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, 2010

California Institute of Technology
Index
For the Year Ended September 30, 2010

Report of Independent Auditors

To the Board of Trustees of
California Institute of Technology

In our opinion, the accompanying balance sheets and related statements of activities and cash flows present fairly, in all material respects, the financial position of California Institute of Technology (the "Institute") as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2011 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, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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, on the basis of accounting described in Note 1, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 24, 2011

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

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

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

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

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

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

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

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

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

A. Description of the California Institute of Technology

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

B. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

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

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

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

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

Use of Estimates

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

Redesignations

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

Reclassifications

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

Cash and Cash Equivalents

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

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

Advances and Deposits

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

Accounts and Notes Receivable

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

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

Investments

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

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

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

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

Endowment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Expenses

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

Building and improvements depreciation and plant operation expenses are allocated to functional classifications based on square footage occupancy of Institute facilities. Equipment depreciation is allocated to functional classifications based on average equipment purchases attributed to each classification. Interest expense on external debt, net of amounts capitalized, is allocated to the functional categories that have benefited from the proceeds of such debt. Interest expense, net of capitalized interest, for the years ended September 30, 2010 and 2009, was $8,436 and $5,959, respectively, and capitalized interest was $1,078 and $926, respectively.

(Dollars in Thousands)

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

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

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

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

In September 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2009-12, which allows the Institute to measure the fair value of its investments in certain entities, as defined by the standard, at net asset value (NAV). The investments covered by the standard are generally classified as alternative investments by the Institute. The Institute chose to early adopt the recognition and valuation provisions of the standard for the year ended September 30, 2009. The Institute has historically used NAV as a basis for determining the fair value of applicable investments and therefore the adoption had no material impact on the financial statements. During the year ended September 30, 2010, the Institute adopted the disclosure requirements of this standard.

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

C. Contributions Receivable, net

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

(Dollars in Thousands)

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

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

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

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

(Dollars in Thousands)

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

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

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

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

D. Investments

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

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

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

(Dollars in Thousands)

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

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

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

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

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

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

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

E. Deferred United States Government Billings

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

(Dollars in Thousands)

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

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

F. Property, Plant, and Equipment, net

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

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

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

(Dollars in Thousands)

G. Bonds and Notes Payable

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

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

(Dollars in Thousands)

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

(Dollars in Thousands)

H. Net Assets

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

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

(Dollars in Thousands)

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

I. Retirement Plans

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

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

J. Postretirement and Postemployment Benefits Other Than Pensions

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

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

(Dollars in Thousands)

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

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

K. Fair Value

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

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

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

Interest rate swap arrangements have inputs that can generally be corroborated by market data and are therefore generally classified as Level 2. Interest rate swaps are valued using observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered reliable. In instances in which models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument, as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs.

(Dollars in Thousands)

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

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

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

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

(Dollars in Thousands)

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

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

Fixed Income Securities

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

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

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

L. Commitments and Contingencies

Contingencies

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

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

(Dollars in Thousands)

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

Commitments

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

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

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

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

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

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

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

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

(Dollars in Thousands)

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

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

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

M. Supplemental Cash Flow Information

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

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

N. Subsequent Events

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

California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS			
Research and Development Cluster			
Direct Funds			
Department of Agriculture			
United States Department of Agriculture	10.206		$ (5,889)
United States Department of Agriculture	10.256		6,515
Total Department of Agriculture			626
Department of Commerce			
National Institute of Standards and Technology	11	NB817030-8-32249	1,411
National Oceanic & Atmospheric Administration	11.431		168,185
Total Department of Commerce			169,596
Department of Defense			
Air Force	12	FA9550-07-1-0484	250,284
Air Force	12	FA9550-08-1-0049	86,313
Air Force	12.630		1,195,567
Air Force	12.800		2,886,761
Air Force	12.910		120,493
Army	12	W912HQ-04-C-0045	73,276
Army	12	W81XWH-09-1-0266	105,659
Army	12	W911NF-07-1-0632	120,403
Army	12.400		31,837
Army	12.420		449,055
Army	12.431		4,368,588
Army	12.910		85,841
Defense Advanced Research Projects Agency	12	HR0011-04-1-0054	97,978
Defense Advanced Research Projects Agency	12	W-30950	80,050
Defense Advanced Research Projects Agency	12.910		2,210,449
National Geospatial-Intelligence Agency	12	HM1582-07-C-0024	(72)
National Geospatial-Intelligence Agency	12.630		224,724
Navy	12	N00244-05-C-0066	3,788,650
Navy	12	N00174-06-C-0052	(4,670)
Navy	12.300		4,964,793

