

California Institute of Technology
Financial Statements
For the Years Ended September 30, 2008 and 2007

**California Institute of Technology
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For the Years Ended September 30, 2008 and 2007**

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Report of Independent Auditors

To the Board of Trustees of the
California Institute of Technology

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the "Institute") at September 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B to the financial statements, the Institute applied the provisions of Statement of Financial Accounting Standards No. 158 and changed its method of recording its pension benefit and other postretirement and postemployment benefit obligations for the year ended September 30, 2007.

PricewaterhouseCoopers LLP

January 27, 2009

California Institute of Technology
Balance Sheets
At September 30, 2008 and 2007
(Dollars in Thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 9,042	\$ 7,979
Advances and deposits	5,623	5,180
Securities lending deposits	19,097	89,100
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,084 and \$1,064, respectively:		
United States government	197,099	175,500
Other	21,667	36,028
Contributions receivable, net	212,964	248,928
Investments, including securities pledged or on loan of \$9,387 and \$87,353, respectively	1,894,224	2,327,838
Prepaid expenses and other assets	53,203	57,242
Deferred United States government billings	328,204	332,468
Property, plant, and equipment, net	<u>800,291</u>	<u>748,933</u>
Total assets	<u>\$ 3,541,414</u>	<u>\$ 4,029,196</u>
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 361,175	\$ 346,002
Securities lending deposits	24,000	89,100
Deferred revenue and refundable advances	30,968	31,465
Annuities, trust agreements, and agency funds	90,869	106,697
Bonds and notes payable	344,169	347,935
Accumulated postretirement benefit obligation	<u>340,848</u>	<u>358,847</u>
Total liabilities	<u>1,192,029</u>	<u>1,280,046</u>
Commitments and contingencies (Note K)		
Net assets:		
Unrestricted	1,297,608	1,672,559
Temporarily restricted	389,731	457,120
Permanently restricted	<u>662,046</u>	<u>619,471</u>
Total net assets	<u>2,349,385</u>	<u>2,749,150</u>
Total liabilities and net assets	<u>\$ 3,541,414</u>	<u>\$ 4,029,196</u>

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

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Changes in unrestricted net assets:		
Revenue and net assets released from restrictions:		
Tuition and fees, net of student financial aid of \$37,299 and \$34,613, respectively	\$ 26,648	\$ 24,701
Investment (loss)/return	(310,257)	343,568
Gifts	47,717	30,540
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,771,574	1,745,765
Other United States government - direct	166,422	172,764
Non-United States government - direct	18,077	16,918
Indirect cost recovery and management allowance	101,771	103,211
Auxiliary enterprises	37,980	35,493
Other	61,794	19,181
Net assets released from restrictions	<u>41,464</u>	<u>91,082</u>
Total revenue and net assets released from restrictions	1,963,190	2,583,223
Expenses:		
Instruction and academic support	235,272	218,341
Organized research:		
Jet Propulsion Laboratory	1,771,574	1,745,765
Other Institute research	230,896	224,579
Institutional support	72,220	60,383
Auxiliary enterprises	<u>39,402</u>	<u>38,223</u>
Total expenses	<u>2,349,364</u>	<u>2,287,291</u>
(Deficit)/excess of revenues (under)/over expenses	(386,174)	295,932
Other changes in unrestricted net assets:		
Changes in postemployment benefit obligations	10,559	-
Cumulative effect of change in accounting principle	-	(1,573)
Resignations and reclassifications of net assets	664	(13,625)
(Decrease)/increase in unrestricted net assets	<u>\$ (374,951)</u>	<u>\$ 280,734</u>
Changes in temporarily restricted net assets:		
Gifts	\$ 3,895	\$ 45,306
Investment return	2,302	5,276
Net assets released from restrictions	(41,464)	(91,082)
Resignations and reclassifications of net assets	<u>(32,122)</u>	<u>24,067</u>
Decrease in temporarily restricted net assets	<u>\$ (67,389)</u>	<u>\$ (16,433)</u>
Changes in permanently restricted net assets:		
Gifts	\$ 11,231	\$ 32,532
Investment (loss)/return	(205)	1,194
Other income	91	41
Resignations and reclassifications of net assets	<u>31,458</u>	<u>(10,442)</u>
Increase in permanently restricted net assets	<u>\$ 42,575</u>	<u>\$ 23,325</u>
(Decrease)/increase in total net assets	\$ (399,765)	\$ 287,626
Net assets at beginning of year	<u>2,749,150</u>	<u>2,461,524</u>
Total net assets at end of year	<u>\$ 2,349,385</u>	<u>\$ 2,749,150</u>

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

California Institute of Technology
Statements of Cash Flows
For the Years Ended September 30, 2008 and 2007
(Dollars in Thousands)

