

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
(exclusive of the Jet Propulsion Laboratory)**

For the Year Ended September 30, 2005

California Institute of Technology
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For the Year Ended September 30, 2005

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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, 2005 and 2004, 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 January 13, 2006 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, 2005. 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, 2005 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. As described in Note 1 to the Schedule of Expenditures of Federal Awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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

January 13, 2006

California Institute of Technology
Balance Sheets
At September 30, 2005 and 2004
(Dollars in Thousands)

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 10,260	\$ 6,122
Advances on grants and contracts	2,854	2,935
Security deposits	234,767	244,665
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,277 and \$6,170 respectively:		
United States government	156,396	145,411
Other	17,605	18,884
Contributions receivable, net (Note C)	195,106	233,780
Investments, including securities pledged or on loan of \$230,164 and \$239,868 respectively (Note D)	1,780,900	1,540,028
Prepaid expenses and other assets	64,863	69,611
Deferred United States government billings (Note E)	276,072	249,194
Property, plant, and equipment, net (Note F)	681,786	651,985
	<u>\$ 3,420,609</u>	<u>\$ 3,162,615</u>
Total assets		
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 294,643	\$ 256,941
Security deposits	234,767	244,665
Deferred revenue and refundable advances	26,730	29,140
Annuities, trust agreements and agency funds	91,324	72,549
Bonds and notes payable (Note G)	242,906	239,688
Accumulated postretirement benefit obligation (Note J)	299,478	271,910
	<u>1,189,848</u>	<u>1,114,893</u>
Total liabilities		
Commitments and contingencies (Note K)		
Net assets (Note H):		
Unrestricted	1,350,358	1,172,765
Temporarily restricted	301,630	315,814
Permanently restricted	578,773	559,143
	<u>2,230,761</u>	<u>2,047,722</u>
Total net assets		
Total liabilities and net assets		
	<u>\$ 3,420,609</u>	<u>\$ 3,162,615</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, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Changes in unrestricted net assets:		
Revenues:		
Tuition and fees, net of student financial aid of \$33,943 and \$32,795, respectively	\$ 19,393	\$ 17,549
Investment return	214,115	166,958
Gifts	27,383	21,342
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,638,455	1,585,669
Other United States government - direct	164,641	157,145
Non-United States government - direct	10,491	9,397
Indirect cost recovery and management allowance	100,899	97,437
Auxiliary enterprises	34,546	32,881
Other	15,297	16,305
Net assets released from restrictions	87,545	29,783
Total revenues and net assets released from restrictions	<u>2,312,765</u>	<u>2,134,466</u>
Expenses:		
Instruction and academic support	211,286	200,735
Organized research:		
Jet Propulsion Laboratory	1,638,455	1,585,669
Other Institute research	185,170	189,241
Institutional support	64,135	75,920
Auxiliary enterprises	35,342	33,585
Total expenses	<u>2,134,388</u>	<u>2,085,150</u>
Excess of revenues over expenses	178,377	49,316
Other changes in net assets:		
Increase in minimum pension liability	(1,110)	-
Redesignations of net assets	326	1,571
Increase in unrestricted net assets	<u>\$ 177,593</u>	<u>\$ 50,887</u>
Changes in temporarily restricted net assets:		
Gifts	\$ 75,021	\$ 18,839
Investment return	1,341	2,717
Net assets released from restrictions	(87,545)	(29,783)
Redesignations of net assets	(3,001)	3,999
Decrease in temporarily restricted net assets	<u>\$ (14,184)</u>	<u>\$ (4,228)</u>
Changes in permanently restricted net assets:		
Gifts	\$ 16,734	\$ 39,000
Investment return	201	168
Other income	20	56
Redesignations of net assets	2,675	(5,570)
Increase in permanently restricted net assets	<u>\$ 19,630</u>	<u>\$ 33,654</u>
Increase in total net assets	\$ 183,039	\$ 80,313
Net assets at beginning of year	<u>2,047,722</u>	<u>1,967,409</u>
Total net assets at end of year	<u>\$ 2,230,761</u>	<u>\$ 2,047,722</u>

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, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Cash flows from operating activities:		
Increase in net assets	\$ 183,039	\$ 80,313
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	40,885	39,195
Contributions restricted for long-term investment and capital projects	(27,279)	(74,678)
Investment return restricted for long-term investment and capital projects	(2,157)	(1,510)
Realized and unrealized gains on investments	(189,051)	(145,839)
Gifts of property, plant, and equipment	(209)	(47)
Gifts and other in-kind distributions of securities	(5,384)	(9,679)
Actuarial change in trust liability	3,012	1,784
Gain on sales of property, plant, and equipment	(487)	(1,435)
Changes in assets and liabilities:		
Accounts and notes receivable, net	(9,706)	8,115
Contributions receivable, net	(31,589)	61,266
Deferred United States government billings	(26,878)	(31,612)
Prepaid expenses and other assets	4,311	(7,659)
Accounts payable and accrued expenses	14,129	40,987
Deferred revenue and refundable advances	(2,410)	(325)
Agency funds	1,190	(295)
Accumulated postretirement benefit obligation	27,568	39,477
Net cash used in operating activities	(21,016)	(1,942)
Cash flows from investing activities:		
Purchases of investments	(878,688)	(957,912)
Proceeds from sale of investments	929,344	1,017,494
Purchases of property, plant, and equipment	(70,510)	(54,554)
Proceeds from sale of property, plant, and equipment	2,435	4,140
Net cash (used in) provided by investing activities	(17,419)	9,168
Cash flows from financing activities:		
Change in book overdraft position	-	(19,678)
Change in advances on grants and contracts	-	(902)
Contributions restricted for long-term investment and capital projects	39,032	22,252
Investment return restricted for long-term investment and capital projects	2,157	1,510
Cash received under split-interest agreements	6,066	12,171
Cash payments made under split-interest agreements	(7,682)	(12,210)
Net borrowings (repayments) on lines of credit	3,000	(5,000)
Net cash provided by (used in) financing activities	42,573	(1,857)
Net increase in cash and cash equivalents	4,138	5,369
Cash and cash equivalents at beginning of year	6,122	753
Cash and cash equivalents at end of year	\$ 10,260	\$ 6,122
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	\$ 6,438	\$ 6,506
Securities lending	\$ 234,767	\$ 244,665
Securities received to satisfy pledge payments	\$ 49,897	\$ 689
Accrued purchases of property, plant and equipment	\$ 1,697	\$ 3,147

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

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

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. Investment 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, 2005 and 2004
(Dollars in Thousands)

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.

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. There were no overdrafts at September 30, 2005 and 2004.

Advances on Grants and Contracts

Advances on grants and contracts include certain cash balances, totaling \$2,854 and \$2,935 at September 30, 2005 and 2004, 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, 2005 and 2004
(Dollars in Thousands)

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 price 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. Amounts payable for securities purchased were \$19,929 and \$15,716 at September 30, 2005 and 2004, respectively.

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.

