

Section III

Reports on Internal Controls and Compliance

**Report of Independent Auditors on Compliance and on
Internal Control Over Financial Reporting Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Trustees of
California Institute of Technology

We have audited the financial statements of California Institute of Technology (the "Institute") as of and for the year ended September 30, 2003 and have issued our report thereon dated November 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

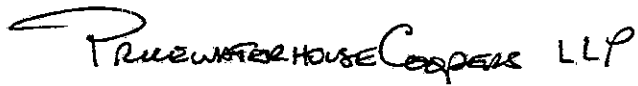
Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the Institute in a separate letter dated November 13, 2003.

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

A handwritten signature in black ink, appearing to read "P. R. W. H. C. LLP". The signature is written in a cursive, somewhat stylized font. The first letter "P" is large and loops around. The rest of the letters are smaller and more compact.

November 12, 2003

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

To the Board of Trustees of
California Institute of Technology

Compliance

We have audited the compliance of California Institute of Technology (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2003, except as described in the second paragraph of this report and except for compliance as it relates to the Jet Propulsion Laboratory (a Federally Funded Research and Development Center managed by the California Institute of Technology), which is audited and reported upon as a separate entity by other auditors and us pursuant to section 200(e) of OMB Circular A-133 and is outside the scope of this audit. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, based on our audit and the reports of the other auditors, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2.

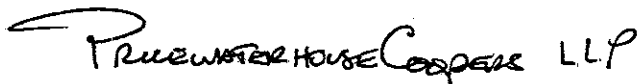
Internal Control Over Compliance

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

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

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

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

PRICEWATERHOUSECOOPERS LLP

April 16, 2004