

CALIFORNIA INSTITUTE OF TECHNOLOGY



FINANCIAL REPORT 1983

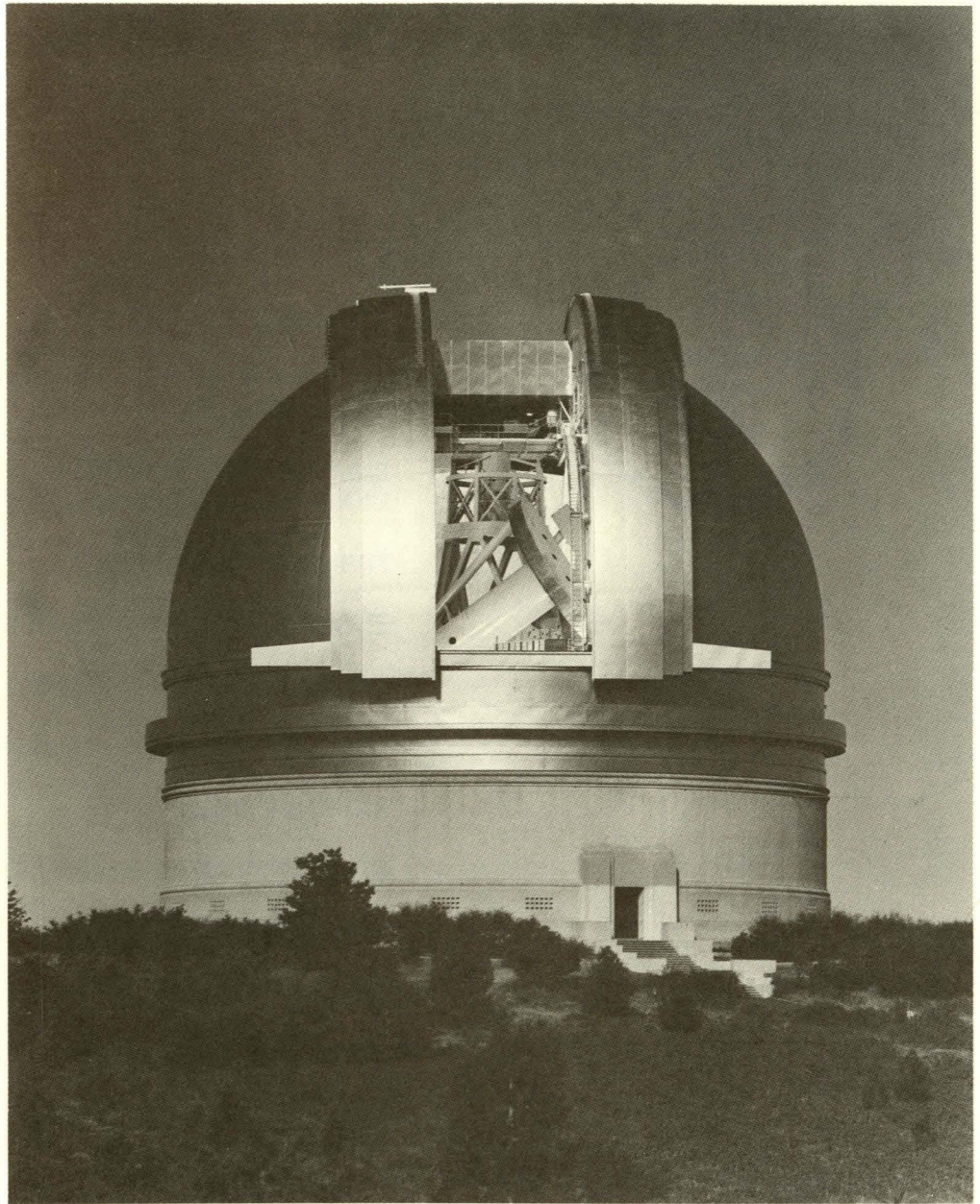
CALIFORNIA INSTITUTE OF TECHNOLOGY

Financial Report 1983

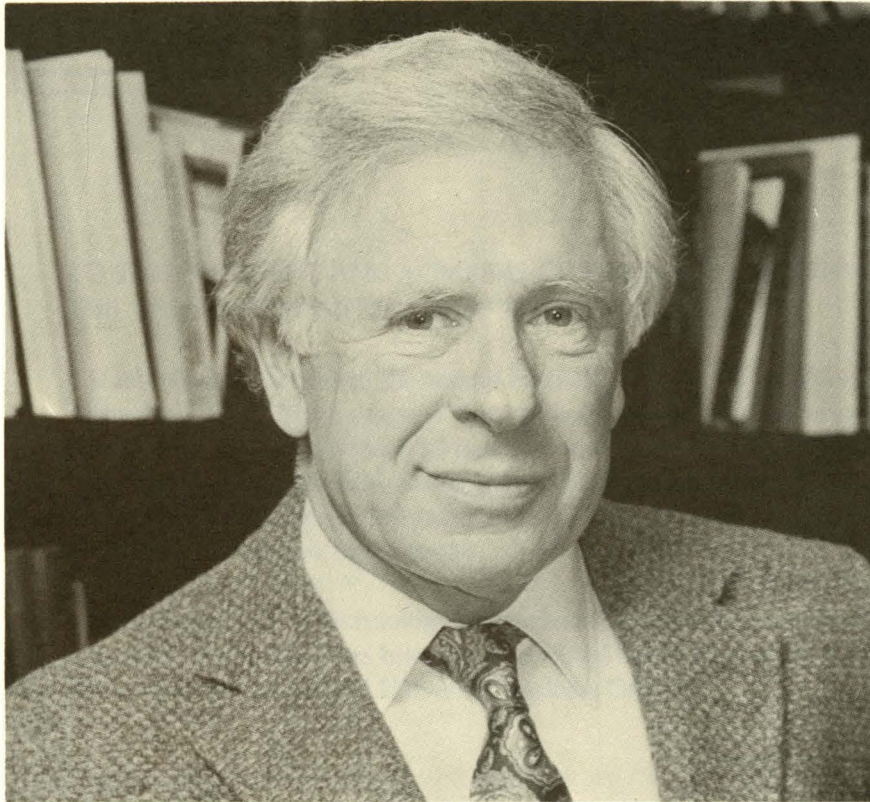


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The 200-inch Hale Telescope at Caltech's Palomar Observatory has played a crucial role in modern science for 36 years.



*Marvin L. Goldberger
President*

The 1982-83 Financial Report coincides with my fifth year as President of Caltech. A good year in many respects, 1983 was highlighted by the decision of the Nobel Committee to award a prize in physics to Caltech's Professor Willy Fowler, and by the spectacular success of the Infrared Astronomical Satellite (IRAS), operated by JPL. In addition, the fourth year of the campus beautification program saw the completion of the Bechtel Mall and the restoration of the Parsons-Gates Hall of Administration. Construction was also begun on the new athletic facility and graduate residences. The architectural integrity of the Thomas J. Watson, Sr., Laboratories of Applied Physics was recognized by an award from the Pasadena Beautiful Foundation.

Finally, 1983 was marked by four significant financial high points: gifts totaled \$21.7 million; endowment totaled \$248 million, campus revenues exceeded \$100 million and JPL revenues, \$400 million. The stability of Caltech's financial position as described in the accompanying report is a significant factor in Caltech's ability to carry forward its instruction and research programs.

CALIFORNIA INSTITUTE OF TECHNOLOGY

PASADENA, CALIFORNIA 91125

DAVID W. MORRISROE
VICE PRESIDENT FOR BUSINESS
AND FINANCE AND TREASURER

January 6, 1984

TO THE PRESIDENT AND MEMBERS OF THE BOARD OF TRUSTEES OF THE CALIFORNIA INSTITUTE OF TECHNOLOGY

It is my pleasure to present the annual Financial Report of the California Institute of Technology. It has been prepared from the Institute's accounting records and reflects California Institute of Technology's financial position as of September 30, 1983, and the results of its operations for the year then ended. These statements have been reviewed by your Audit Committee. In addition to the report, we are presenting some statistical information that we hope will be of interest to the reader.