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 that attempts to preserve 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 of such funds. As the market value of the portfolio increases, this deficiency will reverse. Unrealized losses resulting from market declines totaled \$13,554 and \$32,645 at September 30, 2005 and 2004, respectively, 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, 2005 and 2004, investments include guaranteed investment contracts valued at \$14,213 and \$39,896, respectively, that were purchased with unexpended proceeds from the Series 2003A California Educational Facilities Authority revenue bonds. These assets are limited to use in specific construction projects and interest payments related to CEFA bonds.

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

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 costs related to debt used for construction of assets are 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 charitable remainder trusts for which the Institute serves as trustee.

For irrevocable agreements, assets contributed are included in Institute investments and stated 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 the appropriate risk free rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.6% to 11.2%. The Annuity 2000 Mortality Table and the 1990 Group Annuity Mortality Tables were used in 2005 and 2004, respectively. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled \$67,383 and \$56,379 at September 30, 2005 and 2004, respectively.

The Institute is also the trustee for certain revocable agreements. Assets contributed are included in Institute investments at fair value, and amounts equal to the value of assets are included in liabilities for annuities, trust agreements, and agency funds. Total assets and liabilities for revocable agreements were \$14,985 and \$8,406 at September 30, 2005 and 2004, respectively.

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

Beneficial Interests

The Institute is the beneficiary of charitable remainder and perpetual trusts held and administered by others. The present values of the estimated future cash flows from the trusts approximates the value of the underlying assets and is included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the trusts are established. Distributions from perpetual trusts are recorded as contribution revenues and the carrying value of the beneficial interests is adjusted for changes in the values of the underlying assets. These assets totaled \$20,351 and \$20,788 at September 30, 2005 and 2004, respectively.

Revenue Recognition

The Institute's revenue recognition policies are as follows:

- *Tuition and Fees* - Student tuition and fees are recorded as revenues during the year the related academic services are rendered. 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.
- *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 from contributions payable in securities or other investments is adjusted to reflect the year end value of securities/investments to be contributed. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Gifts of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Gifts restricted to the acquisition or construction of long-lived assets are reported as temporarily restricted revenue. 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. Amounts received in excess of expenditures are recorded as deferred revenue.
- *Auxiliary* - Revenues from supporting services, such as dining facilities, faculty and student housing, and bookstores are recorded at time of delivery of a product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

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. Interest expense, net of capitalized interest, for the years ended September 30, 2005 and 2004 was \$6,811 and \$6,547, respectively, and capitalized interest was \$3,143 and \$2,686, respectively.

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 \$11,249 and \$13,691 at September 30, 2005 and 2004 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.
- *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 \$206,739 and \$202,752 at September 30, 2005 and 2004, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs are carried at cost, which approximates fair value.
- *Contributions receivable and beneficial interests* - Determination of the fair value of contributions receivable could not be made without incurring excessive costs. The fair value of beneficial interests approximates the market value of the underlying assets.

C. Contributions Receivable, net

Contributions receivable consist 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 each gift. Discount rates on all outstanding contributions at September 30, 2005 and 2004, range from 2.75% to 5.84%.

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

Contributions receivable consisted of the following at September 30, 2005 and 2004:

	2005	2004
Contributions receivable at beginning of year, net	\$ 233,780	\$ 246,831
Discount at beginning of year	13,928	16,487
Allowance for doubtful accounts at beginning of year	<u>2,195</u>	<u>1,205</u>
Contributions receivable at beginning of year, gross	249,903	264,523
New contributions received	4,903	64,175
Contribution payments received	(76,122)	(23,661)
Adjustments to fair value of securities to be contributed	29,730	(53,900)
Less: Write-offs and other adjustments	<u>(1,693)</u>	<u>(1,234)</u>
Contributions receivable at end of year, gross	206,721	249,903
Discount at end of year	(9,785)	(13,928)
Allowance for doubtful accounts at end of year	<u>(1,830)</u>	<u>(2,195)</u>
Contributions receivable at end of year, net	<u>\$ 195,106</u>	<u>\$ 233,780</u>

Gross contributions receivable carried the following restrictions at September 30, 2005 and 2004:

	2005	2004
Endowment for programs, activities, and scholarships	\$ 26,900	\$ 36,464
Building construction	49,591	64,256
Education, general and time restrictions	<u>130,230</u>	<u>149,183</u>
Total contributions receivable, gross	<u>\$ 206,721</u>	<u>\$ 249,903</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

Gross contributions receivable are expected to be realized as follows at September 30, 2005 and 2004:

	2005	2004
Within one year	\$ 79,372	\$ 75,283
Between one year and five years	116,340	173,205
More than five years	<u>11,009</u>	<u>1,415</u>
Total contributions receivable, gross	<u>\$ 206,721</u>	<u>\$ 249,903</u>

During the year ended September 30, 2002, the Gordon and Betty Moore Foundation (Foundation), which shares a common board member with the Institute, informed the Institute of its intention to fund research and educational projects totaling \$300,000 over ten years. At September 30, 2005 and 2004, contributions receivable included \$1,993 and \$2,108 respectively, related to one research project; all other project awards made to date have been recorded as conditional gifts. At September 30, 2005, \$89,130 of the intention had been received in cash.

In December 2005, the Foundation and the Institute determined that the remaining amount of the original commitment should be deemed unconditional. Therefore, the Institute plans to record additional contributions receivable and temporarily restricted revenue of approximately \$196,000 in the year ending September 30, 2006.

At September 30, 2005 and 2004, \$119,123 and \$134,084, respectively, in contributions receivable were due from a member of the Institute's Board of Trustees.

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

D. Investments

Investments consisted of the following at September 30, 2005 and 2004:

	2005	2004
Short-term investments	\$ 171,597	\$ 174,313
Government fixed income securities	166,762	102,733
Corporate fixed income securities	69,151	66,493
Domestic equity securities	363,579	368,553
International equity securities	320,158	194,596
Guaranteed investment contracts	14,213	39,896
Alternative investments:		
Absolute return strategies	245,540	183,003
Private equity	155,309	179,029
Inflation hedges	264,848	220,055
Real estate mortgages, notes, and other investments	9,743	11,357
Total investments	\$ 1,780,900	\$ 1,540,028

Investments were categorized as follows at September 30, 2005 and 2004:

	2005	2004
Consolidated endowment pool	\$ 1,469,455	\$ 1,257,737
Separately invested endowments	51,023	49,676
Subtotal endowment investments	1,520,478	1,307,413
Trusts, annuities, and other	260,422	232,615
Total investments	\$ 1,780,900	\$ 1,540,028

California Institute of Technology
Notes to Financial Statements
September 30, 2005 and 2004
(Dollars in Thousands)

Investment return consisted of the following for the years ended September 30, 2005 and 2004:

	2005	2004
Interest and dividend income	\$ 30,420	\$ 27,341
Net realized gains	124,140	36,368
Net unrealized appreciation	64,911	109,471
Less: management fees	<u>(3,814)</u>	<u>(3,337)</u>
Total investment return	<u>\$ 215,657</u>	<u>\$ 169,843</u>

