

California Institute of Technology

EIN: 95-1643307

**Report on Audit of Financial Statements
and on Federal Awards Programs
in Accordance With OMB Circular A-133
(exclusive of the Jet Propulsion Laboratory)**

For the Year Ended September 30, 2006

California Institute of Technology
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For the Year Ended September 30, 2006

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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 related statements of activities and cash flows present fairly, in all material respects, the financial position of the California Institute of Technology (the "Institute") as of 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 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. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2006 on our consideration of Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2006. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2006 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. As described in Note 1 to the Schedule of Expenditures of Federal Awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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

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	<u>716,159</u>	<u>681,786</u>
Total assets	<u>\$ 3,706,282</u>	<u>\$ 3,420,609</u>
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	<u>323,354</u>	<u>299,478</u>
Total liabilities	<u>1,244,758</u>	<u>1,189,848</u>
Commitments and contingencies (Note K)		
Net assets:		
Unrestricted	1,391,825	1,350,358
Temporarily restricted	473,553	301,630
Permanently restricted	<u>596,146</u>	<u>578,773</u>
Total net assets	<u>2,461,524</u>	<u>2,230,761</u>
Total liabilities and net assets	<u>\$ 3,706,282</u>	<u>\$ 3,420,609</u>

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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 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.

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

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

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.

California Institute of Technology
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(Dollars in Thousands)

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

- *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/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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

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%.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>1,830</u>	<u>2,195</u>
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	<u>(50)</u>	<u>(1,693)</u>
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	<u>(1,230)</u>	<u>(1,830)</u>
Contributions receivable at end of year, net	<u>\$ 328,765</u>	<u>\$ 195,106</u>

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	<u>290,511</u>	<u>130,230</u>
Total contributions receivable, gross	<u>\$ 355,760</u>	<u>\$ 206,721</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>53,624</u>	<u>11,009</u>
Total contributions receivable, gross	<u>\$ 355,760</u>	<u>\$ 206,721</u>

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	<u>19,185</u>	<u>9,743</u>
Total investments	<u>\$ 1,971,561</u>	<u>\$ 1,780,900</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>1,624,377</u>	<u>1,520,478</u>
Trusts, annuities, and other	347,184	260,422
Total investments	<u>\$ 1,971,561</u>	<u>\$ 1,780,900</u>

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	<u>52,861</u>	<u>64,911</u>
Total investment return	<u>\$ 162,570</u>	<u>\$ 215,657</u>

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	<u>47,264</u>	<u>44,896</u>
Total deferred United States government billings	<u>\$ 296,630</u>	<u>\$ 276,072</u>

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>(446,048)</u>	<u>(403,703)</u>
Property, plant, and equipment, net	<u>\$ 716,159</u>	<u>\$ 681,786</u>

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

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>293,700</u>	<u>198,906</u>
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	<u>54,000</u>	<u>44,000</u>
Total bonds and notes payable	<u>\$ 347,700</u>	<u>\$ 242,906</u>

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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:

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

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
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 IPL.

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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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
	<u>36,912</u>	<u>34,822</u>
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)
	<u>34,965</u>	<u>33,677</u>
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
	<u>4,070</u>	<u>3,726</u>
Net amount recognized at end of year	\$ 4,070	\$ 3,726

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

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

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	<u>(2,333)</u>	<u>(2,315)</u>
Net periodic benefit	<u>\$ (344)</u>	<u>\$ (373)</u>

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

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

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

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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.

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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)
	<hr/>	<hr/>
Benefit obligation at end of year	\$ 376,090	\$ 382,774

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(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	<u>(14,137)</u>	<u>(13,734)</u>
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	<u>62,889</u>	<u>83,296</u>
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%

California Institute of Technology
Notes to Financial Statements
September 30, 2006 and 2005
(Dollars in Thousands)

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

<u>Year Ending</u> <u>September 30</u>	<u>Health Care Cost</u> <u>Trend Rate</u>
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:

<u>Year Ending</u> <u>September 30</u>	<u>Benefit Payments</u>
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.

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

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.

