

California Institute of Technology

**Report on Audit of Financial Statements
and on Federal Awards Programs
in Accordance With OMB Circular A-133**

For the Year Ended September 30, 2003

California Institute of Technology
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September 30, 2003

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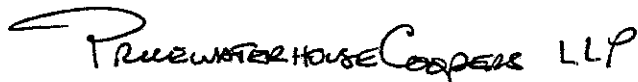
Report of Independent Auditors

To the Board of Trustees of
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, 2003 and 2002, 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, which 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2003, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended September 30, 2003. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2003, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole


PRICEWATERHOUSECOOPERS LLP

November 12, 2003

California Institute of Technology
Balance Sheets
At September 30, 2003 and 2002
(Dollars in Thousands)

	2003	2002
ASSETS		
Cash and cash equivalents	\$ 753	\$ 780
Advances on grants and contracts and security deposits	56,234	63,268
Accounts and notes receivable, net of allowance for doubtful accounts of \$6,336 and \$17,418, respectively:		
United States government	148,802	177,423
Other	23,608	24,344
Contributions receivable, net (Note C)	246,831	215,226
Investments, including securities pledged or on loan of \$53,138 and \$58,679, respectively (Note D)	1,460,381	1,249,850
Deferred United States government billings (Note E)	217,582	194,606
Prepaid expenses and other assets	62,537	66,979
Property, plant, and equipment, net (Note F)	635,411	592,845
	<u> </u>	<u> </u>
Total assets	\$ 2,852,139	\$ 2,585,321
LIABILITIES and NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 250,996	\$ 260,286
Security deposits	54,201	59,852
Deferred revenue and refundable advances	29,465	31,041
Annuities, trust agreements and agency funds	73,165	70,556
Bonds and notes payable (Note G)	244,470	170,261
Accumulated postretirement benefit obligation (Note J)	232,433	203,475
	<u> </u>	<u> </u>
Total liabilities	884,730	795,471
Commitments and contingencies (Note K)		
Net assets (Note H):		
Unrestricted	1,140,867	1,044,602
Temporarily restricted	307,555	245,531
Permanently restricted	518,987	499,717
	<u> </u>	<u> </u>
Total net assets	1,967,409	1,789,850
	<u> </u>	<u> </u>
Total liabilities and net assets	\$ 2,852,139	\$ 2,585,321

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

California Institute of Technology
Statements of Activities
For the Years Ended September 30, 2003 and 2002
(Dollars in Thousands)

	2003	2002
Changes in unrestricted net assets:		
Revenues:		
Tuition and fees, net of student financial aid of \$27,470 and \$27,889, respectively	\$ 17,682	\$ 13,712
Investment return (loss)	132,504	(120,562)
Gifts	24,703	51,874
Grants and contracts:		
Jet Propulsion Laboratory - direct	1,421,894	1,444,198
Other United States government - direct	161,242	160,096
Non-United States government - direct	10,813	8,366
Indirect cost recovery and management allowance	96,395	91,649
Auxiliary enterprises	30,065	28,650
Other	34,271	18,691
Net assets released from restrictions	67,760	48,583
Total revenues	<u>1,997,329</u>	<u>1,745,257</u>
Expenses:		
Instruction and academic support	187,469	168,841
Organized research:		
Jet Propulsion Laboratory	1,421,894	1,444,198
Other Institute research	186,376	178,963
Institutional support	70,345	73,480
Auxiliary enterprises	33,169	32,610
Total expenses	<u>1,899,253</u>	<u>1,898,092</u>
Excess (deficit) of revenues over (under) expenses	98,076	(152,835)
Other changes in net assets:		
Redesignations and reclassifications of net assets	(1,811)	6,622
Increase (decrease) in unrestricted net assets	<u>\$ 96,265</u>	<u>\$ (146,213)</u>
Changes in temporarily restricted net assets:		
Gifts	\$ 122,013	\$ 171,203
Investment return (loss)	9,335	(3,469)
Net assets released from restrictions	(67,760)	(48,583)
Redesignations and reclassifications of net assets	(1,564)	1,271
Increase in temporarily restricted net assets	<u>\$ 62,024</u>	<u>\$ 120,422</u>
Changes in permanently restricted net assets:		
Gifts	\$ 9,398	\$ 30,672
Investment return (loss)	6,445	(3,857)
Other income	52	17
Redesignations and reclassifications of net assets	3,375	(7,893)
Increase in permanently restricted net assets	<u>\$ 19,270</u>	<u>\$ 18,939</u>
Increase (decrease) in total net assets	\$ 177,559	\$ (6,852)
Net assets at beginning of year	1,789,850	1,796,702
Total net assets at end of year	<u>\$ 1,967,409</u>	<u>\$ 1,789,850</u>

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, 2003 and 2002
(Dollars in Thousands)

	2003	2002
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 177,559	\$ (6,852)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	38,895	42,008
Contributions restricted for long-term investment and capital projects	(9,398)	(35,153)
Realized and unrealized (gains) losses on investments	(121,910)	158,143
Gifts of property, plant, and equipment	(2,554)	(2,605)
Gifts and other in-kind distributions of securities	(77,628)	(33,000)
Actuarial change in trust liability	(8,611)	3,566
Loss on write-off of property, plant, and equipment	2,035	2,780
Changes in assets and liabilities:		
Accounts and notes receivable, net	29,357	18,266
Contributions receivable, net	(31,605)	(139,056)
Deferred United States government billings	(22,976)	(13,860)
Prepaid expenses and other assets	4,442	35,156
Accounts payable and accrued expenses	(9,360)	(26,867)
Deferred revenue and refundable advances	(1,576)	(383)
Agency funds	932	(411)
Accumulated postretirement benefit obligation	28,959	13,107
Net cash (used in) provided by operating activities	(3,439)	14,839
Cash flows from investing activities:		
Purchases of investments	(1,606,757)	(1,888,600)
Proceeds from sale of investments	1,613,500	1,920,943
Purchases of property, plant, and equipment	(80,162)	(88,157)
Net cash used in investing activities	(73,419)	(55,814)
Cash flows from financing activities:		
Change in advances on grants and contracts and security deposits	1,383	1,686
Proceeds from issuance of long-term debt	70,000	-
Contributions restricted for long-term investment and capital projects	9,398	35,153
Net borrowings on line of credit	3,500	10,500
Contributions received for split-interest agreements	3,054	2,683
Payments made under split-interest agreements	(10,504)	(8,869)
Net cash provided by financing activities	76,831	41,153
Net (decrease) increase in cash and cash equivalents	(27)	178
Cash and cash equivalents at beginning of year	780	602
Cash and cash equivalents at end of year	\$ 753	\$ 780
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 8,117	\$ 5,981

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

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

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 operating activities are reflected in the Institute's balance sheets. The direct costs of organized research and the related reimbursement of the costs arising from JPL's activities are segregated in the statements of activities. The management allowances earned under this contract also are included as an indirect cost recovery and management allowance in the statements of activities.