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, 2010

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 Defense (Continued)			
Space and Naval Warfare System	12	N66001-10-C-2009	$ 569,864
Space and Naval Warfare System	12.910		938,233
Total Department of Defense			22,644,076
Department of Energy			
Department of Energy	81	DE-AC27-09RV15086	149,470
Department of Energy	81	DE-FC52-06NA27319	(346)
Department of Energy	81	DE-FC52-08NA28613	3,681,882
Department of Energy	81	DE-FG02-03ER15483	224,468
Department of Energy	81	DE-FG02-04ER46175	164,410
Department of Energy	81	DE-FG02-04ER54755	(557)
Department of Energy	81	DE-FG02-05ER15754	174,798
Department of Energy	81	DE-FG02-05ER41359	13,755
Department of Energy	81	DE-FG02-05ER63983	226,096
Department of Energy	81	DE-FG02-06ER15762	130,876
Department of Energy	81	DE-FG02-06ER15773	3,673
Department of Energy	81	DE-FG02-06ER41427	60,391
Department of Energy	81	DE-FG02-06ER64310	116,272
Department of Energy	81	DE-FG02-07ER41481	6,275
Department of Energy	81	DE-FG02-07ER64410	(60,070)
Department of Energy	81	DE-FG02-07ER64484	443,307
Department of Energy	81	DE-FG02-08ER15933	104,658
Department of Energy	81	DE-FG02-88ER13873	256,379
Department of Energy	81.049		4,760,045
Department of Energy	81.064		4,997,124
Department of Energy	81.086		67,484
Department of Energy	81.087		1,261,185
Department of Energy	81.133		80,383
Total Department of Energy			16,861,958

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California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

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 Homeland Security			
Homeland Security Advanced Research Projects Agency	97	HSHQDC-08-C-00038	$ 275,019
Homeland Security Advanced Research Projects Agency	97.077		306,207
Total Department of Homeland Security			581,226
Department of Health and Human Services			
National Institutes of Health	93	DP1 OD003878	1,100,948
National Institutes of Health	93	F32 GM079967	1,191
National Institutes of Health	93	K99 GM087551A	54,190
National Institutes of Health	93	P50 HG004071	2,474,511
National Institutes of Health	93	R01 AG033954	431,182
National Institutes of Health	93	R01 GM083121	(492)
National Institutes of Health	93	R01 GM085371	404,404
National Institutes of Health	93	R21 GM 076417A	28,861
National Institutes of Health	93	U54 CA119347	(447,312)
National Institutes of Health	93.121		1,750,890
National Institutes of Health	93.172		3,778,548
National Institutes of Health	93.173		215,684
National Institutes of Health	93.242		2,011,013
National Institutes of Health	93.273		141,407
National Institutes of Health	93.279		2,023,709
National Institutes of Health	93.282		35,967
National Institutes of Health	93.286		2,030,719
National Institutes of Health	93.310		27,172
National Institutes of Health	93.389		353,204
National Institutes of Health	93.395		130,399
National Institutes of Health	93.396		672,743
National Institutes of Health	93.397		19,161
National Institutes of Health	93.398		198,659
National Institutes of Health	93.399		3,493,060
ARRA - National Institutes of Health	93.701		8,581,966
National Institutes of Health	93.837		83,843

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California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

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	93.839		$ 715,490
National Institutes of Health	93.847		897,859
National Institutes of Health	93.849		(1)
National Institutes of Health	93.853		2,368,682
National Institutes of Health	93.855		1,393,632
National Institutes of Health	93.859		9,932,153
National Institutes of Health	93.865		1,943,802
National Institutes of Health	93.866		(7,400)
National Institutes of Health	93.867		4,299,680
Total Health and Human Services			51,139,524
Department of the Interior			
Department of the Interior	15	NBCHC070007	201,745
Department of the Interior	15	NBCH1050001	37
United States Geological Survey	15.807		1,766,383
ARRA - United States Geological Survey	15.807		475,828
United States Geological Survey	15.808		383,749
United States Geological Survey	15.810		10,202
Total Department of Interior			2,837,944
Environmental Protection Agency			
United States Environmental Protection Agency (EPA)	66	FP - 91687601-0	18,861
United States Environmental Protection Agency (EPA)	66.509		321,922
Total Environmental Protection Agency			340,783
National Aeronautics and Space Administration (NASA)			
NASA	43		46,721,259

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California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

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 Endowment for the Humanities			
National Endowment for the Humanities	45.161		$ 56,128
National Science of Foundation			
National Science Foundation	47	0636097	32,902
National Science Foundation	47	ATM-0454428	2,906
National Science Foundation	47	CHE-0802907	389
National Science Foundation	47	DMS-0802918	3,284
National Science Foundation	47	MUCHOVEJ	6,141
National Science Foundation	47	Nathan Albin	2,017
National Science Foundation	47	PHY-0823459	390,315
National Science Foundation	47.041		2,176,693
National Science Foundation	47.049		80,809,236
National Science Foundation	47.050		3,668,325
National Science Foundation	47.070		3,521,167
National Science Foundation	47.074		3,523,738
National Science Foundation	47.075		387,277
National Science Foundation	47.076		2,714,322
National Science Foundation	47.078		(9,772)
National Science Foundation	47.080		35,609
ARRA - National Science Foundation	47.082		7,515,013
Total National Science Foundation			104,779,562
Total Research and Development - Direct Funds			246,132,682
Pass-Through Funds			
Department of Commerce			
Massachusetts Institute of Technology	11.417	5710002367	2,828
Massachusetts Institute of Technology	11.417	5710002773	2,690
State University of New York at Albany	11	08-43	98,543
Total Department of Commerce Pass-Through			104,061

