

# **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, 2009**

**California Institute of Technology**  
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**For the Year Ended September 30, 2009**

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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 California Institute of Technology (the "Institute") as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, during the year ended September 30, 2009, the Institute adopted a new accounting standard that governs the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act for endowment funds. In addition, as discussed in Note B to the financial statements, the Institute adopted a new accounting standard that required it to change the measurement date of its pension and postretirement plan assets and liabilities to coincide with its September 30, 2009 year end.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2010 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for year ended September 30, 2009. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards 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, on the basis of accounting described in Note 1, in relation to the financial statements taken as a whole.



January 25, 2010

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

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

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

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

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

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

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

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

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

# California Institute of Technology

## Notes to Financial Statements

### September 30, 2009 and 2008

(Dollars in Thousands)

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#### A. Description of the California Institute of Technology

The California Institute of Technology (the "Institute") is a private, not-for-profit institution of higher education based in Pasadena, California. Founded in 1891, the Institute provides education and training services, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training, and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the government of the United States of America.

#### B. Summary of Significant Accounting Policies

##### Basis of Presentation

The accompanying financial statements include the accounts of the Institute's main campus and satellite facilities ("Campus"), as well as the Jet Propulsion Laboratory ("JPL"), a Federally Funded Research and Development Center managed by the Institute for the National Aeronautics and Space Administration ("NASA").

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

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

The Institute's financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Net assets are classified into three categories according to donor-imposed restrictions or provisions of law: permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets include gifts, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and contributions receivable in which donors have stipulated that the original value of their contributions and, if applicable, any subsequent accumulations, be invested in perpetuity.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2009 and 2008**  
**(Dollars in Thousands)**

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Temporarily restricted net assets include endowment earnings related to permanent endowments which have not been appropriated for expenditure and gifts for which donor-imposed restrictions have not been met, including funds restricted for future capital projects, charitable remainder trusts, pooled income funds, gift annuities, other split-interest agreements, and related contributions receivable. These restrictions are removed through the passage of time, the appropriation of endowment earnings by the Institute, and/or the occurrence of expenditures that meet donors' restrictions. Expirations of temporary restrictions on net assets are reported as releases from temporarily restricted to unrestricted net assets in the statements of activities. Donor-restricted gifts that are received and either spent, or deemed spent, within the same fiscal year are reported as unrestricted revenues.

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

**Use of Estimates**

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

**Redesignations**

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

**Reclassifications**

Certain balances at September 30, 2008, and for the year then ended have been reclassified to conform to the current year presentation.

**Cash and Cash Equivalents**

Cash and cash equivalents include bank account balances, investments in money market funds, and other short-term investments with original or remaining maturities of three months or less when purchased. The Institute classifies all cash and cash equivalents held as part of the investment portfolio as investments. At September 30, 2009 and 2008, short-term investments, as disclosed in Note D, included \$453,885 and \$62,714, respectively, in cash and cash equivalents.

Carrying amounts of cash and cash equivalents approximate fair value due to the relatively short maturities of these instruments. Under the Institute's cash management system, checks issued but not presented to banks may result in overdraft balances for accounting purposes and are included in accounts payable and accrued expenses in the balance sheets if an overdraft situation exists. There were no overdrafts at September 30, 2009 and 2008.

**Advances and Deposits**

Advances include certain cash balances, totaling \$2,336 and \$4,470 at September 30, 2009 and 2008, respectively, restricted for use in connection with United States government research. Deposits include \$969 and \$1,153 at September 30, 2009 and 2008, respectively, in employee cash withheld for health and dependent care spending accounts.



# California Institute of Technology

## Notes to Financial Statements

### September 30, 2009 and 2008

(Dollars in Thousands)

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#### **Accounts and notes receivable**

Accounts receivable under contracts and grants are carried at cost, less an allowance for doubtful accounts, which approximates fair value. The allowance for doubtful accounts was \$872 and \$1,084 at September 30, 2009 and 2008, respectively. Student accounts and notes receivable of \$7,012 and \$12,089 at September 30, 2009 and 2008, respectively, are carried at cost; doubtful accounts are charged to expense when they become uncollectible.

#### **Investments**

Investments are recorded at fair value based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as discussed in Note K. Purchases and sales of securities are recorded on trade dates, and realized gains and losses are determined based on the average cost of securities sold. There were no outstanding purchases or sales at September 30, 2009. Outstanding purchases totaled \$925 at September 30, 2008, and were included in accounts payable and accrued expenses in the balance sheets. Outstanding sales totaled \$1,054 at September 30, 2008, and were included in accounts and notes receivable – other in the balance sheets.

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

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

The Institute uses an interest rate swap to manage the interest rate exposure of a portion of its variable rate debt. The swap is recorded at fair value, which is the estimated amount that the Institute would receive or pay to terminate the agreement, taking into account current interest rates and the current credit-worthiness of the swap counterparty. Realized losses of \$4,891 and \$2,055 resulted from regular settlements with the counterparty during the years ended September 30, 2009 and 2008, respectively; both are recognized in the statements of activities. Changes in the swap's fair value during the years ended September 30, 2009 and 2008 resulted in unrealized losses of \$15,466 and \$13,387, respectively; both are recognized in the statements of activities. The obligation to the counterparty was \$27,357 and \$11,891 at September 30, 2009 and 2008, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

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

# California Institute of Technology

## Notes to Financial Statements

### September 30, 2009 and 2008

(Dollars in Thousands)

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and the Institute's obligation to repay such collateral under the program were recorded in the balance sheets as securities lending deposits.

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

#### **Endowment**

Endowment net assets are those held for long-term investment in support of the Institute. All investments of endowment assets are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Endowment net assets include donor-restricted endowments and board-designated endowments. Gift annuities, interests in trusts held by others, contributions receivable, and unexpended funds appropriated from endowment earnings which are subject to remaining purpose restrictions are not considered endowment net assets.

Pursuant to its interpretation of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as enacted in California, the Institute classifies as permanently restricted net assets (a) the original value of gifts to permanent endowments, (b) the original value of subsequent gifts to permanent endowments, and (c) accumulations to permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by UPMIFA and Institute policies. In accordance with UPMIFA, the Institute considers the following factors in making a determination to appropriate endowment earnings:

- The duration and preservation of the fund
- The purpose of the donor-restricted endowment fund
- General economic conditions
- The possible effects of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Institute
- The investment policies of the Institute.

The Institute appropriates endowment earnings for expenditure based on current spending rates and, if applicable, the incurrence of specific expenditures in accordance with donors' purpose restrictions.

The Institute's endowment investment objective is to provide a predictable stream of funding to programs by investing endowment assets to earn an average annual total return that exceeds inflation by at least the amount required to support the endowment's contribution to the operating budget. This objective relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) as well as current yield (interest and dividends). The Institute targets a diversified asset allocation, including investments in both public markets and in alternative investments, within prudent risk constraints.

# California Institute of Technology

## Notes to Financial Statements

### September 30, 2009 and 2008

(Dollars in Thousands)

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

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

#### **Property, Plant, and Equipment**

Property, plant, and equipment is recorded at the cost of construction or acquisition, or at the fair value at the date of the gift. Interest costs related to debt used for construction of assets are included in the cost of construction. Depreciation on all assets is calculated over the estimated useful life of each class of depreciable asset, which ranges from three to fifty years, and is computed using the straight-line method. Depreciation on buildings used in sponsored research is calculated based on the useful lives of each major building component. The Institute provides for the renewal and replacement of assets from various sources set aside for this purpose. Assets acquired under both federal and nonfederal grants in which title does not ultimately transfer to the Institute are not recorded as property, plant, and equipment.

The Institute reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

The Institute records conditional asset retirement obligations primarily related to asbestos removal and disposal for future remediation activity. Asset retirement cost, net of accumulated depreciation, at September 30, 2009 and 2008 is \$1,256 and \$585, respectively, and is included in property, plant, and equipment in the balance sheets. The asset retirement obligation at September 30, 2009 and 2008 was \$10,638 and \$9,276, respectively, and is included in accounts payable and accrued expenses in the balance sheets.

#### **Split-Interest Agreements**

The Institute's split-interest agreements with donors consist primarily of charitable gift annuities and charitable remainder trusts for which the Institute serves as trustee. For irrevocable agreements, assets contributed are included in Institute investments and stated at fair value. Contribution revenue is recognized at the date each trust is established after recording liabilities for the actuarially-determined present value of the estimated future payments to be made to the beneficiaries. The actuarial liability is discounted at an appropriate risk-adjusted rate at the inception of each agreement and the applicable actuarial mortality tables. Discount rates on all split-interest agreements range from 3.6% to 11.2%. The liabilities are adjusted during the terms of the trusts for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Actuarial liabilities totaled \$61,074 and \$66,137 at September 30, 2009 and 2008, respectively, and are included in annuities, trust agreements and agency funds

# California Institute of Technology

## Notes to Financial Statements

### September 30, 2009 and 2008

(Dollars in Thousands)

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in the balance sheets. The Annuity 2000 Mortality Table was used for both the years ended September 30, 2009 and 2008.

The Institute is also the trustee for certain revocable agreements. Assets contributed are included in Institute investments at fair value, and amounts equal to the value of assets are included in liabilities for annuities, trust agreements, and agency funds. Total assets and liabilities for revocable agreements were \$11,464 and \$15,136 at September 30, 2009 and 2008, respectively.

