California Institute of Technology

Report on Audited Financial Statements
For the Years Ended September 30, 2006 and 2005

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Index to the Report on Audited Financial Statements
For the Years Ended September 30, 2006 and 2005

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees of the
California Institute of Technology

In our opinion, the accompanying balance sheets and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the Institute) at September 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B to the financial statements, the Institute applied the provisions of FASB Interpretation No. 47 and changed its method of accounting for conditional asset retirement obligations.

PricewaterhouseCoopers LLP

December 15, 2006

California Institute of Technology
Balance Sheets
At September 30, 2006 and 2005
(Dollars in Thousands)

	2006	2005
ASSETS		
Cash and cash equivalents	$ 13,251	$ 10,260
Advances and deposits	4,531	2,854
Securities lending deposits	138,820	234,767
Accounts and notes receivable, net of allowance for doubtful accounts of $1,362 and $1,277 respectively:		
United States government	158,332	156,396
Other	20,718	17,605
Contributions receivable, net	328,765	195,106
Investments, including securities pledged or on loan of $136,097 and $230,164 respectively	1,971,561	1,780,900
Prepaid expenses and other assets	57,515	64,863
Deferred United States government billings	296,630	276,072
Property, plant, and equipment, net	716,159	681,786
Total assets	$ 3,706,282	$ 3,420,609
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 308,623	$ 294,643
Securities lending deposits	138,820	234,767
Deferred revenue and refundable advances	28,526	26,730
Annuities, trust agreements and agency funds	97,735	91,324
Bonds and notes payable	347,700	242,906
Accumulated postretirement benefit obligation	323,354	299,478
Total liabilities	1,244,758	1,189,848
Commitments and contingencies (Note K)		
Net assets:		
Unrestricted	1,391,825	1,350,358
Temporarily restricted	473,553	301,630
Permanently restricted	596,146	578,773
Total net assets	2,461,524	2,230,761
Total liabilities and net assets	$ 3,706,282	$ 3,420,609

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

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Changes in unrestricted net assets:		
Revenues:		
Tuition and fees, net of student financial aid of $36,361 and $33,943, respectively	$ 20,865	$ 19,393
Investment return	158,652	214,115
Gifts	28,677	27,383
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,579,703	1,638,455
Other United States government - direct	155,425	164,641
Non-United States government - direct	13,783	10,491
Indirect cost recovery and management allowance	97,852	100,899
Auxiliary enterprises	34,124	34,546
Other	22,212	15,297
Net assets released from restrictions	30,821	87,545
Total revenues and net assets released from restrictions	2,142,114	2,312,765
Expenses:		
Instruction and academic support	211,688	211,286
Organized research:		
Jet Propulsion Laboratory	1,579,703	1,638,455
Other Institute research	200,908	185,170
Institutional support	66,121	64,135
Auxiliary enterprises	36,160	35,342
Total expenses	2,094,580	2,134,388
Excess of revenues over expenses	47,534	178,377
Other changes in unrestricted net assets:		
Decrease (increase) in minimum pension liability	71	(1,110)
Redesignations and reclassifications of net assets	8,667	326
Loss on retirement of indebtedness	(5,201)	-
Total other changes in unrestricted net assets	51,071	177,593
Cumulative effect of change in accounting principle	(9,604)	-
Increase in unrestricted net assets	$ 41,467	$ 177,593
Changes in temporarily restricted net assets:		
Gifts	$ 207,758	$ 75,021
Investment return	3,132	1,341
Net assets released from restrictions	(30,821)	(87,545)
Redesignations and reclassifications of net assets	(8,146)	(3,001)
Increase (decrease) in temporarily restricted net assets	$ 171,923	$ (14,184)
Changes in permanently restricted net assets:		
Gifts	$ 17,065	$ 16,734
Investment return	786	201
Other income	43	20
Redesignations and reclassifications of net assets	(521)	2,675
Increase in permanently restricted net assets	$ 17,373	$ 19,630
Increase in total net assets	$ 230,763	$ 183,039
Net assets at beginning of year	2,230,761	2,047,722
Total net assets at end of year	$ 2,461,524	$ 2,230,761

