraph following below and as to Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by the California Institute of Technology) which is audited and reported upon as a separate entity by other auditors and us pursuant to Section 200(e) of OMB Circular A-133 and is outside the scope of this audit, we considered the Institute's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We did not consider internal control over compliance with the student loan billing and due diligence in collection compliance requirements specified by the Federal Perkins Loan Program and described in the OMB Circular A-133 *Compliance Supplement*. Internal control over these compliance requirements was considered by the other auditors referred to above; and our report, insofar as it relates to the Institute's internal control over these compliance requirements, is based solely upon the report of the other auditors.

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

This report is intended solely for the information and use of the Institute's audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "PRICEWATERHOUSECOOPERS LLP". The signature is written in a cursive, stylized font.

March 15, 2005

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2004**

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**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weakness(es)?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings that are required to be reported in accordance with OMB Circular A-133?	Yes

Identification of major programs:

	<b>CFDA Number</b>
1. Research and Development Cluster	Various
2. Student Financial Assistance Cluster	Various

Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee?	Yes

**SECTION II – FINANCIAL REPORTING FINDINGS**

No matters are reportable.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 04-1 Subrecipient A-133 Reports**

**Condition**

The Institute did not obtain the appropriate certification of compliance from seven of the thirteen subrecipients selected for testing.

**Questioned Costs**

None.

**Cause**

The Institute did not follow its established policies and procedures to ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133

**Criteria**

A pass-through entity is responsible pursuant to OMB Circular A-133 Section 400 and OMB Circular A-110 Section 51 for: (1) ensuring that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and OMB Circular A-110 and that the required audits are completed within 9 months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

**Effect**

The Institute is not in compliance with subrecipient monitoring requirements.

**Recommendation**

The Institute should develop monitoring controls to ensure adherence to the Institute's established policies and procedures.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-2 Procurement**

**Condition**

Based on our review, the Institute was not in compliance with A-133, A-110 and FAR 52 203-2. Our review of selected purchase order ("PO") files, determined that 2 of the 30 transactions tested were processed without proper signature authority. One PO was improperly signed by an employee outside of the Procurement Department and the second PO was improperly signed by an employee who was not authorized to approve the dollar value of the purchase order. The amounts were \$35,371 (CFDA 47.049) and \$583,735 (CFDA 93.389), respectively.

**Questioned Costs**

None.

**Cause**

Procurements were approved without following the established policies and procedures of the Institute.

**Criteria**

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110. All non-Federal entities shall follow Federal laws and implement regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

**Effect**

By not following its policies and procedures established for ensuring compliance with the procurement compliance requirements, the Institute could potentially make inappropriate expenditures from federal awards.

**Recommendation**

Improve policies and procedures for monitoring adherence to the procurement process.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-3 Suspension & Debarment**

**Condition**

Based on our review of selected purchase order files, we noted the following noncompliance with A-133, A-110 and FAR 52 203-2:

- 1 of the 30 PO files tested lacked a Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (=> \$100,000) (CFDA 12 000)
- 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (=>\$25,000) (CFDA 12 000, 47 049, 47.041)

**Questioned Costs**

None.

**Cause**

The Institute does not have a procedure in place to ensure that vendor certifications are received or a procedure to review vendor status on the Federal Excluded Parties List System website at <http://epls.arnet.gov>.

**Criteria**

Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000. A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date only 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 are considered "covered transactions". §\_\_ 220 of the government wide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., sub-awards to subrecipients) are considered "covered transactions" this was the case before November 26, 2003, and was not changed by the revised rules.

**Effect**

Inappropriate contracting with entities which are suspended or debarred and the potential of the related expenditures being disallowed.

**Recommendation**

Design and implement policies and procedures for receiving certifications from vendors or reviewing vendor status on the website before entering into the contracts.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
(Continued)  
For the Year Ended September 30, 2004**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 04-4 Reporting**

**Condition**

While performing our testing over compliance with technical reporting compliance requirements, one instance from a sample of thirty reports was determined to be noncompliant. We discovered that one invention report was not filed as required by the award contract (CFDA 12.910).

**Questioned Costs**

None.

**Cause**

The Institute does not have a procedure in place to ensure that the reports required by the grants are submitted on a timely basis.

**Criteria**

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

**Effect**

Noncompliance with the technical report requirements of specific awards.

**Recommendation**

We recommend that the Institute design and implement policies and procedures such as a "tickler file" to track what reports are due for the various awards, the due date of those reports, and have an individual or department monitor the submission of the reports by the due date.