#### **Beneficial Interests**

The Institute is the beneficiary of charitable remainder and perpetual trusts held and administered by others. The present value of the estimated future cash flows from the trusts approximates the value of the underlying assets and is included in prepaid expenses and other assets in the balance sheets. Contribution revenues are recognized at the date the trusts are established. Distributions from perpetual trusts are recorded as contribution revenues and the carrying value of the beneficial interests is adjusted for changes in the values of the underlying assets. These assets totaled \$11,972 and \$12,727 at September 30, 2009 and 2008, respectively.

#### **Agency Funds**

The Institute held assets totaling \$8,554 and \$9,596 on behalf of others at September 30, 2009 and 2008, respectively. The assets held are primarily included in investments in the balance sheets. The corresponding liability is included in annuities, trust agreements, and agency funds on the balance sheets.

#### **Compensated Absences**

Employees at the Institute are entitled to paid vacation based upon length of service and other factors. The Institute accrues a liability for vacation benefits that employees have earned but not yet taken. At September 30, 2009 and 2008, accrued compensated absences of \$71,348 and \$73,200, respectively, are included in accounts payable and accrued expenses in the balance sheets.

#### **Workers' Compensation Insurance**

The Institute provides workers' compensation insurance to its employees. Liabilities for the Institute's retained risk related to such coverage are determined by an actuary and are included in accounts payable and accrued expenses in the balance sheets. At September 30, 2009 and 2008, the estimated liabilities for workers' compensation amounted to \$9,292 and \$8,018, respectively.

#### **Revenue Recognition**

The Institute's revenue recognition policies are as follows:

- *Tuition and fees* - Student tuition and fees are recorded as revenues during the year the related academic services are rendered and displayed net of tuition support on the statements of activities. Tuition and fees totaled \$68,030 and \$63,948 at September 30, 2009 and 2008, respectively. Student financial aid totaled \$38,868 and \$37,299 at September 30, 2009 and 2008, respectively. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

**California Institute of Technology**  
**Notes to Financial Statements**  
**September 30, 2009 and 2008**  
**(Dollars in Thousands)**

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- *Investment return (loss)* - Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases to the appropriate net asset category.
- *Gifts* - Gifts from donors, including contributions receivable (unconditional promises to give), are recorded as revenues in the year received. Gifts are valued using quoted market prices, market prices for similar assets, independent appraisals, or by Institute management. Contributions receivable are recognized at fair value. Gift revenue from contributions to be collected in the form of securities or other investments is adjusted to reflect the year end value of securities/investments to be contributed. Donor-restricted gifts, which are received and either spent, or deemed spent, within the same year, are reported as unrestricted revenue. Gifts of long-lived assets with no donor-imposed time restrictions are reported as unrestricted revenue in the year received. Gifts restricted to the acquisition or construction of long-lived assets are reported as temporarily restricted revenue and released to unrestricted net assets when long-lived assets are placed in service. Gifts that are subject to other time or purpose restrictions are reported as temporarily restricted revenue and released to unrestricted net assets when donor restrictions are fulfilled. Gifts received for endowment investment are held in perpetuity and recorded as permanently restricted revenue. Conditional promises to give are not recorded until the conditions have been substantially met. Conditional promises to give totaled \$127,657 and \$145,923 at September 30, 2009 and 2008, respectively. At September 30, 2009, conditional promises included \$85,000 for research programs from a foundation that shares a common board member with the Institute.
- *Grants and contracts* - Revenues from grants and contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred. Certain grants and contracts provide for the reimbursement of indirect facilities and administrative costs based on rates negotiated with the Office of Naval Research, the Institute's federal cognizant agency for the negotiation and approval of facilities and administrative and other indirect cost rates. Amounts received in excess of expenditures are recorded as deferred revenue.
- *Auxiliary enterprises* - Revenues from supporting services, such as dining facilities, faculty and student housing, and bookstores are recorded at time of delivery of a product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

**Expenses**

Expenses are generally reported as decreases in unrestricted net assets. The statements of activities present expenses by functional classification in accordance with the overall educational and research mission of the Institute.

Building and improvements depreciation and plant operation expenses are allocated to functional classifications based on square footage occupancy of Institute facilities. Equipment depreciation is allocated to functional classifications based on each classification's average equipment purchases. Interest expense on external debt, net of amounts capitalized, is allocated to the

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functional categories that have benefited from the proceeds of such debt. Interest expense, net of capitalized interest, for the years ended September 30, 2009 and 2008 was \$5,959 and \$10,021, respectively, and capitalized interest was \$926 and \$681, respectively.

**New Accounting Pronouncements**

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

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

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

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

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

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

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

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

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

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**C. Contributions Receivable, net**

Contributions receivable consist of unconditional promises to give to the Institute in the future. Contributions receivable are initially recorded at fair value including a discount to the present value of the future cash flows at an appropriate risk-adjusted rate. Discount rates on all outstanding contributions at September 30, 2009 and 2008 range from 2.75% to 5.84%.

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

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

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

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



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

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

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

**D. Investments**

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

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

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

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

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

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

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

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

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

**E. Deferred United States Government Billings**

The Institute's contract with NASA provides for the reimbursement of certain employee benefit costs should the Institute's contract to operate JPL ever be terminated. Therefore, the Institute has recorded deferred United States government billings related to the portion of its accumulated postretirement benefit obligation, accrued vacation, workers' compensation, and pension benefit liabilities attributable to JPL, as the Institute expects to recover these amounts through future charges to JPL contracts. Although these deferred billing amounts may not be currently funded, and therefore may need to be funded as part of future NASA budgets, the Institute believes it has the contractual right to require that such funding be made available when necessary.

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

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

**F. Property, Plant, and Equipment, net**

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

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

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

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**G. Bonds and Notes Payable**

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

Bonds Payable:	<b>2009</b>	<b>2008</b>
California Educational Facilities Authority (CEFA) revenue bonds:		
2009 Series due November 1, 2039, with interest at 5.00% (gross of issue premium of \$691)	\$ 80,691	\$ -
2006 Series A due October 2036, with variable interest rates reset weekly (0.22% and 6.75%, respectively)	82,500	82,500
2006 Series B due October 2036, with variable interest rates reset weekly (0.30% and 6.25%, respectively)	82,500	82,500
Series 1998 due October 2028, with interest at 4.25% (net of issue discount of \$2,172 and \$2,286, respectively)	48,393	48,279
Series 1998 due October 2027, with interest at 4.5% (net of issue discount of \$2,289 and \$2,410, respectively)	51,011	50,890
Series 1994 due January 2024, with variable interest rates reset weekly (0.22% and 6.75%, respectively)	30,000	30,000
Total bonds	<u>375,095</u>	<u>294,169</u>
Notes payable:		
Bank of America revolving bank credit facility expiring January 2010, with variable interest rates (0.37% and 3.85%, respectively)	50,000	50,000
Bank of America revolving bank credit facility expiring January 2011, with variable interest rates (0.41% at September 30, 2009)	5,100	-
CEFA Commercial paper notes, maturing October 2009, with variable interest rates (weighted-average rate 0.25% at September 30, 2009)	5,000	-
Bank of New York Mellon money market loan program with no expiration date, with variable interest rates	-	-
JPMorgan Chase money market loan program with no expiration date, with variable interest rates	-	-
Northern Trust revolving bank credit facility expiring April 2010, with variable interest rates	-	-
Total notes payable	<u>60,100</u>	<u>50,000</u>
<b>Total bonds and notes payable</b>	<u>\$ 435,195</u>	<u>\$ 344,169</u>

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

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

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

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

In July 2009, the Institute activated a facility that permits the issuance of an aggregate total of \$100,000 in taxable or tax-exempt commercial paper to finance capital projects. Tax-exempt commercial paper of \$5,000 was issued on July 28, 2009. Currently, the Institute has imposed an internal limit on borrowing under the commercial paper program of \$20,000.

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

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2010	\$ 255,100
2011	-
2012	-
2013	-
2014	-
Thereafter	<u>180,095</u>
Total	<u>\$ 435,195</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.

The fair value of bonds payable and commercial paper is estimated based on quoted market prices for the bonds or paper or similar financial instruments and was \$390,969 and \$289,597 at September 30, 2009 and 2008, respectively. Amounts outstanding under the revolving bank credit facilities and the money market loan programs totaling \$55,100 and \$50,000 at September 30, 2009 and 2008, respectively, are carried at cost, which approximates fair value.

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In 2006, the Institute entered into an interest rate swap agreement in conjunction with issuance of the 2006 Series A and B variable rate revenue bonds. Under the terms of the agreement, which expires October 1, 2036, the Institute pays the counterparty a fixed interest rate of 3.549% and receives a variable rate, indexed at 67% of one-month LIBOR (0.25% at September 30, 2009), on a \$165,000 underlying notional principal amount.

**H. Net Assets**

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

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

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

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

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

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

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

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

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

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

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

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

**I. Retirement Plans**

The Institute's retirement plans cover substantially all of its employees. Except for a small number of former employees who participated in a defined benefit pension plan that was terminated in 1993 and who are covered by a successor defined benefit pension plan, the Institute provides a defined contribution retirement program for its qualified academic and administrative employees.