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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Cash flows from operating activities:		
Increase in net assets	$ 230,763	$ 183,039
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation and amortization	44,166	40,885
Cumulative effect of change in accounting principle	9,604	-
Loss on retirement of indebtedness	5,201	-
Contributions restricted for long-term investment and capital projects	(23,319)	(27,279)
Investment return restricted for long-term investment and capital projects	(2,059)	(2,157)
Realized and unrealized gains on investments	(130,926)	(189,051)
Gifts of property, plant, and equipment	(4,234)	(209)
Gifts and other in-kind distributions of securities	(4,682)	(5,384)
Actuarial change in trust liability	(1,506)	3,012
Loss (gain) on disposals of property, plant, and equipment	360	(487)
Changes in assets and liabilities:		
Accounts and notes receivable, net	(5,049)	(9,706)
Contributions receivable, net	(155,604)	(31,589)
Deferred United States government billings	(20,540)	(26,878)
Prepaid expenses and other assets	6,430	4,311
Accounts payable and accrued expenses	21,689	14,048
Deferred revenue and refundable advances	1,796	(2,410)
Agency funds	940	1,190
Change in advances and deposits	(1,677)	81
Accumulated postretirement benefit obligation	23,876	27,568
Net cash used in operating activities	(4,771)	(21,016)
Cash flows from investing activities:		
Purchases of investments	(972,935)	(878,688)
Proceeds from sales and maturities of investments	916,264	929,344
Purchases of property, plant, and equipment	(72,945)	(70,510)
Proceeds from sale of property, plant, and equipment	-	2,435
Net cash used in investing activities	(129,616)	(17,419)
Cash flows from financing activities:		
Contributions restricted for long-term investment and capital projects	37,641	39,032
Investment return restricted for long-term investment and capital projects	2,059	2,157
Proceeds from issuance of bonds	165,000	-
Cash paid for retirement of indebtedness	(75,688)	-
Cash received under split-interest agreements	6,410	6,066
Cash payments made under split-interest agreements	(8,044)	(7,682)
Net borrowings on lines of credit	10,000	3,000
Net cash provided by financing activities	137,378	42,573
Net increase in cash and cash equivalents	2,991	4,138
Cash and cash equivalents at beginning of year	10,260	6,122
Cash and cash equivalents at end of year	$ 13,251	$ 10,260
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized	$ 9,503	$ 6,438
Securities lending	$ 138,820	$ 234,767
Securities received to satisfy pledge payments	$ 629	$ 49,897
Accrued purchases of property, plant, and equipment	$ 297	$ 1,697

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 and the Jet Propulsion Laboratory (JPL), a Federally Funded Research and Development Center managed by the Institute for the National Aeronautics and Space Administration (NASA).

The Institute manages JPL under a cost-reimbursable contract with NASA. JPL's land, buildings, and equipment are owned by the United States government and are excluded from the Institute's financial statements. Receivables and liabilities arising from JPL's activities are reflected in the Institute's balance sheets. The direct costs of JPL's activities and the related reimbursement of those costs are segregated in the statements of activities. The management allowances earned under the NASA contract also are included as an indirect cost recovery and management allowance in the statements of activities.

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

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

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

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

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

Use of Estimates

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

Redesignations

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

Reclassifications

Certain balances at September 30, 2005, and for the year then ended have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

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

Under the Institute’s cash management system, checks issued but not presented to banks frequently result in overdraft balances for accounting purposes and are included in accounts payable and accrued expenses in the balance sheets if an overdraft situation exists. There were no overdrafts at September 30, 2006 and 2005.

Advances and Deposits

Advances include certain cash balances, totaling $3,349 and $2,854 at September 30, 2006 and 2005, respectively, restricted for use in connection with United States government research. Deposits include $1,182 and $0 at September 30, 2006 and 2005, respectively, in employee cash withheld for health and dependent care spending accounts.

Investments

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

Alternative investments include holdings in limited partnerships, limited liability corporations, and off-shore investment funds. These investments may not be readily marketable, and the related investment agreements may specify penalties for early liquidations from the related funds. The Institute reviews and evaluates the values provided by external investment managers and, in each case, has agreed with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ from the values that could have been determined had a ready market for these securities existed.

Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined based on the average cost of securities sold. Amounts payable for securities purchased were $19,200 and $19,929 at September 30, 2006 and 2005, respectively.

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 gains and losses from regular settlements with the counterparty and unrealized gains and losses from adjustments in fair value totaled $41 for the year ended September 30, 2006, and are recognized in the statement of activities. At September 30, 2006, the obligation to the Institute’s counterparty was $732, which is included in accounts payable and accrued expenses in the balance sheet.

The Institute engages a number of outside parties to manage its investment portfolio. The Institute's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market and credit risk in excess of amounts recorded in the financial statements.

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

As a result of market declines, the fair value of certain donor-restricted endowment funds is less than the historical cost of such funds. As the market value of the endowment increases, this deficiency will reverse. The aggregate deficiencies for donor-restricted endowment funds were $6,798 and $13,554 at September 30, 2006 and 2005, respectively, and are recorded in unrestricted net assets.

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

At September 30, 2006 and 2005, investments include investment agreements valued at $82,790 and $14,213, respectively, that were purchased with unexpended proceeds from the Series 2003A, 2006 Series A and 2006 Series B California Educational Facilities Authority (CEFA) revenue bonds. These assets are limited to use in specific construction projects and interest payments related to CEFA bonds.

Property, Plant, and Equipment
Property, plant, and equipment is recorded at the cost of construction or acquisition, or at the appraised 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.

As of September 30, 2006, the Institute adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143" (FIN 47) that requires the recognition of certain conditional asset retirement obligations. FIN 47 states that a legal obligation to perform an asset retirement activity is a liability even if the timing and/or settlement is conditional on a future event that may or may not be within the Institute's control. Accordingly, a liability must be recorded for the conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated.

Upon the adoption of FIN 47, the Institute recorded $9,604 as the cumulative effect of a change in accounting principle in the statement of activities. As of September 30, 2006, $827 in asset retirement cost, net of accumulated depreciation, has been included in property, plant and equipment, and $10,431 in conditional retirement asset obligations are included in accounts payable and accrued expenses.

Had the provisions of FIN 47 been adopted at the acquisition of the related assets, the impact on unrestricted net assets for the years ended September 30, 2006 and 2005 would have been approximately $580 and $550, respectively.

Split-Interest Agreements
The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts for which the Institute serves as trustee.

For irrevocable agreements, assets contributed are included in Institute investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is based on the present value of future payments discounted at the appropriate risk-free rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.6% to 11.2%, and the Annuity 2000 Mortality Table was used in 2006 and 2005. 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 $71,677 and $67,383 at September 30, 2006 and 2005, respectively.

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 $16,164 and $14,985 at September 30, 2006 and 2005, 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 $20,445 and $20,351 at September 30, 2006 and 2005, 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. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Tuition support from Institute sources is displayed as a tuition discount.

- *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. Contributions receivable are reported at their discounted present values, and an allowance for amounts estimated to be uncollectable is provided. Gift revenue from contributions to be collected in the form of securities or other investments is adjusted to reflect the year end value of securities/investments to be contributed. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Gifts of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Gifts restricted to the acquisition or construction of long-lived assets or subject to other time or purpose restrictions are reported as temporarily restricted revenue. The temporarily restricted net assets resulting from these gifts are released to unrestricted net assets when the donor-imposed restrictions are fulfilled or the assets are placed in service. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted revenue. Conditional promises to give are not recorded until the conditions have been substantially met.

- *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. 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, 2006 and 2005 was $9,742 and $6,811, respectively, and capitalized interest was $2,201 and $3,143, respectively.

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

- *Cash and cash equivalents* - Cost approximates fair value.

- *Accounts and notes receivable* - Amounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts, which approximates fair value. Student accounts and notes receivable of $12,140 and $11,249 at September 30, 2006 and 2005 are carried at cost, less an allowance for doubtful accounts. Determination of the fair value of student accounts and notes receivable could not be made without incurring excessive costs.

- *Bonds and notes payable* - The fair value of bonds payable is estimated based on quoted market prices for the bonds or similar financial instruments and was $299,961 and $206,739 at September 30, 2006 and 2005, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs totaling $54,000 and $44,000 at September 30, 2006 and 2005, respectively, are carried at cost, which approximates fair value.