California Institute of Technology maintains its accounts in accordance with the guidelines suggested by the American Institute of Certified Public Accountants and the National Association of College and University Business Officers.

Sincerely yours,



David W. Morrisroe
Vice President for Business and
Finance and Treasurer

Audit Committee — Board of Trustees

Frederick G. Larkin, Jr., Chairman
R. Stanton Avery
Gilbert W. Fitzhugh
Marvin L. Goldberger
Chauncey J. Medberry III
Dennis C. Stanfill
Richard R. Von Hagen


Summary of Changes in Fund Balances

Year Ended September 30, 1983


Additions

(Excluding Reimbursement of Direct Costs at the
Jet Propulsion Laboratory)
(in thousands)


United States Government Grants and Contracts. Reimbursement from various government agencies for direct costs of research, instruction and student support.

\$35,200


Realized Gains. Net realized gains on investments sold.

\$34,827


Gifts and Nongovernment Grants. Includes gifts and grants from private sources for education and research.

\$24,747


Indirect Costs and Management Allowance. Recovery of indirect costs and management allowance under federally sponsored programs at the campus and the Jet Propulsion Laboratory.

\$23,293


Investment Income. Endowment income and investment income of other funds, including earnings from short term investments.

\$19,634

Plant Acquisitions. Additions to campus plant for land, buildings and equipment.

\$14,438


Tuition and Fees. Includes tuition and fees assessed students.

\$13,189

Auxiliary Enterprises. Revenues from sales by food services, student housing and bookstore.


\$4,589

Other. Income from sales and services and other miscellaneous revenue.

\$1,110

Total Additions

(Excluding Reimbursement of Direct Costs
at the Jet Propulsion Laboratory)


\$171,027

Deductions

(Excluding Jet Propulsion Laboratory Direct Costs)
(in thousands)

Instruction. Expenditures for activities that are part of the instructional program including departmental research.