The Institute (including JPL) is 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. Capital 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

California Institute of Technology
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(Dollars in Thousands)

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 due to the fulfillment of donor-imposed restrictions and/or the passage of time 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.

Reclassifications

Certain balances at September 30, 2002, and for the year then ended have been reclassified to conform to the current year presentation.

Redesignations

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

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. These balances were \$19,678 and \$36,280 at September 30, 2003 and 2002, respectively.

Advances on Grants and Contracts and Security Deposits

Advances on Grants and Contracts include certain cash balances, totaling \$2,032 and \$3,416 at September 30, 2003 and 2002, respectively, restricted for use in connection with United States government research. Security deposits consist of collateral related to securities lending in the Institute's investment portfolio.

Investments

Investments are stated at fair value. The fair value of marketable securities and short-term investments is based on quoted market prices. When a quoted market value is not readily determinable, quoted market prices of similar financial instruments are used. The fair value of alternative investments, including limited partnerships and similar interests, is based on

California Institute of Technology
Notes to Financial Statements
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information provided by external investment managers at 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 guaranteed investment contracts are carried at cost, which approximates fair value. 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.

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. Some of the Institute's money managers use interest-rate futures contracts to modify the interest-rate sensitivity of investments in fixed income securities. Management believes that the risk associated with these derivatives is not material to the Institute at September 30, 2003.

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 over a period of time that preserves the future purchasing power of endowment principal.

As a result of market declines, the fair market value of certain donor-restricted endowment funds is less than the historical cost value of such funds. As the market value of the portfolio increases, this deficiency will reverse. These unrealized losses are recorded in unrestricted net assets in accordance with Statement of Financial Accounting Standards 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations."

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 greater than 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. Collateral held and the Institute's obligation to repay such collateral are recorded in the balance sheets as "advances on grants and contracts and security deposits" and "security deposits," respectively.

Property, Plant, and Equipment

Campus property, plant, and equipment is recorded at the cost of construction or acquisition, or at the appraised value at the date of the gift. 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 campus 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 Campus assets from various sources set aside for this purpose. Property, plant, and equipment acquired under both federal and nonfederal grants in which title does not ultimately transfer to the Institute is not recorded in the Institute's financial statements.

California Institute of Technology
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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.

Split-Interest Agreements

The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder trusts for which the Institute serves as trustee. Assets held in these trusts are included in investments in the balance sheets at fair value. Contribution revenue is recognized at the dates 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 a rate of 3.2% and 5.2% for the years ended September 30, 2003 and 2002, respectively, and the 1990 Group Annuity Mortality Tables. The liabilities are adjusted during the term of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits.

The Institute is also the beneficiary of certain trusts held and administered by others. The present values of the estimated future cash flows from the trusts are included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the dates the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

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 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 includes adjustments required to reflect the year-end market value of securities pledged. 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. The temporarily restricted net assets resulting from these gifts are released to unrestricted net assets when the donor-imposed restrictions are fulfilled.

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

- *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.

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.

Depreciation and plant operation expenses are allocated to functional classifications based on square footage occupancy of Institute facilities.

Interest expense on external debt is allocated to the functional categories that have benefited from the proceeds of such debt.

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 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 approximately \$196,143 and \$129,884 at September 30, 2003 and 2002, respectively. The revolving bank credit facility is carried at cost, which approximates fair value.

C. Contributions Receivable, net

Contributions receivable consists 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 risk-free rate appropriate for the contribution at the date of the gift. Discount rates ranging from 2.75% to 3.9% are used for the years ended September 30, 2003 and 2002.

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

Contributions receivable consisted of the following at September 30, 2003 and 2002:

	2003	2002
Contributions receivable at beginning of year, net	\$ 215,226	\$ 76,170
Discount at beginning of year	20,156	11,530
Allowance for doubtful accounts at beginning of year	<u>1,830</u>	<u>2,356</u>
Contributions receivable at beginning of year, gross	237,212	90,056
New contributions received	11,893	188,003
Contribution payments received	(92,763)	(40,321)
Adjustments to fair value of contributed securities	113,398	-
Less: Write-offs and other adjustments	<u>(5,217)</u>	<u>(526)</u>
Contributions receivable at end of year, gross	264,523	237,212
Discount at end of year	(16,487)	(20,156)
Allowance for doubtful accounts at end of year	<u>(1,205)</u>	<u>(1,830)</u>
Contributions receivable at end of year, net	<u>\$ 246,831</u>	<u>\$ 215,226</u>

Gross contributions receivable carried the following restrictions at September 30, 2003 and 2002:

	2003	2002
Endowment for programs, activities, and scholarships	\$ 38,416	\$ 49,621
Building construction	16,030	18,969
Education and general	<u>210,077</u>	<u>168,622</u>
Total contributions receivable, gross	<u>\$ 264,523</u>	<u>\$ 237,212</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

Gross contributions receivable are expected to be realized as follows at September 30, 2003 and 2002:

	2003	2002
Within one year	\$ 78,874	\$ 62,543
Between one year and five years	174,404	143,817
More than five years	<u>11,245</u>	<u>30,852</u>
Total contributions receivable, gross	<u>\$ 264,523</u>	<u>\$ 237,212</u>

During the year ended September 30, 2002, the Gordon and Betty Moore Foundation informed the Institute of its intention to fund research and educational projects totaling \$300,000 over ten years. Payments are conditional upon the Foundation's acceptance of project proposals submitted by the Institute. At September 30, 2003, projects totaling \$32,000 were approved to date. Of this total, \$27,000 of the Foundation's commitment had been received in cash and \$5,000 is included in contributions receivable at September 30, 2003.

D. Investments

Investments consisted of the following at September 30, 2003 and 2002:

	2003	2002
Short-term investments	\$ 104,109	\$ 92,517
Treasury inflation-protected securities	152,662	146,916
Government fixed income securities	189,409	123,709
Corporate fixed income securities	133,019	204,573
Domestic equity securities	342,522	279,798
International equity securities	155,707	129,901
Guaranteed investment contracts	51,061	-
Alternative investments:		
Absolute return strategies	175,597	103,211
Private equity	136,790	137,044
Real estate mortgages, notes, and other investments	<u>19,505</u>	<u>32,181</u>
Total investments	<u>\$ 1,460,381</u>	<u>\$ 1,249,850</u>

California Institute of Technology
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September 30, 2003 and 2002
(Dollars in Thousands)

Investments were categorized as follows at September 30, 2003 and 2002:

	2003	2002
Consolidated endowment pool	\$ 1,168,382	\$ 1,027,403
Separately invested endowments	47,086	56,470
Subtotal endowment investments	<u>1,215,468</u>	<u>1,083,873</u>
Trusts, annuities, and other	<u>244,913</u>	<u>165,977</u>
Total investments	<u>\$ 1,460,381</u>	<u>\$ 1,249,850</u>

Investment return (loss) consisted of the following for the years ended September 30, 2003 and 2002:

	2003	2002
Interest and dividend income	\$ 26,374	\$ 30,255
Net realized gains (losses)	639	(28,838)
Net unrealized appreciation (depreciation)	124,649	(125,295)
Less: management fee	<u>(3,378)</u>	<u>(4,010)</u>
Total investment return (loss)	<u>\$ 148,284</u>	<u>\$ (127,888)</u>

At September 30, 2003 and 2002, the Institute had committed to invest \$91,100 and \$112,100, respectively, with alternative investment managers over the next ten years.

