California Institute of Technology

Financial Statements

For the Years Ended September 30, 2012 and 2011

Report of Independent Auditors

To the Board of Trustees of the
California Institute of Technology

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the "Institute") at September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

January 25, 2013

PricewaterhouseCoopers LLP, 350 South Grand Avenue, Los Angeles, California 90071
T: (213) 356 6000, F: (813) 637 4444, www.pwc.com/us

California Institute of Technology
Balance Sheets
At September 30, 2012 and 2011
(Dollars in Thousands)

	2012	2011
ASSETS		
Cash and cash equivalents (Notes B and D)	$ 10,982	$ 18,026
Advances and deposits	6,038	9,293
Accounts and notes receivable, net		
United States government	198,136	178,161
Other	22,940	28,722
Contributions receivable, net	83,602	72,321
Investments	2,245,694	1,798,264
Prepaid expenses and other assets	98,315	81,017
Deferred United States government billings	575,724	507,230
Property, plant, and equipment, net	873,768	859,373
Total assets	$ 4,115,199	$ 3,552,407
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 291,426	$ 235,829
Accrued compensation and benefits	161,026	168,095
Deferred revenue and refundable advances	30,328	26,805
Annuities, trust agreements, and agency funds	79,505	71,682
Bonds and notes payable	709,571	439,648
Accumulated postretirement benefit obligation	662,904	567,670
Total liabilities	1,934,760	1,509,729
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted	589,949	593,331
Temporarily restricted	686,637	634,874
Permanently restricted	903,853	814,473
Total net assets	2,180,439	2,042,678
Total liabilities and net assets	$ 4,115,199	$ 3,552,407

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

California Institute of Technology
Statement of Activities
For the Year Ended September 30, 2012
(with summarized financial information for the year ended September 30, 2011)
(Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating revenues:					
Tuition and fees, net of student financial aid	$ 34,130	$ -	$ -	$ 34,130	$ 30,749
Endowment spending distributed	49,198	48,188	-	97,386	93,293
Gifts and pledges	27,803	26,590	-	54,393	42,979
Grants and contracts:					
Jet Propulsion Laboratory - direct	1,541,968	-	-	1,541,968	1,567,287
United States government, Campus - direct	222,901	-	-	222,901	240,620
Other Campus - direct	17,168	-	-	17,168	18,397
Recovery of indirect costs and allowances	117,299	-	-	117,299	114,715
Auxiliary enterprises	31,143	-	-	31,143	31,266
Other	29,285	-	-	29,285	35,348
Net assets released from restrictions	89,581	(89,581)	-	-	-
Total operating revenues	2,160,476	(14,803)	-	2,145,673	2,174,654
Operating expenses:					
Compensation and benefits	338,697	-	-	338,697	326,963
Supplies and services	155,320	-	-	155,320	171,177
Subcontracts	39,056	-	-	39,056	45,540
Graduate fellowships	17,807	-	-	17,807	16,731
Depreciation, accretion, and amortization	64,106	-	-	64,106	60,733
Utilities	17,711	-	-	17,711	17,162
Interest	21,399	-	-	21,399	13,405
Jet Propulsion Laboratory	1,541,968	-	-	1,541,968	1,567,287
Total operating expenses	2,196,064	-	-	2,196,064	2,218,998
Results of operations	(35,588)	(14,803)	-	(50,391)	(44,344)
Non-operating changes:					
Investment return/(loss) in excess/(deficit) of endowment spending	77,415	63,642	3,037	144,094	(108,460)
Endowment spending not distributed	6,117	3,422	820	10,359	8,836
Net assets released from restrictions	2,409	(2,409)	-	-	-
Gifts and pledges	-	7,368	56,588	63,956	49,740
Changes in fair value of interest rate swap	(3,121)	-	-	(3,121)	(14,357)
Non periodic changes in benefit obligations	(19,429)	-	-	(19,429)	7,497
Loss on retirement of indebtedness and other	(7,725)	-	18	(7,707)	(12,005)
Redesignations and reclassifications of net assets	(23,460)	(5,457)	28,917	-	-
Total non-operating activities	32,206	66,566	89,380	188,152	(68,749)
Increase/(decrease) in net assets	(3,382)	51,763	89,380	137,761	(113,093)
Net assets at beginning of year	593,331	634,874	814,473	2,042,678	2,155,771
Net assets at end of year	$ 589,949	$ 686,637	$ 903,853	$ 2,180,439	$ 2,042,678

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

California Institute of Technology
Statement of Activities
For the Year Ended September 30, 2011
(Dollars in Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 30,749	$ -	$ -	$ 30,749
Endowment spending distributed	53,824	39,469	-	93,293
Gifts and pledges	9,318	33,661	-	42,979
Grants and contracts:				
Jet Propulsion Laboratory - direct	1,567,287	-	-	1,567,287
United States government, Campus - direct	240,620	-	-	240,620
Other Campus - direct	18,397	-	-	18,397
Recovery of indirect costs and allowances	114,715	-	-	114,715
Auxiliary enterprises	31,266	-	-	31,266
Other	35,348	-	-	35,348
Net assets released from restrictions	112,020	(112,020)	-	-
Total operating revenues	2,213,544	(38,890)	-	2,174,654
Operating expenses:				
Compensation and benefits	326,963	-	-	326,963
Supplies and services	171,177	-	-	171,177
Subcontracts	45,540	-	-	45,540
Graduate fellowships	16,731	-	-	16,731
Depreciation, accretion, and amortization	60,733	-	-	60,733
Utilities	17,162	-	-	17,162
Interest	13,405	-	-	13,405
Jet Propulsion Laboratory	1,567,287	-	-	1,567,287
Total operating expenses	2,218,998	-	-	2,218,998
Results of operations	(5,454)	(38,890)	-	(44,344)
Non-operating changes:				
Investment loss in deficit of endowment spending	(69,624)	(37,713)	(1,123)	(108,460)
Endowment spending not distributed	3,126	5,710	-	8,836
Net assets released from restrictions	754	(754)	-	-
Gifts and pledges	-	6,601	43,139	49,740
Changes in fair value of interest rate swap	(14,357)	-	-	(14,357)
Non periodic changes in benefit obligations	7,497	-	-	7,497
Other	(12,025)	-	20	(12,005)
Redesignations and reclassifications of net assets	(9,290)	(820)	10,110	-
Total non-operating activities	(93,919)	(26,976)	52,146	(68,749)
(Decrease)/increase in net assets	(99,373)	(65,866)	52,146	(113,093)
Net assets at beginning of year	692,704	700,740	762,327	2,155,771
Net assets at end of year	$ 593,331	$ 634,874	$ 814,473	$ 2,042,678