\$37,751

Research. Activities specifically organized to produce research outcomes supported by federal and private sponsors.

\$36,784

Institutional and Student Support. Includes Business and Financial Affairs, Student Services, Institute Relations and general administration.

\$14,314

Plant Fund. Includes plant fund expenditures for buildings, equipment, renewals, payments on interfund advances for plant purposes, as well as retirement of plant assets.

\$11,924

Plant Operations. Represents utilities and other expenditures for the operation and maintenance of the campus grounds and facilities.

\$9,586

Scholarships and Fellowships. Awards made to students enrolled in formal course work with no requirement that they perform services or repay the awards.

\$5,095

Auxiliary Enterprises. Expenditures, including maintenance, of auxiliary enterprises.

\$4,435

Other. Includes payments to life beneficiaries with Life Income and Annuity Agreements and miscellaneous other charges.

\$1,775

Total Deductions

(Excluding Direct Costs at the
Jet Propulsion Laboratory)

\$121,664

Increase in Fund Balances

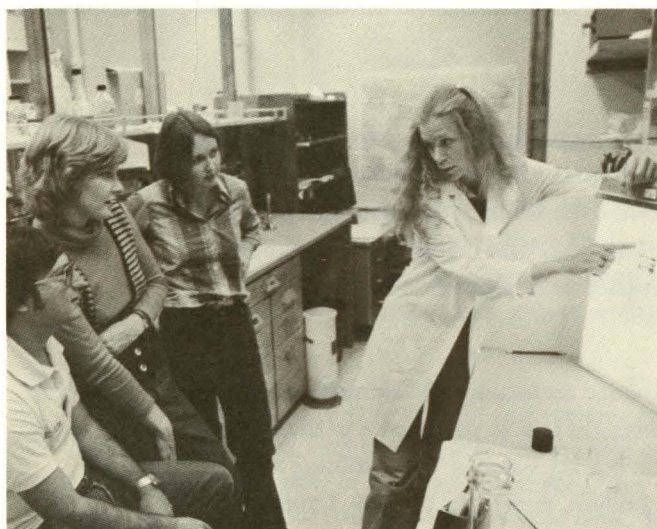
\$ 49,363

Total

\$171,027

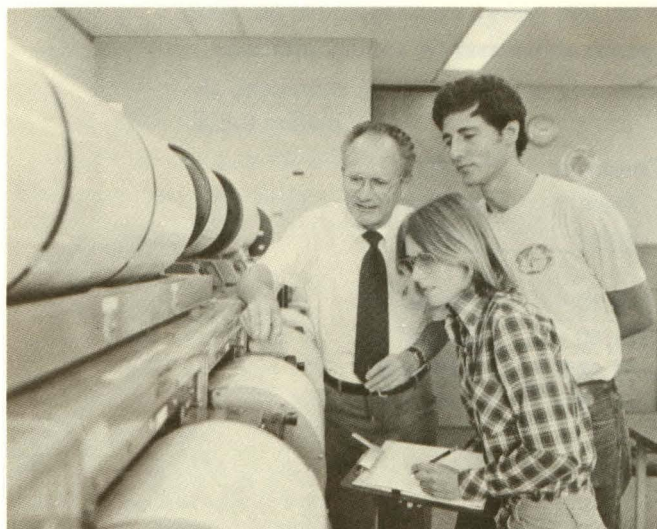
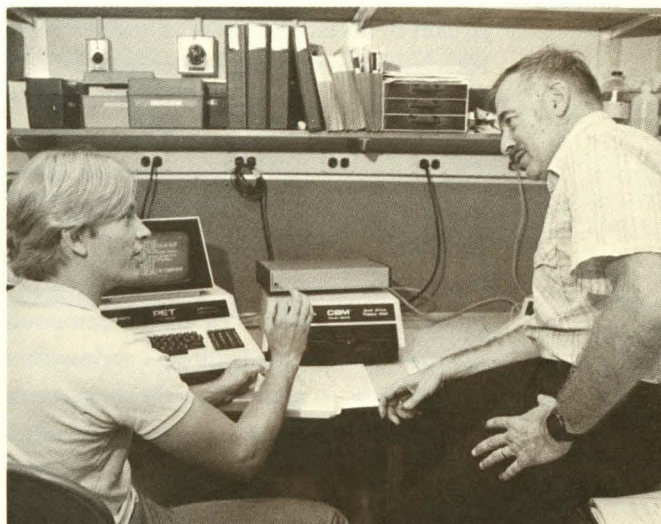
Five Years in Review

