Section III

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

To the Board of Trustees
California Institute of Technology

We have audited the financial statements of California Institute of Technology (the “Institute”) as of and for the year ended September 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Institute in a separate letter dated November 12, 2004.
This report is intended solely for the information and use of the Institute's audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

November 12, 2004
Report of Independent Auditors on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
California Institute of Technology

Compliance

We have audited the compliance of California Institute of Technology (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004, 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 requirements governing 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. Compliance with these requirements was audited 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 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 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, 2004. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying independent auditors’ schedule of findings and questioned costs as items 04-1 through 04-4.

**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 second paragraph following below and as to 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, 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. 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 these 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. 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.

March 15, 2005

[Signature]

PricewaterhouseCoopers LLP