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, 2012 and 2011
(Dollars in Thousands)

	2012	2011
Cash flows from operating activities:		
Increase/(decrease) in net assets	$ 137,761	$ (113,093)
Adjustments to reconcile increase/(decrease) in net assets to net cash used in operating activities:		
Depreciation, accretion, and amortization	64,106	60,732
Changes in postemployment benefit obligations	19,429	(7,497)
Loss on retirement of indebtedness	4,635	-
Contributions restricted for long-term investment and capital projects	(52,998)	(44,692)
Investment return restricted for long-term investment and capital projects	(1,005)	(1,112)
Realized and unrealized (gains)/losses on investments and swap	(223,412)	44,589
In-kind receipt of securities, property, plant, and equipment	(1,443)	(1,144)
Changes in annuity and trust liabilities	(8,704)	1,972
Losses on disposals of property, plant, and equipment	4,352	11,367
Changes in assets and liabilities:		
Advances and deposits	3,255	(4,205)
Accounts and notes receivable, net	(10,272)	13,405
Contributions receivable, net	5,617	33,899
Prepaid expenses and other assets	(10,937)	(4,798)
Deferred United States government billings	(68,494)	(26,505)
Accounts payable and accrued expenses	43,844	(27,314)
Accrued compensation and benefits	(7,069)	(1,349)
Deferred revenue and refundable advances	3,523	6,773
Agency funds	(154)	673
Accumulated postretirement benefit obligation	75,963	35,648
Net cash used in operating activities	(22,003)	(22,651)
Cash flows from investing activities:		
Purchases of investments	(840,273)	(595,243)
Proceeds from sales and maturities of investments	660,431	616,217
Purchases of property, plant, and equipment	(95,551)	(75,913)
Proceeds from sale of property, plant, and equipment	55	379
Net cash used in investing activities	(275,338)	(54,560)
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	28,799	41,004
Investment return restricted for long-term investment and capital projects	1,005	1,112
Cash received under annuity and trust agreements	4,873	4,767
Cash payments made under annuity and trust agreements	(6,441)	(6,679)
Net borrowings on short-term debt	22,990	12,300
Cash paid for retirement of indebtedness	(103,865)	-
Cash paid for bond issuance costs	(3,861)	-
Proceeds from issuance of bonds	346,797	-
Net cash provided by financing activities	290,297	52,504
Net decrease in cash and cash equivalents	(7,044)	(24,707)
Cash and cash equivalents at beginning of year	18,026	42,733
Cash and cash equivalents at end of year	$ 10,982	$ 18,026

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

A. Description of California Institute of Technology

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 are included in recovery of indirect costs and allowances 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 reporting requirements for uncertain tax positions for the years ended September 30, 2012 and 2011.

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

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 endowment 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 Institute's incurrence 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 and Reclassifications of Net Assets
Net assets related to certain contributions received in prior periods have been transferred among net asset categories due to changes in donor designations and other reclassifications as disclosed in Note H.

Comparability
Certain balances at September 30, 2011, and for the year then ended have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents
Cash and cash equivalents include bank account balances, investments in money market funds, and direct 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 portfolios as short-term investments. At September 30, 2012 and 2011, short-term investments, as disclosed in Note D, consisted of $134,440 and $178,854, 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 by the Institute but not yet cashed by recipients 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, 2012 and 2011.

Advances and Deposits
Advances include certain cash balances, totaling $4,880 and $7,946 at September 30, 2012 and 2011, respectively, that are restricted for use in connection with United States government-sponsored research. Deposits include $1,158 and $1,347 at September 30, 2012 and 2011, 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, which approximates fair value. The allowance for doubtful accounts was $646 and $663 at September 30, 2012 and 2011, respectively. Activity in the allowance account was not significant during the years ended September 30, 2012 and 2011.

Accounts receivable from students and employees of $1,304 and $2,185 at September 30, 2012 and 2011, respectively, are carried at cost. Doubtful accounts are charged to expense when they are deemed to become uncollectible. During the years ended September 30, 2012 and 2011, only minor amounts were written off as uncollectible. The value of receivables, which are carried at cost, approximates fair value.

The Institute provides loans to students from both internal funds and from funds provided by the United States government under the Federal Perkins Loan Program. Loans that bear interest carry fixed rates. Most loans carry ten-year terms. Student loans receivable of $6,549 and $6,760 at September 30, 2012 and 2011, respectively, are carried at cost. Determination of the fair value of such notes is impracticable.

The Institute currently holds all loans to maturity. Loans to students are considered delinquent 10-90 days after a borrower misses a required payment. Delinquent interest-bearing loans continue to accrue interest. At September 30, 2012 and 2011, only immaterial amounts of loans were delinquent. No allowances have been recorded, and only minor amounts of loans are expected to become uncollectible. The principal credit quality indicator for such loans is collection experience. The Institute manages its credit risk by limiting amounts loaned per term, monitoring aggregate loan levels, and maintaining an active collections process with the assistance of third-party collection agencies as necessary. Student loans generally are not dischargeable in bankruptcy. Loans are not considered uncollectible until all reasonable collection efforts have been made.

Investments

Investments are carried 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. Accounts receivable included $8,547 and $12,468 related to outstanding sales and accounts payable included $21,707 and $3 related to outstanding purchases at September 30, 2012 and 2011, respectively.

The Institute engages a number of outside parties to manage portions of its investment portfolios, which include an investment pool and other separately managed portfolios. 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 considers the values provided by external investment managers in determining the fair value of alternative investments. Those estimated fair values may differ from the values that could have been determined had a ready market for these securities existed.