	2008	2007
Cash flows from operating activities:		
(Decrease)/increase in net assets	\$ (399,765)	\$ 287,626
Adjustments to reconcile decrease/increase in net assets to net cash used in operating activities:		
Depreciation, accretion, and amortization	51,613	47,340
Cumulative effect of change in accounting principle	-	1,573
Change in postretirement benefit obligations	(10,559)	-
Contributions restricted for long-term investment and capital projects	(13,874)	(32,483)
Investment return restricted for long-term investment and capital projects	(3,759)	(3,556)
Realized and unrealized losses/(gains) on investments	335,318	(308,938)
Gifts of property, plant, and equipment	(19,779)	(1,182)
Gifts and other in-kind contributions of securities	(3,297)	(7,431)
Actuarial change in trust liability	11,883	(9,238)
(Gains)/losses on disposals of property, plant, and equipment	(30,329)	6,002
Changes in assets and liabilities:		
Advances and deposits	(443)	(649)
Accounts and notes receivable, net	(16,886)	(22,157)
Contributions receivable, net	7,533	22,128
Prepaid expenses and other assets	3,548	563
Deferred United States government billings	4,264	(35,838)
Accounts payable and accrued expenses	39,933	16,692
Deferred revenue and refundable advances	(724)	2,939
Agency funds	(2,021)	1,723
Accumulated postretirement benefit obligation	(7,615)	34,146
	<u>(54,959)</u>	<u>(740)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(663,647)	(906,557)
Proceeds from sales and maturities of investments	738,801	936,428
Purchases of property, plant, and equipment	(101,602)	(82,803)
Proceeds from sale of property, plant, and equipment	49,227	1,016
	<u>22,779</u>	<u>(51,916)</u>
Net cash provided by/(used in) investing activities		
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	36,412	33,732
Investment return restricted for long-term investment and capital projects	3,759	3,556
Cash received under split-interest agreements	6,032	18,818
Cash payments made under split-interest agreements	(8,960)	(8,722)
Net repayment on lines of credit	(4,000)	-
	<u>33,243</u>	<u>47,384</u>
Net cash provided by financing activities		
Net increase/(decrease) in cash and cash equivalents	1,063	(5,272)
Cash and cash equivalents at beginning of year	<u>7,979</u>	<u>13,251</u>
Cash and cash equivalents at end of year	<u>\$ 9,042</u>	<u>\$ 7,979</u>

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

California Institute of Technology

Notes to Financial Statements

September 30, 2008 and 2007

(Dollars in Thousands)

A. Description of the California Institute of Technology

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

B. Summary of Significant Accounting Policies

Basis of Presentation

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

The financial statements of the Institute have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America and with the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide, "Not-for-Profit Organizations," which requires the Institute to classify its net assets into three categories according to donor-imposed restrictions or provisions of law: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets include gifts, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and contributions receivable in which donors have stipulated that the principal be invested in perpetuity. Generally, donors permit the unrestricted use of all or part of the investment return on these assets. Investment gains or losses, both realized and unrealized, related to permanently restricted investments are reported as unrestricted revenue unless their use is restricted by donor-imposed stipulations.

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Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, including funds restricted for future capital projects, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and contributions receivable upon which the donor has placed certain restrictions. These restrictions are removed either through the passage of time or when certain actions are taken by the Institute to fulfill such restrictions. Expirations of temporary restrictions on net assets are reported as releases from temporarily restricted to unrestricted net assets in the statements of activities. Donor-restricted gifts that are received and either spent, or deemed spent, within the same fiscal year are reported as unrestricted revenues.

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

Use of Estimates

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

Redesignations

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

Reclassifications

Certain balances at September 30, 2007, 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 resources invested in money market funds and short-term investments with original maturities of three months or less when purchased. Any such investments held by external investment managers are classified as investments in the balance sheets and are not included in cash and cash equivalents.

Under the Institute's cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are included in accounts payable and accrued expenses in the balance sheets if an overdraft situation exists. There were no overdrafts at September 30, 2008 and 2007.

Advances and Deposits

Advances include certain cash balances, totaling \$4,470 and \$3,912 at September 30, 2008 and 2007, respectively, restricted for use in connection with United States government research. Deposits include \$1,153 and \$1,268 at September 30, 2008 and 2007, respectively, in employee cash withheld for health and dependent care spending accounts.

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Investments

Investments are recorded at fair value. The fair value of marketable securities (other than those classified as alternative investments) is based on quoted market prices for those securities or for similar financial instruments. Alternative investments are carried at estimated fair value as provided by external investment managers at, or as of the most recent valuation date prior to, year end. The fair value of real estate and other investments is estimated by professional appraisers or Institute management. Mortgages, notes receivable, and investment agreements are carried at cost, which approximates fair value.