E. Deferred United States Government Billings

Deferred United States government billings consisted of the following at September 30, 2003 and 2002:

	2003	2002
Accumulated postretirement benefit obligation - JPL	\$ 181,500	\$ 159,808
Pension benefit asset - JPL	(2,759)	(2,579)
Accrued vacation benefits - JPL	<u>38,841</u>	<u>37,377</u>
Total deferred United States government billings	<u>\$ 217,582</u>	<u>\$ 194,606</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(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, which is offset by JPL's pension benefit asset, 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 insist that such funding be made available.

F. Property, Plant, and Equipment, net

Property, plant, and equipment consisted of the following at September 30, 2003 and 2002:

	2003	2002
Land and land improvements	\$ 55,011	\$ 41,763
Buildings and building improvements	487,611	401,046
Equipment	398,739	385,978
Construction in progress	58,286	99,092
Less: accumulated depreciation	<u>(364,236)</u>	<u>(335,034)</u>
Property, plant and equipment, net	<u>\$ 635,411</u>	<u>\$ 592,845</u>

Depreciation expense for the years ended September 30, 2003 and 2002 amounted to approximately \$38,186 and \$41,773, respectively.

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

G. Bonds and Notes Payable

Bonds and notes payable consisted of the following at September 30, 2003 and 2002:

Issuer	Description	Interest rate	2003	2002
California Educational Facilities Authority (CEFA)	Series 2003A revenue bonds due October 2032 (including premium of \$474)	5.0%	\$ 70,474	\$ -
	Series 1998 revenue bonds due October 2028 (net of issue discount of \$2,857 and \$2,973, respectively)	4.25%	47,708	47,593
	Series 1998 revenue bonds due October 2027 (net of issue discount of \$3,012 and \$3,132, respectively)	4.50%	50,288	50,168
	Series 1994 revenue bonds due January 2024	Variable-weekly reset (0.99% at 9/30/03; 1.52% at 9/30/02)	30,000	30,000
Bank of America	Revolving bank credit facility (uncollateralized) expires June 2004	Variable-average on outstandings (1.30% at 9/30/03; 1.99% at 9/30/02)	34,000	39,000
	Non-revolving bank credit facility (uncollateralized), expires June 2004.	Variable-average on outstandings (1.30% at 9/30/03; 1.99% at 9/30/02)	12,000	3,500
Total Bonds and Notes Payable			<u>\$ 244,470</u>	<u>\$ 170,261</u>

The CEFA Series 2003A and CEFA Series 1998 revenue bonds are subject to an early redemption premium if redeemed prior to October 11, 2011 and October 1, 2010, respectively.

The revolving and non-revolving lines of credit have individual limits of \$50,000 and \$12,000, respectively, and an aggregate limit of \$50,000.

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

Scheduled principal repayments on long-term debt were as follows at September 30, 2003:

<u>Year Ending September 30</u>	<u>Amount</u>
2004	\$ 46,000
2005	-
2006	-
2007	-
2008	-
Thereafter	<u>198,470</u>
Total	\$ 244,470

H. Components of Net Assets

The following tables present the net asset categories by purpose at September 30, 2003 and 2002:

	<u>2003</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Operating funds	\$ 3,050	\$ 16,976		\$ 20,026
Contributions receivable		213,842	\$ 32,989	246,831
Student loan funds			14,028	14,028
Invested in plant	406,943			406,943
Unexpended plant funds		11,024		11,024
Life income and annuity funds		30,856	29,237	60,093
Endowment and other funds functioning as endowment	<u>730,874</u>	<u>34,857</u>	<u>442,733</u>	<u>1,208,464</u>
Total net assets	\$ 1,140,867	\$ 307,555	\$ 518,987	\$ 1,967,409

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

	2002			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating funds	\$ 19,096	\$ 10,032		\$ 29,128
Contributions receivable		172,623	\$ 42,603	215,226
Student loan funds			13,193	13,193
Invested in plant	384,320			384,320
Unexpended plant funds		1,249		1,249
Life income and annuity funds		26,086	26,779	52,865
Endowment and other funds functioning as endowment	641,186	35,541	417,142	1,093,869
Total net assets	\$ 1,044,602	\$ 245,531	\$ 499,717	\$ 1,789,850

I. Retirement Plans

The Institute's retirement plans cover substantially all of its employees. Academic and senior administrative staff are covered by a defined contribution pension plan. Certain qualified non-academic staff who participated in a defined benefit pension plan that was terminated in 1993 are covered by a successor defined benefit pension plan.

Retirement benefits under the successor defined benefit plan are actuarially 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. The Institute's defined benefit plan funding policy is to contribute amounts sufficient to maintain the retirement plan assets at levels adequate to cover all accrued benefit obligations.

California Institute of Technology
Notes to Financial Statements
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(Dollars in Thousands)

Certain financial information regarding the successor defined benefit plan was as follows for the years ended September 30, 2003 and 2002 and is based on a June 30 measurement date:

	2003	2002
Change in the benefit obligation:		
Benefit obligation at beginning of year	\$ 31,223	\$ 35,848
Service cost	72	125
Interest cost	2,089	2,581
Benefits paid	(2,411)	(2,551)
Actuarial loss (gain)	185	(4,780)
	<u>31,158</u>	<u>31,223</u>
Benefit obligation at end of year	\$ 31,158	\$ 31,223
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 32,981	\$ 38,191
Actual return on plan assets	1,040	(2,552)
Benefits paid	(2,411)	(2,551)
Plan expenses	(100)	(107)
	<u>31,510</u>	<u>32,981</u>
Fair value of plan assets at end of year	\$ 31,510	\$ 32,981
Reconciliation of funded status:		
Funded status	\$ 352	\$ 1,758
Unrecognized net actuarial loss	2,668	1,052
	<u>3,020</u>	<u>2,810</u>
Net amount recognized at end of year	\$ 3,020	\$ 2,810
Components of net periodic benefit:		
Service cost	\$ 72	\$ 125
Interest cost	2,089	2,581
Expected return on plan assets	(2,370)	(2,936)
	<u>(209)</u>	<u>(230)</u>
Net periodic benefit	\$ (209)	\$ (230)

California Institute of Technology
Notes to Financial Statements
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(Dollars in Thousands)

The following weighted-average assumptions were used to determine the Institute's obligation under the successor defined benefit plan at September 30, 2003 and 2002:

	2003	2002
Discount rate	6.00%	7.00%
Expected return on plan assets	7.25%	7.50%
Long-term rate of compensation increase	3.50%	4.00%

Pension costs for the defined contribution plans for the years ended September 30, 2003 and 2002 were \$15,840 and \$14,828, respectively, for the Campus and \$47,186 and \$43,962, respectively, for JPL.