**California Institute of Technology
Schedule of Expenditures of Federal Awards
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS			
Research and Development Program			
Direct Funds			
Executive Office of the President Office of Science and Technology Policy	27 011		\$ (42 033)
Department of Agriculture United States Department of Agriculture	10 206		22 077
Department of Commerce National Institute for Standards and Technology	11 609		3,333
National Oceanic & Atmospheric Administration	11 431		(47)
Total Department of Commerce			<u>3,286</u>
Department of Defense			
Air Force	12 000	FA9451-06-M-0357	3 643
Air Force	12 000	IPA - SERCEL	131,785
Air Force	12 000		(513)
Air Force	12 630		2 054,249
Air Force	12,800		2 940 565
Air Force	12,910		331 988
Army	12,000	DAAD19-01-1-0517	484
Army	12 000	W911NF-04-1-0201	180,044
Army	12,000	W911NF-05-1-0345	(22,347)
Army	12 000	W911NF-05-1-0434	(202)
Army	12,000	W912HQ-04-C-0045	394 496
Army	12 420		85,282
Army	12 431		2 306 501
Defense Advanced Research Projects Agency	12 910		2,623 845
Navy	12,000	HR0011-04-1-0054	402 251
Navy	12 000	N00173-05-P-0153	29,342
Navy	12 000	N00244-02-C-0032	411 322
Navy	12 000	HR0011-05-C-0097	417 515
Navy	12 000	N00014-04-1-0306	122 399
Navy	12 000	N00244-05-C-0066	2 592 552
Navy	12 000	MDA972-03-1-0007	53 046
Navy	12 000	N66001-05-1-8920	238 198
Navy	12 000	N86001-05-D-6023	332 282
Navy	12 300		4 277 789
National Security Agency	12 901		23 553
National Geospatial Intelligence Agency	12 630		<u>63,933</u>
Total Department of Defense			<u>19,994,002</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Direct Funds (Continued)			
Department of Education			
Department of Education	84 116		\$ 33 419
Department of Energy			
Department of Energy	81 000	DE-FC26-02NT15383	(114 866)
Department of Energy	81 000	DE-FC26-02NT41581	25 449
Department of Energy	81 000	DE-FC26-02NT41631	(1 252)
Department of Energy	81 000	DE-FC26-04NT15521	287 532
Department of Energy	81 000	DE-FC26-04NT15525	392 819
Department of Energy	81 000	DE-FC26-04NT42212	136 908
Department of Energy	81 000	DE-FC36-04GO14276	1 009 757
Department of Energy	81 000	DE-FC52-06NA27319	10 501
Department of Energy	81 000	DE-FG02-03ER15483	73 922
Department of Energy	81 000	DE-FG02-04ER25613	111 608
Department of Energy	81 000	DE-FG02-04ER25657	148 849
Department of Energy	81 000	DE-FG02-04ER41316	564 113
Department of Energy	81 000	DE-FG02-04ER46175	141 146
Department of Energy	81 000	DE-FG02-05ER15716	331 306
Department of Energy	81 000	DE-FG02-05ER15754	150 485
Department of Energy	81 000	DE-FG02-05ER41359	1 663 553
Department of Energy	81 000	DE-FG02-05ER41361	363 837
Department of Energy	81 000	DE-FG02-05ER63983	133 864
Department of Energy	81 000	DE-FG02-06ER15762	184 780
Department of Energy	81 000	DE-FG02-06ER15773	88 257
Department of Energy	81 000	DE-FG02-92ER40701	3 456 879
Department of Energy	81 000	DE-FG02-03ER54711	2 287
Department of Energy	81 000	Fermilab PO#570788	6 924
Department of Energy	81 049		247 799
Department of Energy	81 064		6 219 993
Department of Energy	81 087		370 127
Department of Energy	81 112		<u>125,261</u>
Total Department of Energy			<u>16,131,838</u>
Department of Homeland Security			
Homeland Security Advanced Research Projects Agency	97 000	HSHQPA-05-9-0037	965 984
Department of State			
Department of State	19 000	S-LMAQM-04-GR-170	63 050

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Direct Funds (Continued)			
Department of Health and Human Services			
National Institutes of Health	93 000		\$ 32 302
National Institutes of Health	93 121		795 055
National Institutes of Health	93 172		2 587 765
National Institutes of Health	93 173		932 947
National Institutes of Health	93 242		1 244 712
National Institutes of Health	93 279		1 360 672
National Institutes of Health	93 282		51 530
National Institutes of Health	93 286		2 158 320
National Institutes of Health	93 306		63 677
National Institutes of Health	93 389		565 068
National Institutes of Health	93 396		269 280
National Institutes of Health	93 398		46 054
National Institutes of Health	93 399		1 816 297
National Institutes of Health	93 821		1 557 622
National Institutes of Health	93 837		402 742
National Institutes of Health	93 846		3 869
National Institutes of Health	93 847		1 127 124
National Institutes of Health	93 849		711 936
National Institutes of Health	93 853		7 943 945
National Institutes of Health	93 854		(296)
National Institutes of Health	93 855		1 222 963
National Institutes of Health	93 856		304 530
National Institutes of Health	93 859		7 627 069
National Institutes of Health	93 862		1 950 034
National Institutes of Health	93 865		1 623 997
National Institutes of Health	93 866		1 103 040
National Institutes of Health	93 867		6 208 390
Total Health and Human Services			43,710,644
Department of the Interior			
Department of the Interior	15 000	NBCHC030105	355 409
Department of the Interior	15 000	NBCH1050001	1 327 935
United States Geological Survey	15 000	06CRSA0401	23 993
United States Geological Survey	15 000	IPA 689312363	4 404
United States Geological Survey	15 000	PAGER 8931-2683	20 521
United States Geological Survey	15 807		1 288 839
United States Geological Survey	15 808		75 591
Total Department of Interior			3,096,692