E. Deferred United States Government Billings

Deferred United States government billings consisted of the following at September 30, 2005 and 2004:

	2005	2004
Accumulated postretirement benefit obligation - JPL	\$ 230,817	\$ 210,579
Pension benefit asset - JPL	-	(3,044)
Pension benefit liability - JPL	359	-
Accrued vacation benefits - JPL	<u>44,896</u>	<u>41,659</u>
Total deferred United States government billings	<u>\$ 276,072</u>	<u>\$ 249,194</u>

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 or liability, 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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(Dollars in Thousands)

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2005 and 2004:

	2005	2004
Land and land improvements	\$ 55,634	\$ 55,149
Buildings and building improvements	513,165	483,844
Equipment	416,306	413,021
Construction in progress	100,384	80,142
Less: accumulated depreciation	<u>(403,703)</u>	<u>(380,171)</u>
Property, plant and equipment, net	<u>\$ 681,786</u>	<u>\$ 651,985</u>

Depreciation expense for the years ended September 30, 2005 and 2004 was \$40,667 and \$38,977, respectively.

G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2005 and 2004:

	2005	2004
California Educational Facilities Authority (CEFA) revenue bonds:		
Series 2003A due October 2032, with interest at 5.0% (including premium of \$441 and \$458, respectively)	\$ 70,441	\$ 70,458
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of \$2,629 and \$2,743, respectively)	47,936	47,822
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of \$2,771 and \$2,892, respectively)	50,529	50,408
Series 1994 due January 2024, with a variable interest rate reset weekly (2.70% and 1.67%, respectively)	30,000	30,000
Total revenue bonds	<u>198,906</u>	<u>198,688</u>
Other bonds and notes payable:		
Bank of America revolving bank credit facility (uncollateralized) expiring September 2006, with variable interest rates (average 2.02% at 9/30/04)	-	32,000
Bank of America revolving bank credit facility (uncollateralized) expires September 2006, with variable interest rates	-	-
Bank of New York money market loan program (uncollateralized) with no expiration date, with variable interest rates	-	-
JPMorgan Chase money market loan program (uncollateralized) with no expiration date, with variable interest rates (average 3.94% and 2.00%, respectively)	44,000	9,000
Total other bonds and notes payable	<u>44,000</u>	<u>41,000</u>
Total bonds and notes payable	<u>\$ 242,906</u>	<u>\$ 239,688</u>

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 lines of credit and Bank of New York money market program 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 lines of credit and the JPMorgan Chase and Bank of New York money market programs 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, 2005:

<u>Year Ending September 30</u>	<u>Amount</u>
2006	\$ 74,000
2007	-
2008	-
2009	-
2010	-
Thereafter	<u>168,906</u>
Total	<u>\$ 242,906</u>

Under certain circumstances, the CEFA Series 1994 variable rate revenue bonds could fail to be remarketed, requiring the Institute to repurchase the outstanding bonds totaling approximately \$30 million. Therefore, the bonds have been classified as repayable in the following year in the table above. However, the Institute believes a repurchase is unlikely.

California Institute of Technology
Notes to Financial Statements
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H. Components of Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2005 and 2004:

	2005	2004
Educational and research funds	\$ 146,911	\$ 163,992
Capital projects	91,368	79,849
Life income and annuity funds	36,045	37,861
Endowment and other funds functioning as endowment	27,306	34,112
	<hr/>	<hr/>
Total temporarily restricted net assets	\$ 301,630	\$ 315,814

Permanently restricted net assets were available for the following purposes at September 30, 2005 and 2004:

	2005	2004
Student loan funds	\$ 16,176	\$ 15,483
Life income and annuity funds	36,531	36,558
Endowment and other funds functioning as endowment	526,066	507,102
	<hr/>	<hr/>
Total permanently restricted net assets	\$ 578,773	\$ 559,143

I. Retirement Plans

The Institute's retirement plans cover substantially all of its employees. Except for a small number of qualified non-academic staff who participated in a defined benefit pension plan that was terminated in 1993 and who are covered by a successor defined benefit pension plan, the Institute provides a defined contribution retirement program for its qualified academic and administrative employees.

Pension costs for the defined contribution plans for the years ended September 30, 2005 and 2004 were \$17,676 and \$16,307, respectively, for the Campus and \$54,920 and \$50,396, respectively, for JPL.

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.

California Institute of Technology
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Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2005 and 2004:

	2005	2004
Change in the benefit obligation:		
Benefit obligation at beginning of year	\$ 32,952	\$ 31,158
Service cost	55	65
Interest cost	1,887	1,788
Benefits paid	(2,828)	(2,617)
Actuarial loss	2,756	2,558
	<u>34,822</u>	<u>32,952</u>
Benefit obligation at end of year	\$ 34,822	\$ 32,952

The accumulated benefit obligation for the defined benefit pension plan was \$34,786 and \$32,927 at the valuation dates.

	2005	2004
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 33,425	\$ 31,510
Actual return on plan assets	3,143	4,630
Benefits paid	(2,828)	(2,617)
Plan expenses	(63)	(98)
	<u>33,677</u>	<u>33,425</u>
Fair value of plan assets at end of year	\$ 33,677	\$ 33,425

	2005	2004
Funded status at valuation date:		
Funded status	\$ (1,145)	\$ 473
Unrecognized net actuarial loss	4,871	2,880
	<u>3,726</u>	<u>3,353</u>
Net amount recognized at end of year	\$ 3,726	\$ 3,353

California Institute of Technology
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	2005	2004
Amounts recognized in the financial statements:		
Prepaid benefit cost	\$ -	\$ 3,353
Accrued benefit liability	(1,109)	-
Additional minimum liability	4,835	-
	<u>3,726</u>	<u>3,353</u>
Net amount recognized at end of year	\$ 3,726	\$ 3,353

The benefit obligation exceeds the fair value of plan assets at September 30, 2005. In this situation, current accounting rules require the recognition of a liability equal to the unfunded accumulated benefit obligation, which is defined as the difference between the accumulated benefit obligation and the fair value of plan assets. Accordingly, the net liability recognized at September 30, 2005 disclosed above reflects the additional minimum pension liability adjustment. The cost of the adjustment for Campus was \$1,110 and is reflected in other changes in unrestricted net assets in the Statement of Activities. The cost related to JPL was \$3,725 and is reflected in both JPL direct expense and revenue, as well as in deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

Net periodic benefit related to the plan for the years ended September 30, 2005 and 2004 included the following components:

	2005	2004
Service cost	\$ 55	\$ 65
Interest cost	1,887	1,788
Expected return on plan assets	(2,315)	(2,186)
	<u>(373)</u>	<u>(333)</u>
Net periodic benefit	\$ (373)	\$ (333)

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

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

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2006	\$3,047
2007	3,222
2008	3,164
2009	3,089
2010	3,011
2011-2015	13,966

California Institute of Technology
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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, 2005 and 2004 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, 2005 and 2004, total retirement plan assets were invested as follows:

	2005	2004
Equity securities	57%	56%
Fixed income securities	43%	44%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the successor defined benefit plan at September 30, 2005 and 2004:

	2005	2004
Discount rate	5.25%	6.00%
Long term rate of compensation increase	4.00%	4.00%

To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. The average investment return of the plan has been 7.81% over the past nine calendar years. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in the choice of 7.25% for the expected return on plan assets.