Endowment

Endowment net assets are those held for long-term investment in support of the Institute. All investments of endowment assets are held in the investment pool unless special considerations or donor stipulations require that they be invested separately. Endowment net assets include donor-restricted endowments and board-designated endowments. Gift annuities, beneficial interests, contributions receivable, and unexpended endowment spending distributed that is 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 the following as permanently restricted net assets: the original value of initial gifts to permanent endowments, the original value of subsequent gifts to permanent endowments, and 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 expenditure 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 among those used in determining annual spending from endowment funds:

- The purpose of each donor-restricted endowment fund
- The duration and preservation of each 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 funds for expenditure 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 investment income (including interest, dividends, and royalties). 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 endowment spending policy, between 5% and 7% 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 investment income and gains are not sufficient to support the current-year distribution, the balance is provided from prior years' accumulated earnings.

The portion of endowment available for spending that is transferred to operating accounts each year is shown as endowment spending distributed in the statements of activities. Any endowment spending available for expenditure but not distributed remains invested in the Institute's endowment and is included in non-operating changes to net assets in the statements of activities.

As a result of market declines, the fair values of certain donor-restricted endowment funds are less than the historical values of such funds. The aggregate deficiencies for donor-restricted endowment funds were $39,073 and $66,858 at September 30, 2012 and 2011, 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. Costs of regular settlements with the counterparty of $5,576 and $5,596 during the years ended September 30, 2012 and 2011, respectively, are included in interest expense in the statements of activities. Changes in the swap's fair value during the years ended September 30, 2012 and 2011, resulted in unrealized losses of $3,122 and $14,357, respectively, which are included in non-operating changes in net assets in the statements of activities. The fair value of the swap was a liability of $58,938 and $55,816 at September 30, 2012 and 2011, 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, 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. For the years ended September 30, 2012 and 2011, capitalized interest was $3,446 and $1,365, respectively. Depreciation on all assets subject to depreciation 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 federally and non-federally funded research grants. Costs of federally and non-federally funded assets acquired or constructed under both federal and nonfederal grants in which title does not ultimately transfer to the Institute are charged to expense.

The Institute records conditional asset retirement obligations primarily related to asbestos removal and disposal in future remediation activity. Asset retirement cost, net of accumulated depreciation, at September 30, 2012 and 2011 was $840 and $976, respectively, and is included in property, plant, and equipment in the balance sheets. Conditional asset retirement obligations at September 30, 2012 and 2011 were $11,750 and $11,286, respectively, and are included in accounts payable and accrued expenses in the balance sheets.

Annuity and Trust 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 beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement. Discount rates on split-interest agreements range from 1.6% to 11.2%. The liabilities are adjusted during the terms of the agreements for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Split-interest agreement liabilities totaled $62,167 and $55,855 at September 30, 2012 and 2011, 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, 2012 and 2011.

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 $6,640 and $5,782 at September 30, 2012 and 2011, respectively.

Beneficial Interests
The Institute is the beneficiary of both charitable remainder and perpetual trusts held and administered by others as well as interests in certain estates bequeathed by donors. The fair value of the Institute's interests in charitable and perpetual trusts is the Institute's percentage interest in the fair value of trust assets. The carrying value of the Institute's interest in such trusts is adjusted for changes in the fair values of the underlying assets. Interests in estates are recognized based on estimates of cash flows from estate settlements at the time such cash flows are probable and reasonably estimable. Remainder interests are recognized in contribution revenues at the date the trusts are established. Distributions from perpetual trusts are recorded as contributed by the trustee. These assets totaled $37,116 and $25,872 at September 30, 2012 and 2011, respectively, and are included in prepaid expenses and other assets in the balance sheets.

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 eligible academic and administrative employees. Contributions to IRC Section 403(b) defined contribution plans for the years ended September 30, 2012 and 2011

were $22,592 and $21,931, respectively, for the Campus and $64,574 and $66,505, respectively, for JPL. The Institute has no assets or liabilities related to these plans.

At September 30, 2012 and 2011, respectively, prepaid expenses and other assets included $52,564 and $44,776 in assets held pursuant to IRC section 457 defined contribution retirement plans. These assets are invested with external investment managers and are recorded at fair value. The Institute's liabilities related to these funds were $51,466 and $44,093 at September 30, 2012 and 2011, respectively, and are included in accrued compensation and benefits in the balance sheets.

Funds Held for Others
The Institute held assets totaling $10,698 and $10,045 in agency funds at September 30, 2012 and 2011, 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 in the balance sheets.

Compensated Absences
Institute employees are entitled to paid vacation based upon length of service and other factors. Certain employees also accrue benefits related to sick leave. The Institute records a liability for these benefits that employees have earned but not yet taken. At September 30, 2012 and 2011, accrued compensated absences of $73,486 and $73,096, respectively, are included in accrued compensation and benefits in the balance sheets. Other compensated absences do not accumulate and are treated as current-period costs.

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, 2012 and 2011, the estimated liabilities for workers' compensation amounted to $9,249 and $8,697, respectively, and are included in accrued compensation and benefits in the balance sheets.

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 $81,826 and $76,439 for the years ended September 30, 2012 and 2011, respectively. Student financial aid totaled $47,696 and $45,690 for the years ended September 30, 2012 and 2011, respectively. Student tuition and fees received in advance of services to be rendered, net of applicable financial aid, 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* - Unconditional promises to give are recorded as revenues in the year received. Non-cash 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 at each year end 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 time or other 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 $126,022 and $113,163 at September 30, 2012 and 2011, respectively. Payments received related to conditional promises for which conditions have not been met totaled $4,600 and $0 at September 30, 2012 and 2011, respectively, and are included in deferred revenue and refundable advances in the balance sheets.

- *Grants and contracts* - Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Substantially all United States government grants and contracts awarded to the Campus provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with the Office of Naval Research, the Campus' federal cognizant agency for the negotiation and approval of facilities and administrative and other indirect cost rates. Costs related to the performance of activities under the JPL contract are reimbursable by NASA. 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 products or services. Amounts received in advance of deliveries of products or services are recorded as deferred revenue.

