Section I

Financial Statements

California Institute of Technology
Balance Sheets
At September 30, 2009 and 2008
(Dollars in Thousands)

	2009	2008
ASSETS		
Cash and cash equivalents (Notes B and D)	$ 28,190	$ 9,042
Advances and deposits	3,305	5,623
Securities lending deposits	-	19,097
Accounts and notes receivable, net		
United States government	182,074	197,099
Other	15,631	21,667
Contributions receivable, net	197,931	212,964
Investments, including securities pledged or on loan	1,740,089	1,894,224
Prepaid expenses and other assets	55,960	53,203
Deferred United States government billings	449,713	328,204
Property, plant, and equipment, net	838,624	800,291
Total assets	$ 3,511,517	$ 3,541,414
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 379,315	$ 361,175
Securities lending deposits	-	24,000
Deferred revenue and refundable advances	21,116	30,968
Annuities, trust agreements, and agency funds	81,093	90,869
Bonds and notes payable	435,195	344,169
Accumulated postretirement benefit obligation	502,278	340,848
Total liabilities	1,418,997	1,192,029
Commitments and contingencies (Note L)		
Net assets:		
Unrestricted	566,186	1,297,608
Temporarily restricted	815,190	389,731
Permanently restricted	711,144	662,046
Total net assets	2,092,520	2,349,385
Total liabilities and net assets	$ 3,511,517	$ 3,541,414

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

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2009 and 2008
(Dollars in Thousands)

	2009	2008
Changes in unrestricted net assets:		
Revenue and net assets released from restrictions:		
Tuition and fees, net of student financial aid	$ 29,162	$ 26,648
Investment loss	(173,249)	(310,257)
Gifts	35,212	47,717
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,853,440	1,771,574
Other United States government - direct	207,615	166,422
Non-United States government - direct	20,928	18,077
Indirect cost recovery and management allowance	107,682	101,771
Auxiliary enterprises	34,295	37,980
Other	39,198	61,794
Net assets released from restrictions	98,138	41,464
Total revenue and net assets released from restrictions	2,252,421	1,963,190
Expenses:		
Instruction and academic support	243,700	235,272
Organized research:		
Jet Propulsion Laboratory	1,853,440	1,771,574
Other Institute research	272,024	230,896
Institutional support	65,229	72,220
Auxiliary enterprises	36,593	39,402
Total expenses	2,470,986	2,349,364
Deficit of revenues under expenses	(218,565)	(386,174)
Other changes in unrestricted net assets:		
Changes in postemployment benefit obligations	(32,300)	10,559
Redesignations and reclassifications of net assets	(10,828)	664
Total other changes in unrestricted net assets	(261,693)	(374,951)
Change in accounting principle for endowment funds	(467,791)	-
Change in accounting principle for pension and postretirement plans	(1,938)	-
Decrease in unrestricted net assets	$ (731,422)	$ (374,951)
Changes in temporarily restricted net assets:		
Gifts	$ 35,266	$ 3,895
Investment return	30,933	2,302
Net assets released from restrictions	(98,138)	(41,464)
Redesignations and reclassifications of net assets	(10,393)	(32,122)
Total changes in temporarily restricted net assets	(42,332)	(67,389)
Change in accounting principle for endowment funds	467,791	-
Increase/(decrease) in temporarily restricted net assets	$ 425,459	$ (67,389)
Changes in permanently restricted net assets:		
Gifts	$ 28,077	$ 11,231
Investment loss	(189)	(205)
Other income	(11)	91
Redesignations and reclassifications of net assets	21,221	31,458
Increase in permanently restricted net assets	$ 49,098	$ 42,575
Decrease in total net assets	$ (256,865)	$ (399,765)
Net assets at beginning of year	2,349,385	2,749,150
Total net assets at end of year	$ 2,092,520	$ 2,349,385

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, 2009 and 2008
(Dollars in Thousands)