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the successor defined benefit plan for the years ended September 30, 2005 and 2004:

	2005	2004
Discount rate	6.00%	6.00%
Expected return on plan assets	7.25%	7.25%
Long-term rate of compensation increase	4.00%	3.50%

California Institute of Technology
Notes to Financial Statements
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(Dollars in Thousands)

J. Postretirement and Postemployment Benefits Other Than Pensions

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

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

The Institute adopted the provisions of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 during the year ended September 30, 2005. The change in the benefit obligation and costs disclosed below include an actuarial gain of \$24,449 associated with the federal subsidy provided by the Act. Since the plan's measurement date of June 30, 2005, the Institute elected to provide two MA-PDP plans within the medical plans as of January 1, 2006 to eligible retirees (and their dependents) over 65 in lieu of applying for the 28% subsidy available for providing prescription drug benefits equivalent in value to Medicare Part D. This change in approach will be reflected in determining expense for the year ending September 30, 2006.

Certain financial information regarding the plan was as follows for the years ended September 30, 2005 and 2004, and is based on a June 30 measurement date:

	2005	2004
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 406,426	\$ 438,636
Service cost	11,724	14,442
Interest cost	23,386	25,861
Participant contributions	1,102	1,161
Benefits paid	(13,734)	(13,261)
Actuarial (gain) loss	(46,130)	(60,413)
	<u>\$ 382,774</u>	<u>\$ 406,426</u>
Benefit obligation at end of year	\$ 382,774	\$ 406,426

California Institute of Technology
Notes to Financial Statements
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(Dollars in Thousands)

	2005	2004
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	12,632	12,100
Participant contributions	1,102	1,161
Benefits paid	<u>(13,734)</u>	<u>(13,261)</u>
Fair value of plan assets at end of year	\$ -	\$ -

	2005	2004
Funded status at valuation date:		
Funded status	\$ (382,774)	\$ (406,426)
Unrecognized actuarial loss	<u>83,296</u>	<u>134,516</u>
Net amount recognized at end of year	\$ (299,478)	\$ (271,910)

Total benefit obligation at the end of 2005, excluding the Medicare Part D subsidy, was \$439,662.

Net periodic benefit cost related to the plan for the years ended September 30, 2005 and 2004 includes the following components:

	Net of Medicare		Excluding Medicare	
	Part D Subsidy		Part D Subsidy	
	2005	2004	2005	2004
Service cost	\$ 11,724	\$ 14,442	\$ 12,449	\$ 14,442
Interest cost	23,386	25,861	24,914	25,861
Amortization of loss	<u>5,090</u>	<u>11,274</u>	<u>6,644</u>	<u>11,274</u>
Net periodic benefit cost	\$ 40,200	\$ 51,577	\$ 44,007	\$ 51,577

California Institute of Technology
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(Dollars in Thousands)

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2005 and 2004:

	2005	2004
Discount rate	5.25%	6.25%
Health care cost trend rate	10.00%	10.00%

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2005 and 2004:

	2005	2004
Discount rate	6.25%	6.00%
Health care cost trend rate	10.00%	10.00%

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

<u>Year Ending</u> <u>September 30</u>	<u>Health Care Cost</u> <u>Trend Rate</u>
2006	9.00%
2007	8.00%
2008	7.00%
2009	6.00%
2010	5.50%
2011-2015	5.00%

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	\$ 6,836	\$ (5,677)
Effect on accumulated postretirement benefit obligation	\$ 65,395	\$ (52,101)

The Institute expects to contribute approximately \$15,000 (including \$1,200 in retiree contributions) to the plan during the next fiscal year

California Institute of Technology
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Estimated future benefit payments are as follows:

Fiscal Year	Net of Medicare Part D Subsidy	Excluding Medicare Part D Subsidy
2006	\$ 13,900	\$ 14,700
2007	14,400	16,200
2008	15,600	17,600
2009	16,700	18,900
2010	17,700	20,000
2011-2015	100,700	114,800

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 district court granted the motion, dismissing the case in its entirety. The district 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 was argued and submitted to the Ninth Circuit on October 17, 2005. On November 21, 2005 the Ninth Circuit issued its decision upholding dismissal of the suit.

California Institute of Technology
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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 changes in its net assets.

Commitments

At September 30, 2005, the Institute was committed under certain construction contracts in the amount of approximately \$35,000.

At September 30, 2005 and 2004, the Institute had committed to invest \$223,700 and \$129,300, respectively, with alternative investment managers and/or limited partnerships over the next ten years.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS			
Research and Development Cluster			
Direct Funds			
Executive Office of the President			
Office of Science and Technology Policy	27 011		\$ 104,983
Department of Agriculture			
United States Department of Agriculture	10 206		749
Department of Commerce			
National Institute for Standards and Technology	11 609		695
National Oceanic & Atmospheric Administration	11 431		45,364
Total Department of Commerce			<u>46,059</u>
Department of Defense			
Air Force	12 000	FA9550-05-1-0003	9 100
Air Force	12 000	IPA – SERCEL	170,655
Air Force	12 000	W30906	(373)
Air Force	12 630		1,202,446
Air Force	12 800		2,736,433
Air Force	12 910		489,485
Army	12 000	DASW01-03-C-0037	78,397
Army	12 000	W911NF-04-1-0201	386,291
Army	12 000	W911NF-05-1-0345	22,347
Army	12 000	W911NF-05-1-0434	24,965
Army	12 000	W912HQ-04-C-0045	189,075
Army	12 420		96,262
Army	12 431		2 622,567
Defense Advanced Research Projects Agency	12 910		3,560,191
Navy	12 000	N00173-04-P-0251	9,621
Navy	12 000	N00173-05-P-0153	6,035
Navy	12 000	N00244-02-C-0032	3,207,014
Navy	12 000	N66001-04-1-8913	20,780
Navy	12 000	N00014-04-1-0306	85,512
Navy	12 300		3,340,767
Navy	12 910		1 644,313
National Security Agency	12 901		29,910
National Geospatial-Intelligence Agency	12 000	HM158204C0017	165,906
Total Department of Defense			<u>20,097,699</u>