Alternative investments include holdings in limited partnerships, limited liability corporations, and off-shore investment funds. These investments may not be readily marketable, and the related investment agreements may specify penalties for early liquidations from the related funds. The Institute reviews and evaluates the values provided by external investment managers and, in each case, 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.

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. Outstanding purchases totaled \$925 and \$37,569 at September 30, 2008 and 2007, respectively, and are included in accounts payable and accrued expenses in the balance sheets. Outstanding sales totaled \$1,054 and \$10,321 at September 30, 2008 and 2007, respectively, and are included in accounts and notes receivable – other in the balance sheets.

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. A realized loss of \$2,055 and a realized gain of \$148 resulted from regular settlements with the counterparty for the years ended September 30, 2008 and 2007, respectively; both are recognized in the statement of activities. Changes in the fair value during the years ended September 30, 2008 and 2007 resulted in an unrealized loss of \$13,387 and an unrealized gain of \$2,228, respectively; both are recognized in the statements of activities. At September 30, 2008, the obligation to the counterparty was \$11,891, and is included in accounts payable and accrued expenses in the balance sheets. At September 30, 2007, the fair value of the asset due the Institute from the counterparty was \$1,496, which is included in investments in the balance sheets.

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 in excess of amounts recorded in the financial statements.

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

California Institute of Technology

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Trustees. The spending policy allows the expenditure of a prudent amount of the total investment return that attempts to preserve the future purchasing power of endowment principal.

As a result of market declines, the fair value of certain donor-restricted endowment funds is less than the historical cost of such funds. Such deficiencies reverse with market value appreciation. The aggregate deficiencies for donor-restricted endowment funds were \$39,219 and \$470 at September 30, 2008 and 2007, respectively, and are recorded in unrestricted net assets. The reversal of this deficiency would increase unrestricted net assets.

The Institute participates in a securities lending program, in which it lends a portion of its investments to third party borrowers through an agreement with its custodian bank. All securities loaned are to be collateralized by cash and debt instruments in amounts equal to 102% of the fair value of the securities loaned. The bank monitors the value and quality of collateral and credit worthiness of borrowers. Collateral received must maintain a weighted-average maturity of 90 days or less and must meet credit quality standards defined in the lending agreement. The Institute does not have the ability to pledge or sell the securities held as collateral without a borrower default. Collateral held and the Institute's obligation to repay such collateral are recorded in the balance sheets as securities lending deposits. At September 30, 2008, securities lending deposits liabilities exceeded securities lending deposits assets by \$4,903 due to unrealized losses on collateral investments.

At September 30, 2007, investments include investment agreements valued at \$46,007, that were purchased with unexpended proceeds from the 2006 Series A and 2006 Series B California Educational Facilities Authority (CEFA) revenue bonds. These assets were limited to use in specific construction projects related to CEFA bonds and were fully expended during the year ended September 30, 2008.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at the cost of construction or acquisition, or at the fair value at the date of the gift. Interest costs related to debt used for construction of assets are included in the cost of construction. Depreciation on all assets is calculated over the estimated useful life of each class of depreciable asset, which ranges from three to fifty years, and is computed using the straight-line method. Depreciation on buildings used in sponsored research is calculated based on the useful lives of each major building component. The Institute provides for the renewal and replacement of assets from various sources set aside for this purpose. Assets acquired 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 reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

The Institute records conditional asset retirement obligations consistent with Financial Accounting Standards Board (FASB) Interpretation No. 47. Asset retirement cost, net of accumulated depreciation, at September 30, 2008 and 2007 is \$585 and \$736, respectively, and is included in property, plant, and equipment in the balance sheets. The asset retirement obligation

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at September 30, 2008 and 2007 was \$9,276 and \$10,704, 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 and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is based on the present value of future payments discounted at the appropriate risk-free rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.6% to 11.2%. The 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 \$66,137 and \$77,254 at September 30, 2008 and 2007, respectively, and are included in annuities, trust agreements and agency funds in the balance sheets. The Annuity 2000 Mortality Table was used for both the years ended September 30, 2008 and 2007.

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 \$15,136 and \$17,825 at September 30, 2008 and 2007, respectively.

Beneficial Interests

The Institute is the beneficiary of charitable remainder and perpetual trusts held and administered by others. The present value of the estimated future cash flows from the trusts approximates the value of the underlying assets and is included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the trusts are established. Distributions from perpetual trusts are recorded as contribution revenues and the carrying value of the beneficial interests is adjusted for changes in the values of the underlying assets. These assets totaled \$12,727 and \$16,181 at September 30, 2008 and 2007, respectively.