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (256,865)	$ (399,765)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation, accretion, and amortization	57,266	51,613
Change in accounting principle for pension and postretirement plans	1,938	-
Change in postretirement benefit obligations	32,300	(10,559)
Contributions restricted for long-term investment and capital projects	(30,196)	(13,874)
Investment return restricted for long-term investment and capital projects	(1,074)	(3,759)
Realized and unrealized losses on investments	152,543	335,318
In-kind receipt of securities, property, plant, and equipment	(1,972)	(23,076)
Actuarial change in trust liability	2,323	11,883
Losses/(gains) on disposals of property, plant, and equipment	10,555	(30,329)
Changes in assets and liabilities:		
Advances and deposits	2,318	(443)
Accounts and notes receivable, net	20,007	(16,886)
Contributions receivable, net	12,218	7,533
Prepaid expenses and other assets	(3,299)	3,548
Deferred United States government billings	(121,509)	4,264
Accounts payable and accrued expenses	2,696	39,933
Deferred revenue and refundable advances	(9,873)	(724)
Agency funds	(221)	(2,021)
Accumulated postretirement benefit obligation	127,206	(7,615)
Net cash used in operating activities	(3,639)	(54,959)
Cash flows from investing activities:		
Purchases of investments	(563,854)	(663,647)
Proceeds from sales and maturities of investments	569,023	738,801
Purchases of property, plant, and equipment	(103,305)	(101,602)
Proceeds from sale of property, plant, and equipment	607	49,227
Net cash (used in)/provided by investing activities	(97,529)	22,779
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	17,974	36,412
Investment return restricted for long-term investment and capital projects	1,074	3,759
Cash received under split-interest agreements	17,990	6,032
Cash payments made under split-interest agreements	(6,822)	(8,960)
Proceeds from issuance of bonds	80,000	-
Net borrowings/(repayments) on short term debt	10,100	(4,000)
Net cash provided by financing activities	120,316	33,243
Net increase in cash and cash equivalents	19,148	1,063
Cash and cash equivalents at beginning of year	9,042	7,979
Cash and cash equivalents at end of year	$ 28,190	$ 9,042

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

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 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 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 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 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 which have not been appropriated for expenditure 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 removed through the passage of time, the appropriation of endowment earnings by the Institute, and/or the occurrence 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

Net assets related to certain contributions received in prior periods have been transferred among net asset categories due to changes in donor designations.

Reclassifications

Certain balances at September 30, 2008, 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 other short-term investments with original or remaining maturities of three months or less when purchased. The Institute classifies all cash and cash equivalents held as part of the investment portfolio as investments. At September 30, 2009 and 2008, short-term investments, as disclosed in Note D, included $453,885 and $62,714, 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 but not presented to banks 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, 2009 and 2008.

Advances and Deposits

Advances include certain cash balances, totaling $2,336 and $4,470 at September 30, 2009 and 2008, respectively, restricted for use in connection with United States government research. Deposits include $969 and $1,153 at September 30, 2009 and 2008, respectively, in employee cash withheld 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 $872 and $1,084 at September 30, 2009 and 2008, respectively. Student accounts and notes receivable of $7,012 and $12,089 at September 30, 2009 and 2008, respectively, are carried at cost; doubtful accounts are charged to expense when they become uncollectible.

Investments
Investments are recorded at fair value 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. There were no outstanding purchases or sales at September 30, 2009. Outstanding purchases totaled $925 at September 30, 2008, and were included in accounts payable and accrued expenses in the balance sheets. Outstanding sales totaled $1,054 at September 30, 2008, and were included in accounts and notes receivable – other 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.

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 evaluates the values provided by external investment managers and 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.

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. Realized losses of $4,891 and $2,055 resulted from regular settlements with the counterparty during the years ended September 30, 2009 and 2008, respectively; both are recognized in the statements of activities. Changes in the swap's fair value during the years ended September 30, 2009 and 2008 resulted in unrealized losses of $15,466 and $13,387, respectively; both are recognized in the statements of activities. The obligation to the counterparty was $27,357 and $11,891 at September 30, 2009 and 2008, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

The Institute participated in a securities lending program, in which it loaned a portion of its investments to third party borrowers through an agreement with its custodian bank. At September 30, 2008, securities lending deposit liabilities exceeded securities lending deposit assets by $4,903 due to unrealized losses on collateral investments. During 2009, the Institute terminated the program. The termination included partial recoveries of previous losses and resulted in an overall net loss of $2,211. Prior to the termination of the program, collateral held and the Institute's obligation to repay such collateral under the program were recorded in the balance sheets as securities lending deposits.

At September 30, 2009, investments include short-term investments valued at $50,259 that were purchased with unexpended proceeds from the 2009 Series California Educational Facilities Authority (CEFA) revenue bonds. These assets are limited to use in specific construction projects.

Endowment
Endowment net assets are those held for long-term investment in support of the Institute. All investments of endowment assets are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Endowment net assets include donor-restricted endowments and board-designated endowments. Gift annuities, interests in trusts held by others, contributions receivable, and unexpended funds appropriated from endowment earnings which are 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 as permanently restricted net assets (a) the original value of gifts to permanent endowments, (b) the original value of subsequent gifts to permanent endowments, and (c) 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 in making a determination to appropriate endowment earnings:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment 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 earnings for expenditure based on current spending rates and, if applicable, the incurrence of specific expenditures in accordance with donors' purpose restrictions.