The accompanying notes are an integral part of this Schedule

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Direct Funds (Continued)			
Department of Education			
Department of Education	84 116		\$ 38,195
Department of Energy			
Department of Energy	81 000	DE-FC26-02N115383	199,967
Department of Energy	81 000	DE-FC26-02N141581	330,261
Department of Energy	81 000	DE-FC26-02N141631	163,038
Department of Energy	81 000	DE-FC26-04N115521	372,007
Department of Energy	81 000	DE-FC26-04N115525	376,675
Department of Energy	81 000	DE-FC26-04N142212	172,767
Department of Energy	81 000	DE-FC36-04GO14276	600,146
Department of Energy	81 000	DE-FG02-03ER15483	395,043
Department of Energy	81 000	DE-FG02-03ER54711	5,157
Department of Energy	81 000	DE-FG02-04ER25613	81,431
Department of Energy	81 000	DE-FG02-04ER25657	18,675
Department of Energy	81 000	DE-FG02-04ER41316	163,471
Department of Energy	81 000	DE-FG02-04ER46175	177,637
Department of Energy	81 000	DE-FG02-05ER15716	4,852
Department of Energy	81 000	DE-FG02-05ER15754	9,625
Department of Energy	81 000	DE-FG02-05ER41359	1 604 832
Department of Energy	81 000	DE-FG02-05ER41361	190,333
Department of Energy	81 000	DE-FG02-05ER63983	103,664
Department of Energy	81 000	DE-FG02-92ER40701	2,895,965
Department of Energy	81 049		518,520
Department of Energy	81 064		8,906,180
Department of Energy	81 087		<u>332,932</u>
Total Department of Energy			<u>17,623,178</u>
Department of Homeland Security			
Homeland Security Advanced Research Projects Agency	97 000	HSHQPA-05-9-0037	441,888
Department of State			
Department of State	19 000	S-I MAQM-04-GR-170	34,518
Department of Health and Human Services			
National Institutes of Health	93 000		3 009 946
National Institutes of Health	93 121		1 105 163
National Institutes of Health	93 172		3 821 852
National Institutes of Health	93 173		658,746

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Direct Funds (Continued)			
Department of Health and Human Services (Continued)			
National Institutes of Health	93 242		\$ 1,406,260
National Institutes of Health	93 279		676,382
National Institutes of Health	93 282		245,043
National Institutes of Health	93 286		1,131,360
National Institutes of Health	93 306		144,751
National Institutes of Health	93 389		1,075,318
National Institutes of Health	93 396		676,533
National Institutes of Health	93 398		80,548
National Institutes of Health	93 821		3,569,893
National Institutes of Health	93 837		226,784
National Institutes of Health	93 847		1,103,925
National Institutes of Health	93 848		136,840
National Institutes of Health	93 849		540,934
National Institutes of Health	93 853		9,434,251
National Institutes of Health	93 854		(211,004)
National Institutes of Health	93 855		633,154
National Institutes of Health	93 856		909,268
National Institutes of Health	93 859		5,458,832
National Institutes of Health	93 862		1,970,870
National Institutes of Health	93 865		503,978
National Institutes of Health	93 866		1,287,902
National Institutes of Health	93 867		<u>3,435,990</u>
Total Health and Human Services			<u>43,033,519</u>
Department of the Interior			
Department of the Interior	15 000	NBCHC030105	189,781
Department of the Interior	15 000	NBCH1050001	521,661
United States Geological Survey	15 807		<u>1,088,954</u>
Total Department of Interior			<u>1,800,396</u>
Environmental Protection Agency			
United States Environmental Protection Agency ("EPA")	66 000		78,178
United States Environmental Protection Agency ("EPA")	66 509		136,072
United States Environmental Protection Agency ("EPA")	66 511		183,784
United States Environmental Protection Agency ("EPA")	66 600		<u>7,084</u>
Total Environmental Protection Agency			<u>405,118</u>

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Direct Funds (Continued)			
National Aeronautics and Space Administration ("NASA")			
NASA	43 000		\$ 18,007,717
National Science of Foundation			
National Science Foundation	47 000		2,304,479
National Science Foundation	47 041		4,881,313
National Science Foundation	47 047		14,100,066
National Science Foundation	47 049		35,536,443
National Science Foundation	47 050		5,095 550
National Science Foundation	47 070		6,417,179
National Science Foundation	47 074		1,262,932
National Science Foundation	47 075		635,740
National Science Foundation	47 076		2,860,401
National Science Foundation	47 078		<u>805,074</u>
Total National Science Foundation			<u>73,899,177</u>
Total Research and Development - Direct Funds			<u>175,533,196</u>
Pass-Through Funds			
Department of Commerce			
Rohm and Haas Company	11 612	DOC-RAH-CIT-001	64,915
University of Alaska Fairbanks	11 430	NA03OAR4300104	<u>12,073</u>
Total Department of Commerce – Pass-Through			<u>76,988</u>
Department of Defense			
Air Force			
Alphatech, Inc	12 300	F33615-02-C-3262	(5,853)
Brown University	12 800	F49620-99-1-0272	52,016
ERC, Inc	12 000	F04611-99-C-0025	(3,267)
Georgia Institute of Technology	12 630	FA9550-05-1-0411	42,865
Harvard Univeristy	12 910	FA9550-05-1-0444	100,829
HRL Laboratories, LLC	12 000	F33615-02-C-1184	208,436
Kettering University	12 000	F33615-02-D-6001	34,938
Lockheed Martin Corporation	12 000	FA8750-04-C-0266	52,287
OptiComp Corporation	12 800	FA9550-05-C-0044	33,867

The accompanying notes are an integral part of this Schedule.

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
Department of Defense (Continued)			
Air Force (Continued)			
Science Applications International Corporation	12 000	F29601-02-D-0042	\$ 94,222
SRI International	12 000	FA8750-05-C-0011	85,581
Stanford University	12 630	F49620-01-1-0365	64,827
University of California Los Angeles	12 800	F49620-01-1-0361	112,289
University of California San Diego	12 800	F49620-01-1-0497	(28)
University of Southern California	12 000	F30602-02-C-0213	7,349
Total Air Force Pass-Through			<u>880,358</u>
Army			
Battelle Chapel Hill Operations	12 000	DAAD19-02-D-0001	13,867
Cornell University	12 431	DAAD19-01-1-0541	180,955
Microwave Bonding Instruments, Inc	12 000	MBI 000001	32
Parasim, Inc	12 000	W911NF-04-C-0127	79,251
Stanford University	12 431	DAAD19-03-1-0199	101,127
The Scripps Research Institute	12 420	W81XWH-05-1-0217	170,534
University of California Los Angeles	12 420	W81XH-04-1-0653	15,930
University of California Los Angeles	12 000	W911NF-04-1-0236	112,450
University of California Santa Barbara	12 000	DAAD19-03-D-0004	2,287,406
University of Chicago	12 000	W911NF-04-1-071	196,202
Total Army Pass-Through			<u>3,157,754</u>
Navy			
Boeing Company	12 000	N00421-02-D-3223	236,862
Colorado School of Mines	12 300	N00014-02-1-0665	409,122
Colorado School of Mines	12 300	N00014-05-1-0339	42,335
Cornell University	12 300	N00014-03-1-0243	6,425
Harvard University	12 300	N00014-01-0651	306,127
Harvard University	12 000	N00014-04-1-0591	448,899
Naval Research Laboratory	12 300	N00173-01-P-1550	2,555
Princeton University	12 300	N00014-02-1-0826	65,626
Princeton University	12 300	N00014-04-1-0534	131,424
Stanford University	12 300	N00014-02-1-0589	(142)
University of California Berkeley	12 300	N00014-01-1-0890	51,332