	1979	1980	1981	1982	1983
Current funds expenditures (in thousands)					
Instruction and research (including libraries)	\$47,696	\$56,920	\$62,259	\$64,938	\$74,535
Scholarships and fellowships	2,827	3,232	3,540	4,494	5,095
Plant operation, maintenance and utilities	5,148	6,571	6,587	8,116	9,586
Administration, student services and general	8,657	9,608	11,399	12,836	14,314
Total operating expenses	64,328	76,331	83,785	90,384	103,530
Auxiliary enterprises	2,829	3,417	3,870	4,219	4,435
Total	67,157	79,748	87,655	94,603	107,965
Capital expenditures, campus (in thousands)	6,973	14,078	19,967	10,526	12,459
Jet Propulsion Laboratory, direct expenditures (in millions)	319.0	375.4	396.6	384.8	425.2
Total gifts and nongovernment grants (in thousands)	16,770	16,958	22,271	25,652	24,747
Endowment and similar funds at market value (in millions)	173.9	197.4	184.3	208.3	248.3
Investment income (in millions)	13.8	16.3	19.8	20.4	19.6
Student enrollment (first term) — Undergraduate	801	817	844	866	874
Student enrollment (first term) — Graduate	851	892	865	888	936



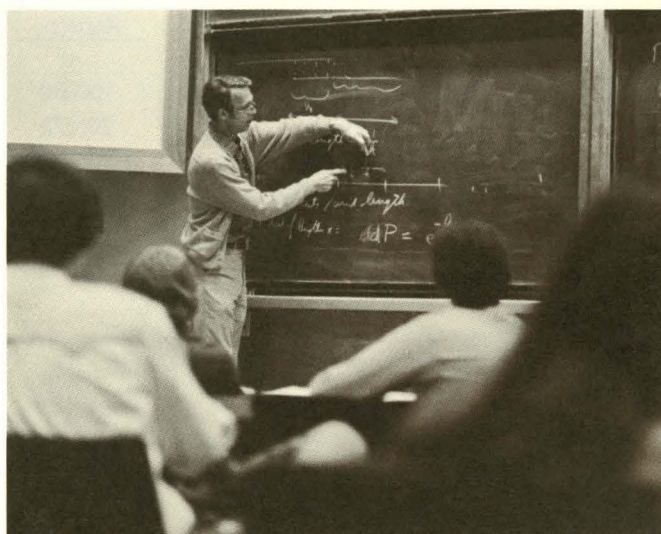
Left: Judith Campbell, associate professor of chemistry, works on the enzymatic mechanism of DNA replication.

Right: The Summer Undergraduate Research Fellowship (SURF) Program, under the direction of Professor Fred Shair, right, enables an increasing number of students each summer to carry out independent research.



Left: The bank of seismographic recorders in Mudd laboratories is tied to earthquake monitors all over southern California, as Professor Clarence Allen explains to students.

Right: Professor John Hopfield describes the physical chemistry of DNA hybridization to a class in biophysical chemistry of macromolecules.



Endowment and Similar Funds

Investment objectives for Caltech's endowment funds focus on three principles: 1) preservation of capital, 2) ability to meet current income targets, and 3) appreciation of capital to foster future income growth. In this way, the Institute endeavors to provide a stream of investment returns after considering inflation, that will strike a fair balance between current and future support of its instruction and research programs.

The 12 months ended September 30, 1983, provided an excellent investment climate for this strategy. The Institute repositioned its investment mix to participate in the stock and bond market rallies during this period. The market value of the Institute's endowment fund at September 30, 1983, was \$248.3 million, compared to \$208.3 million at September 30, 1982. The annual compound total rate of return (income plus market appreciation) on the Institute's endowment for the five years ended September 30, 1983, was 15.63% — approximately six percentage points above average annual inflation.

	Endowment Total Return	Consumer Price Index	GNP Deflator Index
Sept. 1978 index	100.00	199.10	148.60
Sept. 1983 index	206.72	301.80	216.40
Cumulative rate	+106.72%	+51.58%	+45.56%
Annual compound rate	+15.63%	+ 8.67%	+ 7.81%

Life Income and Annuity Funds

Life income and annuity agreements are a source of meaningful additions to the Institute's endowment and other funds. This form of deferred giving has proven attractive to many donors who wish to support the activities of the Institute and receive income on their gift during their lifetime(s) while obtaining a charitable income tax deduction for their gift. Upon termination of the beneficiary agreements, the principal is transferred to other fund groups as designated by the donor.

The Institute's life income and annuity agreements consist of pooled income funds, annuities, and taxable and non-taxable unitrusts. The Institute functions as trustee with the majority of the marketable securities in the agreements managed by a major institutional investment advisory firm. The Institute presently does not charge a trustee fee.

At September 30, 1983, the carrying value of the life income and annuity funds was \$23.8 million.

Comments on the Financial Statements

Included in the following pages are the financial statements of the California Institute of Technology for the year ended September 30, 1983, together with summarized information for the previous year. The Notes to Financial Statements are an integral part of these statements and provide significant information, including accounting policies, investments, funds held in trust, retirement plans, and pledges.

The Balance Sheet portrays the financial condition of the Institute as well as the assets, liabilities and fund balances of each of the five major fund groups, and the total for the Institute.