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Research and Development Program (Continued)			
Direct Funds (Continued)			
Environmental Protection Agency			
United States Environmental Protection Agency (EPA)	66.000		\$ 87,354
United States Environmental Protection Agency (EPA)	66.509		155,746
United States Environmental Protection Agency (EPA)	66.511		<u>161,503</u>
Total Environmental Protection Agency			<u>404,603</u>
National Aeronautics and Space Administration (NASA)			
NASA	43.000		18,152,963
National Science of Foundation			
National Science Foundation	47.000		418,875
National Science Foundation	47.041		2,175,696
National Science Foundation	47.047		13,960,648
National Science Foundation	47.049		41,450,183
National Science Foundation	47.050		4,766,609
National Science Foundation	47.070		4,699,253
National Science Foundation	47.074		1,272,539
National Science Foundation	47.075		575,011
National Science Foundation	47.076		2,468,355
National Science Foundation	47.078		<u>763,649</u>
Total National Science Foundation			<u>72,550,818</u>
Total Research and Development - Direct Funds			<u>175,087,343</u>
Pass-Through Funds			
Department of Commerce			
Rohm and Haas Company	11.612	DOC-RAH-CIT-001	24,618
University of Alaska Fairbanks	11.430	UAF 05-0132	66,768
University of Connecticut	11.430	5039	18,279
Woods Hole Institution of Oceanography	11.460	A100448	<u>35,711</u>
Total Department of Commerce - Pass-Through			<u>145,376</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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			
Air Force			
Brown University	12 800	983-21054	\$ 79 777
Georgia Institute of Technology	12 630	E-25-6MV-G2	120,320
Harvard University	12 000	01-130068	205,680
Harvard University	12 910	02-130052	89 171
HRL Laboratories LLC	12 000	201136-BS	26 976
Irvine Sensors Corporation	12,000	23603	4,839
Kettering University	12,000	330144-01	206 774
Lockheed Martin Corporation	12 000	TT0669763	56 772
Luxtera	12 000	LUXTERA.STTR	135 000
Massachusetts Institute of Technology	12,800	5710001972	23,189
Massachusetts Institute of Technology	12 800	5710002025	39,943
New Mexico Institute of Mining and Technology	12 114	P0004339	51,987
OptiComp Corporation	12 800	062305-07	134,305
Science Applications International Corporation	12 000	4400112557	6 486
SRI International	12 000	55-000715	14 418
Stanford University	12 630	PY-1360	64 611
University of California Los Angeles	12 800	0205 G CB208	109 090
University of Southern California	12 800	104666	33,859
Total Air Force Pass-Through			<u>1,403,197</u>
Army			
Cornell University	12,431	39508-6588	177,350
Lewis Center for Educational Research	12,000	LEWIS RADIO	6 121
Parasim, Inc	12,000	PARASIM.000002	76 971
Stanford University	12 431	28000-B	39 610
The Scripps Research Institute	12 420	5-75525	258 948
University of California Los Angeles	12 000	0205 G CE123	15 671
University of California Los Angeles	12 000	1000 G FC338	71 374
University of California Santa Barbara	12 000	KK4102	1 814 601
University of Chicago	12 000	28065-2	187 731
University of Delaware	12 000	10025	104 212
University of Southern California	12 100	108007	29,022
Yale University	12 431	YKP1098647	27,841
Total Army Pass-Through			<u>2,808,452</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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)			
Central Intelligence Agency			
MITRE Corporation	12 000	62869	\$ 250,000
Navy			
Boeing Company	12 000	KM5270	13 057
Colorado School of Mines	12 300	3225/22949	363 183
Colorado School of Mines	12 000	4-42517	151 858
Cornell University	12 300	42829-7100	27 465
Harvard	12 300	HARVARD.MLTRN	(21)
NLight Photonics Total	12 000	60561, 61627	55 200
Princeton University	12 300	916	84 289
University of California Berkeley	12 300	SA3318	244 085
University of California Santa Barbara	12 300	KK0119	65,690
University of Washington	12 000	756206	177 838
William Lettis & Associates Inc.	12 000	WLA.000002	1,451
Total Navy Pass-Through			1,184,095
Defense Advanced Research Projects Agency			
Hewlett Packard	12 000	HP.000002	497 466
Hewlett Packard	12 000	HR0011-04-3-0038	449 757
IBM Corporation	12 000	W0551063	21 437
Johns Hopkins University	12 000	908165	960 996
Massachusetts Institute of Technology	12 000	5710001623	189 735
Massachusetts Institute of Technology	12 300	5710001481	45 352
Northrop Corporation	12 000	02287RD96S	131,247
Northrop Corporation	12 000	39159942	84,649
Princeton University	12 910	341-6260-515	(5,340)
Raytheon	12 000	4400164414	600 284
Telaris Inc	12 000	HR0011-06-C-0029	29 454
University of California Berkeley	12 000	2003-DT-660	125 387
University of California Davis	12 910	007441-03	40 190
University of California Los Angeles	12 000	0980 G FE328	(4,448)
University of California San Diego	12 000	10255643	114 092
University of Colorado at Boulder	12 300	153-5530/31610	49 649