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California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

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			
Air Force			
Brown University	12.800	00000271	$ 139,572
ERC, Inc.	12	RS070364	10,174
ERC, Inc.	12	RS070716	53,013
ERC, Inc.	12	RS100583	3,930
Georgia Institute of Technology	12	R9764-G1	106,152
Georgia Institute of Technology	12.630	E-25-6MV-G2	50,630
Georgia Institute of Technology	12.800	RA740-G1	2,033
IBM Corporation	12.910	AH3.IBMH	451,395
Illinois Institute of Technology	12.800	SA374-0609-6071	102,410
Massachusetts Institute of Technology	12.800	5710002025	56,199
Northrop Corporation	12	76100RGT8S	642,167
Ohio State University	12.800	RF01152700	161,506
Princeton University	12.800	00001720	48,039
Tanner Research, Inc.	12.000	CALTECH FA9550-10-C-0073	30,257
Tanner Research, Inc.	12.800	TANNER.FOCARDI	6,738
Texas Engineering Experiment Station	12.800	A5932	171,328
Total Air Force Pass-Through			2,035,543
Army			
BAE Systems Inc.	12	316092	192,372
Gevo, Inc.	12.400	GEVO.JP8	216,646
Imaginative Technologies, LLC	12.400	W911NF-10-C-0045	53,107
Lewis Center for Educational Research	12	LEWIS.RADIO	35,186
North Carolina State University	12.431	2007-0299-01	(8,914)
Pennsylvania State University	12.431	3710-CIT-USA-0124	98,555
Stanford University	12	18882730-37362-A	99,734
University of California Berkeley	12.431	00006095	253,187
University of California Los Angeles	12.420	0845 G KC599	66,145
University of California San Diego	12.431	10296067	1,175,468

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, 2010

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)			
Army (Continued)			
University of California Santa Barbara	12	KK4102	$ 489
University of California Santa Barbara	12.420	KK9129	134,580
University of California Santa Barbara	12	KK9150	1,278,216
University of Illinois	12.431	2009-03197-01	262,869
University of Massachusetts	12	S1310878AN00006	141
Total Army Pass-Through			3,857,781
Navy			
Cascade Technologies Inc.	12	06-01-2009	17,043
Colorado School of Mines	12	4-42517	34,216
Columbia University	12	5-60865	36,080
Evolutions Robotics, Inc.	12.630	EVOLUT.ONR	(29,539)
Evolutions Robotics, Inc.	12.630	EVOLUT.ONR2	221,335
John Hopkins University	12.300	2000868411	118,633
Nlight Photonics	12	AY.NLIGHT.0NR2	(92,517)
Photonic Systems Inc.	12.300	SC-08-104	1
Princeton University	12.300	00000916	14,516
TTC Technologies	12	TTC-SBIR2-JS-PH2-CONT-CIT-01	109,569
University of California Riverside	12.300	S-0000344	121,832
University of California San Diego	12	10275845	43,756
University of Pennsylvania	12	550162	347,235
Total Navy Pass-Through			942,160
Defense Advanced Research Projects Agency			
Carnegie Mellon University	12	1040271-202926	33
Carnegie Mellon University	12	1041388-237976	96,058
Evolved Machines Inc.	12.910	EVOLVM.2008	7,211
Georgia Institute of Technology	12	B-12-M06-S21	21,663
Georgia Institute of Technology	12.910	RA306-S6	84,087

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California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2010

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)			
Defense Advanced Research Projects Agency (Continued)			
HRL Laboratories, LLC	12	800294-BS	$ 4,249
HRL Laboratories, LLC	12.910	901729-BS	56,338
Johns Hopkins University	12	908165	86,604
Johns Hopkins University	12	975379	71,132
Kitware Inc.	12.910	HR0011-08-C-0135-S6	22,104
L-3 Communications	12.910	008003S	80,549
Massachusetts Institute of Technology	12	5710001623	(6,745)
Northrop Corporation	12	07562SGT9S	32,970
Raytheon Systems Inc.	12.910	4400331736.000	796,871
Research Triangle Institute International	12	3-340-0211720	211,034
Rice University	12.910	R16182	53,161
Rutgers, The State University of New Jersey	12.910	00003709	33,161
Telaris Inc	12.910	UCOS-CIT-1	115,000
University of California Berkeley	12.910	SA00007003	182,163
University of California Davis	12.910	015530-04	735
University of California Los Angeles	12.000	0160 S HE179	2,807
University of California Los Angeles	12.910	0160 S MB894	129,355
University of California Los Angeles	12.910	0160 S MB961	85,262
University of California Los Angeles	12.910	0160 S MB962	101,683
University of California Los Angeles	12.910	0160 S ME665	43,161
University of Maryland	12	Z945801	84,860
University of Notre Dame	12	201292	75,675
University of Southern California	12.910	137767	40,103
University of Southern California	12.910	141833	80,777
University of Washington	12.910	554947	312,222
Total Defense Advanced Research Projects Agency - Pass-Through			2,904,283
Total Department of Defense Pass-Through			9,739,767