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
Department of Defense (Continued)			
Navy (Continued)			
University of California Los Angeles	12 300	N00014-02-1-0180	\$ (11,679)
University of California San Diego	12 300	N00014-02-1-0666	27,020
University of California Santa Barbara	12 300	N00014-01-1-0764	162,930
University of Washington	12 300	N00014-04-1-0094	161,727
University of Washington	12 000	N00014-01-1-0676	194,043
William Lettis & Associates, Inc	12 000	N68936-04-C-0082	<u>38,154</u>
Total Navy Pass-Through			<u>2,272,760</u>
Defense Advanced Research Projects Agency			
Brown University	12 910	HR0011-05-0004	106,250
Harvard University	12 000	N00014-04-1-0591	41,516
Hewlett Packard	12 000	MDA972-01-3-0005	785,076
Hewlett Packard	12 000	HR0011-05-3-0001	512,756
Lockheed Martin Energy Systems	12 000	PP4-536109	739
Massachusetts Institute of Technology	12 000	2003-MIT-887	285,924
Oregon State University	12 910	HR0011-04-1-0023	60,424
Princeton University	12 910	N66001-02-1-0829	443,258
Technical Basis, LLC	12 300	DAAH01-03-C-R288	3,958
Irex Enterprises	12 000	DAAH01-02-C-0031	38,945
University of California Berkeley	12 000	SA4334-79952	150,803
University of Colorado at Boulder	12 300	N00014-02-1-0714	117
University of California Davis	12 000	007441-03	25,583
University of California Los Angeles	12 000	DAAH01-01-1-R002	262,210
University of California Los Angeles	12 000	MDA972-01-3-0005	293,990
University of California Los Angeles	12 910	MDA972-02-2-0001	3,752
University of Connecticut	12 910	HR0011-05-1-0027	24,866
University of Massachusetts	12 000	MDA972-95-C-0004	130,545
University of Washington	12 910	HR0011-05-1-0044	<u>60,698</u>
Total Defense Advanced Research Projects Agency - Pass-Through			<u>3,231,410</u>
Total Department of Defense Pass-Through			<u>9,542,282</u>

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
Department of Energy			
BSSI LLC	81 000	DE-FC26-04NI42279	\$ 4,454
Carnegie Institute	81 000	DE-FC03-03NA00144	151,780
Cornell University	81 000	DE-FG02-03ER46072	41,386
Fermilab National Accelerator Laboratory	81 000	DE-AC02-76CH03000	491,451
Georgia Institute of Technology	81 049	DE-FG02-04ER63785	139,734
Lawrence Berkeley National Laboratory	81 049	DE-AC03-76SF00098	302,252
Lawrence Livermore National Laboratory	81 000	W-7405-ENG-48	4,245,761
Los Alamos National Laboratory	81 064	W-7405-ENG-36	159,738
National Renewable Energy Laboratory	81 064	DE-AC36-99GO-10337	48,162
Oak Ridge National Laboratory	81 000	DE-AC05-00OR22725	(2,585)
Sandia National Laboratories	81 000	DE-AC04-94AL85000	220,237
University of California Los Angeles	81 000	DE-FG03-01ER45949	(40,188)
University of Nevada	81 065	DE-FC28-04RW12232	<u>1,253,850</u>
Total Department of Energy Pass-Through			<u>7,016,032</u>
Department of Health and Human Services			
National Institutes of Health			
Childrens Hospital Los Angeles	93 394	5 U01 CA88199	4,808
City of Hope	93 371	R01 RR06217	33,167
Harvard University	93 903	P50 GM068763	115,066
Indiana University	93 849	P01 DK43881	238,875
Jackson Laboratory	93 172	2 P41 HG002273	233,191
Johns Hopkins University	93 849	1 P50 DK57325-01	169,458
Loma Linda University	93 000	1 R01 CA 112293-01	131,425
Massachusetts Institute of Technology	93 242	P20-MH66239-01	173,562
Medical University of South Carolina	93 837	2 P01 HL 52813-06	6,929
Molecular Sciences Institute	93 000	1 P50-HG02370	202,560
Purdue University	93 856	1 P01 A1055672-01	140,520
Purdue University	93 856	5 P01 A0155672-03	285,347
The Scripps Research Institute	93 859	R01 GM070868-01	89,192
The Scripps Research Institute	93 000	1 R01 GM57148	86,867
The Scripps Research Institute	93 821	5 R01 GM057148-07	17,275
University of California Irvine	93 309	GM-69013	204,197
University of California Los Angeles	93 847	1 R33 DK070328	32,075
University of California Los Angeles	93 389	5 P41 RR13642-04	246,684
University of California Los Angeles	93 929	1 R01 HD044830	132,252

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
Department of Health and Human Services (Continued)			
National Institutes of Health (Continued)			
University of California San Diego	93 279	1 R01 DA018341	\$ 4,269
University of California San Francisco	93 821	R01 GM034993	48,001
University of Iowa	93 242	1 R01 MH067681-01A2	48,087
University of North Carolina	93 242	U54 MH66418	17 317
University of Puerto Rico	93 000	5 U54 NS 39405-06	60,567
University of Tennessee	93 853	R01 NS046356-01	53,526
University of Texas Southwestern Medical Center	93 859	1 U54 GM62114-01	1,479,375
University of Utah	93 821	P01 GM66521	405,973
Total National Institutes of Health Pass-Through			<u>4,660,565</u>
Total Department of Health and Human Services Pass-Through			<u>4,660,565</u>
Department of Interior			
United States Geological Survey ("USGS")			
University of Southern California	15 807	02HQAG0008	150 190
Department of State			
Nat'l Council For Eurasian And E European Research	19 300	Title VIII Grant	2,903
Environmental Protection Agency ("EPA")			
Harvard University	66 500	RD-83095901	49,005
Harvard University	66 509	RD-83215801-01	43,781
University of Houston	66 606	X-83234201	<u>12,179</u>
Total EPA Pass-Through			<u>104,965</u>
National Aeronautics and Space Administration ("NASA")			
California Association for Research in Astronomy	43 000	PO 22886	7,995
California Association for Research in Astronomy	43 000	PO 23206	133,625
Case Western Reserve University	43 000	NAG5-12723	119,964
Emcore Corporation	43 000	NAS3-02201	32,355
Harvard University	43 000	NAG5-5396	34,057
Harvard University	43 000	NNG05GJ29G	22,422
Lockheed Martin Corporation	43 000	NAS2-03004	790

