

**ALUMNI ASSOCIATION
CALIFORNIA INSTITUTE OF TECHNOLOGY**

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

SEPTEMBER 30, 2021 AND 2020

ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
SEPTEMBER 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alumni Association California Institute of Technology

Report on the Financial Statements

We have audited the accompanying financial statements of the Alumni Association California Institute of Technology (a nonprofit organization) (the Association), which comprise the statements of financial position as of September 30, 2021 and 2020; the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of September 30, 2021, and the changes in its net assets, its activities, its functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
March 31, 2022

ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 132,407	\$ 241,438
Prepaid expenses	1,965	4,975
Caltech pooled investment accounts	9,519,401	7,545,884
Artwork	7,500	7,500
Property and equipment	46,249	6,731
Total Assets	\$ 9,707,522	\$ 7,806,528
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 30,740	\$ 4,272
Related party payable	-	4,729
Lifetime membership deposit	226,696	314,827
Total Liabilities	257,436	323,828
Net Assets		
Net Assets Without Donor Restrictions	9,450,086	7,482,700
Total Net Assets	9,450,086	7,482,700
Total Liabilities and Net Assets	\$ 9,707,522	\$ 7,806,528

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

**ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	2021	2020
Support, Revenues, and Other Income		
Net investment returns - Caltech pooled investment accounts	\$ 2,171,994	\$ 188,610
Cash contributions and Caltech bridge funding	246,197	140,518
Caltech support - in-kind contributions:		
Salaries and related benefits	1,066,095	907,774
Alumni house rental	162,482	162,482
Regional programs	1,730	19,376
Interest income	619	1,535
	<u>3,649,117</u>	<u>1,420,295</u>
Total Support, Revenues, and Other Income		
Expenses		
Program Services Expenses		
Communications	82,121	127,724
Class reunions	97,823	90,685
Seminar day	40,121	55,912
Regional programs	31,461	22,595
Professional services and support	36,780	10,803
Student outreach	10,340	19,194
Depreciation	7,099	7,411
Other small programs	6,141	2,643
	<u>311,886</u>	<u>336,967</u>
Total Program Services Expenses		
Support Services Expenses		
Salaries and related benefits	1,066,095	907,774
Alumni house rental	162,482	162,482
	<u>1,228,577</u>	<u>1,070,256</u>
Total Support Services Expenses		
Total Program and Support Services Expenses	1,540,463	1,407,223
Management and General Expenses	141,268	170,408
	<u>1,681,731</u>	<u>1,577,631</u>
Total Expenses		
Change in Net Assets	1,967,386	(157,336)
Net Assets Without Donor Restrictions, Beginning of Year	7,482,700	7,640,036
Prior Period Adjustment	-	-
	<u>-</u>	<u>-</u>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 9,450,086</u>	<u>\$ 7,482,700</u>

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

**ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from donors	\$ 248,546	\$ 161,429
Cash received from service recipients	74,351	1,278,242
Cash paid to suppliers	(287,137)	(1,779,176)
Other operating cash receipts and (disbursements)	<u>(296,651)</u>	<u>1,535</u>
Net Cash Used by Operating Activities	<u>(260,891)</u>	<u>(337,970)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(46,617)	-
Distributions from Caltech pooled investment accounts	<u>198,477</u>	<u>290,107</u>
Net Cash Provided by Investing Activities	<u>151,860</u>	<u>290,107</u>
Net Decrease in Cash and Cash Equivalents	(109,031)	(47,863)
Cash and Cash Equivalents, Beginning of Year	<u>241,438</u>	<u>289,301</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 132,407</u></u>	<u><u>\$ 241,438</u></u>
RECONCILIATION OF THE CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,967,386	\$ (157,336)
Adjustments to reconcile the change in net assets to net cash used by operating activities		
Net investment returns - Caltech pooled investment accounts	(2,171,994)	(188,610)
Depreciation	7,099	7,411
(Increase) Decrease in:		
Accounts receivable	-	-
Prepaid expenses	3,010	8,074
Increase (Decrease) in:		
Accounts payable	21,739	(7,509)
Member deposit	<u>(88,131)</u>	<u>-</u>
Net Cash Used by Operating Activities	<u><u>\$ (260,891)</u></u>	<u><u>\$ (337,970)</u></u>

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

**ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	<u>Program and Support Services</u>	<u>Management and General</u>	<u>Total</u>
Event costs	\$ 717	\$ 42	\$ 759
Support services expenses	1,228,577	-	1,228,577
Contract and professional services	194,506	92,129	286,635
Computer costs	51,654	3,819	55,473
Travel	363	-	363
Postage	8,497	15,831	24,328
Bank and finance charges	1,269	90	1,359
Depreciation	7,099	-	7,099
Office supplies	-	2,198	2,198
Office expenses	-	12,131	12,131
Other	4,874	9,088	13,962
Promotion	32,545	3,786	36,331
Program supplies	10,362	2,154	12,516
	<u>\$ 1,540,463</u>	<u>\$ 141,268</u>	<u>\$ 1,681,731</u>