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, 2010

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			
Advanced Cooling Technologies, Inc.	81	ACT.DOESBIR	$ 6,163
Argonne National Laboratory	81	7F-01321	120,264
Brookhaven National Laboratory	81	141291	51,066
BSST LLC	81	04-DOE930-126	(107)
Carnegie Institute	81	4-3253-02	147,663
Carnegie Institute	81.049	4-10114-02	70,114
Fermilab National Accelerator Laboratory	81	570788	105,054
Fermilab National Accelerator Laboratory	81	588521	10,000
Lawrence Berkeley National Laboratory	81	6843187	494,325
Lawrence Berkeley National Laboratory	81	6855469	3,003
Lawrence Berkeley National Laboratory	81	6808461	172,942
Lawrence Berkeley National Laboratory	81	6927580	22,143
Lawrence Livermore National Laboratory	81	B579041	85,133
Lawrence Livermore National Laboratory	81	B581793	327,471
Lawrence Livermore National Laboratory	81	B523297	(1,262)
Los Alamos National Laboratory	81	36992-001-06	68,049
Los Alamos National Laboratory	81	55549-001-07	179,619
Los Alamos National Laboratory	81	65287-001-08	40,712
Los Alamos National Laboratory	81	52187-001-07	168,246
Massachusetts Institute of Technology	81	5710002652	30,681
National Renewable Energy Laboratory	81	XAT-4-33624-10	(707)
Oak Ridge National Laboratory	81	4000081915	33,757
Oak Ridge National Laboratory	81	4000068639	(47,792)
Phononic Devices	81.135	PD20100101	91,975
Power Environmental & Energy Research	81.087	325601-001	45,070
Research Partnership to Secure Energy for America	81	08122-15	358,952
Sandia National Laboratories	81	757212	68,093
Sandia National Laboratories	81	885774	92,629
Sandia National Laboratories	81	997166	220,479
Sandia National Laboratories	81	1034539	20,488
Sheeta Global Technology Company	81	DE-CIT-CO2-0801	(135)
Spectrolab, Inc.	81	BM51709E	19,445

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, 2010

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 (Continued)			
Telescent, Inc.	81	Telecent.00001	$ 30,000
Telescent, Inc.	81	Telescent.00002	30,000
Texas Tech University	81.049	1310/C122-01	(13)
Texas Tech University	81.049	21E001-01	88,089
University of California Davis	81.121	Sub0700277	139,258
University of California Los Angeles	81.087	0980 G KK369	238,329
University of Delaware	81.049	21094	150,175
University of Nevada	81.065	UNR-04-50	(5)
University of Virginia	81.049	GQ10044-134466	338,547
Washington University in St. Louis	81	WU-HT-06-06/PO29353K	28,004
Total Department of Energy Pass-Through			4,045,917
Department of Homeland Security			
Smiths Detection	97	4800020714	82,687
University of Rhode Island	97.061	112208/0001865	152,526
Total Department of Homeland Security Pass-Through			235,213
Department of Health and Human Services			
National Institutes of Health			
Boston University	93.847	GC207853NGC	33,400
Duke University	93.396	07-SC-NIH-1008	11,496
Duke University	93.855	3035625	189,896
Exploratorium	93	3428	32,442
Fisher Bioservices	93.000	FBS-50035-14	95,492
Harvard University	93.859	137384	67,421
Hudsonalpha Institute for Biotechnology	93.172	2009-02	1,977,263
Indiana University	93.849	39510-0048	(978)
Jackson Laboratory	93	639194	62,500

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, 2010

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)			
Jackson Laboratory	93.172	626766	$ 52,812
Loma Linda University	93	LLU.SUBNIH	(33,128)
Massachusetts Institute of Technology	93.279	5710002669	166,708
Massachusetts Institute of Technology	93.853	5710002432	22,492
Northwestern University	93.397	60025344CIT	81,815
Pennsylvania State University	93.701	4071-CIT-DHHS-5573	136,111
Princeton University	93.859	00001207	(5,603)
Stanford University	93.172	17222070-35910-B	35,072
The Scripps Research Institute	93	5-21552	13,072
The Scripps Research Institute	93	5-21623	40,114
University of California Berkeley	93.867	00006315	91,639
University of California Los Angeles	93.389	1580 G GF778	87,150
University of California Los Angeles	93.286	0845 G KB564	272,494
University of California Los Angeles	93.853	0845 G MA557	75,292
University of California Riverside	93.859	S-000358	28,709
University of California San Diego	93	10278089	(810)
University of California San Diego	93	10291070	132,607
University of Cincinnati	93.389	20309	32,672
University of Colorado Boulder	93.859	154-5178	50,836
University of Colorado Denver	93.242	FY10.083.002	166,147
University of Colorado Denver	93.242	FY10.083.003	204,500
University of Florida	93.701	UF09098	32,771
University of Florida	93.859	UF09066	98,798
University of Georgia	93.855	RR182-364/4688608	63,357
University of Kansas Center for Research, Inc	93.837	QL814611	66,575
University of Miami	93.701	M158942	31,897
University of New Mexico	93.701	3R85Y	208,470
University of North Carolina	93.242	5-34854	124,263
University of Puerto Rico	93	2009-001252	78,810
University of Southern California	93.855	110512	204,026
University of Southern California	93.853	141186	66,915