The Institute's 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 current yield (interest and dividends). 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 2009 spending policy, 6.50% of the average of the twelve calendar quarters' endowment market values preceding a given fiscal year is available each year for distribution to the operating budget. If current-year interest, dividends, and gains are not sufficient to support the current-year distribution, the balance is provided from prior years' accumulated earnings.

As a result of market declines, the fair value of certain donor-restricted endowment funds is less than the historical value of such funds. The aggregate deficiencies for donor-restricted endowment funds were $63,439 and $24,894 at September 30, 2009 and 2008, respectively, and are recorded in unrestricted net assets. Such deficiencies reverse with market value appreciation. Reversals of these deficiencies increase unrestricted net assets.

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 primarily related to asbestos removal and disposal for future remediation activity. Asset retirement cost, net of accumulated depreciation, at September 30, 2009 and 2008 is $1,256 and $585, respectively, and is included in property, plant, and equipment in the balance sheets. The asset retirement obligation at September 30, 2009 and 2008 was $10,638 and $9,276, 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 discounted at an appropriate risk-adjusted 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 $61,074 and $66,137 at September 30, 2009 and 2008, 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, 2009 and 2008.

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 $11,464 and $15,136 at September 30, 2009 and 2008, 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 $11,972 and $12,727 at September 30, 2009 and 2008, respectively.

Agency Funds
The Institute held assets totaling $8,554 and $9,596 on behalf of others at September 30, 2009 and 2008, 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, 2009 and 2008, accrued compensated absences of $71,348 and $73,200, respectively, are included in accounts payable and accrued expenses in the balance sheets.

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, 2009 and 2008, the estimated liabilities for workers’ compensation amounted to $9,292 and $8,018, respectively.

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 statements of activities. Tuition and fees totaled $68,030 and $63,948 at September 30, 2009 and 2008, respectively. Student financial aid totaled $38,868 and $37,299 at September 30, 2009 and 2008, respectively. 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 recognized at fair value. 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 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 other time or 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 the conditions have been substantially met. Conditional promises to give totaled $127,657 and $145,923 at September 30, 2009 and 2008, respectively. At September 30, 2009, conditional promises included $85,000 for research programs from a foundation that 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.

- *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, 2009 and 2008 was $5,959 and $10,021, respectively, and capitalized interest was $926 and $681, respectively.

(Dollars in Thousands)

New Accounting Pronouncements

During the year ended September 30, 2008, the Institute adopted a new accounting standard that addresses the treatment of accounting for uncertainty in income taxes recognized in an entity's financial statements. The standard provides guidance on measurement, classification, interest, penalties, and disclosures related to income taxes. Adoption of this standard had no material impact on the Institute's financial statements.

At September 30, 2009, the Institute adopted a new accounting standard that required the Institute to change the measurement date of its defined benefit pension and other postretirement plan assets and obligations to coincide with its fiscal year end date. The following table summarizes the incremental effects of the measurement date provision adopted on the Institute's balance sheet at September 30, 2009:

	Before measurement date change	Adjustment	After measurement date change
Deferred United States government billings	$ 443,984	$ 5,729	$ 449,713
Total assets	3,505,788	5,729	3,511,517
Accounts payable and accrued expenses	379,266	49	379,315
Accumulated postretirement benefit obligation	494,660	7,618	502,278
Total liabilities	1,411,330	7,667	1,418,997
Unrestricted net assets	568,124	(1,938)	566,186
Total net assets	2,094,458	(1,938)	2,092,520
Total liabilities and net assets	3,505,788	5,729	3,511,517

During the year ended September 30, 2009, the Institute adopted a new accounting standard that governs how not-for-profit organizations classify the net assets of donor-restricted endowment funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The new standard requires that net appreciation related to permanently restricted endowments be classified as temporarily restricted net assets until appropriated for expenditure. In addition, the standard required enhanced disclosures for all endowment funds. The State of California adopted UPMIFA effective January 1, 2009. As of the enactment date, the Institute recorded an adjustment to reclassify $467,791 from unrestricted to temporarily restricted net assets related to the adoption of this standard.

During the year ended September 30, 2009, the Institute adopted a new accounting standard that establishes a common definition for fair value to be applied to generally accepted accounting principles requiring the use of fair value, establishes a framework of measuring fair value and expands the related disclosure requirements for fair value measurements. Adoption of this standard had no material impact on the Institute's financial statements.