The Statement of Changes in Fund Balances summarizes the changes in the balances of each fund. The net increase or decrease in these balances reflects the impact of revenues and other additions together with expenditures and other deductions as well as transfers among funds. Thus, the sources and uses of funds are portrayed by major category.

The Statement of Operating Expenditures provides additional detail of the expenditures of unrestricted and restricted current funds for educational and related purposes.

Current Funds are those funds available for operating purposes. They are classified as unrestricted — available for any purpose; or restricted — to be used only for purposes specified by the sponsor or donor. They include tuition and fees, investment income, gifts and grants or contracts from federal and private sponsors.

Loan Funds are provided by gifts and participation in the government's National Direct Student Loan Program, and are subject to repayment with interest after graduation. As repayments are made, the principal and accumulated interest are lent again to new borrowers.

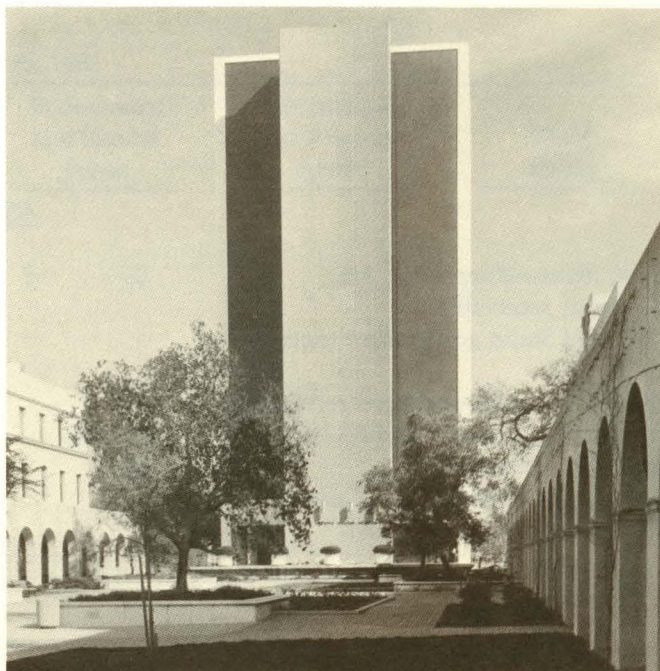
Endowment and Similar Funds include both the principal of funds set aside as endowment, in accordance with the donors' wishes, which are invested to produce income and capital appreciation, and also the principal of discretionary and expendable funds, which are designated by the Board of Trustees to function as endowment.

Life Income and Annuity Funds consist of gifts received subject to living trusts, for which the Institute is trustee, or annuity agreements. Payments are made to beneficiaries and annuitants during their lifetimes in accordance with the terms of these agreements. Upon termination of the beneficiary agreements, the principal of these funds is transferred to other fund groups as designated by the donor.

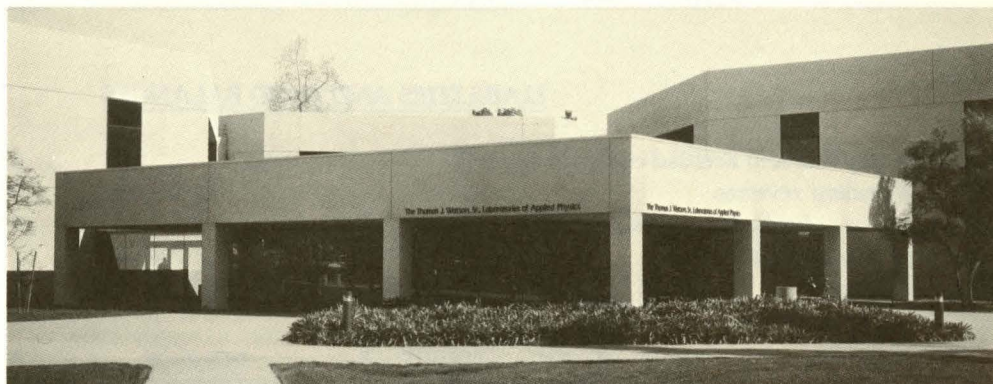
Plant Funds consist of funds that have been received for, or designated by the Trustees for, facilities. The group is divided into two categories: unexpended plant funds and investment in plant. Unexpended plant funds are available for expenditure. As these funds are used for construction, they are transferred to the funds invested in the plant. This transfer records the original cost of the Institute's physical facilities.