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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)			
Defense Advanced Research Projects Agency (Continued)			
University of Connecticut	12 910	7301	\$ 134
University of Massachusetts	12 000	1040691	<u>13,254</u>
Total Defense Advanced Research Projects Agency - Pass-Through			<u>3,343,295</u>
Total Department of Defense Pass-Through			<u>8,989,039</u>
Department of Energy			
BSST LLC	81 000	04-DOE930-126	39,290
Carnegie Institute	81 000	4-3327-30	98,366
Ceramatec	81 000	CERAM.BSCF	64,778
Cornell University	81 000	44178-7367	19,571
Doheny Eye Institute	81 000	63735-A001	111,910
Fermilab National Accelerator Laboratory	81 064	512929/554897	502,879
Georgia Institute of Technology	81 049	E-17 6F8-G1	151,286
Lawrence Berkeley National Laboratory	81 000	6808360	14,180
Lawrence Livermore National Laboratory	81 000	B523297	4,379,139
Los Alamos National Laboratory	81 064	31692-001-06	68,010
National Renewable Energy Laboratory	81 064	XAT-4-33624-10	279,744
NexTech Materials, Ltd Total	81 000	NEXTECH DOE	20,820
Open Solutions GP Total	81 000	OPENS.000001	28,777
Sandia National Laboratories	81 000	523348	112,613
Texas Tech University	81 049	1310/C122-01	100,129
University of California Los Angeles	81 000	1800 G DC735	178
University of Nevada	81 065	UNR-04-50	1,150,152
Washington University in St. Louis	81 000	WU-HT-06-06	<u>27,654</u>
Total Department of Energy Pass-Through			<u>7,169,475</u>
Department of Homeland Security			
State of California - Office of Emergency Services	97 039	1505-17-10	<u>31,500</u>
Department of Health and Human Services			
National Institutes of Health			
Brown University	93 286	1545-27564	42,717
Childrens Hospital Los Angeles	93 856	30-8019-100425	50,000

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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)			
National Institutes of Health (Continued)			
City of Hope	93 371	109	\$ 6 185
Cornell University	93 000	CORNELL.TEXTPR	35 137
Exploratorium	93 000	3428	10,650
Harvard University	93 903	137374	104 901
Indiana University	93 000	39510-0048	137 675
Jackson Laboratory	93 172	553143/565835	264 584
Johns Hopkins University	93 849	8004-25995X	59 320
Loma Linda University	93 000	LLU.SUBNIH	93 837
Massachusetts Institute of Technology	93 242	571000#655	132 170
Molecular Sciences Institute	93 000	MSI.000001	212 145
Princeton University	93 859	1207	51 183
Purdue University	93 858	511-1656-01	139 013
Purdue University	93 855	511-1851-01	234 709
Stanford University	93 172	17222070-35910	368 027
The Scripps Research Institute	93 859	5-74238	131 620
The Scripps Research Institute	93 859	5-74032	7 008
The Scripps Research Institute	93 000	5-74098	19 222
University of California Irvine	93 856	2005-1597	182 924
University of California Irvine	93 309	2003-1306	39 210
University of California Los Angeles	93 389	1580 G GF778	568 446
University of California Los Angeles	93 847	0150 G FB197	189 437
University of California Los Angeles	93 395	1649GGB177	15 930
University of California Los Angeles	93 929	0845 G ED291	134 466
University of California San Diego	93 279	10253108	115 098
University of California San Francisco	93 821	3399sc	4 750
University of North Carolina	93 242	UNCAROL 000001	33 439
University of Puerto Rico	93 000	2006-001341	152 982
University of Southern California	93 855	110512	13 816
University of Tennessee	93 653	R105210070	43,557
University of Texas Southwestern Medical Center	93 859	UTSMC.000017	1 431,616
University of Utah	93 821	2112017	222,932
Total National Institutes of Health Pass-Through			5,248,708
Total Department of Health and Human Services Pass-Through			5,248,708