Contributions to defined contribution plans for the years ended September 30, 2009 and 2008 were \$21,592 and \$19,914, respectively, for the Campus and \$64,358 and \$61,368, respectively, for JPL.



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

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

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

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

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

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

The accumulated benefit obligation is recognized in accounts payable and accrued expenses in the balance sheets. The statements of activities include the effects of changes in the accumulated benefit obligation that are not otherwise recognized in periodic pension cost. The effect for the Campus was a decrease in unrestricted net assets of \$14 for the year ended September 30, 2009 and is recorded in other changes in unrestricted net assets. The effect related to JPL for the year ended September 30, 2009 was an increase of \$188 to both JPL direct expense and revenue, and to deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was \$11 for the year ended September 30, 2009 and is reflected in accounts payable and accrued expenses in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was \$38 for the year ended September 30, 2009, and is reflected in accounts payable and accrued expenses in the balance sheet, as well as in both JPL direct expense and revenue, and in deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

	<b>2009</b>	<b>2008</b>
Amounts recognized in unrestricted net assets:		
Net actuarial loss	<u>\$ 438</u>	<u>\$ 661</u>
<b>Total amounts recognized as unrestricted net assets</b>	<b><u>\$ 438</u></b>	<b><u>\$ 661</u></b>

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

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

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

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

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

Participant annuities may be fixed or variable and reflect the value of designated plan equity and fixed income securities. Plan assets are invested in separate accounts by the funding agent and carry a target allocation of 19% equities, 76% fixed income and 5% cash. At September 30, 2009 and 2008, total retirement plan assets were invested as follows:

	<b>2009</b>	<b>2008</b>
Equity securities	16%	17%
Fixed income securities	83%	82%
Cash	1%	2%

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

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

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To develop the expected long-term rate of return on assets, the Institute considers the historical returns and future expectations for each asset class, as well as the asset allocation of the retirement plan's investment portfolio. Estimated future return was based on expected returns for various asset categories. The evaluation of the historical and future returns resulted in the selection of 5.25% for the expected return on plan assets.

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Discount rate	7.00%	6.30%
Expected return on plan assets	5.25%	5.75%
Long-term rate of compensation increase	4.00%	4.00%

**J. Postretirement and Postemployment Benefits Other Than Pensions**

The Institute's employees may be eligible for certain health and life insurance benefits upon retirement. The Institute's obligation related to these benefits is actuarially determined and has been recorded in the accompanying balance sheets. Any actuarial deferrals resulting from changes in the accumulated postretirement benefit obligation are amortized over the average future working lifetime of Institute employees.

The Institute's postretirement benefits are funded on a pay-as-you-go basis; therefore, there are no plan assets. As a result, a formal investment policy has not been developed.

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Certain financial information regarding the plan was as follows for the years ended September 30, 2009 and 2008, and is based on a September 30 measurement date:

	<b>2009</b>	<b>2008</b>
Change in the accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 344,259	\$ 361,972
Service cost	10,119	11,353
Interest cost	23,689	22,341
Participant contributions	3,192	2,825
Measurement date change	8,452	-
Benefits paid	(20,870)	(16,115)
Actuarial loss/(gain)	133,437	(38,117)
	<u>502,278</u>	<u>344,259</u>
<b>Benefit obligation at end of year</b>	<b>\$ 502,278</b>	<b>\$ 344,259</b>
	<b>2009</b>	<b>2008</b>
Components of net periodic postretirement benefit cost:		
Service cost	\$ 10,119	\$ 11,353
Interest cost	23,689	22,341
Amortization of prior year service credit	(3,337)	(3,338)
Amortization of loss	-	834
	<u>30,471</u>	<u>31,190</u>
<b>Net periodic benefit cost</b>	<b>\$ 30,471</b>	<b>\$ 31,190</b>
	<b>2009</b>	<b>2008</b>
Change in the fair value of plan assets:		
Employer contributions	\$ 14,267	\$ 13,290
Participant contributions	2,344	2,825
Benefits paid	(16,611)	(16,115)
	<u>-</u>	<u>-</u>
<b>Fair value of plan assets at end of year</b>	<b>\$ -</b>	<b>\$ -</b>

The accumulated postretirement benefit obligation is recognized as a liability in the balance sheets. The statements of activities include the effects of changes in the postretirement benefit obligation that are not otherwise recognized in periodic postretirement benefit cost. The effect for the Campus was a decrease in unrestricted net assets of \$34,224 for the year ended September 30, 2009 and is recorded in other changes in unrestricted net assets. The effect related to JPL for the year ended September 30, 2009 was an increase of \$111,003 to both JPL direct expense and revenue and to deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

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As discussed in Note B, the Institute was required to measure plan assets and liabilities at September 30, effective for the year ended September 30, 2009. Previously, the Institute used a June 30 measurement date. This change required that the Institute adjust unrestricted net assets for the effect of this change in accounting principle. The adjustment for the Campus was \$1,927 for the year ended September 30, 2009, and is reflected in the accumulated postretirement benefit obligation in the balance sheet and as a change in accounting principle for pension and postretirement plans in the statement of activities. The adjustment related to JPL was \$5,691 for the year ended September 30, 2009, and is reflected in the balance sheet, as well as in both JPL direct expense and revenue, and in deferred U.S. Government billings, as any cost associated with this adjustment related to JPL will ultimately be recoverable from NASA.

	<b>2009</b>	<b>2008</b>
Funded status at valuation date:		
Funded status	<u>\$ (502,278)</u>	<u>\$ (344,259)</u>
<b>Net amount recognized at end of year</b>	<u>\$ (502,278)</u>	<u>\$ (344,259)</u>

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

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

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

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

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

	<b>2009</b>	<b>2008</b>
Discount rate	5.90%	7.10%
Health care cost trend rate	11.00%	9.00%

The following weighted-average assumptions were used to determine the Institute's net periodic benefit cost under the plan for the years ended September 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Discount rate	7.10%	6.30%
Health care cost trend rate	9.00%	9.00%

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

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

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

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on the total of service and interest cost components	\$ 5,756	\$ (4,293)
Effect on accumulated postretirement benefit obligation	\$ 77,166	\$ (59,694)

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

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

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

**K. Fair Value**

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.



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The following is a summary of the levels within the fair value hierarchy for the Institute's assets and liabilities as of September 30, 2009:

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

Fair value for Level 1 is based upon quoted prices in active markets that the Institute has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange dealer markets. The Institute does not adjust the quoted price for such assets and liabilities.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the instruments. Inputs are obtained from various sources including market participants, dealers, and brokers.

Interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore generally classified as Level 2. Interest rate swap liabilities are valued using observable inputs, such as quotations received from counterparties, dealers, or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap liability depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, credit curves, assumptions for nonperformance risk, and correlations of such inputs.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable, as they trade infrequently or not at all. Assets and liabilities included in Level 3 primarily consist of the Institute's ownership in alternative investment funds. The fair value of certain alternative investment funds represents the Institute's ownership interest in the net asset value (NAV) of the respective fund. Funds in Level 3 invest in both marketable securities as well

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as securities that do not have readily determinable fair values. The fair values of the securities that do not have readily determinable fair values are determined by each fund's general partner and are based on appraisals or other estimates that include considerations such as the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Institute performs ongoing monitoring on these investments to ensure that the NAV is a reasonable measure of fair value as of September 30, 2009.

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

The following table is a summary of changes in the fair value of the Institute's Level 3 instruments for the year ended September 30, 2009:

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

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

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different estimates of fair value at year end.

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**L. Commitments and Contingencies**

**Contingencies**

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

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

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

**Commitments**

The Institute was committed under certain construction and services contracts in the amount of approximately \$75,548 and \$39,703 at September 30, 2009 and 2008, respectively.

At September 30, 2009 and 2008, the Institute had outstanding commitments to invest \$207,591 and \$215,840, respectively, with alternative investment managers and/or limited partnerships over the next ten years.

The Institute's workers' compensation insurance carrier requires that the Institute maintain an unsecured letter of credit for claims that fall below certain deductible amounts. At September 30, 2009 and 2008, the amount of the letter of credit facility was \$7,350. The letter of credit was not used during the years ended September 30, 2009 or 2008, and therefore no liability has been recorded in the balance sheets.

The Institute is currently providing funding for the operation of certain local water treatment facilities, subject to receipt of funding from NASA. Annual costs are not expected to exceed \$5,000.

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

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

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

**M. Supplemental Cash Flow Information**

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

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

**N. Subsequent Events**

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

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<b>MAJOR PROGRAMS</b>			
<b>Research and Development Program</b>			
<b>Direct Funds</b>			
<b>Department of Agriculture</b>			
United States Department of Agriculture	10.206		\$ 4,892
United States Department of Agriculture	10.256		<u>23,028</u>
Total Department of Agriculture			<u>27,920</u>
<b>Department of Commerce</b>			
National Oceanic & Atmospheric Administration	11.431		121,111
National Institute of Standards and Technology	11		66,591
National Institute of Standards and Technology	11.609		<u>4,000</u>
Total Department of Commerce			<u>191,702</u>
<b>Department of Defense</b>			
Air Force	12	FA9550-07-1-0484	170,507
Air Force	12	FA9550-08-1-0049	122,027
Air Force	12.630		1,071,632
Air Force	12.800		3,337,779
Air Force	12.910		114,022
Army	12	W912HQ-04-C-0045	83,629
Army	12	W81XWH-09-1-0266	55,596
Army	12	W911NF-07-1-0632	277,055
Army	12.420		205,537
Army	12.431		3,044,752
Army	12.910		213,047
Defense Advanced Research Projects Agency	12	HR0011-04-1-0032	330,922
Defense Advanced Research Projects Agency	12	HR0011-04-1-0054	650,556
Defense Advanced Research Projects Agency	12.910		887,818
Navy	12	N00244-05-C-0066	3,659,903
Navy	12	N00174-06-C-0052	289,714
Navy	12	N66001-07-1-2039	24,045
Navy	12.300		6,057,637
National Geospatial-Intelligence Agency	12.630		152,141
Space and Naval Warfare System	12.910		<u>1,033,755</u>
Total Department of Defense			<u>21,782,074</u>

The accompanying notes are an integral part of this Schedule.