In September 2009, the Financial Accounting Standards Board issued Accounting Standards Update 2009-12, which allows the Institute to measure the fair value of its investments in certain entities, as defined by the standard, at net asset value (NAV). The investments covered by the standard are generally classified as alternative investments by the Institute. The Institute chose to early adopt the standard for the year ended September 30, 2009. The Institute has historically used NAV as a basis for determining the fair value of applicable investments and therefore the adoption had no material impact on the financial statements.

During the year ended September 30, 2009, the Institute adopted the Codification of United States Generally Accepted Accounting Principles ("U.S. GAAP"), promulgated by the Financial Accounting Standards Board. The Codification is now the sole source of authoritative non-governmental U.S. GAAP. The Codification does not change U.S. GAAP, but affects the way organizations reference U.S. GAAP. Adoption of the Codification had no material impact on the Institute's financial statements.

During the year ended September 30, 2009, the Institute adopted a new accounting standard that requires entities to disclose and, in certain instances, to adjust for events that occur after the balance sheet date but before the financial statements are issued. Adoption of this standard had no material impact on the Institute's financial statements. The Institute evaluated subsequent events through January 25, 2010, which is the date that financial statements were available to be issued.

In May 2009, a new accounting standard was established that will significantly expand pension and other postretirement benefit plan disclosures related to the assets of each plan. The accounting standard is effective for the Institute's year ending September 30, 2010. The Institute is currently assessing the impact of adopting this standard.

(Dollars in Thousands)

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. Discount rates on all outstanding contributions at September 30, 2009 and 2008 range from 2.75% to 5.84%.

Contributions receivable consisted of the following at September 30, 2009 and 2008:

	2009	2008
Contributions receivable at beginning of year, net	$ 212,964	$ 248,928
Discount at beginning of year	18,275	17,641
Allowance for doubtful accounts at beginning of year	236	231
Contributions receivable at beginning of year, gross	231,475	266,800
New contributions received	50,379	25,730
Contribution payments received	(64,280)	(39,665)
Adjustments to fair value of securities to be contributed	(2,310)	(21,390)
Less: Write offs	(1,870)	-
Contributions receivable at end of year, gross	213,394	231,475
Discount at end of year	(15,266)	(18,275)
Allowance for doubtful accounts at end of year	(197)	(236)
Contributions receivable at end of year, net	$ 197,931	$ 212,964

Gross contributions receivable carried the following restrictions at September 30, 2009 and 2008:

	2009	2008
Endowment for programs, activities, and scholarships	$ 40,550	$ 29,545
Building construction	1,937	5,364
Education, general and time restrictions	170,907	196,566
Total contributions receivable, gross	$ 213,394	$ 231,475

(Dollars in Thousands)

Gross contributions receivable are expected to be realized as follows at September 30, 2009 and 2008:

	2009	2008
Within one year	$ 62,526	$ 65,663
Between one year and five years	124,670	131,200
More than five years	26,198	34,612
Total contributions receivable, gross	$ 213,394	$ 231,475

At September 30, 2009 and 2008, contributions receivable of $103,808 and $117,496, respectively, were due from a foundation that shares a common board member with the Institute. At September 30, 2009 and 2008, contributions receivable of $37,671 and $54,107, respectively, were due from this board member in the form of securities.

D. Investments

Investments consisted of the following at September 30, 2009 and 2008:

	2009	2008
Short-term investments	$ 455,099	$ 63,877
Fixed income securities	69,401	199,343
Equity securities	419,955	636,348
Other investment funds	19,039	187,209
Alternative investments:		
Absolute return strategies	408,864	309,501
Private equity	166,718	190,854
Inflation hedges	173,174	281,825
Real estate mortgages, notes, and other investments	27,839	25,267
Total investments	$ 1,740,089	$ 1,894,224

At September 30, 2009 and 2008, short-term investments included $453,885 and $62,714, respectively, in cash and cash equivalents.

Other investment funds is comprised of amounts held by a fund whose trustee has announced procedures for an orderly liquidation of the fund's holdings. This fund lacks short-term liquidity. The fund is carried at fair value, and no impairment loss has been recorded.

(Dollars in Thousands)

Investments were categorized as follows at September 30, 2009 and 2008:

	2009	2008
Investment pool	$ 1,462,206	$ 1,617,486
Separately invested endowments	45,497	46,834
Trusts, annuities, and other	232,386	229,904
Total investments	$ 1,740,089	$ 1,894,224

At September 30, 2009 and 2008, endowment investments were $1,508,460 and $1,660,683, respectively.