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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 Interior			
United States Geological Survey (USGS)			
University of Southern California	15.807	PO 071673	\$ 138,249
Department of State			
Nat'l Council For Eurasian And E European Research	19.300	821-11	7,011
Environmental Protection Agency (EPA)			
Harvard University	66.500	123233-03	25,755
Harvard University	66.509	122769-01	87,090
University of Houston	66.606	R-05-0307	102,043
Total EPA Pass-Through			214,888
National Aeronautics and Space Administration (NASA)			
Case Western Reserve University	43.000	CWRU.BOOM	64,127
Harvard University	43.000	131066-01	26,371
Harvard University	43.000	131111	87,402
Johns Hopkins University	43.000	911356	28,918
Lockheed Martin Corporation	43.000	810000206	8,342
Monterey Bay Aquarium Research Institute	43.000	512953	50,956
National Space Biomedical Research Institute	43.000	NCC 9-58	179,175
Pennsylvania State University	43.000	2608-CIT-NASA-3620	11,339
Princeton University	43.000	129	28,804
Smithsonian Astro	43.000	GO6-7067A	84,460
Smithsonian Astro	43.000	TM3-4007X	58,222
Smithsonian Astro	43.000	GO6-7099X	26,178
Southwestern Research Institute	43.000	699048X	63,715
Space Telescope Science Institute	43.000	HST-GO-09799 03-A	1,308,870
Universities of Space Research Association	43.000	8500-98-011	755,857
University of Alabama	43.000	06-043	7,085
University of California Berkeley	43.000	SA27 15-26309	505,620
University of California Los Angeles	43.000	0150 G DB006	109,447
University of California Los Angeles	43.000	0995 G FB200	10,863
University of California Los Angeles	43.000	0995 G FC658	5,879
University of California Los Angeles	43.000	0995 G GC317	898
University of California Santa Cruz	43.000	S0179865	8,302
University of Colorado At Boulder	43.000	1541820	7,644
University of Oklahoma	43.000	2005-09	7,896

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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) (Continued)			
University of Southern California	43 000	97019	\$ 84,639
University of Washington	43 000	429444	52,029
Total National Aeronautics and Space Administration Pass-Through			<u>3,582,838</u>
National Science Foundation			
Brown University	47 070	1456-26383	21,087
California Association For Research In Astronomy	47 049	24565	413,817
California State University Los Angeles	47 049	DMR-0351848 UAS-220995	54,650
Columbia University	47 070	556789	64,528
Cornell University	47 049	46559-7840	58,545
Fermilab National Accelerator Laboratory	47 000	566654	47,498
Florida International University	47 049	571275900-01	145,250
Howard University	47 000	634177-H017357	87,812
Incorporated Research Institute For Seismology	47 050	0310	40,004
Incorporated Research Institute For Seismology	47 050	473	95,538
Johns Hopkins University	47 049	8205-53652	438,356
Massachusetts Institute of Technology	47 049	5710001593	164,295
Medical College of Ohio	47 076	F 2005-109	2,499
National Radio Astronomy Observatory	47 000	206239	49,193
New Jersey Institute	47 049	992186	55,387
New Jersey Institute	47 000	990715	46,518
New Jersey Institute	47 049	990774	7,982
Northwestern University	47 049	0830 300 N665 737	2,713
Stanford University	47 000	13944760-25941-A	40
UNAVCO Inc	47 050	EAR-0453975-02	42,375
University of Arizona	47 000	ARIZONA.NSF	172,002
University of California Berkeley	47 041	SA4591-10349PG	141,564
University of California Berkeley	47 041	SA4801	113,786
University of California Berkeley	47 078	SA 1425-1011PG	86,478
University of California Berkeley	47 078	SA4176-10020PG	18,157
University of California Davis	47 075	RA 012679 CIT	25,876
University of California Irvine	47 074	2003-1310	302,364
University of California Los Angeles	47 000	0143 G DB034	168,793
University of California Los Angeles	47 049	1000 G FC855	(38,749)
University of California Los Angeles	47 049	1000 G GB150	365,806
University of California Los Angeles	47 049	1000 G GB581	193,499

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

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 (Continued)			
University of California Riverside	47 041	S-00065	\$ 60,646
University of California San Diego	47 070	10226829	409
University of California San Diego	47 070	10186971	(434)
University of California Santa Cruz	47 049	SO144475	129,918
University of Chicago	47 049	5-27668	181,871
University of Delaware	47 070	497010/1369	63,301
University of Florida	47 070	UF00113	50,055
University of Florida	47 049	UF01087	189,667
University of Georgia	47 041	RR185-313/7877497	102,302
University of Illinois	47 000	2003-00863-01	57,724
University of Illinois	47 041	2003-07452-1	72,069
University of Iowa	47 050	4000088270	69,700
University of Southern California	47 041	100809	40,069
University of Southern California	47 050	76824	247,027
University of Southern California	47 000	H31068	432,268
University of Southern California	47 041	92271	(23,965)
University of Virginia	47 075	SES-0094800	56,265
University of Washington	47 000	594618	<u>157,805</u>
Total National Science Foundation - Pass-Through Funds			<u>5,264,360</u>
Total Research and Development - Pass-Through Funds			<u>30,791,445</u>
Total Research and Development Program			<u>205,878,787</u>

The accompanying notes are an integral part of this Schedule.