J. Postretirement and Postemployment Benefits Other Than Pensions

The Institute provides certain postretirement health and life insurance benefits. The Institute's obligation related to these benefits is actuarially determined and any actuarial deferrals resulting from changes in the accumulated postretirement benefit obligation are amortized over the average future working lifetime of its employees.

Certain financial information regarding the plan was as follows for the years ended September 30, 2003 and 2002, and is based on a June 30 measurement date:

	2003	2002
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 337,103	\$ 226,792
Service cost	10,180	6,178
Interest cost	23,147	16,624
Participant contributions	1,139	1,043
Benefits paid	(12,230)	(11,702)
Actuarial loss	79,297	98,168
	<hr/>	<hr/>
Benefit obligation at end of year	\$ 438,636	\$ 337,103

California Institute of Technology
Notes to Financial Statements
September 30, 2003 and 2002
(Dollars in Thousands)

	2003	2002
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ -	\$ -
Employer contributions	11,091	10,659
Participant contributions	1,139	1,043
Benefits paid	<u>(12,230)</u>	<u>(11,702)</u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status:		
Funded status	\$ (438,636)	\$ (337,103)
Unrecognized actuarial loss	<u>206,203</u>	<u>133,628</u>
Net amount recognized at end of year	<u>\$ (232,433)</u>	<u>\$ (203,475)</u>
Components of net periodic benefit cost:		
Service cost	\$ 10,180	\$ 6,178
Interest cost	23,147	16,624
Amortization of loss	<u>6,722</u>	<u>964</u>
Net periodic benefit cost	<u>\$ 40,049</u>	<u>\$ 23,766</u>

The following weighted-average assumptions were used to determine the Institute's obligation under the plan at September 30, 2003 and 2002:

	2003	2002
Discount rate	6.00%	7.00%
Health care cost trend rate	10.00%	12.00%

California Institute of Technology
Notes to Financial Statements
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(Dollars in Thousands)

The health care cost trend rate for subsequent years is as follows:

<u>Year Ending September 30</u>	<u>Health Care Cost Trend Rate</u>
2004	9.00%
2005	8.00%
2006	7.00%
2007	6.00%
2008	5.50%
2009 and thereafter	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	\$ 6,255	\$ (4,984)
Effect on accumulated postretirement benefit obligation	\$ 73,965	\$ (59,138)

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.

The Institute has been 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 million, 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.

The Institute has been named as one of the defendants in a False Claims Act action brought by a qui tam relator corporation. The complaint, which was filed in the federal district court in Washington, D.C., and served on the Institute in July 2002, alleges that the Institute engaged in misconduct in connection with certain patents obtained relating to the DNA sequencer. Damages

California Institute of Technology
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(Dollars in Thousands)

and penalties under the False Claims Act include fines of five thousand five hundred dollars to eleven thousand dollars, per claim, treble damages and attorneys' fees. The Department of Justice investigated the allegations of the complaint and declined to intervene in the case on behalf of the United States. The relator opted to pursue the case on its own. On July 3, 2003, the district court in Washington, D.C., granted the defendants' motion for change of venue to the central district of California. The Institute filed a motion to dismiss the complaint on July 28, 2003. After hearing oral argument, the court granted the motion, dismissing the case in its entirety. The court issued its opinion on October 17, 2003. On November 6, 2003, the relator filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. In a related matter, in February 2003 the Institute was named as a defendant in a suit brought by a former postdoctoral scholar at the Institute, who maintains, *inter alia*, that he is the primary inventor of the DNA sequencer and was improperly excluded from the relevant patent applications. The complaint asserts claims for change of inventorship, breach of contract, fraud, and other claims. Trial of the inventorship claims is scheduled for December 2003. The Institute denies all of the plaintiff's material allegations. The Institute intends to defend both matters vigorously.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matters discussed in the preceding two paragraphs will have on the Institute's financial position or operating results.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAM			
Research and Development Program			
Direct Funds			
Executive Office of the President Office of Science and Technology Policy	27 RD		\$ 120,044
Department of Agriculture United States Department of Agriculture	10 RD		40,413
Department of Commerce National Oceanic & Atmospheric Administration	11 RD		34,091
Department of Defense Air Force	12 RD		6,187,085
Army	12 RD		7,047,885
Navy	12 RD		11,828,003
National Imagery and Mapping Agency	12 RD		115,447
National Reconnaissance Office	12 RD		15,238
Defense Advanced Research Project Agency	12 RD		<u>3,009,001</u>
Total Department of Defense			<u>28,202,659</u>
Department of Education Department of Education	84 RD		25,670
Department of Energy Department of Energy	81 RD		11,620,164
Department of Health and Human Services National Institutes of Health	93 RD		34,291,360
Department of Interior United States Geological Survey	15 RD		1,316,872
Environmental Protection Agency United States Environmental Protection Agency ("EPA")	66 RD		79,950
Federal Communications Commission Federal Communications Commission	32 RD		138,804
Institute of Museum and Library Services Institute of Museum and Library Services	45 RD		114,078
National Aeronautics and Space Administration ("NASA") NASA	43 RD		26,105,974
National Science of Foundation National Science Foundation	47 RD		<u>76,480,219</u>
Total Research and Development – Direct Funds			<u>178,570,298</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds			
Department of Commerce			
<i>National Oceanic & Atmospheric Administration ("NOAA")</i>			
University Corporation for Atmospheric Research	11 RD	NA87GP0105	\$ 2,758
University of California San Diego	11 RD	NA66RG0477	<u>(1,158)</u>
Total NOAA Pass-Through			<u>1,600</u>
Total Department of Commerce – Pass-Through			<u>1,600</u>
Department of Defense			
Air Force			
Advanced Projects Research Incorporated	12 RD	F04611-99-C-0017	156
Aeropath Corporation	12 RD	F49620-02-C-0071	47,275
Alphatech, Inc	12 RD	F33615-01-C-3149	130,060
Brown University	12 RD	F49620-99-1-0272	197,324
Cornell University	12 RD	F30602-01-2-0577	96,508
Duke University	12 RD	F30602-01-2-0561	175,359
ERC, Inc	12 RD	F04611-99-C-0025	95,130
HRL Laboratories, LLC	12 RD	F33615-02-C-1184	214,239
Massachusetts Institute of Technology	12 RD	F49620-00-C-0035	(682)
Sparta, Inc	12 RD	F04611-01-C-0001	(42)
Stanford University	12 RD	F49620-01-1-0365	199,351
Universal Technology Corporation	12 RD	F33615-98-C-2807	50,000
Universal Technology Corporation	12 RD	F33615-02-D-2299	9,669
University of California Los Angeles	12 RD	F49620-01-1-0361	203,808
University of California Los Angeles	12 RD	F33615-01-C-3149	41,115
University of California San Diego	12 RD	F49620-01-1-0497	146,907
University of Minnesota	12 RD	F49620-98-1-0433	50,471
University of Utah	12 RD	F08637-98-C-6011	<u>34,031</u>
Total Air Force Pass Through			<u>1,690,679</u>
Army			
Cornell University	12 RD	DAAD19-01-1-0541	93,611
Duke University	12 RD	DAAH04-96-1-0045	19,430
Electric Power Research Institute	12 RD	DAAG55-98-1-3001	62,247
General Electric Company	12 RD	DABT-63-C-0001	54,902
Los Alamos Technical Associated, Inc	12 RD	DABT63-98-C-0052	2,628
Nextech Materials, Ltd.	12 RD	DAAD19-02-C-0059	37,000
Trex Enterprises	12 RD	DASG60-03-C-0008	30,008
Trex Enterprises	12 RD	DAAL01-94-C-0100	(24,537)
Trex Enterprises	12 RD	DAAH01-02-C-0031	1,215
University of California Los Angeles	12 RD	DAAH01-01-1-R002	78,066