(Dollars in Thousands)

Expenses

Expenses are generally reported as decreases in unrestricted net assets. Campus expenses are reported in the statements of activities by natural classification. Campus expenses by functional classification were as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Instruction and Academic Support	$ 260,785	$ 243,530
Organized Research	281,033	304,251
Institutional	80,260	72,429
Auxiliary Enterprises	32,018	31,501
Total Campus functional expenses	$ 654,096	$ 651,711

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.

Operating and Non-operating Activities

The statements of activities report the changes in net assets from the Institute's operating and nonoperating activities. Operating activities exclude investment returns/(losses) in excess/deficit of endowment spending, endowment spending available but not distributed to operations, revenues and releases from restrictions related to gifts for construction, endowments, and annuity and trust agreements, changes in postemployment benefit obligations that are not otherwise recognized in net periodic benefit cost, changes in fair value of interest rate swaps, gains or losses on disposal of plant, property and equipment, net gains or losses on nonrecurring transactions, actuarial adjustments related to annuity and trust agreements, and donor redesignations or other reclassifications of net assets.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, which clarifies the application of existing fair value measurement requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. Specifically, the guidance specifies that the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of nonfinancial assets. The new guidance expands required disclosures, especially for fair value measurements that are categorized within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs used and a narrative description of the valuation processes in place will be required. This guidance is effective for the Institute's fiscal year ending September 30, 2013. The Institute is currently evaluating the impact that this guidance may have on its financial statements.

In October 2012, the FASB issued ASU 2012-05 concerning the classification of cash receipts arising from the sale of donated financial assets in the statement of cash flows of not-for-profit entities. ASU 2012-05 is effective after June 15, 2013 but permits early adoption. The guidance is effective for the

(Dollars in Thousands)

Institute's fiscal year ending September 30, 2013. The Institute is currently evaluating the impact that this guidance may have on its financial statements.

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 that remains fixed. Discount rates on outstanding contributions at September 30, 2012 and 2011 range from 1.04% to 5.84%.

Contributions receivable consisted of the following at September 30, 2012 and 2011:

	2012	2011
Contributions receivable at beginning of year, net	$ 72,321	$ 131,969
Discount at beginning of year	5,997	10,662
Allowance for doubtful accounts at beginning of year	85	99
Contributions receivable at beginning of year, gross	78,403	142,730
New contributions received	38,211	16,560
Contribution payments received	(28,903)	(83,395)
Adjustments to fair value of securities to be contributed	-	2,690
Write-offs and other adjustments	(486)	(182)
Contributions receivable at end of year, gross	87,225	78,403
Discount at end of year	(3,446)	(5,997)
Allowance for doubtful accounts at end of year	(177)	(85)
Contributions receivable at end of year, net	$ 83,602	$ 72,321

(Dollars in Thousands)

Gross contributions receivable carried the following restrictions at September 30, 2012 and 2011:

	2012	2011
Endowment for programs, activities and scholarships	$ 43,883	$ 22,932
Building construction	96	627
Education, general and time restrictions	43,246	54,844
Total contributions receivable, gross	$ 87,225	$ 78,403

Gross contributions receivable are expected to be realized as follows at September 30, 2012 and 2011:

	2012	2011
Within one year	$ 26,827	$ 20,381
Between one year and five years	56,194	57,532
More than five years	4,204	490
Total contributions receivable, gross	$ 87,225	$ 78,403

At September 30, 2012 and 2011, contributions receivable of $68,147 and $61,703, respectively, were due from board members and/or charitable entities founded by board members.

D. Investments

Investments consisted of the following at September 30, 2012 and 2011:

	2012	2011
Short-term investments	$ 134,440	$ 178,854
Fixed-income securities	134,333	89,381
Equity securities	750,265	557,311
Alternative investments:		
Marketable alternatives	712,110	529,537
Private equity	194,384	192,822
Real assets	294,414	227,611
Real estate mortgages, notes, and other investments	25,748	22,748
Total investments	$ 2,245,694	$ 1,798,264

(Dollars in Thousands)

At September 30, 2012 and 2011, short-term investments consisted of $134,440 and $178,854, respectively, in cash and cash equivalents.

Investments were categorized as follows at September 30, 2012 and 2011:

	2012	2011
Investment pool	$ 1,869,830	$ 1,589,109
Separately invested endowments	28,726	39,778
Trusts, annuities, and other	347,138	169,377
Total investments	$ 2,245,694	$ 1,798,264

At September 30, 2012 and 2011, endowment investments were $1,813,842 and $1,613,662, respectively.

Investment return/(loss) consisted of the following for the years ended September 30, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 19,730	$ 18,307
Net realized gains	68,482	66,725
Net unrealized appreciation/(depreciation)	163,627	(91,362)
Total investment return/(loss)	$ 251,839	$ (6,330)

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 is able 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 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, 2012 and 2011:

	2012	2011
Accumulated postretirement benefit obligation	$ 511,217	$ 443,114
Accrued vacation benefits	58,133	58,107
Other benefit liabilities	6,374	6,009
Total deferred United States government billings	$ 575,724	$ 507,230

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2012 and 2011:

	2012	2011
Land and land improvements	$ 60,356	$ 59,523
Buildings and building improvements	928,732	836,360
Equipment	513,595	498,776
Construction in progress	67,573	112,559
Less: accumulated depreciation	(696,488)	(647,845)
Total property, plant, and equipment, net	$ 873,768	$ 859,373

Depreciation expense for the years ended September 30, 2012 and 2011 was $63,327 and $59,830, respectively.