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
National Aeronautics and Space Administration ("NASA") (Continued)			
National Space Biomedical Research Institute	43 000	NCC-9-58-317	\$ 156,928
Pennsylvania State University	43 000	NAG5-13620	1,500
Princeton University	43 000	NAG5-11489	32,744
Smithsonian Astro	43 000	NAS8-03060	99,862
Smithsonian Astro	43 000	NAS8-39073	26,701
Smithsonian Astro	43 000		31,767
Space Telescope Science Institute	43 000	NAS5-26555	1,510,818
Universities of Space Research Association	43 000	NCC3-975	(17,121)
Universities of Space Research Association	43 000	NAS5-97001	746,847
University of Arizona	43 000	ASI-0421499	119,587
University of California Berkeley	43 000	NAS5-00133	1,263,849
University of California Los Angeles	43 000	NCC2-1364	119,620
University of California Los Angeles	43 000	NNG04GJ82G	10,373
University of California Los Angeles	43 000	NNG05EB93C	4,113
University of Colorado At Boulder	43 000	NAG5-11911	3,134
University of Colorado At Boulder	43 000	NAG5-12788	7,355
University of Maryland	43 000	NNG04G088G	82,461
University of Maryland	43 000	NAG5-8877	12,926
University of Southern California	43 000	NNA04CL15A	55,640
University of Washington	43 000	NCC2-1273	52,291
Washington University in St Louis	43 000	NNG05WC04G	16,392
Total National Aeronautics and Space Administration Pass-Through			4,688,995
National Science Foundation			
American Association for the Advancement of Science	47 000		4,700
Brown University	47 070	CCR-0086065	(9,360)
Brown University	47 070	CCF-0403674	30,295
California Association For Research In Astronomy	47 049	ASI-9613615	(33,848)
California State University Los Angeles	47 049	DMR-0351848	56,433
Cornell University	47 000	ASI-0041121	3,074
Cornell University	47 049	PO 612144	76,280
Cornell University	47 049	ASI-0431503	3,538
Florida International University	47 049	PHY-0312038	143,286
Incorporated Research Institute For Seismology	47 050	EAR-0004370	19,927
Incorporated Research Institute For Seismology	47 050	EAR-0350030	170,882

The accompanying notes are an integral part of this Schedule

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
National Science Foundation (Continued)			
Johns Hopkins University	47 049	ASI-0122449	\$ 334,931
Massachusetts Institute of Technology	47 049	PHY-0326281	209,329
National Radio Astronomy Observatory	47 000	GSSP02-0003	(250)
National Radio Astronomy Observatory	47 000	ASI-0223851	99,170
New Jersey Institute	47 049	ASI-9987366	60,747
New Jersey Institute	47 000	ASI-0352915	7,142
New York University	47 041	CTS-0103002	237,312
Northeastern University	47 049	PHY-0204786	23,628
Northwestern University	47 049	ASI-0243156	8 557
Pennsylvania State University	47 049	DMS-0101360	35,070
Rice University	47 000	DMR-0073046	7 645
Standford University	47 000	DMS-0140698	46,477
UNAVCO Inc	47 050	EAR-0318549	29,681
UNAVCO Inc	47 050	EAR-0453975	823
University of California Berkeley	47 049	ASI-0228963	27,480
University of California Berkeley	47 041	EEC-0425914	153,270
University of California Berkeley	47 041	EEC-9701568	52,504
University of California Berkeley	47 078	MCB-0313546	107,620
University of California Berkeley	47 078	OPP-0091840	21,734
University of California Davis	47 075	SES-0433358	15,519
University of California Irvine	47 074	EF-0330786	499,785
University of California Los Angeles	47 000	CCR-0121778	138,228
University of California Los Angeles	47 041	ECS-0103559	49,240
University of California Los Angeles	47 049	PHY-0441423	167,068
University of California Los Angeles	47 049	PHY 0533280	22,509
University of California Riverside	47 041	CTS-0404376	43,754
University of California San Diego	47 070	ACI-0122272	433,585
University of California San Diego	47 070	ACI-0332113	295,749
University of California San Diego	47 070	ACI-96-19020	424,291
University of California Santa Cruz	47 049	ASI-9876783	113 356
University of Chicago	47 049	ASI-0096913	21,587
University of Delaware	47 070	EIA-0103723	452
University of Florida	47 070	ACI-0086044	134,622
University of Florida	47 049	PHY-0122557	148,340
University of Georgia	47 041	CMS-0404031	53,106
University of Illinois	47 070	ACI-9619019	73,689
University of Illinois	47 000	PHY-9410768	40,676
University of Illinois	47 041	DMI-0328162	184,435

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Cluster (Continued)			
Pass-Through Funds (Continued)			
National Science Foundation (Continued)			
University of Iowa	47 050	AIM-0205198	\$ 81,256
University of New Jersey	47 041	ECS 0404181	20,000
University of Southern California	47 041	CMS-0409705	4,006
University of Southern California	47 050	EAR-0106924	164,059
University of Southern California	47 000	EEC-0310723	359,431
University of Southern California	47 041	ESC-0335110	206,337
University of Texas	47 049	DMR-0103134	52,911
University of Virginia	47 075	SES-0094800	73,230
University of Washington	47 049	DMR-0120967	<u>6,753</u>
Total National Science Foundation – Pass-Through Funds			<u>5,756,051</u>
Total Research and Development - Pass-Through Funds			<u>31,998,971</u>
Total Research and Development Cluster			<u>207,532,167</u>
Total Major Programs			<u>207,532,167</u>
NON-MAJOR PROGRAMS			
Student Financial Assistance Cluster			
Direct Funds			
Department of Education			
Federal Work Study Program	84 033		306,899
Federal Supplemental Educational Opportunity Grant	84 007		424,988
Federal Pell Grant Program	84 063		<u>380,773</u>
Total Student Financial Assistance Cluster			<u>1,112,660</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
NON-MAJOR PROGRAMS (CONTINUED)			
Student Financial Assistance Cluster			
Pass-Through Funds			
Department of Education			
California Student Aid Commission Cal Grants	84.069A		<u>\$ 12,042</u>
Total Department of Education Pass-Through Funds			<u>12,042</u>
Total Non-Major Programs			<u>1,124,702</u>
Total Federal Awards			<u><u>\$ 208,656,869</u></u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

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 on the cash basis of accounting and 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, 2005, except those related to the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by the California Institute of Technology), as discussed below. 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.

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 September 30, 2003. Actual incurred costs for the year ended September 30, 2004 have been audited by DCAA and, as no findings were reported, in the opinion of management, the results of such audit 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, 2005

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 in a Disclosure Statement, in accordance with Cost Accounting Standards. All amendments and updates have been approved by ONR.