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds (Continued)			
Department of Defense (Continued)			
Army (Continued)			
University of Delaware	12 RD	DAAD17-00-C-0100	\$ (30,919)
University of Illinois	12 RD	DAAG55-97-1-0126	<u>1,610</u>
Total Army Pass-Through			<u>325,261</u>
Navy			
Boeing Company	12 RD	N00421-02-D-3223	459,101
Colorado School of Mines	12 RD	N00014-02-1-0665	455,713
Cornell University	12 RD	N00014-01-1-0765	66,778
Harvard University	12 RD	N00014-01-0651	377,786
Los Gatos Research	12 RD	N00014-97-C-0300	5,357
Massachusetts Institute of Technology	12 RD	N00014-02-1-0915	88,583
National Renewable Energy Laboratory	12 RD	N00014-98-3-0015	(126,314)
Naval Research Laboratory	12 RD	N00173-01-P-1550	1,611
Princeton University	12 RD	N00014-02-1-0826	222,795
Princeton University	12 RD	N66001-02-1-8929	778,795
Stanford University	12 RD	N00014-02-1-0589	164,656
TRW Incorporated	12 RD	N66001-97-C-8609	6,449
University of Arizona	12 RD	N00014-95-1-1319	(45,428)
University of California Berkeley	12 RD	N00014-01-1-0890	74,062
University of California Los Angeles	12 RD	N66001-02-C-8042	237,112
University of California Los Angeles	12 RD	N66001-00-1-8937	81,527
University of California Los Angeles	12 RD	N66001-96-C-8632	(275)
University of California Los Angeles	12 RD	N66001-00-C-8092	36,947
University of California Los Angeles	12 RD	N00014-02-1-0180	83,070
University of California San Diego	12 RD	N00014-02-1-0666	71,672
University of California Santa Barbara	12 RD	N00014-01-1-0764	118,144
University of Colorado At Boulder	12 RD	N00014-02-1-0714	<u>66,673</u>
Total Navy Pass-Through			<u>3,224,814</u>
National Reconnaissance Office			
Massachusetts Institute of Technology	12 RD	NRO 000-00-C-0102	131,750
Stanford University	12 RD	NRO 000-01-C-0311	<u>(7,025)</u>
Total Defense Advanced Research Project Agency – Pass-Through			<u>124,725</u>
Defense Advanced Research Project Agency			
Hewlett Packard	12 RD	MDA972-01-3-0005	3,575
HRL Laboratories, LLC	12 RD	MDA972-01-C-0002	54,243
Starzent, Inc	12 RD	MDA972-03-C-0003	36,844
TRW Incorporated	12 RD	MDA972-02-C-0040	20,000

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds (Continued)			
Department of Defense (Continued)			
Defense Advanced Research Project Agency (Continued)			
TRW Incorporated	12 RD	MDA972-02-C-0065	\$ 20,000
University of California Los Angeles	12 RD	MDA972-02-2-001	69,706
University of California San Diego	12 RD	MDA972-00-1-0019	<u>166,974</u>
Total Defense Advanced Research Project Agency – Pass-Through			<u>371,342</u>
Total Department of Defense – Pass-Through			<u>5,736,821</u>
Department of Energy			
Carnegie Institute	81 RD	DE-FC03-03NA00144	11,202
Fermilab National Accelerator Laboratory	81 RD	DE-AC02-76CH03000	925,537
Lawrence Berkeley National Laboratory	81 RD	DE-AC03-76SF00098	64,520
Lawrence Livermore National Laboratory	81 RD	W-7405-ENG-48	5,133,456
Lawrence Livermore National Laboratory	81 RD	DE-AC36-99G010337	(7,420)
Los Alamos National Laboratory	81 RD	W-7405-ENG-36	29,270
National Renewable Energy Laboratory	81 RD	DE-AC36-99G0-10337	534,003
Sandia National Laboratories	81 RD	DE-AC04-94AL85000	508,737
University of California Los Angeles	81 RD	DE-FG03-91ER40662	9,166
University of Nevada	81 RD	DE-FC28-98NV12081	<u>476,394</u>
Total Department of Energy – Pass-Through			<u>7,684,865</u>
Department of Health and Human Services			
<i>National Institutes of Health</i>			
Case Western Reserve University	93 RD	1 R01 AG18629-01	(66)
Childrens Hospital of LA	93 RD	5 U01 CA88199	924,909
Childrens Hospital of LA	93 RD	R01 AI40567	29,981
City of Hope	93 RD	R01 RR06217	139,950
Cornell University	93 RD	R01 MH62528	19,110
Cornell University	93 RD	7 R01 NS34998-05	33,580
Indiana University	93 RD	P01 DK43881	129,942
Johns Hopkins University	93 RD	1 P50 DK57325-01	273,205
Lawrence Berkeley National Laboratory	93 RD	R01 CA80792	101,914
Loma Linda University	93 RD	R01 CA85779	96,199
Medical University of South Carolina	93 RD	2 P01 HL 52813-06	40,267
Molecular Sciences Institute	93 RD	1 P50-HG02370	252,579
Oregon Health Sciences University	93 RD	1 P01 GM067166	13,804
Purdue University	93 RD	1 P01 AI055672-01	26,886
The Scripps Research Institute	93 RD	1 R01 GM57148	129,189
The Scripps Research Institute	93 RD	P01 GM56552	8,143
The Scripps Research Institute	93 RD	1 R01 GM57148-03	(41,200)
University of California Los Angeles	93 RD	R01 MH61223-01	174,316
University of California Los Angeles	93 RD	5 P41 RR13642-04	320,204
University of Southern California	93 RD	1 R01 AG13860-01	(31,632)
University of Tennessee	93 RD	R01 NS046356-01	34,736