(Dollars in Thousands)

G. Bonds and Notes Payable

Bonds and notes payable are uncollaterized, general obligations of the Institute and consisted of the following at September 30, 2012 and 2011:

Bonds Payable:	2012	2011
Taxable Bonds, Series 2011 due November 1, 2111, with interest at 4.70% (net of original issue discount of $3,170)	$ 346,830	-
California Educational Facilities Authority (CEFA) tax-exempt revenue bonds:		
2009 Series due November 1, 2039, with interest at 5.00% (gross of issue premium of $621 and $644, respectively)	80,621	80,644
2006 Series A due October 2036, with variable interest rates reset weekly (0.15% and 0.10%, respectively)	82,500	82,500
2006 Series B due October 2036, with variable interest rates reset weekly (0.14% and 0.08%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of $0 and $1,943, respectively)	-	48,622
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of $0 and $2,048, respectively)	-	51,252
Series 1994 due January 2024, with variable interest rates reset weekly (0.15% and 0.10%, respectively)	30,000	30,000
Total bonds payable	622,451	375,518
Notes payable:		
Bank of America revolving bank credit facility expiring March 2015, with variable interest rates (0.36% at September 30, 2012)	20,000	-
Bank of America revolving bank credit facility expiring March 2015, with variable interest rates (0.31% and 0.45%, respectively)	50,000	49,730
Bank of New York money market loan program with no expiration date, with variable interest rates (0.48% at September 30, 2011)	-	2,000
Commercial paper note program, weighted-average interest (0.10% at September 30, 2011)	-	12,400
JPMorgan Chase money market loan program with no expiration date, with variable interest rates (0.49% at September 30, 2012)	17,120	-
Northern Trust revolving bank credit facility expiring June 2015, with variable interest rates	-	-
Wells Fargo revolving bank credit facility expiring March 2015, with variable interest rates	-	-
Wells Fargo revolving bank credit facility expiring June 2015, with variable interest rates	-	-
Total notes payable	87,120	64,130
Total bonds and notes payable	$ 709,571	$ 439,648

(Dollars in Thousands)

As of September 30, 2012, the Institute had seven unsecured revolving lines of credit (the "Lines of Credit") available. The Institute has internally-mandated aggregate borrowing limits under the Lines of Credit, which include the following amounts: $100,000 for borrowings to finance working capital, $25,000 for borrowings to finance acquisitions of real estate and temporary funding for capital projects, and $200,000 for borrowings secured to preserve liquidity. All Lines of Credit are uncollateralized.

The table below summarizes the material terms of the Lines of Credit, including permitted uses of any funds drawn and permitted maximum draws under each individual Line of Credit at September 30, 2012:

Financial Institution	Maximum Permitted	Outstanding Amounts	Maturity
General Working Capital and Capital Projects:			
Bank of America	$ 100,000	$ 20,000	2015
Bank of America	50,000	50,000	2015
Bank of New York	50,000	-	None
JPMorgan Chase	62,000	17,120	None
Wells Fargo	50,000	-	2015
Supplemental Liquidity for Variable Rate Debt:			
Northern Trust	50,000	-	2015
Wells Fargo	100,000	-	2015

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

The Institute is required to comply with financial covenants in certain Lines of Credit agreements, including maintaining minimum ratios of unrestricted cash and investments to total adjusted debt outstanding.

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. Effective upon its issuance of taxable bonds in December 2011, the Institute's internal authorization for borrowings under the commercial paper facility became $0.

Under certain circumstances, the CEFA Series 1994, 2006 Series A, and 2006 Series B variable rate revenue bonds, which have contractual maturities commencing in 2024, 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 year ending September 30, 2013 in the following table.

(Dollars in Thousands)

Future principal repayments on bonds and notes payable were as follows at September 30, 2012:

Year Ending September 30	Amount
2013	$ 282,120
2014	-
2015	-
2016	-
2017	-
Thereafter	427,451
Total	$ 709,571

The aggregate 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 $673,439 and $397,489 at September 30, 2012 and 2011, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs totaling $87,120 and $51,730 at September 30, 2012 and 2011, 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 (0.14% at September 30, 2012), on a $165,000 underlying notional principal amount.

On December 6, 2011, the Institute issued $350,000 in Series 2011 taxable bonds. The Institute called and repaid all of its outstanding CEFA Series 1998 bonds at par value, which amounted to $103,865, using a portion of the proceeds from the taxable bond issue. The retirement resulted in a loss of $4,635, which is reflected in the statement of activities as a non-operating change in unrestricted net assets.

(Dollars in Thousands)

H. Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2012 and 2011:

	2012	2011
Educational and research funds	$ 111,138	$ 113,305
Contributions receivable	45,408	51,654
Capital projects	2,611	138
Life income and annuity funds	43,867	36,190
Endowments	483,613	433,587
Total temporarily restricted net assets	$ 686,637	$ 634,874

Permanently restricted net assets were available for the following purposes at September 30, 2012 and 2011:

	2012	2011
Student loan funds	$ 16,425	$ 15,948
Contributions receivable	38,194	20,668
Life income and annuity funds	39,765	29,235
Endowments	809,469	748,622
Total permanently restricted net assets	$ 903,853	$ 814,473

Reclassifications and redesignations of net assets in the statement of activities for the year ended September 30, 2012 include the effects of out-of-period reclassifications among unrestricted, temporarily restricted, and permanently restricted net asset categories. The reclassifications decreased unrestricted net assets by $14,619, decreased temporarily restricted net assets by $2,838, and increased permanently restricted net assets by $17,457. The reclassifications are primarily due to adjustments made to several individual endowment accounts to reflect donor-imposed restrictions on net appreciation from investments. Reclassifications and redesignations also include an out-of-period increase in permanently restricted net assets of $4,262. These adjustments are not considered material to the financial statements.

(Dollars in Thousands)

Endowment net assets consisted of the following at September 30, 2012 and 2011:

September 30, 2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ (46,737)	$ 483,613	$ 809,469	$ 1,246,345
Board-designated endowment funds	565,152	-	-	565,152
Total endowment net assets	$ 518,415	$ 483,613	$ 809,469	$ 1,811,497
September 30, 2011				
Donor-restricted endowment funds	$ (83,553)	$ 433,587	$ 748,622	$ 1,098,656
Board-designated endowment funds	525,675	-	-	525,675
Total endowment net assets	$ 442,122	$ 433,587	$ 748,622	$ 1,624,331

Under Accounting Standards Codification 958, for accounting purposes the Institute must record the historical values of donor-restricted endowment funds as permanently restricted net assets even in cases where the fair values of those funds are less than historical values. Such deficits are recorded as reductions of unrestricted net assets.