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, 2010

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 Southern California	93.113	H38625	$ 1
University of Southern California	93.397	H43019	78,475
University of Utah	93.859	10003198-02	339,360
University of Wisconsin	93.273	198K505	14,133
Vanderbilt University	93	VUMC 33486-R	185,543
Visdex Corporation	93.867	EY017484-Caltech-2	130,398
Visdex Corporation	93.867	EY019805-Caltech	52,363
Total National Institutes of Health Pass-Through			5,895,788
Total Department of Health and Human Services Pass-Through			5,895,788
Department of Interior			
United States Geological Survey (USGS)			
University of Southern California	15.807	119938	401,349
Department of Transportation			
Virginia Tech	20	451030-19717	2,798
Environmental Protection Agency (EPA)			
Harvard University	66	123392	57,547

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, 2010

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)			
Case Western Reserve University	43	RES502973	$ 39,268
EIC Laboratories Inc	43	EIC.GRRNASA	20,007
Harvard University	43	131131-01	17,000
Harvard University	43	131232-02	20,767
Johns Hopkins University	43	933173	41,724
Lockheed Martin Corporation	43	8100001550	17,832
Massachusetts Institute of Technology	43	5710002515	38,196
Monterey Bay Aquarium Research Institute	43	0512953	59,507
Monterey Bay Aquarium Research Institute	43	0910171	176,233
National Space Biomedical Research Institute	43	TD01301	186,064
New Mexico State University	43	P0051129	128,627
Pennsylvania State University	43	3903-CIT-NASA-A76A	72,461
Smithsonian Astro	43	AR9-0007X	9,790
Smithsonian Astro	43	G09-0024X	1,653
Smithsonian Astro	43	GO0-11083B	5,205
Smithsonian Astro	43	GO7-8106X	(6,416)
Smithsonian Astro	43	GO8-9104X	4,340
Smithsonian Astro	43	GO9-0046X	19,067
Smithsonian Astro	43	GO9-0071B	8,649
Smithsonian Astro	43	PF0-110074	10,897
Smithsonian Astro	43	PF8-90053	83,640
Smithsonian Astro	43	PF8-90060	98,798
Smithsonian Astro	43	PF9-00067	70,208
Southwestern Research Institute	43	699001X	(166)
Southwestern Research Institute	43	699047X	29,041
Southwestern Research Institute	43	699048X	53,378
Southwestern Research Institute	43	699049X	32,731
Southwestern Research Institute	43	886830E	21,663
Space Telescope Science Institute	43	HST-AR-11761.01-A	55,378
Space Telescope Science Institute	43	HST-AR-11766.01-A	26,279
Space Telescope Science Institute	43	HST-AR-11769.02-A	166

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, 2010

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)			
Space Telescope Science Institute	43	HST-GO-09822.01-A	$ (50)
Space Telescope Science Institute	43	HST-GO-10487.05-A	(73)
Space Telescope Science Institute	43	HST-GO-10793.01-A	5,669
Space Telescope Science Institute	43	HST-GO-10818.01-A	31,397
Space Telescope Science Institute	43	HST-GO-10848.09-A	1,902
Space Telescope Science Institute	43	HST-GO-10858.01-A	21,568
Space Telescope Science Institute	43	HST-GO-10872.01-A	(2,281)
Space Telescope Science Institute	43	HST-GO-10908.07-A	(2)
Space Telescope Science Institute	43	HST-GO-10999.01-A	(2,503)
Space Telescope Science Institute	43	HST-GO-11104.01-A	1,157
Space Telescope Science Institute	43	HST-GO-11120.04-A	190
Space Telescope Science Institute	43	HST-GO-11142.01-A	40,446
Space Telescope Science Institute	43	HST-GO-11149.02-A	1,964
Space Telescope Science Institute	43	HST-GO-11161.06-A	1,786
Space Telescope Science Institute	43	HST-GO-11174.01-A	21
Space Telescope Science Institute	43	HST-GO-11188.13-A	54,253
Space Telescope Science Institute	43	HST-GO-11196.02-A	20,452
Space Telescope Science Institute	43	HST-GO-11213.01-A	776
Space Telescope Science Institute	43	HST-GO-11235.01-A	101,266
Space Telescope Science Institute	43	HST-GO-11236.01-A	166,524
Space Telescope Science Institute	43	HST-GO-11236.10-A	57,719
Space Telescope Science Institute	43	HST-GO-11312.01-A	3,681
Space Telescope Science Institute	43	HST-GO-11518.01-A	10,161
Space Telescope Science Institute	43	HST-GO-11544.01-A	26,556
Space Telescope Science Institute	43	HST-GO-11558.06-A	2,803
Space Telescope Science Institute	43	HST-GO-11616.07-A	6,726
Space Telescope Science Institute	43	HST-GO-11644.01-A	117,929
Space Telescope Science Institute	43	HST-GO11694.02-A	61,481
Space Telescope Science Institute	43	HST-GO-11696.09-A	30,921
Space Telescope Science Institute	43	HST-GO-11721.01-A	184,979