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds (Continued)			
Department of Health and Human Services (Continued)			
<i>National Institutes of Health (continued)</i>			
University of Texas Southwestern Medical Center	93 RD	5 U54 GM62114	\$ 1,508,332
University of Texas Southwestern Medical Center	93 RD	U54 GM62114	100,957
University of Utah	93 RD	P01 GM66521	317,559
Whitehead Institute For Biomedical Research	93 RD	U54 HG002045	<u>83,291</u>
Total National Institutes of Health – Pass-Through			<u>4,686,155</u>
Total Department of Health and Human Services – Pass-Through			<u>4,686,155</u>
Department of Interior			
<i>United States Geological Survey ("USGS")</i>			
University of Southern California	15 RD	02HQAG0008	93,999
University of Southern California	15 RD	02HQAG0008	<u>2,083</u>
Total United States Geological Survey – Pass-Through			<u>96,082</u>
Total Department of Interior – Pass-Through			<u>96,082</u>
Department of State			
Nat'l Council For Eurasian And E European Research	19 RD	Title VIII Grant	<u>6,786</u>
Total Department of State – Pass-Through			<u>6,786</u>
Environmental Protection Agency ("EPA")			
Howard University	66 RD	R829626	89,087
Massachusetts Institute of Technology	66 RD	R824970-01-0	(84,108)
University of California Riverside	66 RD	CR 827331-01	5,228
University of Houston	66 RD	R-83037701	<u>17,560</u>
Total EPA – Pass-Through			<u>27,767</u>
Federal Emergency Management Agency ("FEMA")			
Federal Emergency Management Agency			
State of California - Office of Emergency Services	83 RD	FEMA-1008-8012-CA	<u>625,280</u>
Total Federal Emergency Management Agency – Pass-Through			<u>625,280</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds (Continued)			
National Aeronautics and Space Administration ("NASA")			
Case Western Reserve University	43 RD	NAG5-12723	\$ 94,485
Cornell University	43 RD	NAG5-9794	11,274
Emcore Corporation	43 RD	NAS3-02201	47,520
Harvard University	43 RD	NAG5-9643	92,595
Lockheed Martin Corporation	43 RD	NAS2-03004	36,273
Pennsylvania State University	43 RD	NAG5-12181	14,999
Smithsonian Astro	43 RD	NAS8-39073	577,234
Space Telescope Science Institute	43 RD	NAS5-26555	628,394
Tecstar Power Systems Incorporated	43 RD	NAS3-01131	(153,503)
Universities Space Research Association	43 RD	NCC3-975	42,103
University of Alabama In Huntsville	43 RD	NCC8-200	23,220
University of California Berkeley	43 RD	NAS5-00133	1,571,272
University of California Berkeley	43 RD	NAG5-11200	32,663
University of California Berkeley	43 RD	NAG5-10411	(149)
University of California Los Angeles	43 RD	NCC2-1364	223,626
University of Colorado At Boulder	43 RD	NAG5-11911	7,179
University of Maryland	43 RD	NAG5-10876	32,305
University of Maryland	43 RD	NAG5-8877	80,626
University of Southern California	43 RD	NCC2-1224	13,721
University of Space Research	43 RD	NAS5-97001	628,607
University of Washington	43 RD	NCC2-1273	<u>54,230</u>
Total National Aeronautics and Space Administration - Pass-Through			<u>4,058,674</u>
National Science Foundation			
Brown University	47 RD	CCR-0086065	93,307
California Association For Research In Astronomy	47 RD	AST-9613615	1,104,529
California State University Northridge	47 RD	DMS-0105158	1,502
Cornell University	47 RD	AST-0138263	100,452
Incorporated Research Institute For Seismology	47 RD	EAR-0004370	20,299
Johns Hopkins University	47 RD	PHY-9980044	10,984
Johns Hopkins University	47 RD	AST-0122449	524,953
Michigan State University	47 RD	DEB-9981397	248,073
National Bureau of Economic Research, Inc	47 RD	SES-0214013	7,839
National Radio Astronomy Observatory	47 RD	AST-9223814	137,847
National Radio Astronomy Observatory	47 RD	AST-0223851	120,055
New Jersey Institute	47 RD	AST-9987366	14,480
New York University	47 RD	CTS-0103002	190,573
Northeastern University	47 RD	PHY-0204786	163,922
Pennsylvania State University	47 RD	DMS-0101360	79,923
Texas A&M Research Foundation	47 RD	OCE-9320477	14,978
University of Arizona	47 RD	BES-0086944	23,002
University of California Berkeley	47 RD	MCB-0313546	8,627
University of California Berkeley	47 RD	EBC-9701568	4,280
University of California Berkeley	47 RD	OPP-0091840	70,901