Agency Funds

The Institute held assets totaling \$9,596 and \$11,617 on behalf of others at September 30, 2008 and 2007, respectively. The assets held are primarily included in investments in the balance sheets. The corresponding liability 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, 2008 and 2007, accrued compensated absences of \$73,200 and \$65,740, respectively, are included in accounts payable and accrued expenses in the balance sheets.

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(Dollars in Thousands)

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, 2008, the estimated liabilities for workers' compensation amounted to \$8,018.

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 tuition support on the statement of activities. 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 (unconditional promises to give), are recorded as revenues in the year received. Gifts are valued using quoted market prices, market prices for similar assets, independent appraisals, or by Institute management. Contributions receivable are reported at their discounted present values, and an allowance for amounts estimated to be uncollectible is provided. 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/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 or subject to other time or purpose restrictions are reported as temporarily restricted revenue. The temporarily restricted net assets resulting from these gifts are released to unrestricted net assets when the donor-imposed restrictions are fulfilled or the assets are placed in service. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted revenue. Conditional promises to give are not recorded until the conditions have been substantially met. Conditional promises to give totaled \$145,923 and \$16,870 at September 30, 2008 and 2007, respectively. At September 30, 2008, conditional promises included \$100,000 for research programs from a foundation which 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.

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- *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 delivery 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 each classification's average equipment purchases. Interest expense on external debt, net of amounts capitalized, is allocated to the functional categories that have benefited from the proceeds of such debt. Interest expense, net of capitalized interest, for the years ended September 30, 2008 and 2007 was \$10,021 and \$13,561, respectively, and capitalized interest was \$681 and \$503, respectively.

Fair Value of Financial Instruments

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

- *Cash and cash equivalents* - Cost approximates fair value.
- *Accounts and notes receivable* - Amounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts, which approximates fair value. Student accounts and notes receivable of \$12,089 and \$15,941 at September 30, 2008 and 2007, respectively, are carried at cost; doubtful accounts are charged to expense when they become uncollectible. Determination of the fair value of student accounts and notes receivable could not be made without incurring excessive costs.
- *Bonds and notes payable* - The fair value of bonds payable is estimated based on quoted market prices for the bonds or similar financial instruments and was \$289,597 and \$297,777 at September 30, 2008 and 2007, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs totaling \$50,000 and \$54,000 at September 30, 2008 and 2007, respectively, are carried at cost, which approximates fair value.
- *Contributions receivable and beneficial interests* - Determination of the fair value of contributions receivable could not be made without incurring excessive costs. The fair value of beneficial interests approximates the market value of the underlying assets.

New Accounting Pronouncements

At September 30, 2008, the Institute adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109" ("FIN 48"). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's

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financial statements and provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 had no material impact on the Institute's financial statements.

At September 30, 2007, the Institute adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"). The provisions of this new standard require the Institute to recognize the difference between the fair value of plan assets and the plan's benefit obligation for both the pension and postretirement medical and life insurance plans (see notes I and J). The standard also requires that the measurement date be the same as the Institute's year end. The change in measurement date will be effective for the year ending September 30, 2009.

The following table summarizes the incremental effects of the initial adoption of SFAS 158 on the Institute's balance sheet at September 30, 2007:

	Before application of SFAS 158	SFAS 158 Adjustment	After application of SFAS 158
Deferred United States government billings	\$ 316,319	\$ 16,149	\$ 332,468
Total assets	4,013,047	16,149	4,029,196
Accounts payable and accrued expenses	345,139	863	346,002
Accumulated postretirement benefit obligation	341,988	16,859	358,847
Total liabilities	1,262,324	17,722	1,280,046
Unrestricted net assets	1,674,132	(1,573)	1,672,559
Total net assets	2,750,723	(1,573)	2,749,150
Total liabilities and net assets	4,013,047	16,149	4,029,196

In August 2008, the FASB issued Staff Position ("FSP") No. 117-1—"Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" ("FSP 117-1"). FSP 117-1 provides guidance for not-for-profit organizations concerning the net asset classification of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). In addition, FSP 117-1 requires enhanced disclosures for all endowment funds. This accounting standard is effective for the Institute's fiscal year ending September 30, 2009. In September 2008, the State of California adopted UPMIFA, effective January 1, 2009. The Institute is assessing the exact impact of the adoption of both UPMIFA and FSP 117-1 on its financial statements; however, unrestricted net assets will decrease and temporarily restricted net assets will increase.

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In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements for fair value measurements. This accounting standard is effective for the Institute for its fiscal year ending September 30, 2009. The Institute is assessing the impact of adopting SFAS 157.