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
<b>Department of Energy</b>			
Department of Energy	81	570788	\$ 80,511
Department of Energy	81	885774	37,840
Department of Energy	81	DE-AC27-09RV15086	89,395
Department of Energy	81	DE-FC36-04GO14276	16,980
Department of Energy	81	DE-FC52-06NA27319	54,124
Department of Energy	81	DE-FC52-08NA28613	2,803,816
Department of Energy	81	DE-FG02-03ER15483	188,944
Department of Energy	81	DE-FG02-04ER46175	297,974
Department of Energy	81	DE-FG02-04ER54755	288
Department of Energy	81	DE-FG02-05ER15716	235
Department of Energy	81	DE-FG02-05ER15754	102,938
Department of Energy	81	DE-FG02-05ER41359	(1,088,349)
Department of Energy	81	DE-FG02-05ER63983	163,359
Department of Energy	81	DE-FG02-06ER15762	(22,037)
Department of Energy	81	DE-FG02-06ER15773	142,791
Department of Energy	81	DE-FG02-06ER41427	86,548
Department of Energy	81	DE-FG02-06ER64310	197,559
Department of Energy	81	DE-FG02-07ER64410	321,994
Department of Energy	81	DE-FG02-07ER64484	411,440
Department of Energy	81	DE-FG02-08ER15933	99,565
Department of Energy	81	DE-FG02-88ER13873	67,637
Department of Energy	81.049		3,818,849
Department of Energy	81.064		5,227,669
Department of Energy	81.087		1,218,652
Department of Energy	81.112		<u>175,603</u>
Total Department of Energy			<u>14,494,325</u>
<b>Department of Homeland Security</b>			
Homeland Security Advanced Research Projects Agency	97	HSHQDC-08-C-00038	465,278
Homeland Security Advanced Research Projects Agency	97	2007-DN-077-ER0004-03	101,398
Homeland Security Advanced Research Projects Agency	97.077		<u>196,661</u>
Total Department of Homeland Security			<u>763,337</u>

The accompanying notes are an integral part of this Schedule.

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
<b>Department of Health and Human Services</b>			
National Institutes of Health	93	R01 AG033954	\$ 185,626
National Institutes of Health	93	R01 GM085371	409,592
National Institutes of Health	93	R01 GM083121	18,521
National Institutes of Health	93	R01 GM049216	323,043
National Institutes of Health	93	P50 HG004071	754,300
National Institutes of Health	93	U54 CA119347	3,946,956
National Institutes of Health	93	DP1 OD003878	254,122
National Institutes of Health	93	F32 GM079967	4,246
National Institutes of Health	93.121		264,142
National Institutes of Health	93.172		5,782,415
National Institutes of Health	93.173		526,575
National Institutes of Health	93.242		1,136,429
National Institutes of Health	93.273		72,496
National Institutes of Health	93.279		2,086,694
National Institutes of Health	93.286		1,923,033
National Institutes of Health	93.310		7,703
National Institutes of Health	93.389		839,624
National Institutes of Health	93.393		3,000
National Institutes of Health	93.396		433,509
National Institutes of Health	93.398		204,983
National Institutes of Health	93.399		121,934
ARRA - National Institutes of Health	93.701		269,207
National Institutes of Health	93.837		37,229
National Institutes of Health	93.839		1,080,280
National Institutes of Health	93.846		42,060
National Institutes of Health	93.847		964,608
National Institutes of Health	93.849		158,329
National Institutes of Health	93.853		4,136,189
National Institutes of Health	93.855		1,475,067
National Institutes of Health	93.856		(19,919)
National Institutes of Health	93.859		9,154,279
National Institutes of Health	93.865		1,835,154
National Institutes of Health	93.866		551,431
National Institutes of Health	93.867		7,113,071
Total Health and Human Services			<u>46,095,928</u>

The accompanying notes are an integral part of this Schedule.

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
<b>Department of the Interior</b>			
Department of the Interior	15	NBCHC070007	\$ 284,791
Department of the Interior	15	NBCH1050001	710,583
United States Geological Survey	15.807		1,513,373
United States Geological Survey	15.808		104,318
United States Geological Survey	15.810		<u>6,597</u>
Total Department of Interior			<u>2,619,662</u>
<b>Environmental Protection Agency</b>			
United States Environmental Protection Agency (EPA)	66	FP - 91687601-0	15,408
United States Environmental Protection Agency (EPA)	66.509		<u>226,168</u>
Total Environmental Protection Agency			<u>241,576</u>
<b>National Aeronautics and Space Administration (NASA)</b>			
NASA	43		42,968,957
<b>National Endowment for the Humanities</b>			
National Endowment for the Humanities	45.161		19,551
<b>National Science of Foundation</b>			
National Science Foundation	47	DMS-0555755	11,183
National Science Foundation	47	MUCHOVEJ	5,456
National Science Foundation	47	DMS-0802918	2,599
National Science Foundation	47	DMS-0603606	(247)
National Science Foundation	47	0636097	188,092
National Science Foundation	47	DGE-0703267	1,887,947
National Science Foundation	47	ATM-0454428	37,734
National Science Foundation	47	PHY-0823459	873,095
National Science Foundation	47.041		1,948,781
National Science Foundation	47.049		76,307,307
National Science Foundation	47.050		4,562,059
National Science Foundation	47.070		3,411,939
National Science Foundation	47.074		3,023,372
National Science Foundation	47.075		828,826
National Science Foundation	47.076		426,595
National Science Foundation	47.078		330,367

The accompanying notes are an integral part of this Schedule.



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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Direct Funds (Continued)</b>			
<b>National Science of Foundation (Continued)</b>			
National Science Foundation	47.080		\$ 51,514
ARRA - National Science Foundation	47.082		<u>502,228</u>
Total National Science Foundation			<u>94,398,847</u>
Total Research and Development - Direct Funds			<u>223,603,879</u>
<b>Pass-Through Funds</b>			
<b>Department of Commerce</b>			
Massachusetts Institute of Technology	11.417	5710002367	11,839
State University of New York at Albany	11	08-43	<u>92,792</u>
Total Department of Commerce Pass-Through			<u>104,631</u>
<b>Department of Defense</b>			
<b>Air Force</b>			
Environmental Robots Incorporated	12	ERLBJMSTTR	53,399
ERC, Inc.	12	RS070364	59,811
ERC, Inc.	12	RS070716	76,886
Georgia Institute of Technology	12	R9764-G1	104,798
Georgia Institute of Technology	12.630	E-25-6MV-G2	41,733
Illinois Institute of Technology	12.800	SA374-0609-6071	23,613
Intelligent Optical Systems, Inc.	12.800	AF-3162-Biomarker	22,188
Massachusetts Institute of Technology	12	5710002074	463
Massachusetts Institute of Technology	12.800	5710002025	123,713
Massachusetts Institute of Technology	12.800	5710001972	27,642
Northrop Corporation	12	76100RGT8S	635,517
Northrop Corporation	12	2665226	99,668
Ohio State University	12.800	RF01152700	87,032
Tanner Research, Inc.	12.800	TANNER.FOCARDI	26,274
Teledyne Scientific & Imaging, LLC	12	B7U520660	(2,879)
Texas Engineering Experiment Station	12.800	A5932	<u>61,866</u>
Total Air Force Pass-Through			<u>1,441,724</u>

The accompanying notes are an integral part of this Schedule.