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Pass-Through Funds (Continued)			
National Science Foundation			
University of California Berkeley	47 RD	EEC-9701568	\$ 143,019
University of California Los Angeles	47 RD	CCR-0121778	117,575
University of California Los Angeles	47 RD	ECS-0103559	56,479
University of California San Diego	47 RD	ACI-96-19020	1,138,350
University of California San Diego	47 RD	EEC-0088130	27,321
University of California San Diego	47 RD	ACI-0122272	1,852,145
University of California San Diego	47 RD	ACI-0332113	213,828
University of California Santa Barbara	47 RD	OPP-9980654	104
University of California Santa Cruz	47 RD	AST-9876783	86,317
University of Chicago	47 RD	AST-0096913	190,747
University of Delaware	47 RD	EIA-0103723	12,290
University of Florida	47 RD	ACI-0086044	248,033
University of Florida	47 RD	PHY-0122557	553,382
University of Illinois	47 RD	ACI-9619019	161,360
University of Illinois	47 RD	AST-0096741	31,333
University of Iowa	47 RD	ATM-0205198	55,367
University of Northern Colorado	47 RD	REC-0095023	2,011
University of Southern California	47 RD	EAR-0106924	99,939
University of Southern California	47 RD	EAR-0137983	15,736
University of Texas	47 RD	DMR-0103134	233,795
University of Utah	47 RD	EIA-8920219	(23,385)
University of Utah	47 RD	EIA-9871440	10,062
University of Virginia	47 RD	SES-0094800	192,528
University of Washington	47 RD	DMR-0120967	<u>278,086</u>
Total National Science Foundation – Pass-Through			<u>8,636,948</u>
Total Research and Development – Pass-Through Funds			<u>31,560,978</u>
Total Research and Development Program			<u>210,131,276</u>
Student Financial Assistance Program			
Direct Funds			
Department of Education			
Federal Work Study Program	84.033		368,264
Federal Supplemental Educational Opportunity Grant	84.007		429,988
Federal Pell Grant Program	84.063		<u>446,146</u>
Total Student Financial Assistance Cluster			<u>1,244,398</u>
Total Major Programs			<u>211,375,674</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended September 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
NON-MAJOR PROGRAMS			
Student Financial Assistance Program			
Pass-Through Funds			
Department of Education			
California Student Aid Commission Cal Grants	84 069A		\$ <u>7,451</u>
Total Department of Education – Pass-Through Funds			<u>7,451</u>
Total Non-Major Programs			<u>7,451</u>
Total Federal Awards			<u>\$ 211,383,125</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2003

1. Summary of Significant Accounting Policies

General

The California Institute of Technology (the "Institute") is a private, not-for-profit institution of higher education based in Pasadena, California. 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 United States government.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") has been prepared in accordance with the Office of Management and Budget ("OMB") Circular A-133, Audits of States, Local Governments and Not-for-Profit Organizations and the American Institute of Certified Public Accountants Statement of Position 98-3, Audits of States, Local Governments, and Non-Profit Organizations. The Schedule summarizes the expenditures of the Institute under programs of the federal government for the fiscal year ended September 30, 2003. Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute in accordance with accounting principles generally accepted in the United States of America.

The accompanying Schedule has been prepared on the cash basis of accounting.

Negative balances reflected in the Schedule represent adjustments to prior periods.

Expenditures for direct costs are recognized as incurred using the cash basis of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursements. Moreover, expenditures include a portion of costs associated with general institution activities (Facilities and Administrative costs) which are allocated to awards under negotiated formulas commonly referred to as indirect cost rates.

The Institute receives funding or reimbursement from Federal Government agencies primarily for research under Government grants and contracts. Grants and contracts provide for reimbursement of indirect costs based on rates negotiated with the Department of Defense's Office of Naval Research ("ONR"), the Institute's cognizant Federal Agency. The Institute's indirect cost reimbursements have been based on fixed rates with carry forward of under- or over-recoveries. ONR engages the Defense Contract Audit Agency ("DCAA") to audit both direct and indirect charges to the Institute's grants and contracts. ONR has approved final indirect cost rates through the 2000 fiscal year. The 2003 and 2002 fiscal years actual incurred costs are currently under audit by DCAA and, in the opinion of management, the results of such audits will not have a material impact on the Schedule.

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003

The Institute discloses its accounting policies for the purposes of indirect cost negotiation on a Disclosure Statement, in accordance with Cost Accounting Standards. Certain revisions to the Disclosure Statement have been filed with ONR; however, final approval has not been received. In the opinion of management, the official approval process will not have a material effect on the Schedule.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Institute and agencies and departments of the federal government and all subawards to the Institute by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into major program categories in accordance with the provisions of OMB Circular A-133. The awards set forth in this Schedule do not include amounts related to the Jet Propulsion Laboratory ("JPL") which is a NASA Federally Funded Research and Development Center ("FFRDC") managed by the Institute. Please refer to the separate financial statements and related reports of the Independent Auditors of JPL and the DCAA.

2. Reconciliation of the Schedule of Expenditures of Federal Awards to the Institute's Financial Statements

The following table is a reconciliation of total expenditures presented on the Schedule to "Organized Research - Other Campus Research" reported on the Institute's financial statements for the fiscal year ended September 30, 2003.

Total expenditures from the Schedule	\$211,383,125
JPL Interdivisional Authorizations and Intergovernmental Personnel Act	35,912,236
Adjustments:	
Add:	
Allocation of interest, depreciation expenses, and JPL net gain	41,832,888
Non-federal expenses and other	12,754,075
Less:	
Capitalization of certain property and equipment included in the Schedule	(22,049,403)
Allocated overhead expenses, JPL direct costs and other	(92,919,143)
Conversion to cash basis of accounting and other	<u>(537,514)</u>
Total Organized Research - Other Campus Research reported on the Statement of Activities	<u>\$186,376,264</u>

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003

3. Loan Advances

During the fiscal year ended September 30, 2003, the Institute advanced loans totaling \$403,378 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2003 is \$6,789,456. The Federal Perkins Loan Program is administered directly by the Institute. Balances and transactions related to this program are included in the Institute's financial statements.

4. Federal Direct Loan Program

During the fiscal year ended September 30, 2003, the Institute processed \$823,133 of new loans under the Federal Direct Loan Program (CFDA Number 84.268), (which includes Subsidized Stafford Loans, Parent Loans for Undergraduate Students and Unsubsidized Stafford Loans).

5. Transfers

During the fiscal year ended September 30, 2003, the Institute transferred \$137,697 from the Federal Work Study Program (FWS) to the Federal Supplemental Educational Opportunity Grant Program (FSEOG). The transferred amounts are reflected as revenues/expenditures recognized in the program in which the funds were utilized.

6. Federal Work Study (FWS) Carryforwards

During the fiscal year ended September 30, 2003, the Institute spent \$55,079 of FWS funds which were carried forward from the fiscal year ended September 30, 2002. During fiscal year ended September 30, 2003, the Institute carried forward \$55,079 of FWS funds which are to be spent during the fiscal year ended September 30, 2004. The carryforward amount is reflected as revenues/expenditures recognized in the fiscal year in which the funds were utilized.

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2003

7. 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, for these audits or legal actions will have a material impact on the Institute's financial position.

The Institute has been 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 million, of the NASA/JPL Superfund site. The Institute believes that it will have recourse to the United States government for any liabilities it may incur in connection with being named a PRP for that site.