California Institute of Technology
Schedule of Expenditures of Federal Awards (Continued)
(exclusive of the Jet Propulsion Laboratory)
For the Year Ended September 30, 2006

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
MAJOR PROGRAMS (CONTINUED)			
Student Financial Assistance Cluster			
Direct Funds			
Department of Education			
Federal Work Study Program	84 033		\$ 238,889
Federal Supplemental Educational Opportunity Grant	84 007		336,988
Federal Pell Grant Program	84 063		<u>233,366</u>
Total Student Financial Assistance Cluster			<u>809,243</u>
Total Major Programs			206,688,031
NON MAJOR PROGRAMS			
Pass-Through Funds			
Department of Education			
California Student Aid Commission Cal Grants	84.069A		<u>11,571</u>
Total Department of Education Pass-Through Funds			<u>11,571</u>
Total Non-Major Programs			<u>11,571</u>
Total Federal Awards			<u>\$ 206,699,602</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, 2006

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 on the cash basis of accounting and 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' *Audit and Accounting Guide, Government Auditing Standards* and *Circular A-133 Audits*. The Schedule summarizes the expenditures of the Institute under programs of the federal government for the year ended September 30, 2006, except those related to the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by the California Institute of Technology), as discussed below. 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.

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.

Negative balances reflected in the Schedule represent adjustments to expenditures under awards made in prior years.

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 traditionally 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 September 30, 2004. Actual incurred costs for the year ended September 30, 2005 are being audited by DCAA and, in the opinion of management, the results of such audit will not have a material impact on the Schedule.

The Institute discloses its accounting policies for the purposes of direct costs and facilities and administrative costs in a Disclosure Statement, in accordance with Cost Accounting Standards. All amendments and updates have been approved by ONR.

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

1. Summary of Significant Accounting Policies (Continued)

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 for JPL.

2. Loan Advances

During the year ended September 30, 2006, the Institute advanced loans totaling \$336,629 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2006 was \$4,223,035. 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.

3. Federal Direct Loan Program

During the year ended September 30, 2006, the Institute processed \$1,014,552 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).

4. Transfers

During the year ended September 30, 2006, 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 expended.

5. Federal Work Study (FWS) Carryforwards

During the year ended September 30, 2006, the Institute spent \$55,079 of FWS funds which were carried forward from the year ended September 30, 2005. During year ended September 30, 2006, the Institute carried forward \$55,079 of FWS funds which are to be spent during the year ended September 30, 2007. The carryforward amount is reflected as revenues/expenditures recognized in the year in which the funds were expended.

California Institute of Technology
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

6. Subrecipient Pass-Throughs

Of the federal expenditures presented in the Schedule, the Institute provided federal awards to subrecipients from the Institute's research and development cluster as follows:

<u>Program Title</u>	<u>Amount Provided to Subrecipients</u>
Department of Defense	
Air Force Office of Scientific Research	\$ 1,002,278
Army Research Office	393,902
Defense Advanced Research Projects Agency	797,790
Office of Naval Research	1,162,936
National Geospatial-Intelligence Agency	26,223
Space and Naval Warfare System	<u>133,827</u>
	<u>3,516,956</u>
Department of Energy	
Department of Energy	547,583
Lawrence Livermore National Laboratory	419,080
University of Nevada Reno	<u>478,576</u>
	<u>1,445,240</u>
Department of Health and Human Services	
National Institutes of Health	<u>3,696,636</u>
National Aeronautics & Space Administration	
National Aeronautics & Space Administration	6,424,445
National Space Biomedical Research Institute	39,847
Universities of Space Research Association	<u>42,102</u>
	<u>6,506,394</u>
National Science Foundation	
National Science Foundation	<u>5,705,335</u>
Total Amount Provided to Subrecipients	<u>\$ 20,870,562</u>

7. Contingencies

The amounts expended by the Institute under federal programs are subject to audit by governmental agencies. The Institute believes that any liabilities arising from such audits will not have a material impact on the Institute's financial position.

The National Science Foundation Office of Inspector General has recently undertaken an audit of the payroll distribution system at the Institute, and is currently auditing several other institutions. The report issued as a result of this audit recommended enhancements be made to the Institute's system in relation to reporting of voluntary committed labor. The Institute has responded fully to the report findings.

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

To the Board of Trustee
California Institute of Technology

We have audited the financial statements of the California Institute of Technology (the "Institute") as of and for the year ended September 30, 2006, and have issued our report thereon dated December 15, 2006. 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Institute in a separate letter dated December 15, 2006.