In February 2007, the FASB issued SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115.” SFAS 159 permits entities to choose to measure eligible items at fair value at specific election dates (the “fair value option”). This accounting standard is effective for the Institute for its fiscal year ending September 30, 2009. The Institute is assessing the impact of adopting SFAS 159.

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C. Contributions Receivable, net

Contributions receivable consist of unconditional promises to give to the Institute in the future and are recorded after discounting to the present value of the future cash flows at the appropriate risk-free rate at the date of each gift. Discount rates on all outstanding contributions at September 30, 2008 and 2007, range from 2.75% to 5.84%.

Contributions receivable consisted of the following at September 30, 2008 and 2007:

	2008	2007
Contributions receivable at beginning of year, net	\$ 248,928	\$ 328,765
Discount at beginning of year	17,641	25,765
Allowance for doubtful accounts at beginning of year	231	1,230
	<hr/>	<hr/>
Contributions receivable at beginning of year, gross	266,800	355,760
New contributions received	25,730	14,752
Contribution payments received	(39,665)	(123,147)
Adjustments to fair value of securities to be contributed	(21,390)	19,435
	<hr/>	<hr/>
Contributions receivable at end of year, gross	231,475	266,800
Discount at end of year	(18,275)	(17,641)
Allowance for doubtful accounts at end of year	(236)	(231)
	<hr/>	<hr/>
Contributions receivable at end of year, net	\$ 212,964	\$ 248,928

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Gross contributions receivable carried the following restrictions at September 30, 2008 and 2007:

	2008	2007
Endowment for programs, activities, and scholarships	\$ 29,545	\$ 21,285
Building construction	5,364	37,195
Education, general and time restrictions	<u>196,566</u>	<u>208,320</u>
Total contributions receivable, gross	<u>\$ 231,475</u>	<u>\$ 266,800</u>

Gross contributions receivable are expected to be realized as follows at September 30, 2008 and 2007:

	2008	2007
Within one year	\$ 65,663	\$ 123,521
Between one year and five years	131,200	105,775
More than five years	<u>34,612</u>	<u>37,504</u>
Total contributions receivable, gross	<u>\$ 231,475</u>	<u>\$ 266,800</u>

At September 30, 2008 and 2007, \$117,496 and \$110,181, respectively, in contributions receivable were due from a foundation which shares a common board member with the Institute. At September 30, 2008 and 2007, contributions receivable of \$54,107 and \$77,580, respectively, were due from this board member in the form of securities.

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D. Investments

Investments consisted of the following at September 30, 2008 and 2007:

	2008	2007
Short-term investments	\$ 63,877	\$ 283,876
Government fixed income securities	28,793	143,307
Global fixed income securities	94,690	-
Corporate fixed income securities	75,860	104,146
Domestic equity securities	264,831	405,282
International equity securities	371,517	537,714
Investment agreements	-	46,007
Other investment funds	187,209	-
Alternative investments:		
Absolute return strategies	309,501	312,703
Private equity	190,854	179,841
Inflation hedges	281,825	287,424
Real estate mortgages, notes, and other investments	<u>25,267</u>	<u>27,538</u>
Total investments	<u>\$ 1,894,224</u>	<u>\$ 2,327,838</u>

On September 30, 2008, a manager of a short-term investment fund announced both the resignation of the fund's trustee and procedures for an orderly liquidation of the fund's holdings. At September 30, 2008, the Institute's investments in this fund totaled \$187,209. These investments have been reclassified to "other investment funds" in the table above in order to reflect the fund's lack of short-term liquidity. The fund is carried at fair value and no impairment loss has been recorded. Subsequent to September 30, 2008 and through November 25, 2008, the Institute has received partial liquidation payments totaling approximately \$103,007.

Investments were categorized as follows at September 30, 2008 and 2007:

	2008	2007
Investment pool	\$ 1,617,486	\$ 1,931,757
Separately invested endowments	<u>46,834</u>	<u>45,453</u>
Subtotal endowment investments	1,664,320	1,977,210
Trusts, annuities, and other	<u>229,904</u>	<u>350,628</u>
Total investments	<u>\$ 1,894,224</u>	<u>\$ 2,327,838</u>

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Investment (loss)/return consisted of the following for the years ended September 30, 2008 and 2007:

	2008	2007
Interest and dividend income	\$ 27,158	\$ 41,100
Net realized gains	54,424	80,444
Net unrealized (depreciation)/appreciation	<u>(389,742)</u>	<u>228,494</u>
Total investment (loss)/return	<u>\$ (308,160)</u>	<u>\$ 350,038</u>

Consistent with volatility in financial markets, subsequent to September 30, 2008, the Institute experienced a significant decline in the value of its investments.