Changes in endowment net assets for the years ended September 30, 2012 and 2011 were as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Balance as of October 1, 2010	$ 471,088	$ 468,321	$ 692,550	$ 1,631,959
Investment return:				
Investment income	398	-	-	398
Net decline in market value	(6,955)	(3,874)	(357)	(11,186)
Total investment return	(6,557)	(3,874)	(357)	(10,788)
Contributions and pledge payments	-	4,802	47,487	52,289
Additions to board-designated endowments	42,796	-	-	42,796
Available for expenditure	(56,950)	(45,179)	(775)	(102,904)
Redesignations, reclassifications and other	(8,255)	9,517	9,717	10,979
Balance as of September 30, 2011	442,122	433,587	748,622	1,624,331
Investment return:				
Investment income	6,124	-	-	6,124
Net appreciation in market value	128,885	108,567	3,645	241,097
Total investment return	135,009	108,567	3,645	247,221
Contributions and pledge payments	-	-	31,792	31,792
Additions to board-designated endowments	10,753	-	-	10,753
Available for expenditure	(55,316)	(51,609)	(1,551)	(108,476)
Redesignations, reclassifications and other	(14,153)	(6,932)	26,961	5,876
Balance as of September 30, 2012	$ 518,415	$ 483,613	$ 809,469	$ 1,811,497

(Dollars in Thousands)

I. Defined Benefit Plan

A small number of employees, former employees, and beneficiaries 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 are 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.

In October 2011, the Institute notified participants of its intent to terminate the defined benefit plan. At September 30, 2012, the criteria for recognizing a settlement of pension liabilities had not been met and therefore no settlement costs were recorded during the year ended September 30, 2012.

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Change in the benefit obligation:		
Benefit obligation at beginning of year	$ 5,910	$ 5,371
Service cost	11	43
Interest cost	251	239
Benefits paid	(138)	(119)
Actuarial loss	312	376
Benefit obligation at end of year	$ 6,346	$ 5,910

The accumulated benefit obligation for the defined benefit pension plan was $6,346 and $5,882, at September 30, 2012 and 2011, respectively.

	2012	2011
Changes in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 3,945	$ 3,506
Actual return on plan assets	239	64
Employer contributions	295	496
Benefits paid	(138)	(119)
Plan expenses	(2)	(2)
Fair value of plan assets	$ 4,339	$ 3,945

(Dollars in Thousands)

	2012	2011
Funded status at valuation date:		
Funded status	$ (2,007)	$ (1,965)
Net amount recognized at end of year	$ (2,007)	$ (1,965)

The unfunded benefit obligation is recognized in accrued compensation and benefits 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 related to JPL for the years ended September 30, 2012 and 2011 was an increase of $33 and $357, respectively, in both JPL direct expense and revenue and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL is contractually recoverable from NASA. The effect of those changes for the Campus was a decrease in unrestricted net assets of $158 and $113 for the years ended September 30, 2012 and 2011, respectively, and is recorded in non-operating changes in unrestricted net assets.

At September 30, 2012 and 2011, cumulative differences between periodic pension expense and the unfunded accumulated pension obligation recorded in unrestricted net assets were as follows:

	2012	2011
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$ 489	$ 331
Total amounts recognized as unrestricted net assets	$ 489	$ 331

Net periodic cost related to the defined benefit plan for the years ended September 30, 2012 and 2011, included the following components:

	2012	2011
Service cost	$ 11	$ 43
Interest cost	251	239
Recognized actuarial loss	100	35
Expected return on plan assets	(216)	(191)
Net periodic cost	$ 146	$ 126

(Dollars in Thousands)

Estimated contributions to the defined benefit plan in the next year are $3,198, and estimated future benefit payments expected to be paid in the next year are approximately $6,350, as the Institute intends to terminate the defined benefit plan.

Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed-income securities. Defined benefit 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, 2012 and 2011, total defined benefit plan assets were invested as follows:

	2012	**2011**
Equity securities	16.00%	14.00%
Fixed-income securities	84.00%	83.00%
Cash	0.00%	3.00%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the defined benefit plan at September 30, 2012 and 2011:

	2012	**2011**
Discount rate	3.50%	4.60%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

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

(Dollars in Thousands)

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the defined benefit plan for the years ended September 30, 2012 and 2011:

	2012	**2011**
Discount rate	4.60%	4.90%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

The Institute presents the fair value of the defined benefit plan's assets according to a hierarchy specified in its accounting policies. All of the Plan's investments fall within Level 2 of that hierarchy as defined in Note K.

The following table summarizes the investments of the Institute's defined benefit plan assets as of September 30, 2012 and 2011:

	2012	**2011**
Short-term investments	$ 12	$ 114
Fixed income securities	3,648	3,261
International equity securities	381	326
Domestic equity securities	298	244
Total plan assets	$ 4,339	$ 3,945

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, 2012 and 2011, and is based on a September 30 measurement date:

	2012	**2011**
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 567,670	$ 539,632
Service cost	18,399	17,260
Interest cost	26,808	27,564
Participant contributions	7,070	4,774
Benefits paid	(22,018)	(21,090)
Actuarial loss/(gain)	64,975	(470)
Benefit obligation at end of year	$ 662,904	$ 567,670

	2012	**2011**
Components of net periodic postretirement benefit cost:		
Service cost	$ 18,399	$ 17,260
Interest cost	26,808	27,564
Amortization of prior year service credit	(3,337)	(3,337)
Amortization of loss	5,778	7,060
Net periodic benefit cost	$ 47,648	$ 48,547

	2012	**2011**
Change in the fair value of plan assets:		
Employer contributions	$ 14,948	$ 16,316
Participant contributions	7,070	4,774
Benefits paid	(22,018)	(21,090)
Fair value of plan assets at end of year	$ -	$ -

	2012	**2011**
Funded status at valuation date:		
Funded status	$ (662,904)	$ (567,670)
Net amount recognized at end of year	$ (662,904)	$ (567,670)

(Dollars in Thousands)

	2012	**2011**
Amounts recognized in the balance sheets:		
Accumulated postretirement obligation	$ (662,904)	$ (567,670)
Total amounts recognized in balance sheets	$ (662,904)	$ (567,670)

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 related to JPL for the years ended September 30, 2012 and 2011 was an increase of $43,263 and $3,417, respectively, in both JPL direct expense and revenue and in deferred U.S. government billings, as any cost associated with this adjustment related to JPL is contractually recoverable from NASA. The effect of those changes for the Campus was a decrease in unrestricted net assets of $19,271 and an increase of $7,610 for the years ended September 30, 2012 and 2011, respectively, and is recorded in non-operating changes in unrestricted net assets.