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, 2010

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)			
Space Telescope Science Institute	43	HST-GO-11971.02-A	$ 5,309
Space Telescope Science Institute	43	HST-HF-01201.01-A	4,946
Space Telescope Science Institute	43	HST-HF-01205.01-A	12,694
Space Telescope Science Institute	43	HST-HF-01212.01-A	20,278
Space Telescope Science Institute	43	HST-HF-51229.01-A	78,181
Space Telescope Science Institute	43	HST-HF-51235.01-A	83,442
Space Telescope Science Institute	43	HST-HF-51256.01-A	98,304
Space Telescope Science Institute	43	HST-HF-51262.01-A	123,367
University of California Berkeley	43	SA2715-23609	479,223
University of California Berkeley	43	SA5155-11047	14,345
University of California Los Angeles	43	0995-S-MA048	53,632
University of California San Diego	43	10300012	29,280
University of Maryland	43	0000005553	1,240
University of New Mexico	43	707490-87H5	24,169
University of Space Research	43	8500-98-011	1,393,423
University of Washington	43	596856	27,864
Washington University in St. Louis	43	WU-HT-10-14/2911192A	39,264
Total National Aeronautics and Space Administration Pass-Through			4,778,366
National Science Foundation			
California Association For Research In Astronomy	47	PO 24565	580,923
Case Western Reserve University	47.041	RES501728	(48,791)
Columbia University	47	570611	229,906
Cornell University	47.049	46514-8592	326,577

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, 2010

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)			
Florida International University	47	144300503-01	$ (3,050)
Harvard University	47.078	131268	23,117
Howard University	47	634177-H017357	106,645
Incorporated Research Institute For Seismology	47	05-GSN	20,001
Large Synoptic Survey Telescope Corporation	47	C44031L	50,242
Large Synoptic Survey Telescope Corporation	47	C44040L	274,787
LC Vision, LLC	47.082	CALTECH-0924709	54,133
LC Vision, LLC	47.041	CALTECH-0946085	42,753
Massachusetts Institute of Technology	47.041	5710002280	94,782
Metamodal, LLC	47.041	MM-1001	3,983
National Bureau of Economic Research Inc.	47.075	34-3476-02-0-79-781-7700	(577)
National Bureau of Economic Research Inc.	47.075	34-3519-02-0-79-981	62,421
New Jersey Institute	47.082	910020	65,932
New York University	47	F6030-01	(10,140)
Pomona College	47.082	6064-1	31,588
Sranford University	47.082	24472250-44193-B	64,752
The University of Mississippi	47	10-01-050G	11,924
University of Arizona	47.041	Y502628	319,246
University of California Berkeley	47.041	SA4591-10349PG	5,770
University of California Berkeley	47.041	00007090	61,403
University of California Davis	47.049	SUB09000769-CIT	29,292
University of California Los Angeles	47	0143 G DB034	113,565
University of California Los Angeles	47.049	1000 G GB150	497,893
University of California Los Angeles	47.049	1000 G HD871	574,900
University of Chicago	47.049	30193-A	151,628
University of Chicago	47.070	30085-B	73,081
University of Southern California	47.041	H31068	686,668
University of Southern California	47.050	137754	31,412
University of Washington	47	594618	23,813
University of Wisconsin	47.049	647F205	438,773
University of Wisconsin-Milwaukee	47.049	K083644	103,338

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, 2010

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)			
W.M. Keck Observatory	47	29946	$ 213,612
W.M. Keck Observatory	47.049	29047	382,479
Total National Science Foundation - Pass-Through Funds			5,688,781
Total Research and Development - Pass-Through Funds			30,949,587
Total Research and Development Cluster			277,082,269
Total Major Programs			277,082,269
NON-MAJOR PROGRAMS			
Student Financial Aid Cluster			
Direct Funds			
Department of Education			
Federal Work Study Program	84.033		348,656
Federal Supplemental Educational Opportunity Grant	84.007		431,988
Federal Pell Grant Program	84.063		411,446
Academic Competitiveness Grants	84.375		37,000
National SMART Grant	84.376		152,002
Total Student Financial Aid Cluster			1,381,092

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, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
NON-MAJOR PROGRAMS (Continued)			
Pass-Through Funds			
Department of Education			
California Student Aid Commission Cal Grants	84.069A		$ 3,674
Total Department of Education Pass-Through Funds			3,674
Total Non-Major Programs			1,384,766
Total Federal Awards			$ 278,467,035

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, 2010

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, 2010, except those related to the Jet Propulsion Laboratory ("JPL")(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.

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.

Negative balances reflected in the Schedule represent adjustments to expenditures under awards made in prior years.