E. Deferred United States Government Billings

Deferred United States government billings consisted of the following liabilities at September 30, 2008 and 2007:

	2008	2007
Accumulated postretirement benefit obligation	\$ 263,971	\$ 276,821
Accrued vacation benefits	59,162	53,484
Other benefit liabilities	<u>5,071</u>	<u>2,163</u>
Total deferred United States government billings	<u>\$ 328,204</u>	<u>\$ 332,468</u>

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs should the Institute's contract to operate JPL ever be terminated. 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 when necessary.

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F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2008 and 2007:

	2008	2007
Land and land improvements	\$ 49,591	\$ 59,174
Buildings and building improvements	639,537	607,594
Equipment	479,376	452,172
Construction in progress	156,115	109,970
Less: accumulated depreciation	<u>(524,328)</u>	<u>(479,977)</u>
Property, plant, and equipment, net	<u>\$ 800,291</u>	<u>\$ 748,933</u>

Depreciation expense for the years ended September 30, 2008 and 2007 was \$51,095 and \$46,465, respectively.

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G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2008 and 2007:

Bonds Payable:	2008	2007
California Educational Facilities Authority (CEFA) revenue bonds:		
2006 Series A due October 2036, with variable interest rates reset weekly (6.75% and 3.76%, respectively)	\$ 82,500	\$ 82,500
2006 Series B due October 2036, with variable interest rates reset weekly (6.25% and 3.70%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of \$2,286 and \$2,400, respectively)	48,279	48,165
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of \$2,410 and \$2,530, respectively)	50,890	50,770
Series 1994 due January 2024, with variable interest rates reset weekly (6.75% and 3.76%, respectively)	30,000	30,000
Total bonds	<u>294,169</u>	<u>293,935</u>
Notes payable:		
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates	-	-
Bank of America revolving bank credit facility expiring January 2010, with variable interest rates (3.85% at September 30, 2008)	50,000	-
Bank of New York Mellon 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 (5.17% at September 30, 2007)	-	54,000
Total notes payable	<u>50,000</u>	<u>54,000</u>
Total bonds and notes payable	<u>\$ 344,169</u>	<u>\$ 347,935</u>

The CEFA Series 1998 revenue bonds are subject to an early redemption premium if redeemed prior to October 1, 2010.

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, on a \$165,000 underlying notional principal amount.

One of the Bank of America lines of credit and the Bank of New York Mellon money market loan program have individual limits of \$50,000; the other Bank of America line of credit has an individual limit of \$100,000; the JPMorgan Chase money market loan program has an individual

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limit of \$62,000. The Institute has an internal aggregate limit on borrowings under the two Bank of America lines of credit and the JPMorgan Chase and Bank of New York Mellon money market loan programs of \$50,000 for borrowings to finance working capital and a separate \$50,000 limit for borrowings to finance acquisitions of real estate and temporary funding for capital projects. All lines of credit and money market loan program agreements are uncollateralized.

Principal repayments on bonds and notes payable were as follows at September 30, 2008:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2009	\$ 245,000
2010	-
2011	-
2012	-
2013	-
Thereafter	99,169
Total	<u>\$ 344,169</u>

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, the bonds have been classified as repayable in the following year in the table above.

H. Components of Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2008 and 2007:

	2008	2007
Educational and research funds	\$ 224,916	\$ 253,413
Capital projects	82,917	108,751
Life income and annuity funds	25,428	35,058
Endowment and other funds functioning as endowment	56,470	59,898
Total temporarily restricted net assets	<u>\$ 389,731</u>	<u>\$ 457,120</u>

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Permanently restricted net assets were available for the following purposes at September 30, 2008 and 2007:

	2008	2007
Student loan funds	\$ 14,334	\$ 16,367
Life income and annuity funds	38,847	44,626
Endowment and other funds functioning as endowment	608,865	558,478
	<hr/>	<hr/>
Total permanently restricted net assets	\$ 662,046	\$ 619,471

I. 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 defined contribution plans for the years ended September 30, 2008 and 2007 were \$19,914 and \$18,882, respectively, for the Institute and \$61,368 and \$58,173, respectively, for JPL.

Retirement benefits under the successor defined benefit plan are determined based on years of service and career average compensation, and accrued partially on a fixed dollar basis and partially on a variable dollar basis. Financial and actuarial information for the plan is based on a June 30 measurement date.

On December 4, 2006, the Institute entered into an agreement with an insurance company that resulted in the settlement of its liabilities to retiree participants. As a result of the settlement, the Institute reduced plan assets and benefit obligation by \$34,778, incurred a settlement cost of \$6,169, and recognized a loss of \$1,724 during the year ended September 30, 2007.