At September 30, 2012 and 2011, cumulative differences between net periodic postretirement benefit cost and the accumulated postretirement benefit obligation recorded in unrestricted net assets were as follows:

	2012	**2011**
Amounts recognized in unrestricted net assets:		
Prior service credit	$ (2,592)	$ (3,290)
Net loss	35,871	17,298
Total amounts recognized in unrestricted net assets	$ 33,279	$ 14,008

An estimated prior service credit of $3,337 and net loss of $9,076 will be amortized into net periodic benefit cost during the year ending September 30, 2013.

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2012 and 2011:

	2012	**2011**
Discount rate	3.80%	4.80%
Health care cost trend rate	8.75%	9.25%

(Dollars in Thousands)

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, 2012 and 2011:

	2012	**2011**
Discount rate	4.80%	5.20%
Health care cost trend rate	9.25%	10.00%

At September 30, 2012, the assumed health care cost trend rates for subsequent years were as follows:

Year Ending September 30	Health Care Cost Trend Rate
2013	8.25%
2014	7.75%
2015	7.25%
2016	7.00%
2017	6.75%
2018	6.50%
2019	6.25%
2020	6.00%
2021	5.75%
2022	5.50%
2023	5.25%
2024	5.00%
2025	4.75%
2026 and thereafter	4.50%

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

	1% Increase	**1% Decrease**
Effect on the total of service and interest cost components	$ 11,486	$ (8,713)
Effect on accumulated postretirement benefit obligation	$ 124,256	$ (97,815)

A substantial majority of the above effects would be related to JPL and therefore would result in corresponding changes in amounts expected to be recovered from NASA.

The Institute and its retirees are expected to contribute approximately $18,700 and $2,400, respectively, during the year ending September 30, 2013. Approximately $14,900 of the Institute's expected contribution is related to JPL and therefore is expected to be recovered from NASA.

(Dollars in Thousands)

At September 30, 2012, the estimated future benefit payments were as follows:

Year Ending September 30	Campus	JPL	Total
2013	$ 3,800	$ 14,900	$ 18,700
2014	4,200	16,100	20,300
2015	4,600	17,400	22,000
2016	5,000	18,600	23,600
2017	5,400	19,900	25,300
2018-2022	34,400	119,500	153,900

Payments related to JPL are expected to be recovered from NASA as they are made.

K. Fair Value

The Institute evaluates assets and liabilities reported at fair value using an established 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 quoted prices 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.

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.

(Dollars in Thousands)

The following is a summary of the levels within the fair value hierarchy for the Institute's assets and liabilities as of September 30, 2012 and 2011:

	Level 1	Level 2	Level 3	2012 Total
Assets:				
Cash & cash equivalents	$ 11,020	$ -	$ -	$ 11,020
Investments:				
Short-term investments	134,440	-	-	134,440
Fixed-income securities	76,213	58,120	-	134,333
Equity securities	558,221	182,055	9,989	750,265
Alternative investments:				
Marketable alternatives	-	-	712,110	712,110
Private equity	-	-	194,384	194,384
Real assets	-	-	294,414	294,414
Real estate & other	-	-	25,748	25,748
Total investments	768,874	240,175	1,236,645	2,245,694
Beneficial interests	-	-	37,116	37,116
Defined contribution plans	13,132	19,222	20,210	52,564
Total assets	$ 793,026	$ 259,397	$ 1,293,971	$ 2,346,394
Liabilities:				
Interest rate swap	$ -	$ 58,938	$ -	$ 58,938
Defined contribution plans	12,586	18,793	20,087	51,466
Total liabilities	$ 12,586	$ 77,731	$ 20,087	$ 110,404

	Level 1	Level 2	Level 3	2011 Total
Assets:				
Cash & cash equivalents	$ 18,026	$ -	$ -	$ 18,026
Investments:				
Short-term investments	178,854	-	-	178,854
Fixed-income securities	42,629	46,752	-	89,381
Equity securities	426,214	123,359	7,738	557,311
Alternative investments:				
Marketable alternatives	-	-	529,537	529,537
Private equity	-	-	192,822	192,822
Real assets	-	-	227,611	227,611
Real estate & other	-	-	22,748	22,748
Total investments	647,697	170,111	980,456	1,798,264
Beneficial interests	-	-	25,872	25,872
Defined contribution plans	9,509	15,659	19,608	44,776
Total assets	$ 675,232	$ 185,770	$1,025,936	$1,886,938
Liabilities:				
Interest rate swap	$ -	$ 55,816	$ -	$ 55,816
Defined contribution plans	9,437	15,230	19,426	44,093
Total liabilities	$ 9,437	$ 71,046	$ 19,426	$ 99,909

The Institute generally uses net asset value ("NAV") to determine the fair value of investments in funds that do not have readily determinable fair values and 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 or investment manager 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, 2012, the Institute's related investments valued using NAV 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 $10,866 and $40,492 at September 30, 2012 and 2011, respectively, and allowed for monthly redemptions with notice of ten business days.

- *Equity securities* - At September 30, 2012 and 2011, this category includes investments of $181,879 and $123,195, respectively, in funds that invest in publicly traded equity securities of companies in domestic and international markets. At September 30, 2012 and 2011, the funds allowed either daily or monthly redemptions with notice ranging from zero to 90 days.

- *Marketable alternatives* - This category includes investments in hedge funds whose investment objectives include earning 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. The term marketable alternatives does not imply any expectation as to liquidity or salability. At September 30, 2012 and 2011 investments with a total fair value of $519,546 and $420,762, respectively, allow redemptions from quarterly to triennially, with notice periods ranging from 45 to 180 days. At September 30, 2012 and 2011 investments with a total fair value of $75,150 and $55,956, respectively, allowed monthly redemptions with up to a fifteen-day notice. In addition, at September 30, 2012 and 2011 investments with a total fair value of $117,414 and $52,819, respectively, and unfunded commitments of $84,105 and $50,850, respectively, did not allow redemptions and have estimated remaining lives of up to ten 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 $82,141 and $62,124 at September 30, 2012 and 2011, respectively. The Institute does not have any redemption rights in these investments and the investments have estimated remaining lives of up to ten 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 $294,414 and $198,119 at September 2012 and 2011, respectively. The total unfunded commitments were $71,682 and $56,971 at September 30, 2012 and 2011, respectively. The Institute does not have any redemption rights in these investments, and the investments have estimated remaining lives of up to ten years.