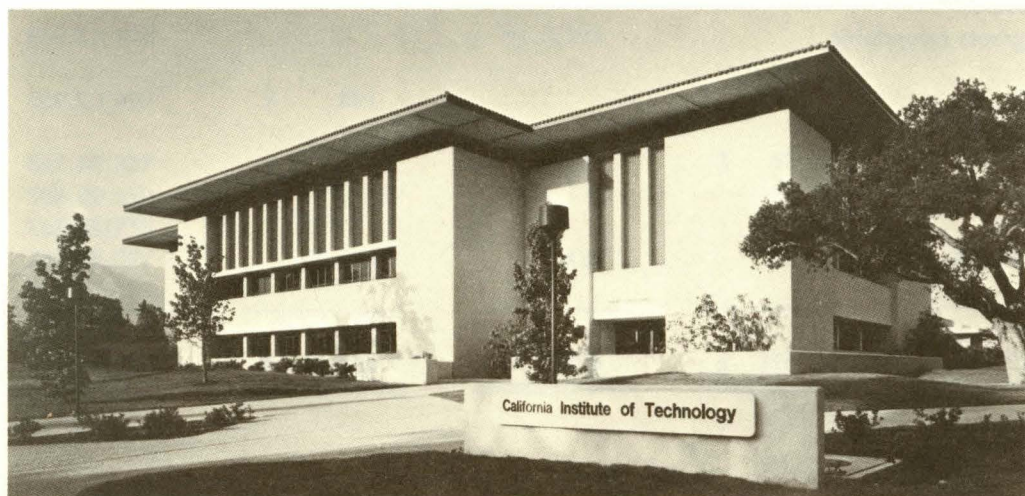
Parson-Gates Hall of Administration



Bechtel Mall



*Thomas J. Watson, Sr.,
Laboratories of Applied Physics*



*The Braun Laboratories
In Memory of Carl F and
Winifred H Braun*

CALIFORNIA INSTITUTE OF TECHNOLOGY
BALANCE SHEET
(in thousands)

September 30, 1982

Total
All Funds

ASSETS

Cash (demand deposits)	\$ 1,151
Accounts receivable:	
United States government (note B)	41,935
Other	2,067
Student accounts and notes receivable	6,797
Investments (notes A and C)	237,324
Interfund advances	
Prepaid expenses and other assets	2,668
Campus properties (note A):	
Equipment	76,376
Buildings	92,587
Land	10,536
	<u>\$ 471,441</u>

LIABILITIES AND FUND BALANCES

Accounts payable and accrued expenses (note B)	\$ 47,628
Deferred student revenue	3,607
Funds held in custody for others	7,563
Annuities payable (note A)	1,382
Fund balances	411,261
	<u>\$ 471,441</u>
 Fund balances comprise (Exhibit 2):	
United States government grants refundable	\$ 2,949
Institute funds —	
Unrestricted	2,983
Discretionary endowment	
Unrestricted	34,148
Restricted	25,807
Endowment principal	124,367
Other restricted funds	47,681
Invested in plant	173,326
	<u>\$ 411,261</u>

See accompanying notes to financial statements

September 30, 1983

Total All Funds	Current Funds	Loan Funds	Endowment and Similar Funds	Life Income and Annuity Funds	Plant Funds
\$ 1,182	\$ 838		\$ 32	\$ 311	\$ 1
51,934	51,934				
2,055	2,055				
7,379	2,726	\$ 4,653			
274,132	23,704	866	218,371	25,379	5,812
	3,482		1,324		(4,806)
2,671	2,671				
86,062					86,062
95,188					95,188
10,708					10,708
<u>\$ 531,311</u>	<u>\$ 87,410</u>	<u>\$ 5,519</u>	<u>\$ 219,727</u>	<u>\$ 25,690</u>	<u>\$ 192,965</u>
\$ 57,994	\$ 56,412			\$ 310	\$ 1,272
4,000	4,000				
7,104	5,942		\$ 1,162		
1,589				1,589	
460,624	21,056	\$ 5,519	218,565	23,791	191,693
<u>\$ 531,311</u>	<u>\$ 87,410</u>	<u>\$ 5,519</u>	<u>\$ 219,727</u>	<u>\$ 25,690</u>	<u>\$ 192,965</u>
\$ 3,103		\$ 3,103			
3,999	\$ 881				\$ 3,118
47,317			\$ 47,317		
29,510			29,510		
141,738			141,738		
49,077	20,175	2,416		\$ 23,791	2,695
185,880					185,880
<u>\$ 460,624</u>	<u>\$ 21,056</u>	<u>\$ 5,519</u>	<u>\$ 218,565</u>	<u>\$ 23,791</u>	<u>\$ 191,693</u>

CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENT OF CHANGES IN FUND BALANCES
(in thousands)
Year Ended
September 30, 1982

	<u>Total All Funds</u>
Fund balance at beginning of year (Exhibit 1)	\$ 395,778
Revenues and other additions (notes A, D and F)	
Student tuition and fees	10,485
Investment income	20,441
Net gain (loss) on disposal of investments —	
Unrestricted	(746)
Restricted	(3,211)
Gifts and nongovernment grants	25,652
United States government grants and contracts —	
Reimbursement of direct costs	31,488
Recovery of indirect costs and management allowance	21,147
Auxiliary enterprises revenues	4,103
United States government advances	108
Plant acquisitions, etc. (including \$7,789 included in campus operating expenditures and \$6,649 included in plant acquisitions, payments on interfund advances and renewals)	11,765
Adjustment of actuarial liability for annuities payable (note A)	216
Other	1,493
	<u>122,941</u>
Total revenues and other additions	
Expenditures and other deductions:	
Campus operating expenditures (Exhibit 3)	(94,603)
Plant acquisitions, payments on interfund advances and renewals	(9,030)
Retirement and disposal of campus properties	(1,958)
Interest on advances for plant purposes	(199)
Payment to life beneficiaries	(1,493)
Other	(175)
	<u>(107,458)</u>
Total expenditures and other deductions	
Transfers among funds:	
Gifts allocated	
Discretionary endowment transfers to (from) current funds	
Allocations for plant purposes	
Terminated trust and annuity agreements	
Other	
Total transfers	
Increase (decrease) for the year	<u>15,483</u>
Fund balance at end of year (Exhibit 1)	<u>\$ 411,261</u>