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Defense (Continued)</b>			
<b>Army</b>			
BAE Systems Inc.	12	316092	\$ 327,271
Lewis Center for Educational Research	12	LEWIS.RADIO	46,055
North Carolina State University	12.431	2007-0299-01	187,597
Pennsylvania State University	12.431	3710-CIT-USA-0124	233,111
Stanford University	12	18882730-37362-A	65,546
Stanford University	12.431	28000-B	(2,728)
Superprotonic, Inc	12	W911NF-08-C-0072	24,601
University of California Berkeley	12.431	00006095	355,200
University of California Los Angeles	12.420	0845 G KC599	33,855
University of California Santa Barbara	12	KK4102	737,232
University of California Santa Barbara	12	KK9150	957,287
University of Chicago	12	28065-2	243,349
University of Massachusetts	12	S1310878AN00006	97,628
Total Army Pass-Through			3,306,004
<b>Navy</b>			
BAE Systems Inc.	12	069144	173,506
Cascade Technologies Inc.	12	N09A-008-0009	5,133
Colorado School of Mines	12	4-42517	187,868
Evolutions Robotics, Inc.	12.630	EVOLUT.ONR2	29,593
Liquidmetal Technologies Inc.	12	ONR06-0566-22	185
Photonic Systems Inc.	12.300	SC-08-103	19,257
Photonic Systems Inc.	12.300	SC-08-104	94,055
Princeton University	12.300	00000916	116,194
Princeton University	12.300	00001328	(43,299)
Tanner Research, Inc.	12	Goodwin N00164-07-C-8553	42,446
Tanner Research, Inc.	12	Kornfield N00164-07-C-8553	42,698
Thaerocomp Technical Corporation	12.300	THAEROC.NAVAIR	1,497
University of California Riverside	12.300	S-0000344	53,219
University of California San Diego	12	10275845	57,518
University of Pennsylvania	12	550162	328,814
University of Washington	12	756206	82,919
Total Navy Pass-Through			1,191,603

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Defense (Continued)</b>			
<b>Defense Advanced Research Projects Agency</b>			
Carnegie Mellon University	12	1040271-202926	\$ 183,914
Evolved Machines Inc.	12.910	EVOLVM.2008	53,777
Georgia Institute of Technology	12	B-12-M06-S21	79,540
HRL Laboratories, LLC	12	800294-BS	81,330
HRL Laboratories, LLC	12	800295-BS	94,953
Johns Hopkins University	12	908165	636,761
Kitware Inc.	12.910	HR0011-08-C-0135-S6	67,347
Massachusetts Institute of Technology	12	5710001623	160,237
Massachusetts Institute of Technology	12.910	5710002524	117,378
Northrop Corporation	12	07562SGT9S	110,563
Raytheon Systems Inc.	12.910	raytheon.healic	229,833
Research Triangle Institute International	12	3-340-0211720	237,768
Rice University	12.910	R16182	93,616
University of California Davis	12.910	015530-04	51,740
University of California Los Angeles	12	0160 S HE179	130,876
University of California San Diego	12.431	10296067	267,421
University of California Santa Barbara	12	KK8101	63,929
University of California Santa Barbara	12.420	KK9129	68,481
University of Notre Dame	12	201292	121,452
University of Southern California	12.910	137767	19,897
University of Southern California	12	USC.NSACENTER	23,893
University of Washington	12.910	554947	<u>110,425</u>
Total Defense Advanced Research Projects Agency - Pass-Through			<u>3,005,131</u>
Total Department of Defense Pass-Through			<u>8,944,462</u>
<b>Department of Energy</b>			
Argonne National Laboratory	81	7F-01321	171,080
Brookhaven National Laboratory	81	141291	48,934
BSST LLC	81	04-DOE930-126	19,919
Carnegie Institute	81	4-3327-30	(2)
Carnegie Institute	81	4-3253-02	103,024
Deep Web Technologies, LLC	81	002	97,872
Fermilab National Accelerator Laboratory	81	PO-512929/554897	9,877

The accompanying notes are an integral part of this Schedule.

**California Institute of Technology**  
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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Energy (Continued)</b>			
Lawrence Berkeley National Laboratory	81	6843187	\$ 1,917,540
Lawrence Berkeley National Laboratory	81	6855469	2,054
Lawrence Berkeley National Laboratory	81	6808461	96,596
Lawrence Livermore National Laboratory	81	B579041	39,802
Lawrence Livermore National Laboratory	81	B581793	81,921
Lawrence Livermore National Laboratory	81	B523297	23,185
Los Alamos National Laboratory	81	36992-001-06	82,343
Los Alamos National Laboratory	81	55549-001-07	101,520
Los Alamos National Laboratory	81	65287-001-08	62,978
Los Alamos National Laboratory	81	55549-001-07	37,246
Los Alamos National Laboratory	81	52187-001-07	222,800
Oak Ridge National Laboratory	81	4000072624	9,507
Oak Ridge National Laboratory	81	4000081915	29,993
Oak Ridge National Laboratory	81	4000068639	152,309
Project Assistance Corporation	81	ORP-CAL002	17,096
Project Assistance Corporation	81	ORP-CAL001	118,865
Research Partnership to Secure Energy for America	81	08122-15	725
Sandia National Laboratories	81	523348	(641)
Sandia National Laboratories	81	824467	30,000
Sandia National Laboratories	81	75212	30,832
Sheeta Global Technology Company	81	DE-CIT-CO2-0801	59,816
Texas Tech University	81.049	1310/C122-01	13
Texas Tech University	81.049	21E001-01	164,548
University of California Davis	81.121	Sub0700277	146,351
University of California Los Angeles	81.087	0980 G KK369	80,973
University of Nevada	81.065	UNR-04-50	(390)
Washington University in St. Louis	81	WU-HT-06-06/PO29353K	33,971
Total Department of Energy Pass-Through			<u>3,992,657</u>
<b>Department of Homeland Security</b>			
Smiths Detection	97	2998	73,494
University of Rhode Island	97.061	112208/0001865	41,691
Total Department of Homeland Security Pass-Through			<u>115,185</u>

Federal Grant or

The accompanying notes are an integral part of this Schedule.

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<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Contract Number</b>	<b>Federal Expenditures</b>
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Health and Human Services</b>			
<b>National Institutes of Health</b>			
Brown University	93.286	1545-27564	\$ 15,515
Duke University	93.396	07-SC-NIH-1008	64,011
Exploratorium	93	3428	83,743
Georgia Institute of Technology	93.867	R7747-G5	23,131
Harvard University	93.859	137384	82,579
Hudsonalpha Institute for Biotechnology	93.172	2009-02	1,992,124
Indiana University	93	39510-0048	137,465
Jackson Laboratory	93	614087	47,065
Jackson Laboratory	93.172	626766	70,550
Lawrence Berkeley National Laboratory	93	6822728	(91,885)
Loma Linda University	93	LLU.SUBNIH	80,209
Massachusetts Institute of Technology	93.853	5710002432	118,758
Princeton University	93.859	00001207	181,298
Purdue University	93.855	4102-16339	14,463
Stanford University	93	21720860-40259-A	(227,427)
Stanford University	93.172	17222070-35910-B	134,811
The Scripps Research Institute	93	5-20895	19,434
The Scripps Research Institute	93	5-20938	29,835
The Scripps Research Institute	93	5-21552	78,085
The Scripps Research Institute	93	5-21623	9,813
University of California Berkeley	93.867	00006315	56,962
University of California Irvine	93.856	2005-1597	53,339
University of California Los Angeles	93.389	1580 G GF778	464,809
University of California Los Angeles	93.286	0845 G KB564	135,604
University of California Los Angeles	93.929	0845 G ED291	(39,503)
University of California Riverside	93.859	S-000358	677
University of California San Diego	93	10278089	22,460
University of California San Diego	93	10291070	161,600
University of Cincinnati	93.389	20309	64,742
University of Colorado Boulder	93.859	154-5178	23,585
University of Florida	93.701	UF09098	7,858
University of Georgia	93.855	RR182-364/4688608	58,844
University of Kansas Center for Research, Inc	93	QL814610	27,443
University of North Carolina	93.242	5-34854	39,155
University of Puerto Rico	93	2008-001236	41,736
University of Puerto Rico	93	2009-001252	35,056
University of Southern California	93.855	110512	400,706
University of Southern California	93.853	119937	(40,572)
University of Southern California	93.866	130324	64,190

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>Department of Health and Human Services (Continued)</b>			
<b>National Institutes of Health (Continued)</b>			
University of Southern California	93.395	H36051	\$ (4,772)
University of Southern California	93	H37793	218,277
University of Southern California	93.113	H38625	22,094
University of Utah	93.859	10003198-02	283,245
Vanderbilt University	93	VUMC 33486-R	110,942
Visdex Corporation	93.867	EY017484-Caltech-2	126,013
Total National Institutes of Health Pass-Through			<u>5,198,067</u>
Total Department of Health and Human Services Pass-Through			<u>5,198,067</u>
<b>Department of Interior</b>			
<b>United States Geological Survey (USGS)</b>			
University of Southern California	15.807	119938	157,747
<b>Environmental Protection Agency (EPA)</b>			
Harvard University	66	123392	60,039
<b>National Aeronautics and Space Administration (NASA)</b>			
Case Western Reserve University	43	RES502973	56,118
Harvard University	43	131131-01	6,146
Harvard University	43	131066-01	(11)
Johns Hopkins University	43	933173	42,372
Johns Hopkins University	43	935801	10,210
Lockheed Martin Corporation	43	8100001550	8,048
Lockheed Martin Corporation	43	8100000206	5,875
Massachusetts Institute of Technology	43	5710002515	29,376
Monterey Bay Aquarium Research Institute	43	0910168	10,405
Monterey Bay Aquarium Research Institute	43	0512953	195,607
National Space Biomedical Research Institute	43	TD01301	229,352
New Mexico State University	43	P0051129	95,114
Pennsylvania State University	43	3903-CIT-NASA-A76A	2,946