The Institute has been named as one of the defendants in a False Claims Act action brought by a qui tam relator corporation. The complaint, which was filed in the federal district court in Washington, D.C. and served on the Institute in July 2002, alleges that the Institute engaged in misconduct in connection with certain patents obtained relating to the DNA sequencer. Damages and penalties under the False Claims Act include fines of five thousand five hundred dollars to eleven thousand dollars, per claim, treble damages and attorneys' fees. The Department of Justice investigated the allegations of the complaint and declined to intervene in the case on behalf of the United States. The relator has opted to pursue the case on its own. On July 3, 2003, the district court in Washington, D.C., granted the defendants' motion for change of venue to the central district of California. The Institute filed a motion to dismiss the complaint on July 28, 2003. After hearing oral argument, the court granted the motion, dismissing the case in its entirety. The court issued its opinion on October 17, 2003. On November 6, 2003, the relator filed a Notice of Appeal to the United States Court of Appeals for the Ninth Circuit. In a related matter, in February 2003 the Institute was named as a defendant in a suit brought by a former postdoctoral scholar at the Institute, who maintains, inter alia, that he is the primary inventor of the DNA sequencer and was improperly excluded from the relevant patent applications. The complaint asserts claims for change of inventorship, breach of contract, fraud, and other claims. Trial of the inventorship claims is scheduled for December 2003. The Institute denies all of the plaintiff's material allegations. The Institute intends to defend both matters vigorously.

Officials of the Institute presently are not able to predict the impact, if any, that final resolution of the matters discussed in the proceeding two paragraphs will have on the Institute's financial position, operating results or federal program amounts listed in the accompanying Schedule.

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

To the Board of Trustees of
California Institute of Technology

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

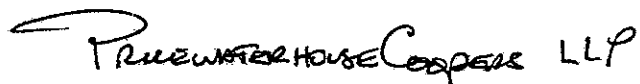
Compliance

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

Internal Control Over Financial Reporting

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

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

 PricewaterhouseCoopers LLP

November 12, 2003

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

To the Board of Trustees of
California Institute of Technology

Compliance

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

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

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

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

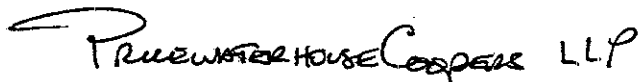
Internal Control Over Compliance

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

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

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

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

PRICEWATERHOUSECOOPERS LLP

April 16, 2004

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2003

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? No

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weakness(es)? No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings that are required to be reported in accordance with OMB Circular A-133? Yes

Identification of major programs:

CFDA Number

- | | | |
|----|--------------------------------------|---------|
| 1. | Research and Development Cluster | Various |
| 2. | Student Financial Assistance Cluster | Various |

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as a low-risk auditee? Yes

SECTION II - FINANCIAL REPORTING FINDINGS

No matters are reportable.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2003

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 03-1 Student Status Changes not Reported in a Timely Manner

Condition

From a total of 10 direct loan recipients who withdrew during the 2002-2003 school year, 8 of the 10 student status changes were not reported within the required time period.

Questioned Costs

None.

Criteria

The Institute is required to submit student status changes within 30 days of the status change.

Citation

Code of Federal Regulations 34CFR668.22

Effect

Student status changes were not reported in a timely manner.

Recommendation

We recommend that the Institute ensure all student status changes are reported in a timely manner.

Management Response

A new Registrar was hired in May 2004 who has initiated a business process review of the drop and withdrawal procedures to ensure that all transactions are processed internally in a timely fashion. The Institute will join the National Student Loan Clearinghouse (NSLC) who will do the reporting to NSLDS on the Institute's behalf. The Institute will arrange to report at least four times a term to the NSLC as of the Fall 2004 term. All changes for the Student Status Confirmation Report (SSCR) as well as the deferment requests will be reported through the NSLC on the Institute's behalf within the 30 day statutory requirement.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2003

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 03-2 Procurement Policies

Condition

The Institute did not comply with procurement policies for one of the twenty purchase orders selected for testing. Policies set require certain dollar thresholds not to be exceeded by respective buyer's title and level.

Questioned Costs

None.

Criteria

The Institute is responsible for implementation of: (a) oversight required for high dollar, lengthy, or other sensitive procurement contracts; (b) clear assignment of authority for issuing purchasing orders for goods and services.

Citation

OMB Circular A-133 Compliance Supplement March 2003, Part 3-I and OMB Circular A-110 Section .44 (a)(1)

Effect

Purchase order noted above was not within the buyer's authorized limits according to the Institute's procurement policies.

Recommendation

Ensure that purchase orders are completed and reviewed by appropriate personnel for compliance with the Institute's procurement policies.

Management Response

The Institute has reinforced its purchase order review policy to the affected staff. This appears to be an isolated incident that occurred due to a "rush" order coupled with staff absences. In the future, staff will obtain the appropriate approvals.

California Institute of Technology
Independent Auditors' Schedule of Disposition of Prior-Year Findings
and Questioned Costs
For the Year Ended September 30, 2003

Finding 02-1 Close-Out Procedures

The Institute continues to emphasize the importance of performing close-out procedures in a timely fashion. No finding noted during the testing in fiscal year 2003.

CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

Office of the Associate Vice President for Finance & Controller
Financial Services Administration Building, Mail Code 229-15
626-395-3937

May 25, 2004

PricewaterhouseCoopers LLP
400 South Hope Street
Los Angeles, California 90071-2889

Subject: California Institute of Technology Corrective Action Plan

Reference: OMB Circular A-133 Audit for Fiscal Year 2003

Dear Sirs:

Enclosed is the California Institute of Technology's OMB Circular A-133 Corrective Action Plan for fiscal year ended September 30, 2003.

Please feel free to call me if any further information or clarification is required.

Sincerely,



Sharon E. Patterson
Associate Vice President for Finance and Controller

Enclosure

California Institute of Technology
(Exclusive of Jet Propulsion Laboratory)
Fiscal Year 2003 OMB Circular A-133 Audit
Corrective Action Plan

Fiscal Year 2002

Finding Number	Condition	Corrective Action Plan	Responsible Individual	Planned Completion Date
03-1	<p>The Institute did not comply with procurement policies for one of the twenty purchase orders selected for testing. Policies set require certain dollar thresholds not to be exceeded by respective buyer's title and level.</p>	<p>The Institute has reinforced its purchase order review policy to the affected staff. This appears to be an isolated incident that occurred due to a "rush" order coupled with staff absences. In the future, staff will obtain the appropriate approvals.</p>	<p>Director of Procurement</p>	<p>May 2004</p>
03-2	<p>From a total of 10 direct loan recipients who withdrew during the 2002-2003 school year, 8 of the 10 students status changes were not reported within the required time period.</p>	<p>A new Registrar was hired in May 2004 who has initiated a business process review of the drop and withdrawal procedures to ensure that all transactions are processed internally in a timely fashion. The Institute will join the National Student Loan Clearinghouse (NSLC) who will do the reporting to NSLDS on the Institute's behalf. The Institute will arrange to report at least four times a term to the NSLC as of the Fall 2004 term. All changes for the Student Status Confirmation Report (SSCR) as well as deferment requests will be reported through the NSLC on the Institute's behalf within the 30 days statutory requirement.</p>	<p>Registrar</p>	<p>September 2005</p>