Investment loss consisted of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Interest and dividend income	$ 10,038	$ 27,158
Net realized (losses)/gains	(24,829)	54,424
Net unrealized depreciation	(127,714)	(389,742)
Total investment loss	$ (142,505)	$ (308,160)

E. Deferred United States Government Billings

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.

(Dollars in Thousands)

Deferred United States government billings related to deferred reimbursements of the following liabilities at September 30, 2009 and 2008:

	2009	2008
Accumulated postretirement benefit obligation	$ 386,278	$ 263,971
Accrued vacation benefits	57,640	59,162
Other benefit liabilities	5,795	5,071
Total deferred United States government billings	$ 449,713	$ 328,204

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2009 and 2008:

	2009	2008
Land and land improvements	$ 50,634	$ 49,591
Buildings and building improvements	723,580	639,537
Equipment	495,890	479,376
Construction in progress	142,795	156,115
Less: accumulated depreciation	(574,275)	(524,328)
Property, plant, and equipment, net	$ 838,624	$ 800,291

Depreciation expense for the years ended September 30, 2009 and 2008 was $55,355 and $51,095, respectively.

(Dollars in Thousands)

G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2009 and 2008:

Bonds Payable:	**2009**	**2008**
California Educational Facilities Authority (CEFA) revenue bonds:		
2009 Series due November 1, 2039, with interest at 5.00% (gross of issue premium of $691)	$ 80,691	$ -
2006 Series A due October 2036, with variable interest rates reset weekly (0.22% and 6.75%, respectively)	82,500	82,500
2006 Series B due October 2036, with variable interest rates reset weekly (0.30% and 6.25%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of $2,172 and $2,286, respectively)	48,393	48,279
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of $2,289 and $2,410, respectively)	51,011	50,890
Series 1994 due January 2024, with variable interest rates reset weekly (0.22% and 6.75%, respectively)	30,000	30,000
Total bonds	375,095	294,169
Notes payable:		
Bank of America revolving bank credit facility expiring January 2010, with variable interest rates (0.37% and 3.85%, respectively)	50,000	50,000
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.41% at September 30, 2009	5,100	-
CEFA Commercial paper notes, maturing October 2009, with variable interest rates (weighted-average rate 0.25% at September 30, 2009)	5,000	-
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	-	-
Northern Trust revolving bank credit facility expiring April 2010, with variable interest rates	-	-
Total notes payable	60,100	50,000
Total bonds and notes payable	$ 435,195	$ 344,169

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

(Dollars in Thousands)

The Bank of America bank credit facility that expires January 2010, the Bank of New York Mellon money market loan program, and the Northern Trust bank credit facility have individual limits of $50,000; the Bank of America bank credit facility that expires January 2011 has an individual limit of $100,000; and the JPMorgan Chase money market loan program has an individual limit of $62,000. The Institute has an internal aggregate limit on borrowings under the two Bank of America credit facilities and the JPMorgan Chase and Bank of New York Mellon money market loan programs of $100,000 for borrowings to finance working capital, a separate $25,000 limit for borrowings to finance acquisitions of real estate and temporary funding for capital projects, and a separate $200,000 limit for borrowings to preserve liquidity. All credit facilities and money market loan program agreements are uncollateralized.

Financial covenants under certain of the credit facilities require that the Institute maintain a ratio of unrestricted cash and investments to total adjusted debt outstanding equal to at least 1.0 to 1.0.

In July 2009, the Institute issued Series 2009 tax-exempt bonds with a par value of $80,000 to finance capital projects.

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. Tax-exempt commercial paper of $5,000 was issued on July 28, 2009. Currently, the Institute has imposed an internal limit on borrowing under the commercial paper program of $20,000.

Principal repayments on bonds and notes payable were as follows at September 30, 2009:

Year Ending September 30	Amount
2010	$ 255,100
2011	-
2012	-
2013	-
2014	
Thereafter	180,095
Total	$ 435,195

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.

The 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 $390,969 and $289,597 at September 30, 2009 and 2008, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs totaling $55,100 and $50,000 at September 30, 2009 and 2008, respectively, are carried at cost, which approximates fair value.

(Dollars in Thousands)

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 (0.25% at September 30, 2009), on a $165,000 underlying notional principal amount.

H. Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2009 and 2008:

	2009	2008
Educational and research funds	$ 105,747	$ 44,700
Contributions receivable	164,299	202,646
Capital projects	78,592	77,749
Life income and annuity funds	23,882	25,428
Endowment and other funds functioning as endowment	442,670	39,208
Total temporarily restricted net assets	$ 815,190	$ 389,731

The change in temporarily restricted endowment net assets includes the effect of a change in accounting principle, as discussed in Note B.