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Aeronautics and Space Administration (NASA)</b>			
<b>(Continued)</b>			
Smithsonian Astro	43	AR9-0007X	\$ 69,578
Smithsonian Astro	43	DD8-9043X	3,967
Smithsonian Astro	43	G09-0024X	4,952
Smithsonian Astro	43	GO6-7135A	4
Smithsonian Astro	43	GO-7065A	2,306
Smithsonian Astro	43	GO7-8065X	(3)
Smithsonian Astro	43	GO7-8074X	5,282
Smithsonian Astro	43	GO7-8106X	43,237
Smithsonian Astro	43	GO7-8120X	28,464
Smithsonian Astro	43	GO7-8138B	40
Smithsonian Astro	43	GO8-9132B	1,321
Smithsonian Astro	43	GO9-0046X	1,477
Smithsonian Astro	43	GO9-0071B	2,102
Smithsonian Astro	43	PF8-90053	92,606
Smithsonian Astro	43	PF8-90060	5,475
Smithsonian Astro	43	PF9-00067	8,903
Southwestern Research Institute	43	699047X	33,799
Southwestern Research Institute	43	699048X	53,523
Southwestern Research Institute	43	699049X	29,885
Southwestern Research Institute	43	886830E	15,773
Space Telescope Science Institute	43	HST-AR-11241.06-A	4,324
Space Telescope Science Institute	43	HST-AR-11261.01-A	35,435
Space Telescope Science Institute	43	HST-AR-11761.01-A	5,395
Space Telescope Science Institute	43	HST-AR-11766.01-A	82,193
Space Telescope Science Institute	43	HST-AR-11769.02-A	6,280
Space Telescope Science Institute	43	HST-GO-09822.01-A	24,037
Space Telescope Science Institute	43	HST-GO-10403.10-A	6,893
Space Telescope Science Institute	43	HST-GO-10405.04-A	146
Space Telescope Science Institute	43	HST-GO-10487.05-A	732
Space Telescope Science Institute	43	HST-GO-10521.01-A	44,973
Space Telescope Science Institute	43	HST-GO-10551.01-A	3,051
Space Telescope Science Institute	43	HST-GO-10793.01-A	4,478
Space Telescope Science Institute	43	HST-GO-10811.05-A	12,640
Space Telescope Science Institute	43	HST-GO-10818.01-A	20,676
Space Telescope Science Institute	43	HST-GO-10848.09-A	37,987

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Aeronautics and Space Administration (NASA)</b>			
<b>(Continued)</b>			
Space Telescope Science Institute	43	HST-GO-10858.01-A	\$ 92,085
Space Telescope Science Institute	43	HST-GO-10858.03-A	12,306
Space Telescope Science Institute	43	HST-GO-10860.01-A	15,679
Space Telescope Science Institute	43	HST-GO-10872.01-A	71,285
Space Telescope Science Institute	43	HST-GO-10899.06-A	14,036
Space Telescope Science Institute	43	HST-GO-10908.07-A	7,386
Space Telescope Science Institute	43	HST-GO-10908.17-A	2,976
Space Telescope Science Institute	43	HST-GO-10999.01-A	8,325
Space Telescope Science Institute	43	HST-GO-11104.01-A	13,731
Space Telescope Science Institute	43	HST-GO-11120.04-A	49
Space Telescope Science Institute	43	HST-GO-11120.06-A	(1,319)
Space Telescope Science Institute	43	HST-GO-11142.01-A	68,499
Space Telescope Science Institute	43	HST-GO-11142.06-A	86,428
Space Telescope Science Institute	43	HST-GO-11149.02-A	64,273
Space Telescope Science Institute	43	HST-GO-11160.01-A	433
Space Telescope Science Institute	43	HST-GO-11161.06-A	4,889
Space Telescope Science Institute	43	HST-GO-11169.01-A	57,379
Space Telescope Science Institute	43	HST-GO-11174.01-A	3,058
Space Telescope Science Institute	43	HST-GO-11188.10-A	24,833
Space Telescope Science Institute	43	HST-GO-11235.01-A	54,290
Space Telescope Science Institute	43	HST-GO-11236.10-A	14,647
Space Telescope Science Institute	43	HST-GO-11312.01-A	35,170
Space Telescope Science Institute	43	HST-GO-11518.01-A	5,643
Space Telescope Science Institute	43	HST-GO-11544.01-A	24,932
Space Telescope Science Institute	43	HST-GO-11644.01-A	9,720
Space Telescope Science Institute	43	HST-GO-11721.01-A	9,195
Space Telescope Science Institute	43	HST-GO-11971.02-A	3,053
Space Telescope Science Institute	43	HST-HF-01201.01-A	70,241
Space Telescope Science Institute	43	HST-HF-01205.01-A	78,371
Space Telescope Science Institute	43	HST-HF-01212.01-A	85,082
Space Telescope Science Institute	43	HST-HF-51229.01-A	4,958
Space Telescope Science Institute	43	HST-HF-51256.01-A	14,721
Space Telescope Science Institute	43	HST-HF-51262.01-A	6,128
University of California Berkeley	43	SA2715-23609	464,300
University of California Berkeley	43	SA5155-11047	23,662

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Aeronautics and Space Administration (NASA)</b>			
<b>(Continued)</b>			
University of California Los Angeles	43	0995 G GC317	\$ 19,204
University of California Los Angeles	43	0995-S-MA048	20,415
University of California San Diego	43	10300012	1,743
University of Maryland	43	000005553	85,245
University of Space Research	43	8500-98-011	1,561,200
University of Washington	43	298306	324
University of Washington	43	596856	10,003
Total National Aeronautics and Space Administration Pass-Through			4,532,067
<b>National Science Foundation</b>			
California Association For Research In Astronomy	47	PO 24565	714,951
California State University Los Angeles	47.049	DMR-0351848-UAS-220995	41,832
Columbia University	47	570611	177,954
Cornell University	47.049	46514-8592	497,864
Fermilab National Accelerator Laboratory	47.049	573837	(258)
Florida International University	47	144300503-01	32,865
Howard University	47	634177-H017357	13,841
Incorporated Research Institute For Seismology	47	05-GSN	19,998
Johns Hopkins University	47.049	2000009797	88,645
Large Synoptic Survey Telescope Corporation	47	C44031L	72,013
Large Synoptic Survey Telescope Corporation	47	C44040L	156,107
LC Vision, LLC	47.041	CALTECH-0741216	54,324
Massachusetts Institute of Technology	47.041	5710002280	128,609
National Bureau of Economic Research Inc.	47.075	34-3476-02-0-79-781-7700	30,566
National Radio Astronomy Observatory	47	GSSP07-0021	2,503
National Radio Astronomy Observatory	47	315060	2,212
New Jersey Institute	47.049	990774	52,666
New York University	47	F6030-01	53,655
Southwest Research Institute	47	A99114JD	15,541
UNAVCO Inc.	47.050	EAR-0453975-02	11,881
University of Arizona	47.041	Y502628	237,742
University of California Berkeley	47.041	SA4591-10349PG	89,380
University of California Irvine	47.074	2003-1310	13,971

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<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Research and Development Program (Continued)</b>			
<b>Pass-Through Funds (Continued)</b>			
<b>National Science Foundation (Continued)</b>			
University of California Los Angeles	47	0143 G DB034	\$ 137,217
University of California Los Angeles	47.049	1000 G GB150	440,952
University of California Los Angeles	47.049	1000 G HD871	1,603,959
University of California Riverside	47.041	S-00065	74,884
University of California Santa Cruz	47.049	S0182453	43,397
University of Chicago	47.049	32572	4,929
University of Chicago	47.049	30193-A	619,110
University of Chicago	47.070	30085-B	142,543
University of Delaware	47.041	8307	67,367
University of Illinois	47.041	2003-07452-1	364
University of Illinois	47.041	2008-041111-02	22,954
University of Southern California	47.041	H31068	501,810
University of Southern California	47.050	137754	1,852
University of Washington	47	594618	126,638
University of Wisconsin	47.049	647F205	392,240
University of Wisconsin-Milwaukee	47.049	K083644	74,554
W.M. Keck Observatory	47.049	29047	238,669
Total National Science Foundation - Pass-Through Funds			<u>7,002,301</u>
Total Research and Development - Pass-Through Funds			<u>30,107,156</u>
Total Research and Development Program			<u>253,711,035</u>

The accompanying notes are an integral part of this Schedule.

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant or Contract Number	Federal Expenditures
<b>MAJOR PROGRAMS (CONTINUED)</b>			
<b>Student Financial Assistance Cluster</b>			
<b>Direct Funds</b>			
<b>Department of Education</b>			
Federal Work Study Program	84.033		\$ 386,734
Federal Supplemental Educational Opportunity Grant	84.007		303,349
Federal Pell Grant Program	84.063		239,763
Academic Competitiveness Grant and National SMART Grant	84.376		<u>106,826</u>
Total Student Financial Assistance Cluster			<u>1,036,672</u>
Total Major Programs			<u>254,747,707</u>
<b>NON-MAJOR PROGRAMS</b>			
<b>Pass-Through Funds</b>			
<b>Department of Education</b>			
California Student Aid Commission Cal Grants	84.069A		<u>5,026</u>
Total Department of Education Pass-Through Funds			<u>5,026</u>
Total Non-Major Programs			<u>5,026</u>
Total Federal Awards			<u><u>\$ 254,752,733</u></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, 2009

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#### 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, 2009, except those related to the Jet Propulsion Laboratory ("JPL") (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. However, the Institute's FY2008 indirect cost reimbursements were based on a predetermined rate. 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, 2006. In addition, ONR has approved a fixed with carryforward rate for FY2009. Actual incurred costs for the year ended September 30, 2007 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. Revision 11 to the Disclosure Statement has been submitted by the Institute and is currently being reviewed by DCAA. All amendments and updates through Revision 9 have been approved by ONR.