  At September 30, 2011, this category also included 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, 2011 was $29,492. The investment allowed redemptions quarterly with a ninety-day notice.

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

The Institute uses an interest rate swap to manage the interest rate exposure of a portion of its variable rate debt. The interest rate swap has inputs that can generally be corroborated by market data and is therefore classified as Level 2. The interest rate swap is 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)

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, 2012:

	Beginning Balance	Purchases	Sales	Change in Market Value	Transfers between Levels	2012 Ending Balance
Assets:						
Investments:						
Fixed-income securities						
Equity securities	$ 7,738	$ 1,605	$ (99)	$ 745	$ -	$ 9,989
Alternative investments:						
Marketable alternatives	529,537	208,276	(87,548)	61,845	-	712,110
Private equity	192,822	25,494	(37,769)	13,837		194,384
Real assets	227,611	54,726	(46,949)	59,026	-	294,414
Real estate and other	22,748	3,599	(1,199)	600	-	25,748
Total investments	980,456	293,700	(173,564)	136,053	-	1,236,645
Beneficial interests	25,872	12,881	(2,509)	872		37,116
Defined contribution plans	19,608	688	(778)	692	-	20,210
Total assets	$ 1,025,936	$ 307,269	$ (176,851)	$ 137,617	$ -	$ 1,293,971
Liabilities:						
Defined contribution plans	$ 19,426	$ 688	$ (719)	$ 692	$ -	$ 20,087
Total liabilities	$ 19,426	$ 688	$ (719)	$ 692	$ -	$ 20,087

(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, 2011:

	Beginning Balance	Purchases	Sales	Change in Market Value	Transfers between Levels	2011 Ending Balance
Assets:						
Investments:						
Fixed-income securities	$ 55	$ 1	$ (56)	-	-	-
Equity securities	3,213	3,413	(18)	$ 1,575	$ (445)	$ 7,738
Alternative investments:						
Marketable alternatives	513,511	127,200	(111,365)	191	-	529,537
Private equity	176,491	35,911	(39,790)	20,210	-	192,822
Real assets	205,073	27,285	(16,894)	12,147	-	227,611
Real estate and other	25,075	1,780	(4,857)	750	-	22,748
Total investments	923,418	195,590	(172,980)	34,873	(445)	980,456
Beneficial interests	20,063	3,093	(119)	2,835	-	25,872
Defined contribution plans	19,278	1,632	(1,959)	657	-	19,608
Total assets	$ 962,759	$ 200,315	$ (175,058)	$ 38,365	$ (445)	$ 1,025,936
Liabilities:						
Defined contribution plans	$ 18,770	$ 1,632	$ (1,639)	$ 663	$ -	$ 19,426
Total liabilities	$ 18,770	$ 1,632	$ (1,639)	$ 663	$ -	$ 19,426

The Institute records transfers between levels in the current fiscal year when there is a change in circumstances that affects the liquidity of the assets and/or the ability to observe and measure the fair value. The Institute records such transfers based on the market value at the beginning of the reporting period.

There were no transfers between Level 1 and 2 during the years ended September 30, 2012 and 2011.

The change in net unrealized gains and losses related to Level 3 assets held at September 30, 2012 and 2011 was $92,047 and $1,948, respectively. During the years ended September 30, 2012 and 2011, unrealized gain of $91,588 and unrealized loss of $1,335, respectively, were recorded in investment return in the statement of activities, and gains on trusts held by others of $459 and $3,283, respectively were recorded 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. However, the settlement of audits or legal actions is subject to inherent uncertainties and it is possible that such liabilities, if any, will differ materially from management's current expectations.

In 1997, the Institute was named as a potentially responsible party ("PRP") by NASA under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended. As a PRP, the Institute may be jointly liable for contribution towards clean-up costs, estimated to be in excess of $100,000, of the NASA/JPL Superfund site.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of this 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 $48,740 and $64,899 at September 30, 2012 and 2011, respectively.

At September 30, 2012 and 2011, the Institute had outstanding commitments to invest $237,928 and $169,945, 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, 2012 and 2011, the amount of the letter of credit facility was $11,350 and $8,850, respectively. The letter of credit was not used during the years ended September 30, 2012 and 2011, 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 reimbursement 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 2016. Rent expense incurred under operating lease obligations was $9,100 and $7,700 for the years ended September 30, 2012 and 2011, respectively.

(Dollars in Thousands)

At September 30, 2012, future minimum payments under operating leases of greater than one year in duration were as follows:

Year Ending September 30	Amount
2013	$ 6,886
2014	1,017
2015	152
2016	54
2017	18
Total	$ 8,127

Approximately $7,075 of the future minimum lease payments listed above is expected to be recoverable from JPL under the Institute's cost-reimbursable contract with NASA.

The Institute rents equipment and buildings to students, faculty, and other organizations under operating leases expiring at various dates through 2017. Rental income under operating leases was $8,911 and $8,404 at September 30, 2012 and 2011, respectively.

At September 30, 2012, minimum future rentals from operating leases of greater than one year in duration were as follows:

Year Ending September 30	Amount
2013	$ 7,563
2014	5,825
2015	5,084
2016	4,993
2017	5,024
Total	$ 28,489

(Dollars in Thousands)

M. Supplemental Cash Flow Information

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

	2012	2011
Cash paid during the year for interest, net of amounts capitalized	$ 14,556	$ 13,365
Non-cash investing and financing activities:		
Securities received to satisfy pledge payments	412	22,912
In-kind receipt of securities, property, plant, and equipment	5,423	6,031
Accrued purchases of property, plant, and equipment at year end	3,413	10,320
Amounts (payable)/receivable for pending investments transactions	(13,160)	12,241

N. Subsequent Events

Subsequent events were evaluated through January 25, 2013, which is the date the financial statements were issued.