Permanently restricted net assets were available for the following purposes at September 30, 2009 and 2008:

	2009	2008
Student loan funds	$ 14,962	$ 14,334
Contributions receivable	33,632	10,318
Life income and annuity funds	27,742	43,187
Endowments	634,808	594,207
Total permanently restricted net assets	$ 711,144	$ 662,046

(Dollars in Thousands)

Endowment net assets consisted of the following at September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (63,439)	$ 442,670	$ 634,808	$ 1,014,039
Board-designated endowment funds	492,980	-	-	492,980
Total endowment net assets	$ 429,541	$ 442,670	$ 634,808	$ 1,507,019

Endowment net assets consisted of the following at September 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 441,632	$ 39,208	$ 594,207	$ 1,075,047
Board-designated endowment funds	584,411	-	-	584,411
Total endowment net assets	$ 1,026,043	$ 39,208	$ 594,207	$ 1,659,458

(Dollars in Thousands)

Changes in endowment net assets for the years ended September 30, 2009 and 2008 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at September 30, 2007	$ 1,378,106	$ 50,404	$ 543,874	$ 1,972,384
Investment return:				
Investment income	12,842	107	15	12,964
Net (decline) appreciation in market value	(343,440)	283	71	(343,086)
Total investment return	(330,598)	390	86	(330,122)
Contributions	10,797	574	50,295	61,666
Additions to board-designated endowments	51,833	-	-	51,833
Appropriation for expenditure	(85,709)	(709)	(117)	(86,535)
Redesignations, reclassifications and other	1,614	(11,451)	69	(9,768)
Balance at September 30, 2008	1,026,043	39,208	594,207	1,659,458
Effect of change in accounting principle	(429,493)	429,493	-	-
Investment return:				
Investment income	5,911	3,680	55	9,646
Net (decline) appreciation in market value	(158,008)	22,848	(124)	(135,284)
Total investment return	(152,097)	26,528	(69)	(125,638)
Contributions	12,136	450	32,764	45,350
Additions to board-designated endowments	29,691	-	-	29,691
Appropriation for expenditure	(49,729)	(45,112)	(676)	(95,517)
Redesignations, reclassifications and other	(7,010)	(7,897)	8,582	(6,325)
Balance at September 30, 2009	$ 429,541	$ 442,670	$ 634,808	$ 1,507,019

The $429,493 effect of the change in accounting principle noted above is included in the overall effect of the change in accounting principle related to endowments in the statements of activities. The amount above excludes $38,298 of the overall effect of the change in accounting principle for endowments that is related to items not considered endowment net assets under the Institute's definition.

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, 2009 and 2008 were $21,592 and $19,914, respectively, for the Campus and $64,358 and $61,368, respectively, for JPL.

(Dollars in Thousands)

Retirement benefits under the successor defined benefit pension 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 September 30 measurement date.

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2009 and 2008:

		2009		2008
Change in the benefit obligation:				
Benefit obligation at beginning of year	$	4,828	$	4,729
Service cost		35		42
Interest cost		254		292
Measurement date change		51		-
Benefits paid		(98)		(75)
Actuarial gain		(199)		(160)
Benefit obligation at end of year	$	4,871	$	4,828

The accumulated benefit obligation for the defined benefit pension plan was $4,853 and $4,809 at September 30, 2009 and 2008.

		2009		2008
Change in fair value of plan assets:				
Fair value of plan assets beginning of year	$	2,426	$	1,573
Actual return on plan assets		145		37
Employer contributions		444		894
Benefits paid		(98)		(75)
Measurement date change		118		-
Plan expenses		(2)		(3)
Fair value of plan assets	$	3,033	$	2,426

(Dollars in Thousands)

	2009	2008
Funded status at valuation date:		
Funded status	$ (1,838)	$ (2,402)
Employer contribution after measurement date	-	140
Net amount recognized at end of year	$ (1,838)	$ (2,262)

The accumulated benefit obligation is recognized in accounts payable and accrued expenses 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 for the Campus was a decrease in unrestricted net assets of $14 for the year ended September 30, 2009 and is recorded in other changes in unrestricted net assets. The effect related to JPL for the year ended September 30, 2009 was an increase of $188 to both JPL direct expense and revenue, and to deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was $11 for the year ended September 30, 2009 and is reflected in accounts payable and accrued expenses in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was $38 for the year ended September 30, 2009, 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.