# California Institute of Technology

## Notes to Schedule of Expenditures of Federal Awards

### For the Year Ended September 30, 2009

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#### 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 JPL which is a National Aeronautics and Space Administration ("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, 2009, the Institute advanced loans totaling \$626,722 for the Federal Perkins Loan Program (CFDA Number 84.038). The outstanding balance at September 30, 2009 was \$4,235,782. 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. The Institute charged \$4,277 of administrative cost allowance to the Federal Perkins Loan Program for the year ended September 30, 2009.

#### 3. Federal Direct Loan Program

During the year ended September 30, 2009, the Institute processed \$1,019,484 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). The amount disbursed to students (including origination fees and rebates) was \$1,002,890. The outstanding balance at September 30, 2009 was \$0.

#### 4. Transfers

During the year ended September 30, 2009, the Institute transferred \$117,034 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 Carryforwards

During the year ended September 30, 2009, the Institute spent \$14,679 of FWS funds which were carried forward from the year ended September 30, 2008. The carry forward amount is reflected as revenues/expenditures recognized in the year in which the funds were expended. The Institute charged \$67,187 of administrative cost allowance to the Federal Work-Study Program for the year that ended September 30, 2009.

**California Institute of Technology**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2009**

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**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>
<b>Department of Defense</b>	
Air Force Office of Scientific Research	\$ 1,284,974
Army Research Office	1,184,896
Defense Advanced Research Projects Agency	551,624
Office of Naval Research	1,328,117
National Geospatial-Intelligence Agency	94,653
Space and Naval Warfare System	319,518
US Navy	<u>1,868,871</u>
	<u>6,632,653</u>
<b>Department of Energy</b>	
Department of Energy	<u>255,705</u>
<b>Department of Health and Human Services</b>	
National Institutes of Health	<u>6,035,599</u>
<b>Department of Homeland Security</b>	
Department of Homeland Security	<u>297,616</u>
<b>Department of Interior</b>	
Department of Interior	<u>95,969</u>
<b>National Aeronautics &amp; Space Administration</b>	
National Aeronautics & Space Administration	26,192,449
National Space Biomedical Research Institute	86,123
Universities Space Research Association	<u>20,994</u>
	<u>26,299,566</u>
<b>National Science Foundation</b>	
National Science Foundation	<u>6,941,680</u>
Total Amount Provided to Subrecipients	<u>\$ 46,558,788</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.

**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 Trustees of  
California Institute of Technology

We have audited the financial statements of California Institute of Technology (the "Institute") as of and for the year ended September 30, 2009, and have issued our report thereon dated January 25, 2010. As discussed in Note B to the financial statements, during the year ended September 30, 2009, the Institute adopted a new accounting standard that governs the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act for endowment funds. In addition, as discussed in Note B to the financial statements, the Institute adopted a new accounting standard that required it to change the measurement date of its pension and postretirement plan assets and liabilities to coincide with its September 30, 2009 year end. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

*PricewaterhouseCoopers LLP*

January 25, 2010



**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 of  
California Institute of Technology

Compliance

We have audited the compliance of California Institute of Technology (the "Institute") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009, 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 the Institute), which incurred \$1,849,169,000 in federal expenditures which is not included in the Institute's schedule of federal expenditures for the year ended September 30, 2009. Our audit of the Federal Awards did not include the operations of the Jet Propulsion Laboratory because it is audited and reported upon as a separate entity pursuant to Section 200(e) of OMB Circular A-133 and is, therefore, out of the scope of this audit.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test

basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Institute's compliance with those requirements.

In our opinion, based on our audit and the reports of other auditors, the Institute complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance 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 09-01, 09-02, and 09-03.

#### Internal Control Over Compliance

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

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

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration and the other auditors' consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. Also, the report of the other auditors did not identify any deficiencies in internal control over compliance that they consider to be material weaknesses, as defined above.



The Institute's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Institute's response and, accordingly, we express no opinion on it.

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

*PriceWaterhouseCoopers LLP*

June 25, 2010

**California Institute of Technology  
Independent Auditors' Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009**

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**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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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:

<b>Program Name</b>	<b>CFDA Number</b>	
Research and Development Cluster	Various	
Student Financial Aid Cluster	Various	
Dollar threshold used to distinguish between type A and type B programs:		\$3,000,000
Auditee qualified as a low-risk auditee?		Yes

**SECTION II – FINANCIAL REPORTING FINDINGS**

No matters are reportable.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 09-01: Timeliness of financial reporting for federal awards**

**Identification of programs affected by the finding**

Sponsor Award Number: Various (N66001-08-1-2043, 2007-DN-077-ER0004-02, DE-FC52-08NA28613, N00014-06-1-0011, HR0011-04-1-0032, FA9550-08-1-0173, FA9550-06-1-0443, RQ-50267-0, HM 1582-08-1-0019, and 2007-DN-077-ER0004-03)

Sponsoring Agency: Various (Space and Naval Warfare Systems, Homeland Security Advanced Research Projects Agency, Department of Energy, Office of Naval Research, Defense Advanced Research Project Agency, Air Force, National Endowment for Humanities, and National Geospatial-Intelligence Agency)

CFDA #: Various (12.910, 97.077, 81.000, 12.300, 12.910, 12.800, 45.161, and 12.630)

Caltech Award #: Various (SNWS.TBN, HSARPA.000004, DOE.PSAAP, ONR.SYSTEMS, DARPA.CTROPTO/CTRFAB, AFOSR.DMOC, AFOSR.DWELLS, NEH.693281, NGIA.000002, and HSARPA.000005)

Audit Year: FY2009

**Criteria**

The Institute is responsible for submitting financial reports for awards on quarterly, semi-annual, annual or final basis, in accordance with specific sponsoring agency requirements.

Based on Office of Management and Budget ("OMB") Circular A-110, \_\_\_\_.52 (a)(1)(iv), SF-269 Financial Status Report shall be required to be submitted no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extension of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

Based on OMB Circular A-110, \_\_\_\_.52(a)(2)(iv), "Recipients shall be required to submit not more than the original and two copies of the SF-272 15 calendar days following the end of each quarter. The Federal awarding agencies may require a monthly report from those recipients receiving advances totaling \$1 million or more per year."

Additionally, based on the review of the award agreements, the financial reports related to the program are due within 15 - 90 days following the end of each reporting period.

**Condition**

The Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") for 10 out of 29 reports on federal awards were not submitted to the awarding agencies in a timely manner. Below are instances where the reports were submitted late from the testing sample.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

<b>Award No.</b>	<b>Contract No.</b>	<b>Due date of Selected Report</b>	<b>Report Submission Date</b>	<b>Days late</b>
SNWS.TBN	N66001-08-1-2043	10/31/2009	12/16/2009	46
HSARPA.000004	2007-DN-077-ER0004-02	11/14/2009	11/24/2009	10
DOE.PSAAP	DE-FC52-08NA28613	4/30/2009	9/14/2009	137
ONR.SYSTEMS	N00014-06-1-0011	3/31/2009	4/15/2009	15
DARPA.CTROPTO/CTRFAB	HR0011-04-1-0032	3/31/2009	6/16/2009	77
AFOSR.DMOC	FA9550-08-1-0173	4/15/09	7/8/2009	84
AFOSR.DWELLS	FA9550-06-1-0443	6/30/2009	7/9/2009	9
NEH.693281	RQ-50267-07	4/30/2009	5/27/2009	27
NGIA.000002	HM 1582-08-1-0019	7/31/2009	1/15/2010	168
HSARPA.000005	2007-DN-077-ER0004-03	2/15/2009	2/18/2009	3

The Institute has a total of 463 awards subject to financial reporting requirements with \$223 million of expenditures during fiscal 2009. Approximately 82% of the fiscal 2009 federal expenditures or \$182 million of federal expenditures were funded by 3 federal agencies, namely, National Aeronautics and Space Administration ("NASA"), National Institutes of Health ("NIH"), and National Science Foundation ("NSF"). No exceptions were identified in regards to the reporting requirements to these 3 largest Federal funding agencies for Caltech.

**Questioned Costs**

Not Applicable. Audit finding pertains to noncompliance with the reporting requirements set forth under OMB Circular A-133.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Cause**

The following were the causes for the delays in the submission of the required financial reports:

*Defense Advanced Research Project Agency*

Final report was not submitted in a timely manner due to delay in receiving cost sharing information from subawardees.

*Space and Naval Warfare Systems, Homeland Security Advanced Research Projects Agency, Department of Energy, Office of Naval Research, Air Force, National Endowment for Humanities, and National Geospatial-Intelligence Agency*

Project Accounting department was downsized during the audit year. The staff, who took over the workload from the exiting employees, did not get adequate time to get acquainted with the reporting requirements of the newly assigned awards and missed some reporting deadlines, which were subsequently submitted to the sponsoring agencies. In addition, the report reminder database was being developed and had not been implemented during this audit year.

**Effect**

As the Institute did not submit the financial reports in a timely manner, in accordance with the award agreement, the Institute did not meet its contractual obligations.