See accompanying notes to financial statements

Year Ended September 30, 1983

Total All Funds	Current Funds		Loan Funds	Endowment and Similar Funds	Life Income and Annuity Funds	Plant Funds
	Unrestricted	Restricted				
\$ 411,261	\$ 741	\$ 20,842	\$ 5,150	\$ 184,322	\$ 22,680	\$ 177,526
13,189	13,189					
19,634	6,209	11,325	103		1,634	363
19,856				19,856		
14,971				14,366	605	
24,747	4,000	14,085	87	2,999	637	2,939
35,200		33,453				1,747
23,293	21,829					1,464
4,589	4,589					
168			168			
14,438						14,438
(178)					(178)	
1,120	599	49	74		184	214
171,027	50,415	58,912	432	37,221	2,882	21,165
(107,965)	(50,647)	(57,318)				
(9,696)						(9,696)
(2,055)						(2,055)
(173)						(173)
(1,634)					(1,634)	
(141)		(73)	(68)			
(121,664)	(50,647)	(57,391)	(68)		(1,634)	(11,924)
	(526)	(615)		1,141		
	1,955	(636)		(1,319)		
	(607)	(1,185)		(3,134)		4,926
				137	(137)	
	(450)	248	5	197		
	372	(2,188)	5	(2,978)	(137)	4,926
49,363	140	(667)	369	34,243	1,111	14,167
\$ 460,624	\$ 881	\$ 20,175	\$ 5,519	\$ 218,565	\$ 23,791	\$ 191,693

CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENT OF OPERATING EXPENDITURES
(in thousands)

Exhibit 3

	Year Ended September 30	
	1982	1983
Educational and general:		
Instruction, including departmental research	\$ 32,334	\$ 37,751
Organized research	32,604	36,784
Scholarships and fellowships	4,494	5,095
Institutional and student support	12,836	14,314
Plant operation, maintenance and utilities	8,116	9,586
Total educational and general	90,384	103,530
Auxiliary enterprises	4,219	4,435
Total campus expenditures	\$ 94,603	\$ 107,965
Direct costs of sponsored research at Jet Propulsion Laboratory (fully reimbursed by the United States government)	\$ 384,780	\$ 425,222

See accompanying notes to financial statements

CALIFORNIA INSTITUTE OF TECHNOLOGY
NOTES TO FINANCIAL STATEMENTS
September 30, 1983

Note A — Summary of Significant Accounting Policies

Basis of accounting and reporting — The financial statements of the Institute, a not-for-profit educational organization, have been prepared in accordance with the principles of accrual basis fund accounting for colleges and universities. Under these principles Institute resources are accounted for by the use of separate funds so that visibility and control are maintained for the benefit of the Institute and its sponsors. Funds that have similar objectives and characteristics have been combined into fund groups. Within each fund group, fund balances restricted by outside sponsors for specific purposes are so indicated and are distinguished from unrestricted funds that are available for use in achieving any Institute objectives.

The financial statements of the Institute reflect the volume of activity at the Jet Propulsion Laboratory, which is managed by the Institute, but owned and supported by the United States government through the National Aeronautics and Space Administration.

Investments — Institute investments are stated at their approximate market value at date of gift, or at cost if purchased by the Institute, less applicable amortization and depreciation of real estate, unless there has been an impairment of value not considered temporary. All investments of endowment and similar funds are carried in an investment pool unless special considerations or donor stipulations require that they be held separately. Pool share values are computed periodically based upon the total market value of the investment pool and the total number of pool shares invested.

Income on investments of endowment and similar funds is recorded as current fund revenues for the purposes specified by the donor. Such income is supplemented, where necessary, by transfers of additional amounts so as to result in a total return from the investment pool equivalent to 5% of the average market of the pool over a three-year period. This total return concept is authorized by the California Uniform Management of Institutional Funds Act, which allows the prudent use of realized appreciation on investments, thus permitting greater flexibility in investment strategy.

Campus properties and plant funds — Campus properties are recorded at cost of construction or acquisition, or at appraisal value at date of gift, and no depreciation or amortization is recorded. The Institute provides for the renewal and replacement of its campus properties from funds designated for this purpose. Expenditures for maintenance and repairs are generally charged to current funds as plant operation and maintenance expenditures.

Annuities — Annuities payable to certain donors of the Institute are recorded at the present value of the liability calculated under an actuarial method which takes into account the life expectancies of the recipients.