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

PriceWaterhouseCoopers LLP

December 15, 2006

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

To the Board of Trustees
California Institute of Technology

Compliance

We have audited the compliance of the California Institute of Technology (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006, except as described below. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Institute's management. Our responsibility is to express an opinion on the Institute's compliance based on our audit.

The Institute's financial statements include the operations of the Jet Propulsion Laboratory (A Federally Funded Research and Development Center managed by California Institute of Technology), which incurred \$1,573,715,000 in federal expenditures which is not included in the Institute's schedule of federal expenditures for the year ended September 30, 2006. Our audit, described below, did not include the operations of the Jet Propulsion Laboratory because it is audited and reported upon as a separate entity by other auditors and us pursuant to Section 200(e) of OMB Circular A-133 and is, therefore, outside the scope of this audit.

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

In our opinion, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed instances of non-compliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-1 through 06-3.

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, 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.

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

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

January 31, 2007

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

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)? None Reported

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)? None Reported

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:

Program Name	CFDA Number
Research and Development Cluster	Various
Student Financial Aid	Various

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

Auditee qualified as a low-risk auditee? No

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, 2006

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 06-1 Allowable Costs

Condition

Based on our testing of direct charges, we noted two charges which did not have adequate contemporaneous supporting documentation:

- (i) A foreign travel expenditure was charged to a sponsored project without documentation of pre-approval, as required by the project agreement (Award Contract Number: DAAD19-00-1-0374; CFDA # 12.431)
- (ii) A meal expenditure of \$46.25 was charged to a sponsored project without adequate documentation of the attendees and business purpose of the meal (Award #NSF 516390; CFDA # 47.041)

Questioned Costs

In relation to item (i) noted above, the questioned costs are \$14.56

Population tested: 50 non-payroll charges
\$1,204,348

Total population of non-payroll charges: \$152,647,962

There are no questioned costs associated with item (ii) as documentation was subsequently obtained

Cause

Institute policies and procedures were not followed in these particular instances

Criteria

- (i) The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items. (OMB Circular A-21 C.2)
- (ii) A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects. (OMB Circular A-21 C.4(a))

Effect

By not following its policies and procedures established for ensuring compliance with the allowable cost compliance requirements, the Institute could potentially make inappropriate charges to federal awards.

Recommendation

Reiterate the importance of compliance with policies and procedures.

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2006

Management Response

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

Finding 06-2 – Equipment Screening

Condition

Based upon our testing of direct equipment charges, we noted that the Institute did not perform the proper equipment screening, as required by their internal policies, for ten of the thirty equipment purchases selected for review

The awards impacted by the exceptions noted above were:

NSF LIGO.FY02ON – CFDA# 47.047

NSF 2005MRSEC – CFDA# 47.049

NSF.000305 – CFDA# 47.049

NIH MPET04 – CFDA# 93.286

Questioned Costs

None. Although prescreening did not occur, there was no available existing equipment; thus management subsequently concluded the purchases were necessary.

Cause

The Institute implemented a new system for tracking pre-purchased screening. During the implementation of the system, technical difficulties resulted in the exceptions noted above

Criteria

Institute policy requires that all equipment purchases for Federally-funded projects over \$10,000 to have a campus-wide screening for like equipment through the Institute's Oracle system.

Effect

Without performance of the campus-wide screening, the Institute was in violation of its own policy and the risk of inappropriate equipment purchasing is increased

Recommendation

We recommend that the Institute's policies and procedures for pre-purchase screening are adhered to.

Management Response

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report

California Institute of Technology
Independent Auditors' Schedule of Findings and Questioned Costs
(Continued)
For the Year Ended September 30, 2006

Finding 06-3 – FISAP

Condition

During our tie-out of the FISAP report to supporting documents, we noted the following amounts did not agree with the supporting documentation:

1. Section D. Information on Enrollment field #7 (a) and (b)
2. Section E. Assessments and Expenditures field #24

Questioned Costs

None. Audit finding pertains to noncompliance with the requirements set forth in completing the Fiscal Operations Report and Application to Participate (FISAP) (ED Form 646-1) (OMB No 1845-0030). The items noted in error were already corrected through a re-submission prior to the completion of our audit

CFDA #'s: 84.033; 84.007; 84.063; 84.038; 84.268

Cause

In regards to completion of the Information on Enrollment for the total number of students enrolled for 2005-2006, the information entered was only student enrollment for the fall semester.

The assessments and expenditure total incorrectly included \$500 of grants received relating to the Michigan Math competition.