**Recommendation**

An accurate tickler file should be set up indicating the reporting requirements of various awards. A procedure should also be implemented to monitor, review and update the tickler file for new awards and close of awards. Maintaining an accurate master listing of required reporting can provide control that the department can rely on to determine the appropriate due dates of report submission and plan appropriately for the preparation and completion of the reports.

**Management's Views and Corrective Action Plan**

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

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 09-02: Distribution of expenditure between two Federal awards under direct cost allocation principles**

**Identification of programs affected by the finding**

Award Contract Number: 1000 G HD871 and DE-FG02-92ER40701

Sponsoring Agency: National Science Foundation (passed through from University of California Los Angeles) and Department of Energy

CFDA #: 47.049 and 81.064

Award #: UCLA.000024 and DOE.000036

Award Year: FY2009

**Citation**

2 CFR section 220 Appendix A part C. 4 d (2) to (4)

**Criteria**

Office of Management and Budget ("OMB") Circular A-21, Part C, Paragraph 4(d)(3) states:

*"If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit."*

**Condition**

Expenditures that benefited two federal awards, contract 1000 G HD871 and DE-FG02-92ER40701, for University of California Los Angeles ("UCLA") and Department of Energy ("DOE"), respectively, required distribution of the expenditures between both awards. While the expenditures benefited both federal awards, the summary of all the allowable expenses was not mathematically correct. As such, the distribution of the expenditures between both federal awards was not properly performed, thereby leading to the UCLA award being overcharged and the DOE award being under charged by the same amount of \$1,207.

**Questioned Costs**

The Questioned Costs for the inaccurate distribution of expenditures to the Federal awards amounts to \$1,207.



**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Cause**

The cause of the incorrect distribution for the cost of purchase of the item was due to the department's oversight in the review of the costs recorded to the Oracle system, and mathematical accuracy of the report. The error was subsequently corrected.

**Effect**

Due to the error in distributing costs, one federal award was overcharged.

**Recommendation**

Additional review should be implemented at the departmental level to ensure correct distribution of costs.

**Management's Views and Corrective Action Plan**

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

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding 09-03: Support for Travel Costs**

**Identification of programs affected by the finding**

Award Contract Number: 634177-H017357

Sponsoring Agency: National Science Foundation (passed through from Howard University)

CFDA #: 47.000

Award #: HOWARD.HUSUB

Award Year: FY2009

**Citation**

2 CFR section 220 Appendix A part C. 4 d (1), and (2)  
Office of Management and Budget ("OMB") Circular A-21, Part A, 2(e)

**Criteria**

Circular A-21 of OMB requires that the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.

Additionally, the Institute is expected to comply with the documentation guidelines of Circular A-21 and include in its travel policy specific guidelines for all employees to follow. Section 1.5.2 of the institute's travel policy states that, "The traveler should spend Institute funds prudently...The traveler is responsible for the submission of all forms related to his/her travel... A completed and signed Travel Expense Report form should be submitted as soon as practical, but no later than 30 days after the traveler's return."

**Condition**

In testing the travel expense reports, 1 travel expense report out of the 10 selected for testing did not have a timely travel expense report submitted for the trip in support of the expenditure. The travel expenditure, which was \$472 for airfare, was incurred in November 2008 in relation to a subaward from Howard University.

**Questioned Costs**

The Questioned Costs for the travel awards with a lack of appropriate support amounts to \$472.

**California Institute of Technology**  
**Independent Auditors' Schedule of Findings and Questioned Costs**  
**(Continued)**  
**For the Year Ended September 30, 2009**

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**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Cause**

The cause of the lack of supporting documentation for the airfare charged to the Howard University subaward was due to the traveler not complying with the Institute's travel policy and delay in providing the documentation to the Institute's payment services department.

**Effect**

Supporting documentation for travel expenditures was not submitted in a timely manner. Therefore, the Institute is not in compliance with its own travel policy, including the definition of adequate documentation to support costs charged to sponsored agreements per OMB Circular A-21, and the Code of Federal Regulations.

**Recommendation**

Additional procedures should be implemented at the Institute's Travel Services department to ensure that action for noncompliance to Institution's policies is taken in a timely manner and in accordance with Institute's established policies and procedures. This could include obtaining adequate support (e.g. invoices and travel folios) prior to recording charges to sponsored programs and/or request for reimbursement from sponsoring agencies.

**Management's Views and Corrective Action Plan**

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

**California Institute of Technology  
Summary Schedule of Prior-Year Audit Findings  
and Questioned Costs  
For the Year Ended September 30, 2009**

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**Prior Year Findings**

**Finding 08-1 Timeliness of financial reporting for Federal awards.**

**Condition**

Based on testing of the Institute's compliance with respect to Reporting under Circular OMB A-133, it was noted that for the Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") selected for testing for SNWS relating to the quarter ended June 30, 2008, and for DOI relating to the year ended December 31, 2007, respectively, were not submitted to the award agencies until December 2008. This represented a 6-months and 12-months delay after the reporting period for the SNWS and DOI awards, respectively. In addition, the reports for the DOI awards were not submitted to the awarding agency between the years 2005 and 2008.

The Institute is not in compliance with the requirements set forth in the OMB Circular A-133 with respect to Reporting, which requires that a report should be submitted on a timely basis in accordance with the award agreements. Additionally, the Institute is not complying with the reporting requirements set forth under the award agreement.

Our initial sample was 10 reports, which yielded two late reports. However, based upon reviewing all remaining reports, no additional errors were found.

**Current Status**

Not yet implemented. Refer to Finding 09-01 and Management's Views and Corrective Action Plan 9.1.

# *CALIFORNIA INSTITUTE OF TECHNOLOGY*

Pasadena, California 91125

Office of the Associate Vice President for Research Administration  
Financial Services Administration Building, Mail Code 231-15  
626-395-6073

June 25, 2010

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 2009

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, 2009.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Seligman", with a long, sweeping horizontal line extending to the right.

Richard P. Seligman  
Associate Vice President for Research Administration

Enclosure

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**Fiscal Year 2009**

Finding Number	Condition	Management's Views and Corrective Action Plan	Responsible Individual	Planned Completion Date
9.1	<p>The Financial Status Report ("Form 269") and Federal Cash Transaction Report ("Form 272") for 10 out of 29 reports for federal awards were not submitted to the awarding agencies in a timely manner.</p>	<p>The Institute has evaluated the compliance impact of the late report noting that the late reports account for 1% of total expenditures reported in the financial reports for the 463 awards in fiscal 2009. Additionally, in accordance with Management Response to FY 08-A133 Audit, the Institute has implemented a report reminder database, which became fully functional in March 2010. Project Accounting staff are monitoring financial report due dates by using this report reminder system. In addition, the federal sponsoring agencies have transitioned to Federal Financial Reports (FFR), a format stipulated by the Office of Budget and Management (OMB) in accordance with the implementation plans of Federal Financial Assistance Management Improvement Act of 1999. This form replaces the SF269 and SF272 and establishes government-wide standards for reporting periods and report due dates. These standardizations have</p>	<p>Director of Project Accounting</p>	<p>March 2010</p>

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9.2	<p>Expenditures that benefited two federal awards, contract 1000 G HD871 and DE-FG02-92ER40701, for University of California Los Angeles ("UCLA") and Department of Energy ("DOE"), respectively, required distribution of the expenditures between both awards. While the expenditures benefited both federal awards, the summary of all the allowable expenses was not mathematically correct. As such, the distribution of the expenditures between both federal awards was not properly performed, thereby leading to the UCLA award being overcharged and the DOE award being under charged by the same amount of \$1,207.</p>	<p>significantly reduced confusions with financial report types and reporting deadlines among the awardee institutions as well as the sponsoring agencies.</p> <p>The discrepancy in the distribution occurred due to a mathematical error made by a department administrator. The questioned costs are for materials and supplies to support an offsite major program funded by multiple sponsors, including NSF and DOE. Supporting documentation was adequate and in accordance with Institution's policies. The error was subsequently corrected. Project Accounting will incorporate in their training programs the importance of after-the-fact timely review of charges posted to federal awards by the departmental administrators so that errors are identified and corrected in a timely manner.</p>	<p>Director, Project Accounting</p>	<p>On-going</p>
9.3	<p>In testing the travel expense reports, 1 travel expense report out of the 10 selected for testing did not have a timely travel expense report submitted for the trip in support of the expenditure. The travel expenditure,</p>	<p>The Institute agrees that complete and timely travel expense reports are required both by federal regulations and the Institute's travel policy. This specific instance of a seriously delayed travel expense report represents an aberration. Despite many follow up attempts</p>	<p>Director of Procurement</p>	<p>July 2010</p>

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	<p>which was \$472 for airfare, was incurred in November 2008 in relation to a subaward from Howard University.</p>	<p>by Travel Services and the traveler's academic division, the traveler failed to submit an expense report until long after it was due. The Institute revoked the traveler's purchase card due to non-compliance with Institute policies, despite receiving 30, 60 and 90 day reminders from the Travel Services department. This is an indication of the seriousness with which the Institute views such matters.</p> <p>Travel Services will copy Project Accounting on 90-day and 120-day reminders sent to travelers. When confirmed by Travel Services Project Accounting will work with the divisions to remove any future unsupported costs from the federal awards.</p>		
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