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, 2005, the Institute advanced loans totaling \$296,777 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2005 was \$4,952,905. 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, 2005, the Institute processed \$895,247 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, 2005, 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, 2005

5. Federal Work Study (FWS) Carryforwards

During the year ended September 30, 2005, the Institute spent \$55,079 of FWS funds which were carried forward from the year ended September 30, 2004. During year ended September 30, 2005, the Institute carried forward \$55,079 of FWS funds which are to be spent during the year ended September 30, 2006. 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>
Department of Commerce	
National Oceanic & Atmosphere Administration	\$ 183
Department of Defense	
Air Force Office of Scientific Research	816,754
Army Research Office	493,219
Defense Advanced Research Projects Agency	716,584
Office of Naval Research	838,283
National Geospatial-Intelligence Agency	101,669
Space and Naval Warfare System	153,462
	<u>3,119,971</u>
Department of Energy	
Department of Energy	248,840
Lawrence Livermore National Laboratory	410,368
University of Nevada Reno	238,157
	<u>897,365</u>
Department of Health and Human Services	
National Institutes of Health	<u>3,286,629</u>
National Aeronautics & Space Administration	
National Aeronautics & Space Administration	5,331,030
National Space Biomedical Research Institute	42,138
Universities of Space Research Association	75,649
	<u>5,448,817</u>
National Science Foundation	
National Science Foundation	<u>5,418,134</u>
Total Amount Provided to Subrecipients	<u>\$ 18,171,099</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, 2005, and have issued our report thereon dated January 13, 2006. 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 January 13, 2006.



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

January 13, 2006

**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, 2005, except for as described below.

The Institute's financial statements include the operations of the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by the California Institute of Technology), which incurred \$1,631,981,000 in federal expenditures which is not included in the Institute's schedule of federal expenditures for the year ended September 30, 2005. Our audit, described below, did not include the operations of the Jet Propulsion Laboratory because it 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 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, 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, 2005. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying independent auditors' schedule of findings and questioned costs as item 05-1.

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, 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.

Our 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.

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.

Price Waterhouse Coopers LLP

January 13, 2006

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

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:

Program Name	CFDA Number
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? No

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, 2005**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 05-1 Procurement

Condition

Based on our review of selected purchase order files, we noted that Institute policies and procedures were not adhered to, resulting in the following:

- 2 of the 30 transactions tested were processed without the appropriate supporting documentation on procurement rationale, which is required by A-133, A-110 and FAR 52.203-2. These expenditures were related to CFDA # 81.064 and 93.172.
- 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (CFDA # 47.050, 81.064 and 93.172) which is required by A-133, A-110 and FAR 52.203-2.

Questioned Costs

None as the appropriate certifications were subsequently obtained and indicated no issues with the vendors.

Cause

University policies and procedures were not followed. This also caused the lack of vendor certification.

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. In addition, 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.

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. In addition, the Institute may inappropriately contract with entities which are suspended or debarred and as a result the related expenditures could be disallowed.

Recommendation

Improve policies and procedures for monitoring adherence to the procurement process which will also ensure certifications from vendors (or review of vendor status on the website) is performed 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
Summary Schedule of Prior-Year Audit Findings
and Questioned Costs
For the Year Ended September 30, 2005**

Prior Year Findings

Finding 04-1 Subrecipient A-133 Reports

Caltech is obtaining an A-133 certification, when required, prior to executing the subcontract. Additionally, as directed by PwC, Caltech is obtaining certifications on an annual basis for each subcontract that is subject to A-133. Upon receipt of the annual A-133 certification, the certification is "scanned" into a database located on the Procurement Services "share" drive.

No equivalent issues were noted in the current year audit.

Finding 04-2 Procurement

As a result of this finding, awareness of signature authority levels has been raised to all Caltech Purchasing Agents/Contracting Officers. A "spot audit" check is performed by Supervisors/Team Leaders once a quarter to ensure adherence to proper signature authority.

In addition, the Signature Delegation policy was modified in December, 2005 to allow flexibility of appropriate re-delegation. This modified policy can be found at:
<http://procurement.caltech.edu/purchasing/purchasingpoliciesandprocedures.html>.

No equivalent issues were noted in the current year audit.

Finding 04-3 Suspension & Debarment

The procedures regarding the Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters (required for federally funded awards exceeding \$25,000) and the Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions (required for federally funded awards exceeding \$100,000) have not changed. Caltech Purchasing Agents/Contracting Officers have always been required to obtain the certifications prior to issuing a federally funded purchase order. The Purchase Order Documentation Checklist (CII Form 0059) which is prepared for each standard purchase order serves as a reminder to the Purchasing Agent/Contracting Officer to obtain the necessary certifications. If a supplier is nonresponsive, the Purchasing Agent/Contracting Officer can also obtain the supplier's debarment status at the Government's Excluded Parties List Web site (<http://epls.arnet.gov/>).

No equivalent issues were noted in the current year audit.

**California Institute of Technology
Summary Schedule of Prior-Year Audit Findings
and Questioned Costs
For the Year Ended September 30, 2005**

Finding 04-4 Reporting

Due to technical and logistical difficulties with implementing the original corrective action plan of creating a reminder system for principal investigators, Caltech has decided on another approach, which is based on processes already put into place. Beginning in fiscal year 2004, Caltech modified its Award Summary document to reflect much greater detail with regard to the various reports due on sponsored awards. Beginning in fiscal year 2005, Caltech implemented electronic distribution (via e-mail) of Award Summaries and award documents to principal investigators, and to campus staff and central administrative units. These two processes have greatly facilitated access by Caltech personnel to award-specific requirements, including those requirements related to report due dates.

Finding 04-5 Internal Control Over Financial Reporting

The control issues identified were remediated in connection with the preparation of the 2005 financial statements.



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 9, 2006

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 2005

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, 2005.

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 2005

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
5.1	<p>Based on our review of selected purchase order files, we noted that Institute policies and procedures were not adhered to, resulting in the following:</p> <ul style="list-style-type: none"> • 2 of the 30 transactions tested were processed without the appropriate supporting documentation on procurement rationale, which is required by A-133, A-110 and FAR 52.203-2. These expenditures were related to CFDA # 81.064 and 93.172. • 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (CFDA # 47.050, 81.064 and 93.172) which is required by A-133, A-110 and FAR 52.203-2. 	<p>The Institute's Purchasing Policies & Procedures manual, dated September, 2004, states that "Undocumented orders, those for which a Requisition has not been initiated, present a significant problem to the Institute and are not an acceptable practice."</p> <p>Two of the three PO files tested were "Invoice Attached" and/or "Reimbursement" or "Undocumented" PO's whereby the requester obtained goods or services on credit prior to the Purchasing Services Department receiving an approved purchase requisition. Subsequently, the requester submitted the purchase requisition and/or invoice for payment.</p> <p>The third PO was initially approved and funded through two endowment accounts and subsequently a change order was issued whereby the requester wanted a large portion of funding changed to a federal award.</p>	Director of Procurement	September 2006

CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

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Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
		<p>Thus, the appropriate certifications were not initially obtained with the issuance of the PO, but were ultimately obtained.</p> <p>We will continue to work with the campus to provide training and will modify the purchasing module and website to make it clear that undocumented orders are a violation of Institute policy. In addition, we will require a higher level of review and potential non-reimbursement for any violations.</p>		