Criteria

Per review of the instruction for the completion of the FISAP report (pg. II-3 of the instruction), "Schools that operate on a traditional academic calendar, or that have a majority of their eligible programs operating on a traditional calendar year, must enter an unduplicated number of all postsecondary students enrolled (full time and less than full time) for the 12-month period ending June 30, 2006. 'Unduplicated' means each student is counted/reported only once."

Per review of the instruction for the completion of the FISAP report (pg. II-6 of the instruction), the Department of Education collects the information relating to the amount of state grants and scholarships because it considers state grant and scholarship expenditures a resource when determining the amount of FSEOG funds awarded.

Effect

The number of students enrolled at the Institute and the amount expended for state grants and scholarships were incorrectly stated for FISAP reporting purpose.

Recommendation

We recommended a revision of the amounts prior to December 15, 2006, the date all corrections to FISAP data and resolution of edits must be submitted to the Department of Education. The items highlighted in our audit have already been corrected.

Response

Management's response is reported in Management's Views and Corrective Action Plan and is considered part of this report.

**California Institute of Technology
Summary Schedule of Prior-Year Audit Findings
and Questioned Costs
For the Year Ended September 30, 2006**

Prior Year Findings

Finding 05-1 Procurement

Condition

Based on our review of selected purchase order files, we noted that Institute policies and procedures were not adhered to, resulting in the following:

- 2 of the 30 transactions tested were processed without the appropriate supporting documentation on procurement rationale, which is required by A-133, A-110 and FAR 52 203-2. These expenditures were related to CFDA # 81.064 and 93 172
- 3 of the 30 PO files tested lacked a Certification Regarding Debarment, Suspension, Proposed Debarment and Other Responsibility Matters (CFDA # 47 050, 81 064 and 93 172) which is required by A-133, A-110 and FAR 52 203-2.

Current Status

Resolved: the appropriate documentation was obtained for the exceptions noted.

The Institute's Purchasing Policies & Procedures Manual was, once again, updated in September 2006. The policies continue to emphasize "undocumented" orders are not an acceptable practice at the Institute. All "Invoice Attached" and/or "Reimbursement" or "Undocumented" purchase orders (PO's) are continually scrutinized by Procurement officials and under certain circumstances are brought to the attention of the Director of Procurement Services. Certain orders are returned to the requestor for either further justification/clarification or altogether rejected.

In terms of a PO that is initially funded through Caltech funds and if a Change Order is subsequently issued where a federal award is now charged, all Purchasing Agents and/or Contracting Officers are now trained to go back to the supplier and request appropriate certifications.

No equivalent issues were noted in the current year audit.



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

June 21, 2007

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles, California 90071-2889

Subject: California Institute of Technology Management's Views and Corrective Action Plan

Reference: OMB Circular A-133 Audit for Fiscal Year 2006

Dear Sirs:

Enclosed is the California Institute of Technology's OMB Circular A-133 Management's Views and Corrective Action Plan for fiscal year ended September 30, 2006

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

Sincerely,

A handwritten signature in cursive script that reads "Sharon E. Patterson".

Sharon E. Patterson
Associate Vice President for Finance and Controller

Enclosure

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

Fiscal Year 2006

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
6.1	<p>Based on our testing of direct charges, we noted two charges which did not have adequate supporting documentation:</p> <p>(i) A foreign travel expenditure was charged to a sponsored project without documentation of pre-approval, as required by the project agreement (Award Contract Number: DAAD19-00-1-0374)</p> <p>(ii) A meal expenditure of \$46.25 was charged to a sponsored project without adequate documentation of the attendees and business purpose of the meal (Award #NSF.516390)</p>	<p>The findings noted are exceptions to Caltech's established policies and procedures on travel and food charges to federal awards. Caltech has followed up with the individuals involved to ensure that they are aware of Caltech (and Federal policy). In addition, these policies will be stressed, again, to all research administrators at the next Sponsored Research Forum scheduled for March 2007.</p>	Associate Controller, Post Award Administration	March 2007

CALIFORNIA INSTITUTE OF TECHNOLOGY

Pasadena, California 91125

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 626-395-3937

Fiscal Year 2006

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible individual	Planned Completion Date
6.2	Based upon our testing of direct equipment charges, we noted that Caltech did not perform the proper equipment screening, as required by their internal policies, for ten of the equipment purchases selected for review.	Caltech has introduced a new procedure that requires completion of a form that prompts follow up on equipment screening to be completed by purchasing personnel prior to the order being placed.	Director of Procurement	March 2007
6.3	During our tie-out of the FISAP report to supporting documents, we noted the following amounts did not agree with the supporting documentation: 1. Section D. Information on Enrollment field #7 (a) and (b) 2. Section E. Assessments and Expenditures field #24	A corrected FISAP was submitted prior to the submission deadline. There was turnover in staff which resulted in a misunderstanding of the information being requested. This issue has now been clarified and the correct data will be provided in future.	Dean of Student Affairs	December 2006