- *Contributions receivable and beneficial interests* - Determination of the fair value of contributions receivable could not be made without incurring excessive costs. The fair value of beneficial interests approximates the market value of the underlying assets.

New Accounting Pronouncement
During the year ended September 30, 2006, Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (FAS 158) was issued. The Institute is required to adopt the provisions of this standard in the fiscal year ending September 30, 2007. The provisions of the new standard require the Institute to recognize the difference between the fair value of plan assets and the plan’s benefit obligation for both the pension and postretirement medical and life insurance plans. The Institute has not yet determined the impact of the implementation of FAS 158 on its financial position, changes in net assets, or cash flows.

C. Contributions Receivable, net

Contributions receivable consist of unconditional promises to give to the Institute in the future and are recorded after discounting to the present value of the future cash flows at the appropriate risk-free rate at the date of each gift. Discount rates on all outstanding contributions at September 30, 2006 and 2005, range from 2.75% to 5.84%.

(Dollars in Thousands)

Contributions receivable consisted of the following at September 30, 2006 and 2005:

	2006	2005
Contributions receivable at beginning of year, net	$ 195,106	$ 233,780
Discount at beginning of year	9,785	13,928
Allowance for doubtful accounts at beginning of year	1,830	2,195
Contributions receivable at beginning of year, gross	206,721	249,903
New contributions received	231,844	4,903
Contribution payments received	(63,655)	(76,122)
Adjustments to fair value of securities to be contributed	(19,100)	29,730
Less: Write-offs and other adjustments	(50)	(1,693)
Contributions receivable at end of year, gross	355,760	206,721
Discount at end of year	(25,765)	(9,785)
Allowance for doubtful accounts at end of year	(1,230)	(1,830)
Contributions receivable at end of year, net	$ 328,765	$ 195,106

Gross contributions receivable carried the following restrictions at September 30, 2006 and 2005:

	2006	2005
Endowment for programs, activities, and scholarships	$ 24,854	$ 26,900
Building construction	40,395	49,591
Education, general and time restrictions	290,511	130,230
Total contributions receivable, gross	$ 355,760	$ 206,721

(Dollars in Thousands)

Gross contributions receivable are expected to be realized as follows at September 30, 2006 and 2005:

	2006	2005
Within one year	$ 136,707	$ 79,372
Between one year and five years	165,429	116,340
More than five years	53,624	11,009
Total contributions receivable, gross	$ 355,760	$ 206,721

At September 30, 2006 and 2005, $158,769 and $1,993, respectively, in contributions receivable were due from a foundation which shares a common board member with the Institute. At September 30, 2006 and 2005, contributions receivable of $102,897 and $119,123, respectively, were due from this board member in the form of securities.

D. Investments

Investments consisted of the following at September 30, 2006 and 2005:

	2006	2005
Short-term investments	$ 180,959	$ 171,597
Government fixed income securities	147,466	166,762
Corporate fixed income securities	73,020	69,151
Domestic equity securities	399,700	363,579
International equity securities	381,857	320,158
Investment agreements	82,790	14,213
Alternative investments:		
Absolute return strategies	276,573	245,540
Private equity	158,399	155,309
Inflation hedges	251,612	264,848
Real estate mortgages, notes, and other investments	19,185	9,743
Total investments	$ 1,971,561	$ 1,780,900

(Dollars in Thousands)

Investments were categorized as follows at September 30, 2006 and 2005:

	2006	2005
Consolidated endowment pool	$ 1,583,794	$ 1,469,455
Separately invested endowments	40,583	51,023
Subtotal endowment investments	1,624,377	1,520,478
Trusts, annuities, and other	347,184	260,422
Total investments	$ 1,971,561	$ 1,780,900

Investment return consisted of the following for the years ended September 30, 2006 and 2005:

	2006	2005
Interest and dividend income	$ 31,644	$ 30,420
Net realized gains	78,065	120,326
Net unrealized appreciation	52,861	64,911
Total investment return	$ 162,570	$ 215,657

E. Deferred United States Government Billings

Deferred United States government billings consisted of the following at September 30, 2006 and 2005:

	2006	2005
Accumulated postretirement benefit obligation - JPL	$ 248,088	$ 230,817
Pension benefit liability - JPL	1,278	359
Accrued vacation benefits - JPL	47,264	44,896
Total deferred United States government billings	$ 296,630	$ 276,072

(Dollars in Thousands)

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs should the Institute's contract ever be terminated. Therefore, the Institute has recorded a deferred United States government billing related to JPL's accumulated postretirement benefit obligation and its pension benefit liability, as the Institute expects to recover the net of these amounts through future charges to United States government grants and contracts. The Institute has also recorded a deferred United States government billing related to JPL's accrued vacation benefits, which are also covered by similar contract provisions. 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.

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2006 and 2005:

	2006	2005
Land and land improvements	$ 56,427	$ 55,634
Buildings and building improvements	557,571	513,165
Equipment	449,546	416,306
Construction in progress	98,663	100,384
Less: accumulated depreciation	(446,048)	(403,703)
Property, plant, and equipment, net	$ 716,159	$ 681,786

Depreciation expense for the years ended September 30, 2006 and 2005 was $43,865 and $40,667, respectively.

(Dollars in Thousands)

G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2006 and 2005:

Bonds Payable:	**2006**	**2005**
California Educational Facilities Authority (CEFA) revenue bonds:		
2006 Series A due October 2036, with a variable interest rate reset weekly (3.57% at 9/30/06)	$ 82,500	$ -
2006 Series B due October 2036, with a variable interest rate reset weekly (3.50% at 9/30/06)	82,500	-
Series 2003A due October 2032, with interest at 5.0% (including premium of $0 and $441, respectively)	-	70,441
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of $2,515 and $2,629, respectively)	48,051	47,936
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of $2,651 and $2,771, respectively)	50,649	50,529
Series 1994 due January 2024, with a variable interest rate reset weekly (3.57% and 2.70%, respectively)	30,000	30,000
Total revenue bonds	293,700	198,906
Notes payable:		
Bank of America revolving bank credit facility expiring September 2007, with variable interest rates	-	-
Bank of America revolving bank credit facility expiring September 2007, with variable interest rates	-	-
Bank of New York money market loan program with no expiration date, with variable interest rates	-	-
JPMorgan Chase money market loan program with no expiration date, with variable interest rates (5.42% and 3.94%, respectively)	54,000	44,000
Total notes payable	54,000	44,000
Total bonds and notes payable	$ 347,700	$ 242,906

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

In July 2006, CEFA issued $165,000 in variable rate revenue bonds on behalf of the Institute for the purpose of financing the acquisition, construction, and improvement of certain educational facilities, to pay certain issuance costs, and to advance refund the $70,000 in outstanding principal on the CEFA Series 2003A bonds. The Institute legally defeased the Series 2003A bonds by irrevocably depositing $75,688 in an escrow fund to purchase U.S. Treasury securities to be held in trust to provide for interest and principal payments to the holders of the bonds. This defeasance resulted in a loss of $5,201, which is reflected in the Statement of Activities in other changes in unrestricted net assets.

(Dollars in Thousands)

During the year ended September 30, 2006, the Institute entered into an interest rate swap agreement in conjunction with issuance of the 2006 Series A and B variable rate revenue bonds. Under the terms of the agreement, which expires October 1, 2036, the Institute pays the counterparty a fixed interest rate of 3.549% and receives a variable rate, indexed at 67% of one-month LIBOR, on a $165,000 underlying notional principal amount.

The Bank of America lines of credit and Bank of New York money market loan program have individual limits of $50,000; 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 lines of credit and the JPMorgan Chase and Bank of New York money market loan programs of $50,000 for borrowings to finance working capital and a separate $50,000 limit for borrowings to finance acquisitions of real estate and temporary funding for capital projects. All lines of credit and money market loan program agreements are uncollateralized.

Principal repayments on bonds and notes payable were as follows at September 30, 2006:

Year Ending September 30	Amount
2007	$ 249,000
2008	-
2009	-
2010	-
2011	-
Thereafter	98,700
Total	$ 347,700

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. However, the Institute believes a repurchase is unlikely.