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Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2008 and 2007:

	2008	2007
Change in the benefit obligation:		
Benefit obligation at beginning of year	\$ 4,729	\$ 36,912
Service cost	42	48
Interest cost	292	1,034
Settlement loss	-	1,724
Settlement payments	-	(34,778)
Benefits paid	(75)	(1,655)
Actuarial (gain)/loss	(160)	1,444
	<u>4,828</u>	<u>4,729</u>
Benefit obligation at end of year	\$ 4,828	\$ 4,729

The accumulated benefit obligation for the defined benefit pension plan was \$4,809 and \$4,703 at September 30, 2008 and 2007.

	2008	2007
Change in fair value of plan assets:		
Fair value of plan assets beginning of year	\$ 1,573	\$ 34,965
Actual return on plan assets	37	3,046
Employer contributions	894	-
Benefits paid	(75)	(1,655)
Settlement payments	-	(34,778)
Plan expenses	(3)	(5)
	<u>2,426</u>	<u>1,573</u>
Fair value of plan assets	\$ 2,426	\$ 1,573

	2008	2007
Funded status at valuation date:		
Funded status	\$ (2,402)	\$ (3,156)
Employer contribution after measurement date	140	-
	<u>(2,262)</u>	<u>(3,156)</u>
Net amount recognized at end of year	\$ (2,262)	\$ (3,156)

The accumulated benefit obligation is recognized in accounts payable and accrued expenses in the balance sheets. SFAS 158 requires that the Institute recognize changes in the benefit obligation that are not otherwise recognized in expense as an adjustment to other changes in unrestricted net assets. The adjustment for the Campus was an increase of \$176 for the year

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ended September 30, 2008. The adjustment related to JPL was an increase of \$26 for the year ended September 30, 2008, and is reflected in 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.

Upon initial implementation of SFAS 158, as discussed in Note B, the Institute was required to recognize the funded status of its defined benefit plan in the balance sheet and to adjust unrestricted net assets for the cumulative effect of this change in accounting principle. Accordingly, the adjustment for the Campus was \$226 for the year ended September 30, 2007 and is reflected in accounts payable and accrued expenses in the balance sheet and as the cumulative effect of an accounting change in the statement of activities. The change related to JPL was \$637 for the year ended September 30, 2007, and is reflected in accounts payable and accrued expenses in the balance sheet, 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.

	2008	2007
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$ 661	\$ 863
Total amounts recognized as unrestricted net assets	\$ 661	\$ 863

Net periodic cost related to the plan for the years ended September 30, 2008 and 2007 included the following components:

	2008	2007
Service cost	\$ 42	\$ 48
Interest cost	292	1,034
Recognized actuarial loss	68	131
Settlement cost	-	6,169
Expected return on plan assets	(60)	(1,020)
Net periodic cost	\$ 342	\$ 6,362

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Estimated contributions to the retirement plan in the next year are \$1,194.

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

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2009	\$ 291
2010	312
2011	310
2012	314
2013	346
2014-2018	2,402

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 18% equities, 77% fixed income and 5% cash. At September 30, 2008 and 2007, total retirement plan assets were invested as follows:

	2008	2007
Equity securities	17%	19%
Fixed income securities	81%	77%
Cash	2%	4%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the plan at September 30, 2008 and 2007:

	2008	2007
Discount rate	7.00%	6.30%
Expected return on plan assets	5.25%	5.75%
Long-term rate of compensation increase	4.00%	4.00%

To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in the selection of 5.25% for the expected return on plan assets. Prior to the December 4, 2006 settlement the expected return on plan assets was at 7.00%.

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The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2008 and 2007:

	2008	2007
Discount rate	6.30%	6.00%
Expected return on plan assets	5.75%	5.75%
Long-term rate of compensation increase	4.00%	4.00%

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.

During the year ended September 30, 2007, the Institute implemented a cost-sharing provision for retirees and their dependents. The change in the accumulated postretirement benefit obligation for this plan amendment during the year ended September 30, 2007 was \$21,465.

Certain financial information regarding the plan was as follows for the years ended September 30, 2008 and 2007, and is based on a June 30 measurement date:

	2008	2007
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 361,972	\$ 376,090
Service cost	11,353	11,754
Interest cost	22,341	22,408
Participant contributions	2,825	2,591
Plan amendments	-	(21,465)
Benefits paid	(16,115)	(14,729)
Actuarial gain	(38,117)	(14,677)
	<hr/>	<hr/>
Benefit obligation at end of year	\$ 344,259	\$ 361,972