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. However, the Institute's FY2008 indirect cost reimbursements were based on a predetermined rate. In addition, ONR has approved fixed with carry forward rates for FY2009 and FY2010 and a provisional rate for FY2011. 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, 2006. Actual incurred costs for the year ended September 30, 2007 are being audited by DCAA and, in the opinion of management, the results of such audit will not have a material impact on the Schedule. Actual incurred costs for FY2009 have been submitted for audit by DCAA and, in the opinion of management, the results of such audit will not have a material impact on the Schedule.

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. Revision 11 to the Disclosure Statement has been submitted by the Institute and is currently being reviewed by DCAA. All amendments and updates through Revision 9 have been approved by ONR.

1. Summary of Significant Accounting Policies (Continued)

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 JPL which is a National Aeronautics and Space Administration ("NASA") Federally Funded Research and Development Center ("FFRDC") managed by the Institute. Please refer to the separate financial statements and related reports for JPL.

2. Loan Advances

During the year ended September 30, 2010, the Institute advanced loans totaling $874,449 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2010 was $4,385,949. 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. The Institute charged $91,224 of administrative cost allowance to the Federal Perkins Loan Program for the year ended September 30, 2010.

3. Federal Direct Loan Program

During the year ended September 30, 2010, the Institute processed $1,192,584 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). The amount disbursed to students (including origination fees and rebates) was $1,173,217. There are no outstanding balances under these loan programs.

4. Transfers

During the year ended September 30, 2010, 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.

5. Federal Work Study Carry forwards

During the year ended September 30, 2010, there were no FWS carry forwards from the year ended September 30, 2009. The carry forward amount is reflected as revenues/expenditures recognized in the year in which the funds were expended. The Institute charged $952 of administrative cost allowance to the Federal Work-Study Program for the year ended September 30, 2010.

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:

Program Title	Amount Provided to Subrecipients
Department of Defense	
Air Force Office of Scientific Research	$ 1,004,582
Army Research Office	1,623,982
Defense Advanced Research Projects Agency	187,486
National Geospatial-Intelligence Agency	26,792
Space and Naval Warfare System	478,266
US Navy	2,685,406
	6,006,514
Department of Energy	
Department of Energy	1,123,073
Department of Health and Human Services	
National Institutes of Health	5,939,530
Department of Homeland Security	
Department of Homeland Security	416,939
Department of Interior	
Department of Interior	30,044
Environmental Protection Agency	
Environmental Protection Agency	48,083
National Aeronautics & Space Administration	
National Aeronautics & Space Administration	28,809,435
National Space Biomedical Research Institute	58,352
Universities Space Research Association	17,200
	28,884,987
National Science Foundation	
National Science Foundation	7,972,695
Total Amount Provided to Subrecipients	$ 50,421,865

7. Contingencies

The amounts expended by the Institute under federal programs are subject to audit by governmental agencies. The Institute believes that any liabilities arising from such audits will not have a material impact on the Institute's financial position.

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 of
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, 2010, and have issued our report thereon dated January 24, 2011. As discussed in Note B to the financial statements, during the year ended September 30, 2009, the Institute adopted a new accounting standard that governs the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act for endowment funds. In addition, as discussed in Note B to the financial statements, the Institute adopted a new accounting standard that required it to change the measurement date of its pension and postretirement plan assets and liabilities to coincide with its September 30, 2009 year end. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not

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identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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

PricewaterhouseCoopers LLP

January 24, 2011

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

To the Board of Trustees of
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 OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. 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.

The Institute's financial statements include the operations of the Jet Propulsion Laboratory (a Federally Funded Research and Development Center managed by the Institute), which incurred $1,675,784,000 in federal expenditures. These expenditures are not included in the Institute's schedule of federal expenditures for the year ended September 30, 2010. Our audit of the Institute's Federal Awards did not include the operations of the Jet Propulsion Laboratory because it is audited and reported upon as a separate entity pursuant to Section 200(e) of OMB Circular A-133 and is, therefore, out of the scope of this 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 could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB

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Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-1.

Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Institute's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Institute's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Institute's response and, accordingly, we express no opinion on the response.

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

PricewaterhouseCoopers LLP

April 15, 2011

SECTION I – SUMMARY OF AUDITORS RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) 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
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None Reported
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?	Yes

SECTION II – FINANCIAL REPORTING FINDINGS

No matters are reportable.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 10-01: Timeliness of financial reporting for federal awards

Identification of programs affected by the finding

Sponsor Award Number: Various (FA9550-07-1-0247, NBCH1050001, 2007-DN-077-ER0004-03)

Sponsoring Agency: Various (Air Force, Department of the Interior, Homeland Security Advanced Research Projects Agency)

CFDA#: Various (12.8000, 15.000, 97.077)

Caltech Award #: Various (AFOSR.000025, DOI.MGA, HSARPA.000005)

Award Year: FY2010

Criteria

The Institute is responsible for submitting financial reports for awards on quarterly, semi-annual, annual or final basis, in accordance with specific sponsoring agency requirements and as included in the grant agreements.