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

**ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>Program and Support Services</u>	<u>Management and General</u>	<u>Total</u>
Event costs	\$ 16,374	\$ 2,482	\$ 18,856
Support services expenses	1,070,256	-	1,070,256
Contract and professional services	153,185	118,054	271,239
Printing	-	1,109	1,109
Computer costs	41,306	5,534	46,840
Travel	3,567	5,839	9,406
Postage	10,664	212	10,876
Bank and finance charges	1,894	955	2,849
Event rentals	4,138	1,200	5,338
Depreciation	7,411	-	7,411
Office supplies	-	1,583	1,583
Other	29,567	24,745	54,312
Promotion	58,332	8,037	66,369
Program supplies	10,529	658	11,187
	<u>\$ 1,407,223</u>	<u>\$ 170,408</u>	<u>\$ 1,577,631</u>

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

**ALUMNI ASSOCIATION CALIFORNIA INSTITUTE OF TECHNOLOGY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Alumni Association California Institute of Technology (the Association) was formed in 1935 as a nonprofit corporation to promote the interests of the California Institute of Technology (Caltech), a related party, as a world standard of academic excellence by strengthening the ties of goodwill and communication between Caltech, its alumni, and its students by maintaining programs to serve their needs.

Method of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Public Support and Revenue

The Association reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources be maintained in perpetuity.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Association, the environment in which it operates, the purposes specified in its corporate documents, its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Association considers all highly-liquid debt investments purchased with a maturity of three months or less to be cash equivalents, except those held by external investment managers within the pooled investment accounts.

Accounts Receivable

The Association uses the direct write off method to determine uncollectible receivables. The annual write off is based on prior years' experience and management's analysis of specific receivables. Management has determined that all receivables are collectible.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Costs of additions, renewals, and betterments are capitalized; maintenance and repairs are charged to expense when incurred. It is the Association's policy to capitalize expenditures for these items in excess of \$1,500. As described in Note 6, the Association receives ongoing support from Caltech, including, but not limited to, staff payroll, benefits, alumni house rental, and use of computers and other equipment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Artwork

The Association commissioned an original piece of artwork to commemorate the 125th anniversary of Caltech. The artwork is valued at cost and is not depreciated.

Pooled Investment Accounts

Investments are valued at fair value, with realized and unrealized gains and losses reflected in the statements of activities and changes in net assets. Investments are recorded at fair value based on a hierarchy that prioritizes the input to valuation techniques used to measure fair value as discussed in Note 7.

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.

Expense Allocation

Directly identifiable expenses are charged to programs and support services. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied based on periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

Income Taxes

The Association is qualified under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Nonprofit organizations are not generally liable for taxes on income; therefore, no provision is made for such taxes in the financial statements.

The accounting standard on accounting for uncertainty in income taxes provides guidance on how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. Examples of tax positions include the tax-exempt status of the Association and various positions related to the potential sources of unrelated business taxable income (UBIT). The Association believes that it has no uncertain tax positions that impact its financial statements.

The Association files Form 990 with the Internal Revenue Service, and files related exempt organization returns in the State of California. The returns are generally no longer subject to examination by the Internal Revenue Service after three years, or by the State of California after four years.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS

Implemented in the Current Year

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Implemented in the Current Year (Continued)

supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance, and creates a *Topic 606 Revenue from Contracts with Customers*. The adoption of ASU 2014-09 is effective for the Association for the year ending September 30, 2021. There was no material impact on the Association's financial position and results of operations upon adoption of the new standard.

In June 2018, the FASB released ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. This update provides clarifying guidance on accounting for the grants and contracts of nonprofit organizations as they relate to the new revenue recognition standards implemented by ASU 2014-09 and aims to minimize diversity in the classification of grants and contracts that exist under current guidance. The adoption of ASU 2018-08 is effective for the Association for the year ending September 30, 2021. There was no material impact on the Association's financial position and results of operations upon adoption of the new standard.

Future Accounting Pronouncements

Additional standards recently released by FASB that are required to be implemented in future years are as follows:

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. As a result of COVID-19, FASB extended the effective date to be for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Association is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In January 2020, the FASB issued ASU 2020-01 – *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a Consensus of the FASB Emerging Issues Task Force)*. The updated standard is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The update is meant to clarify the accounting for investments under Topics 321, 323, and 815. Management has not yet determined the impact of this update on its financial statements.

In September 2020, the FASB issued ASU 2020-07 – *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The updated standard is meant to provide clarification for entities reporting contributed nonfinancial assets by requiring additional presentation and disclosure for those contributions. The amendment is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022 and should be applied retrospectively. Management has not yet determined the impact of this update on its financial statements.