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	2008	2007
Components of net periodic postretirement benefit cost:		
Service cost	\$ 11,353	\$ 11,754
Interest cost	22,341	22,408
Amortization of prior year service credit	(3,338)	(2,204)
Amortization of loss	834	1,939
	<hr/>	<hr/>
Net periodic benefit cost	\$ 31,190	\$ 33,897
	<hr/>	<hr/>
	2008	2007
Change in the fair value of plan assets:		
Employer contributions	\$ 13,290	\$ 12,138
Participant contributions	2,825	2,591
Benefits paid	(16,115)	(14,729)
	<hr/>	<hr/>
Fair value of plan assets at end of year	\$ -	\$ -
	<hr/>	<hr/>

The accumulated postretirement benefit obligation is recognized in accounts payable and accrued expenses in the balance sheets. SFAS 158 requires that the Institute recognize changes in the postretirement benefit obligation that are not otherwise recognized in expense as an adjustment to other changes in unrestricted net assets. The adjustment for the Campus was an increase of \$10,383 for the year ended September 30, 2008. The adjustment related to JPL was \$25,231 for the year ended September 30, 2008, and is reflected in 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.

Upon initial implementation of SFAS 158, as discussed in Note B, the Institute was required to recognize the funded status of its postretirement benefit plan in the balance sheet and to adjust unrestricted net assets for the cumulative effect of this change in accounting principle. Accordingly, the adjustment for the Campus was \$1,347 for the year ended September 30, 2007, and is reflected in the accumulated postretirement benefit obligation in the balance sheet and as cumulative effect of an accounting change in the statement of activities. The change related to JPL was \$15,512 for year ended September 30, 2007, and is reflected in the balance sheet, 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.

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	2008	2007
Funded status at valuation date:		
Funded status	\$ (344,259)	\$ (361,972)
	<u> </u>	<u> </u>
Net amount recognized at end of year	\$ (344,259)	\$ (361,972)
	<u> </u>	<u> </u>

	2008	2007
Amounts recognized in the balance sheets:		
Accrued postretirement obligation	\$ (344,259)	\$ (361,972)
Employer contribution between measurement date and year end	3,411	3,125
	<u> </u>	<u> </u>
Total amounts recognized in balance sheets	\$ (340,848)	\$ (358,847)
	<u> </u>	<u> </u>

	2008	2007
Amounts recognized as changes in unrestricted net assets:		
Prior service credit	\$ (26,077)	\$ (29,414)
Net loss	7,322	46,273
	<u> </u>	<u> </u>
Total amounts recognized in unrestricted net assets	\$ (18,755)	\$ 16,859
	<u> </u>	<u> </u>

In 2009, an estimated prior service credit of \$4,172 will be amortized from unrestricted net assets into the net periodic benefit cost.

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2008 and 2007:

	2008	2007
Discount rate	7.10%	6.30%
Health care cost trend rate	9.00%	9.00%

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The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2008 and 2007:

	2008	2007
Discount rate	6.30%	6.25%
Health care cost trend rate	10.00%	12.00%

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

<u>Year Ending</u> <u>September 30</u>	<u>Health Care Cost</u> <u>Trend Rate</u>
2009	8.00%
2010	7.25%
2011	6.50%
2012	6.00%
2013	5.75%
2014	5.50%
2015	5.25%
2016 and thereafter	5.00%

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

	1% Increase	1% Decrease
Effect on the total of service and interest cost components	\$ 6,365	\$ (5,022)
Effect on accumulated postretirement benefit obligation	\$ 47,446	\$ (34,506)

In 2009, the Institute and its retirees are expected to contribute approximately \$17,352, and \$3,108, respectively.

Estimated future benefit payments are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
2009	\$ 17,400
2010	18,800
2011	20,200
2012	21,400
2013	22,600
2014-2018	128,100

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K. Commitments and Contingencies

Contingencies

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

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. The Institute believes that it will have recourse to the United States government for any material liabilities it may incur in connection with being named a PRP for that site.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matter discussed in the preceding paragraph will have on the Institute's financial position or changes in its net assets.

Commitments

The Institute was committed under certain construction and services contracts in the amount of approximately \$39,703 and \$60,515 at September 30, 2008 and 2007, respectively.

At September 30, 2008 and 2007, the Institute had outstanding commitments to invest \$215,840 and \$214,618, 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 outstanding claims that fall below certain deductible amounts. At September 30, 2008 and 2007, the amount of the letter of credit facility was \$7,350. The letter of credit was not used during the years ended September 30, 2008 or 2007, 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.

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L. Supplemental Cash Flow Information

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

	2008	2007
Cash paid during the year for interest, net of amounts capitalized	\$ 9,745	\$ 13,743
Non-cash investing and financing activities:		
Securities lending	19,097	89,100
Securities and land received to satisfy pledge payments	3,918	51,931
Gifts of property, plant, and equipment	19,779	1,182
Accrued purchases of property, plant, and equipment at year end	6,730	6,745