	2009	2008
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$ 438	$ 661
Total amounts recognized as unrestricted net assets	$ 438	$ 661

(Dollars in Thousands)

Net periodic cost related to the plan for the years ended September 30, 2009 and 2008 included the following components:

	2009	2008
Service cost	$ 35	$ 42
Interest cost	254	292
Recognized actuarial loss	43	68
Expected return on plan assets	(137)	(60)
Net periodic cost	$ 195	$ 342

Estimated contributions to the retirement plan in the next year are $234.

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

Year Ending September 30	Benefit Payments
2010	$ 219
2011	225
2012	252
2013	303
2014	327
2015-2019	1,824

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 19% equities, 76% fixed income and 5% cash. At September 30, 2009 and 2008, total retirement plan assets were invested as follows:

	2009	2008
Equity securities	16%	17%
Fixed income securities	83%	82%
Cash	1%	2%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the plan at September 30, 2009 and 2008:

	2009	2008
Discount rate	5.70%	7.00%
Expected return on plan assets	5.25%	5.25%
Long-term rate of compensation increase	4.00%	4.00%

(Dollars in Thousands)

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.

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, 2009 and 2008:

	2009	**2008**
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%

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, 2009 and 2008, and is based on a September 30 measurement date:

	2009	2008
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 344,259	$ 361,972
Service cost	10,119	11,353
Interest cost	23,689	22,341
Participant contributions	3,192	2,825
Measurement date change	8,452	-
Benefits paid	(20,870)	(16,115)
Actuarial loss/(gain)	133,437	(38,117)
Benefit obligation at end of year	$ 502,278	$ 344,259

	2009	2008
Components of net periodic postretirement benefit cost:		
Service cost	$ 10,119	$ 11,353
Interest cost	23,689	22,341
Amortization of prior year service credit	(3,337)	(3,338)
Amortization of loss	-	834
Net periodic benefit cost	$ 30,471	$ 31,190

	2009	2008
Change in the fair value of plan assets:		
Employer contributions	$ 14,267	$ 13,290
Participant contributions	2,344	2,825
Benefits paid	(16,611)	(16,115)
Fair value of plan assets at end of year	$ -	$ -

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 for the Campus was a decrease in unrestricted net assets of $34,224 for the year ended September 30, 2009 and is recorded in other changes in unrestricted net assets. The effect related to JPL for the year ended September 30, 2009 was an increase of $111,003 to both JPL direct expense and revenue and to deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

(Dollars in Thousands)

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was $1,927 for the year ended September 30, 2009, and is reflected in the accumulated postretirement benefit obligation in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was $5,691 for the year ended September 30, 2009, 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.

	2009	2008
Funded status at valuation date:		
Funded status	$ (502,278)	$ (344,259)
Net amount recognized at end of year	$ (502,278)	$ (344,259)

	2009	2008
Amounts recognized in the balance sheets:		
Accumulated postretirement obligation	$ (502,278)	$ (344,259)
Employer contribution between measurement date and year end	-	3,411
Total amounts recognized in balance sheets	$ (502,278)	$ (340,848)

	2009	2008
Amounts recognized as changes in unrestricted net assets:		
Prior service credit	$ (21,905)	$ (26,077)
Net loss	140,759	7,322
Total amounts recognized in unrestricted net assets	$ 118,854	$ (18,755)

Significant increases in both accumulated postretirement benefit obligation and actuarial loss for the year ended September 30, 2009 are a result of a decrease in the discount rate, increases in health care cost trend rates, and an extension of the time period used to reach ultimate health care cost trend rates.

In 2010, an estimated prior service credit of $3,337 and net loss of $7,093 will be amortized from unrestricted net assets into the net periodic benefit cost.

(Dollars in Thousands)

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2009 and 2008:

	2009	**2008**
Discount rate	5.90%	7.10%
Health care cost trend rate	11.00%	9.00%

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, 2009 and 2008:

	2009	**2008**
Discount rate	7.10%	6.30%
Health care cost trend rate	9.00%	9.00%

At September 30, 2009, the assumed health care cost trend rates for subsequent years were as follows:

Year Ending September 30	Health Care Cost Trend Rate
2010	10.00%
2011	9.00%
2012	8.00%
2013	7.50%
2014	7.00%
2015	6.50%
2016	6.25%
2017	6.00%
2018	5.75%
2019	5.50%
2020	5.25%
2021 and thereafter	5.00%

(Dollars in Thousands)

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	$	5,756	$	(4,293)
Effect on accumulated postretirement benefit obligation	$	77,166	$	(59,694)

In 2010, the Institute and its retirees are expected to contribute approximately $15,818, and $3,065, respectively.