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Association maintains its cash balances at various financial institutions. Cash accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation and are collateralized by other agencies. At September 30, 2021 and 2020, the Association's cash balances were fully insured or collateralized.

NOTE 4 – CALTECH POOLED INVESTMENT ACCOUNTS

The Association places its excess funds in Caltech's investment pool which Caltech administers. The Association believes its risk of loss as a general creditor of Caltech is remote. Caltech has imposed no restrictions on Association purchases and redemptions from the pool other than the following.

The Association typically withdraws from the investment pool based on the distribution percentage set annually by Caltech to meet its budget and capital preservation planning. The annual payout at the beginning of the year is calculated as a percentage of the moving average market value over twelve prior quarters.

Caltech's Board of Trustees has authorized a payout between 5% and 7% of average market value.

Caltech engages a number of outside parties to manage its investment portfolio. Caltech's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market and credit risk in excess of amounts recorded in the financial statements. Some of Caltech's money managers use interest rate futures contracts to modify the interest-rate sensitivity of investments in fixed income securities. The Association has not been advised of any material risk associated with these derivatives.

The Association has elected to report the value of these investments at their net asset value per share in accordance with FASB Accounting Standards Codification (ASC) 820-10-35-59.

The fair value of the Association's investments include the following accounts in the Caltech investment pool:

	<u>2021</u>	<u>2020</u>
Life Members	\$ 6,237,602	\$ 4,944,452
Bascom Endowment	3,170,568	2,513,261
Special Investment	<u>111,231</u>	<u>88,171</u>
Total	<u>\$ 9,519,401</u>	<u>\$ 7,545,884</u>

Investment returns from the Caltech investment pool consist of net realized and unrealized gains and losses and changes in valuation.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 82,615	\$ 30,143
Website	26,815	26,815
Branding	<u>10,507</u>	<u>10,507</u>
	119,937	67,465
Less accumulated depreciation	<u>(66,589)</u>	<u>(60,734)</u>
Total	<u>\$ 53,348</u>	<u>\$ 6,731</u>

For the years ended September 30, 2021 and 2020, the Association had depreciation expense of \$7,099 and \$7,411, respectively.

NOTE 6 – CALTECH SUPPORT

The Association receives ongoing support from Caltech consisting of staff payroll, benefits, alumni house rental, repairs, use of computers and other equipment, insurance, and other operating expenses for the facility where the Association operates. For the years ended September 30, 2021 and 2020, the gross payroll benefits were recognized in the amount of \$1,066,095 and \$907,774, respectively, and the alumni house rental support was estimated in the amount of \$162,482 and \$162,482, respectively. In addition, Caltech provided bridge funding of \$135,000 in cash to the Association for each of the years ended September 30, 2021 and 2020. Since no objective basis exists for measuring and valuing remaining items and the aggregated amount of them is immaterial, they are not reflected in the accompanying financial statements.

NOTE 7 – FAIR VALUE MEASUREMENTS

The Association determines the fair value of assets and liabilities consistent fair value framework that establishes a hierarchy for measuring fair value, and requires disclosures about the use of fair value measurements.

Fair value measurement reporting provides a consistent definition of fair value that focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement reporting also prioritizes the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, 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 full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Association's assessment of the significance of a particular input to fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Fair values of assets measured on a recurring basis at September 30, 2021, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
Caltech pooled investment accounts	<u>\$ 9,519,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,519,401</u>

NOTE 7 – FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at September 30, 2020, are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Other Unobservable Inputs (Level 3)</u>
Caltech pooled investment accounts	\$ 7,545,884	\$ -	\$ -	\$ 7,545,884

Fair value for the Association's share of Caltech's pooled investment accounts are provided by Caltech based on the valuation of the underlying assets.

The table below presents information about the change in investments, which is measured at fair value on a recurring basis using significant unobservable inputs:

Balance at September 30, 2019	\$ 7,647,381
Distributions	(290,107)
Adjustments for change in valuation	<u>188,610</u>
Balance at September 30, 2020	7,545,884
Distributions	(168,477)
Adjustments for changes in valuation	<u>2,171,994</u>
Balance at September 30, 2021	<u>\$ 9,549,401</u>

NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Association's financial assets at the statements of financial position date, reduced by amounts not available for general use within one year of the statement date because of contractual or donor-imposed restrictions. Financial assets at September 30, 2021 and 2020, are comprised of:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 132,407	\$ 241,438
Investments	<u>9,549,401</u>	<u>7,545,884</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 9,681,808</u>	<u>\$ 7,787,322</u>

The Association is substantially supported by contributions without donor restrictions and investment returns. As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events were evaluated through March 31, 2022, which is the date the financial statements were available to be issued. There were no other subsequent events that would require adjustments or disclosures in these financial statements.