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 Trustee
California Institute of Technology

We have audited the financial statements of the California Institute of Technology (the "Institute") as of and for the year ended September 30, 2007, and have issued our report thereon dated January 29, 2008. As discussed in Note B to the financial statements, the Institute applied the provisions of Statement of Accounting Standards No. 159 and changed its method of recording the pension benefit obligation for the year ended September 30, 2007. In addition, the Institute applied the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 47 and changed its method of accounting for conditional asset retirement obligations for the year ended September 30, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Institute’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Institute’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Institute’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Institute in a separate letter dated December 14, 2007.

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.

January 29, 2008
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 the 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, 2007, except as described below. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

The Institute's financial statements include the operations of the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by California Institute of Technology), which incurred $1,760,765,000 in federal expenditures which is not included in the Institute's schedule of federal expenditures for the year ended September 30, 2007. Our audit, described below, did not include the operations of the Jet Propulsion Laboratory because it 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, therefore, outside the scope of this audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.
In our opinion, 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, 2007. 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 schedule of findings and questioned costs as Item 07-1.

Internal Control Over Compliance
The management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Institute’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute’s internal control over compliance.

A control deficiency in an entity’s internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity’s internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. The Institute’s responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Institute’s response and, accordingly, we express no opinion on it.

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.

June 13, 2008