**Management Response**

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology**  
**Summary Schedule of Prior-Year Audit Findings**  
**and Questioned Costs**  
**For the Year Ended September 30, 2004**

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**Finding 03-1 Student Status Changes not Reported in a Timely Manner**

A new Registrar was hired in May 2004 and has initiated a business process review of the drop and withdrawal procedures to ensure that all transactions are processed internally in a timely fashion. The Institute has joined the National Student Loan Clearinghouse (NSLC) who does the reporting to NSLDS on the Institute's behalf. The Institute arranged to report at least four times a term to the NSLC as of the Fall 2004 term. All changes for the Student Status Confirmation Report (SSCR) as well as the deferment requests are reported through the NSLC on the Institute's behalf within the 30 day statutory requirement. No finding noted during the testing in fiscal year 2004.

**Finding 03-2 Procurement Policies**

In 2003, our auditors noted a finding over the inappropriate approval of a purchase order. The Institute's Corrective Action Plan regarding this finding was not sufficiently implemented to prevent the additional occurrences in 2004. This finding is addressed in the 2004 Management's Views and Corrective Action Plan



*CALIFORNIA INSTITUTE OF TECHNOLOGY*

Pasadena, California 91125

Office of the Associate Vice President for Finance & Controller  
Financial Services Administration Building, Mail Code 229-15  
626-395-3937

June 15, 2005

PricewaterhouseCoopers LLP  
350 South Grand Avenue  
Los Angeles, California 90071-2889

Subject: California Institute of Technology Management's Views and Corrective Action Plan

Reference: OMB Circular A-133 Audit for Fiscal Year 2004

Dear Sirs:

Enclosed is the California Institute of Technology's OMB Circular A-133 Management's Views and Corrective Action Plan for fiscal year ended September 30, 2004.

Please feel free to call me if any further information or clarification is required.

Sincerely,

A handwritten signature in cursive script that reads "Sharon E. Patterson".

Sharon E. Patterson  
Associate Vice President for Finance and Controller

Enclosure



# CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Finance & Controller  
 Financial Services Administration Building, Mail Code 229-15  
 626-395-3937

## Fiscal Year 2004

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
04-1	The Institute did not obtain the appropriate certification of compliance from seven of the thirteen subrecipients selected for testing.	The Institute agrees that certifications were not obtained from all sub-awardees during 2004.	Director of Procurement	July 2005
04-2	Based on our review, the Institute was not in compliance with A-133, A-110 and FAR 52.203-2. Our review of selected purchase order ("PO") files, determined that 2 of the 30 transactions tested were processed without proper signature authority. One PO was improperly signed by an employee outside of the Procurement Department and the second PO was improperly signed by an employee who was not authorized to approve the dollar value of the purchase order. The amounts were \$35,371 (CFDA 47.049) and \$583,735 (CFDA 93.389), respectively.	The Institute is currently implementing controls to ensure compliance with subrecipient monitoring requirements. The Institute agrees with this finding.	Director of Procurement	April 2005

# CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Finance & Controller  
 Financial Services Administration Building, Mail Code 229-15  
 626-395-3937

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
04-3	<p>Based on our review of selected purchase order files, we noted the following noncompliance with A-133, A-110 and FAR 52.203-2:</p> <ul style="list-style-type: none"> <li>• 1 of the 30 PO files tested lacked a Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (=&gt; \$100,000) (CFDA 12.000)</li> <li>• 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (=&gt;\$25,000) (CFDA 12.000, 47.049, 47.041)</li> </ul>	<p>The Institute agrees with this finding.</p> <p>Purchasing Services Contracting Officers have been specifically reminded to use the existing PO documentation checklist in all purchase orders. The checklist serves as an administrative reminder to the purchasing agent identifying the thresholds whereby various certifications are required. Employees have been advised that future failure to adhere to these procedural requirements will result in appropriate disciplinary action.</p>	Director of Procurement	April 2005
04-4	<p>While performing our testing over compliance with technical reporting requirements, one instance from a sample of thirty reports was determined to be noncompliant. We discovered that one invention report was not filed as required by the award contract. (CFDA 12.910)</p>	<p>The Institute agrees with this finding.</p> <p>The Office of Sponsored Research will establish a tickler system to remind responsible individuals of their technical and/or invention reporting obligations.</p>	Senior Director of Sponsored Research	September 2005