Based on the Office of Management and Budget ("OMB") Circular A-110, ___.52 (a)(1)(iv), SF-269 Financial Status Report shall be required to be submitted no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extension of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

Based on the Office of Management and Budget ("OMB") Federal Financial Report ("FFR") Instructions, the SF-425 report shall replace the standard SF-269 and SF-272 Financial Status Reports. All submission requirements that applied to the previously mentioned reports apply to the SF-425.

Condition

The Federal Financial Report ("Form 425") for 3 out of 25 reports for federal awards was not submitted to the awarding agencies in a timely manner. Below are instances where the reports were submitted late from our testing sample.

Award No.	Funding Source #	Due date of Selected Report	Report Submission Date	Days late
AFOSR.000025	FA9550-07-1-0247	3/2/2010	3/31/2010	29
DOI.MGA	NBCH1050001	10/31/2009	12/11/2009	41
HSARPA.000005	2007-DN-077-ER0004-03	12/1/2009	12/17/2009	16

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

The Institute has a total of 537 awards subject to financial reporting requirements with $247 million of expenditures during fiscal 2010. Approximately 89% of the fiscal 2010 federal expenditures or $219 million of federal expenditures were funded by four federal agencies, namely, National Aeronautics and Space Administration ("NASA"), National Institutes of Health ("NIH"), National Science Foundation ("NSF"), and Department of Energy ("DOE"). No exceptions were identified in regards to the reporting requirements to these top four Federal funding agencies for the Institute.

Questioned Costs

Not Applicable. Audit finding pertains to noncompliance with the reporting requirements set forth under OMB Circular A-133.

Cause

The following were the causes for the delay in the submission of the required financial reports:

AFOSR.000025, DOI.MGA and HSARPA.00005
These final reports were due prior to March 2010. Absence of a report reminder system and staff getting used to newly assigned workload were the main reasons for late final reports. The Institute implemented the report reminder system in March 2010.

Effect

As the Institute did not submit the financial reports in a timely manner, in accordance with the award agreement, the Institute did not meet its contractual obligations.

Recommendation

The Institute implemented a report reminder system in March 2010. This system needs to be maintained, monitored and updated for changes in financial reporting requirements. The monitoring procedure should particularly include updating reporting due dates for modifications, new awards and early terminations. Maintaining an accurate master listing of required financial reports and their due dates will provide the internal control for submitting financial reports by the reporting deadlines.

Management's Views and Corrective Action Plan

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

California Institute of Technology
Summary Schedule of Prior-Year Audit Findings and Questioned Costs
For the Year Ended September 30, 2010

Summary Schedule of Prior Audit Findings

Finding 09-1 Timeliness of financial reporting for Federal awards.

Condition

The Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") for 10 out of 29 reports on federal awards were not submitted to the awarding agencies in a timely manner.

Current Status

Refer to Finding 10-01 and Management's Views and Corrective Action Plan 10.1.

Finding 09-02: Distribution of expenditures between two Federal awards under direct cost allocation principles

Condition

Expenditures that benefited two federal awards, contract 1000 G HD871 and DE-FG02-92ER40701, for University of California Los Angeles ("UCLA") and Department of Energy ("DOE"), respectively, required distribution of the expenditures between both awards. While the expenditures benefited both federal awards, the summary of all the allowable expenses was not mathematically correct. As such, the distribution of the expenditures between both federal awards was not properly performed, thereby leading to the UCLA award being overcharged and the DOE award being under charged by the same amount of $1,207.

Current Status

Project Accounting has incorporated in their training programs the importance of after-the-fact timely review of charges posted to federal awards by the departmental administrators so that errors are identified and corrected in a timely manner.

No equivalent issues were noted during the current year audit, and no further action is required.

Finding 09-03: Support for Travel Costs

Condition

In testing the travel expense reports, one travel expense report out of the 10 selected for testing did not have a timely travel expense report submitted for the trip in support of the expenditure. The travel expenditure, which was $472 for airfare, was incurred in November 2008 in relation to a subaward from Howard University.

Current Status

Travel Services now copies Project Accounting on 90-day and 120-day reminders sent to travelers. Travel Services and Project Accounting work together to ensure supporting documentation is provided by the divisions.

No equivalent issues were noted during the current year audit, and no further action is required.

CALIFORNIA INSTITUTE OF TECHNOLOGY

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April 13, 2011

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

Reference: OMB Circular A-133 Audit for Fiscal Year 2010

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, 2010.

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

Sincerely,

Richard Seligman

Richard P. Seligman
Associate Vice President for Research Administration

Enclosure

CALIFORNIA INSTITUTE OF TECHNOLOGY

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Fiscal Year 2010

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
10.1	The Federal Financial Report ("Form 425") for 3 out of 25 reports for federal awards were not submitted to the awarding agencies in a timely manner.	The Institute has evaluated the compliance impact of the late reports, noting that these reports account for 1% of total expenditures reported in the financial reports for the 537 awards in fiscal 2010. In accordance with the Management Response to FY 08-A133 and FY 09-A133 Audit, the Institute has implemented a report reminder database, which became fully functional in March 2010. The late reports had reporting deadlines before March 2010. Project Accounting staff are monitoring financial report due dates by using this report reminder system.	Director of Project Accounting	Ongoing