(Dollars in Thousands)

H. Components of Net Assets

Temporarily restricted net assets were available for the following purposes at September 30, 2006 and 2005:

	2006	**2005**
Educational and research funds	$ 303,921	$ 146,911
Capital projects	93,879	91,368
Life income and annuity funds	38,092	36,045
Endowment and other funds functioning as endowment	37,661	27,306
Total temporarily restricted net assets	$ 473,553	$ 301,630

Permanently restricted net assets were available for the following purposes at September 30, 2006 and 2005.

	2006	**2005**
Student loan funds	$ 16,894	$ 16,176
Life income and annuity funds	41,008	36,531
Endowment and other funds functioning as endowment	538,244	526,066
Total permanently restricted net assets	$ 596,146	$ 578,773

I. Retirement Plans

The Institute's retirement plans cover substantially all of its employees. Except for a small number of qualified non-academic staff 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 the defined contribution plans for the years ended September 30, 2006 and 2005 were $18,131 and $17,676, respectively, for the Institute and $56,793 and $54,920, respectively, for JPL.

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

(Dollars in Thousands)

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2006 and 2005:

	2006	2005
Change in the benefit obligation:		
Benefit obligation at beginning of year	$ 34,822	$ 32,952
Service cost	59	55
Interest cost	1,749	1,887
Benefits paid	(3,065)	(2,828)
Actuarial loss	3,347	2,756
Benefit obligation at end of year	$ 36,912	$ 34,822

The accumulated benefit obligation for the defined benefit pension plan was $36,881 and $34,786 at September 30, 2006 and 2005.

	2006	2005
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 33,677	$ 33,425
Actual return on plan assets	4,426	3,143
Benefits paid	(3,065)	(2,828)
Plan expenses	(73)	(63)
Fair value of plan assets at end of year	$ 34,965	$ 33,677

	2006	2005
Funded status at valuation date:		
Funded status	$ (1,947)	$ (1,145)
Unrecognized net actuarial loss	6,017	4,871
Net amount recognized at end of year	$ 4,070	$ 3,726

(Dollars in Thousands)

	2006	2005
Amounts recognized in the financial statements:		
Accrued benefit liability	$ (1,916)	$ (1,109)
Additional minimum liability	5,986	4,835
Net amount recognized at end of year	$ 4,070	$ 3,726

The benefit obligation exceeds the fair value of plan assets at September 30, 2006. In this situation, current accounting rules require the recognition of a liability equal to the unfunded accumulated benefit obligation, which is defined as the difference between the accumulated benefit obligation and the fair value of plan assets. Accordingly, the net liability recognized at September 30, 2006 disclosed above reflects the additional minimum pension liability adjustment. The change in the additional minimum pension liability for Campus was ($71) and $1,110, respectively, for the years ended September 30, 2006 and 2005, and is reflected in other changes in unrestricted net assets in the Statement of Activities. The change related to JPL was $1,222 and $3,725, respectively, for the years ended September 30, 2006 and 2005, and is reflected in both JPL direct expense and revenue, as well as in deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

Net periodic benefit related to the plan for the years ended September 30, 2006 and 2005 included the following components:

	2006	2005
Service cost	$ 59	$ 55
Interest cost	1,749	1,887
Recognized actuarial loss	181	-
Expected return on plan assets	(2,333)	(2,315)
Net periodic benefit	$ (344)	$ (373)

Estimated contributions to the retirement plan in the next fiscal year are $0.

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

Year Ending September 30	Benefit Payments
2007	$ 3,349
2008	3,385
2009	3,340
2010	3,277
2011	3,212
2012-2016	15,118

(Dollars in Thousands)

The Institute contributes to the plan as necessary to satisfy minimum funding requirements. Approximately 94% of the plan's assets at September 30, 2006 and 2005 were designated by the plan's funding agent to back annuity contracts distributed to retirees under the plan's immediate participation guarantee agreement with the contract issuer. Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed income securities. Assets not designated for annuity contracts are invested in separate accounts by the funding agent and carry a target allocation of 62% equities and 38% fixed income. At September 30, 2006 and 2005, total retirement plan assets were invested as follows:

	2006	**2005**
Equity securities	60%	57%
Fixed income securities	40%	43%

The following weighted-average assumptions were used to determine the Institute's benefit obligations under the plan at September 30, 2006 and 2005:

	2006	**2005**
Discount rate	6.00%	5.25%
Expected return on plan assets	7.00%	7.25%
Long-term rate of compensation increase	4.00%	4.00%

To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. The average investment return of the plan has been 7.33% over the past nine calendar years. 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 7.00% 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, 2006 and 2005:

	2006	**2005**
Discount rate	5.25%	6.00%
Expected return on plan assets	7.25%	7.25%
Long-term rate of compensation increase	4.00%	4.00%

Subsequent to September 30, 2006, the Institute entered into an agreement with the insurance company that has issued annuity contracts to retiree participants. The agreement resulted in a settlement of the plan's obligations for retiree participants, and is expected to reduce plan assets by $34,300 and plan liabilities by $33,500.

(Dollars in Thousands)

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.

The change in the accumulated postretirement benefit obligation (APBO) for the year ended September 30, 2005 includes an actuarial gain of $24,449 associated with the Institute's adoption of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. During the year ended September 30, 2006, the Institute elected to have its insurer provide qualifying prescription drug plans to eligible retirees (and their dependents) over 65 at reduced premium rates in lieu of applying for the government subsidy available for providing such benefits under the Act. The change in APBO due to the Institute's election has been treated as a plan amendment and prior service cost credits totaling $10,153 have been established for the reduction in the APBO.

Certain financial information regarding the plan was as follows for the years ended September 30, 2006 and 2005, and is based on a June 30 measurement date:

	2006	2005
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 382,774	$ 406,426
Service cost	13,569	11,724
Interest cost	19,737	23,386
Participant contributions	1,469	1,102
Plan amendments	(10,153)	-
Benefits paid	(14,137)	(13,734)
Actuarial (gain) loss	(17,169)	(46,130)
Benefit obligation at end of year	$ 376,090	$ 382,774

(Dollars in Thousands)

	2006	2005
Change in the fair value of plan assets:		
Employer contributions	$ 12,668	$ 12,632
Participant contributions	1,469	1,102
Benefits paid	(14,137)	(13,734)
Fair value of plan assets at end of year	$ -	$ -

	2006	2005
Funded status at valuation date:		
Funded status	$ (376,090)	$ (382,774)
Unrecognized prior service cost	(10,153)	-
Unrecognized actuarial loss	62,889	83,296
Net amount recognized at end of year	$ (323,354)	$ (299,478)

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2006 and 2005:

	2006	2005
Discount rate	6.25%	5.25%
Health care cost trend rate	9.00%	10.00%

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, 2006 and 2005:

	2006	2005
Discount rate	5.25%	6.25%
Health care cost trend rate	10.00%	10.00%

(Dollars in Thousands)

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

Year Ending September 30	Health Care Cost Trend Rate
2007	9.00%
2008	8.00%
2009	7.00%
2010	6.00%
2011	5.50%
2012-2016	5.00%

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

	1% Increase	**1% Decrease**
Effect on the total of service and interest cost components	$ 7,260	$ (5,596)
Effect on accumulated postretirement benefit obligation	$ 57,451	$ (46,576)

The Institute expects to contribute approximately $16,907 (including $1,888 in retiree contributions) to the plan during the next year.

Estimated future benefit payments are as follows:

Year Ending September 30	Benefit Payments
2007	$ 15,000
2008	17,000
2009	18,000
2010	19,400
2011	20,600
2012-2016	117,400

K. Commitments and Contingencies

Contingencies

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

In 1997, the Institute was named as a potentially responsible party (PRP) by NASA under the Comprehensive Environmental Response, Compensation, and Liability Act, as amended. As a PRP, the Institute may be jointly liable for contribution towards clean-up costs, estimated to be in excess of $100,000, of the NASA/JPL Superfund site. The Institute believes that it will have recourse to the United States government for any material liabilities it may incur in connection with being named a PRP for that site.

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

Commitments

At September 30, 2006, the Institute was committed under certain construction contracts in the amount of approximately $54,969.

At September 30, 2006 and 2005, the Institute had committed to invest $198,832 and $223,700, respectively, with alternative investment managers and/or limited partnerships over the next ten years.

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.