At September 30, 2009, the estimated future benefit payments were as follows:

Year Ending September 30	Benefit Payments
2010	$ 19,300
2011	21,500
2012	23,600
2013	25,500
2014	27,300
2015-2019	163,200

K. Fair Value

During the year ended September 30, 2009, the Institute adopted a new accounting standard which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- *Level 1* - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- *Level 2* - Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- *Level 3* - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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, 2009:

	Level 1	Level 2	Level 3	2009 Total	2008 Total
Assets:					
Cash and cash equivalents	$ 28,190	$ -	$ -	$ 28,190	$ 9,042
Interests in perpetual trusts	-	-	11,972	11,972	12,727
Investments:					
Short-term investments	455,097	2	-	455,099	63,877
Fixed income securities	27,207	42,141	53	69,401	199,343
Equity securities	184,420	232,493	3,042	419,955	636,348
Other	-	-	19,039	19,039	187,209
Alternative investments:					
Absolute return strategies	-	-	408,864	408,864	309,501
Private equity	-	-	166,718	166,718	190,854
Inflation hedges	-	-	173,174	173,174	281,825
Real estate and other	-	3	27,836	27,839	25,267
Total investments	666,724	274,639	798,726	1,740,089	1,894,224
Total assets	$ 694,914	$ 274,639	$ 810,698	$ 1,780,251	$ 1,915,993
Liabilities:					
Interest rate swap liabilities	$ -	$ 27,357	$ -	$ 27,357	$ 11,891

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 the quoted price for such assets and liabilities.

Fair value for Level 2 is 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.

Interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore generally classified as Level 2. Interest rate swap liabilities are valued using observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap liability 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.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as they trade infrequently or not at all. Assets and liabilities included in Level 3 primarily consist of the Institute's ownership in alternative investment funds. The fair value of certain alternative investment funds represents the Institute's ownership interest in the net asset value (NAV) of the respective fund. Funds in Level 3 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 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. The Institute performs ongoing monitoring on these investments to ensure that the NAV is a reasonable measure of fair value as of September 30, 2009.

(Dollars in Thousands)

Interests in perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received.

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, 2009:

	Beginning Balance	Net Purchases / (Sales)	Change in Market Value	Ending Balance
Interests in perpetual trusts	$ 12,727	$ -	$ (755)	$ 11,972
Investments:				
Short-term investments	-	-	-	-
Fixed income securities	113	(55)	(5)	53
Equity securities	1,936	-	1,106	3,042
Other	187,209	(168,170)	-	19,039
Alternative investments:				
Absolute return strategies	309,501	97,500	1,863	408,864
Private equity	190,854	10,592	(34,728)	166,718
Inflation hedges	281,825	(29,143)	(79,508)	173,174
Real estate and other	25,264	(3,613)	6,185	27,836
Total investments	996,702	(92,889)	(105,087)	798,726
Total	**$ 1,009,429**	**$ (92,889)**	**$ (105,842)**	**$ 810,698**

During the year ended September 30, 2009, there were no transfers between level 3 and other levels.

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 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 at year end.

L. 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 $75,548 and $39,703 at September 30, 2009 and 2008, respectively.

At September 30, 2009 and 2008, the Institute had outstanding commitments to invest $207,591 and $215,840, 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 fall below certain deductible amounts. At September 30, 2009 and 2008, the amount of the letter of credit facility was $7,350. The letter of credit was not used during the years ended September 30, 2009 or 2008, 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.

(Dollars in Thousands)

The Institute leases equipment and buildings, primarily for JPL, under operating leases expiring at various dates through 2014. Rent expense incurred under operating lease obligations was $6,973 and $6,376 at September 30, 2009 and 2008, respectively.

At September 30, 2009, future minimum payments under operating leases were as follows:

Year Ending September 30	Amount
2010	$ 6,376
2011	6,100
2012	6,072
2013	5,486
2014	811
Total	$ 24,845

M. Supplemental Cash Flow Information

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

	2009	2008
Cash paid during the year for interest, net of amounts capitalized	$ 4,970	$ 9,745
Non-cash investing and financing activities:		
Securities lending	-	19,097
Securities received to satisfy pledge payments	14,908	3,918
In-kind receipt of securities, property, plant, and equipment	1,972	23,076
Accrued purchases of property, plant, and equipment at year end	6,851	6,730

N. Subsequent Events

Subsequent events were evaluated from September 30, 2009 through January 25, 2010, which was the date the financial statements were available to be issued.