Tax-exempt status — The Institute is a tax-exempt educational organization under federal and state income, gift, estate, and inheritance tax laws.

Note B — United States Government Contracts

The Institute has many contracts with the United States government that provide for reimbursement of costs incurred for sponsored research at the Jet Propulsion Laboratory and at the campus. These contracts gave rise to a substantial portion of the accounts payable and accrued expenses in the current funds at September 30, 1983 and 1982, and in turn to accounts receivable from the United States government.

Note C — Investments

Institute investments, at carrying values (see Note A), comprise the following:

	September 30,	
	1982	1983
Marketable securities —		
Debt securities (approximate market value of \$73,562,000 in 1982 and \$82,483,000 in 1983)	\$ 75,952,000	\$ 84,799,000
Equity securities (approximate market value of \$122,496,000 in 1982 and \$154,820,000 in 1983)	102,075,000	124,274,000
	178,027,000	209,073,000
Short-term commercial obligations	35,036,000	35,812,000
Settlements in process —		
Receivables for securities sold	1,117,000	10,000
Payables for securities purchased	(4,050,000)	(2,306,000)
Real estate, less amortization and accumulated depreciation of \$3,622,000 in 1982 and \$2,753,000 in 1983	19,982,000	22,030,000
Mortgages, notes and other securities	7,212,000	9,513,000
	<u>\$237,324,000</u>	<u>\$274,132,000</u>

Investments shown above include the investment pool as follows:

	September 30,	
	1982	1983
Investment pool assets		
at year end —		
At carrying value	\$156,196,000	\$185,942,000
At approximate market value	\$166,534,000	\$208,822,000
Pool share value at market	\$ 10.81	\$ 13.04
Annualized income earned per pool share	\$.83	\$.73

Note D — Funds Held in Trust

The Institute is the income beneficiary of certain funds, recorded at a nominal value, which are held in trust by others and which had current market values, estimated by the Institute, of approximately \$12,000,000 and \$9,000,000 at September 30, 1983 and 1982, respectively. The income derived from these funds amounted to \$692,000 and \$704,000 for the years ended September 30, 1983 and 1982, respectively. This income has been included as investment income in the Statement of Changes in Fund Balances.

In addition, the Institute is the trustee for several revocable trusts in which it has a remainder interest and for which it makes income payments for life to the grantors of the trusts. These trusts totaling \$3,770,000 and \$3,750,000 at September 30, 1983 and 1982, respectively, have been excluded from the financial statements due to their revocable nature.

Note E — Retirement Plans

The campus has two retirement plans covering substantially all its employees that are funded by periodic transfers to the respective insurance companies. The provisions for these pension costs for the years ended September 30, 1983 and 1982, totaled \$3,479,000 and \$2,933,000, respectively. The Institute's policy is to fund pension costs accrued. At the most recent annual valuation the funded amount and balance sheet accruals for retirement plans were sufficient to cover the actuarially computed value of vested benefits. A comparison of accumulated plan benefits and plan assets for the defined benefit plan at the most recent annual valuation dates (September 30, 1981 and 1982) is presented below (in thousands of dollars).

	September 30,	
	1981	1982
Actuarial present value of accumulated plan benefits:		
Vested	\$13,583	\$14,575
Non-Vested	816	1,223
	<u>\$14,399</u>	<u>\$15,798</u>
Plan assets	<u>\$15,405</u>	<u>\$16,780</u>

In determining the actuarial present value of accumulated plan benefits as of September 30, 1982, the rates of return used were 5-¾ percent for fixed dollar annuities and 3-¾ percent for variable annuities. This represents a weighted rate of 5 percent.

Note F — Pledges

The Institute does not record pledges in its financial statements. At September 30, 1983, the Institute had pledges on hand (principally for restricted purposes) totaling approximately \$18,500,000, of which \$7,300,000 is expected to be collected in 1984. It is not practicable to estimate the net realizable value of such pledges.



West Los Angeles, California
January 6, 1984

To the Board of Trustees of
California Institute of Technology

In our opinion, the accompanying balance sheet and the related statements of changes in fund balances and of operating expenditures (Exhibits 1 through 3) present fairly the financial position of California Institute of Technology at September 30, 1983, and the changes in fund balances and the operating expenditures for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have previously examined and reported upon the September 30, 1982, financial statements which are included in summary form for comparative purposes.

A handwritten signature in cursive script that reads "Price Waterhouse".

Board of Trustees October 1, 1982 — September 30, 1983

Robert Anderson
Robert O. Anderson
Victor K. Atkins
R. Stanton Avery
Stephen D. Bechtel, Jr.
Benjamin F. Biaggini
Donald L. Bower
John G. Braun
Walter Burke
Richard P. Cooley
Gilbert W. Fitzhugh
Camilla C. Frost
Charles C. Gates
James W. Glanville
Marvin L. Goldberger
William R. Gould
Fred L. Hartley
Philip M. Hawley
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