



**California Association for Research in Astronomy**  
**dba W. M. Keck Observatory**  
(A Nonprofit California Public Benefit Corporation)

Financial Statements  
(With Independent Auditors' Report Thereon)

September 30, 2021 and 2020

## Independent Auditors' Report

The Board of Directors  
California Association for Research in Astronomy:

### Report on the Financial Statements

We have audited the accompanying financial statements of the California Association for Research in Astronomy, which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, and cash flows for the years then ended, and the related notes to 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 misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 auditors' 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 entity'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 entity'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 California Association for Research in Astronomy as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2022 on our consideration of the California Association for Research in Astronomy'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. The purpose of that report is solely 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 effectiveness of the California Association for Research in Astronomy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the California Association for Research in Astronomy's internal control over financial reporting and compliance.

***KKDL Y LLC***

Honolulu, Hawaii  
March 11, 2022

**CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**  
**DBA W. M. KECK OBSERVATORY**  
(A Nonprofit California Public Benefit Corporation)

Statements of Financial Position

September 30, 2021 and 2020

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 3,283,032	\$ 10,631,559
Restricted cash and cash equivalents	2,441,760	-
Grants and contracts receivable	326,853	333,557
Prepaid expenses and other assets	945,189	812,162
Total current assets	6,996,834	11,777,278
Noncurrent assets:		
Long-term investments	28,340,872	21,826,211
Property and equipment, net	45,731,381	44,427,509
Total assets	\$ 81,069,087	\$ 78,030,998
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,551,752	\$ 5,028,679
Noncurrent liability:		
Note payable	2,500,000	2,500,000
Total liabilities	7,051,752	7,528,679
Net assets:		
Without donor restrictions:		
Undesignated	67,713,206	61,300,996
Board-designated	1,328,786	978,497
Total net assets without donor restrictions	69,041,992	62,279,493
With donor restrictions	4,975,343	8,222,826
Total net assets	74,017,335	70,502,319
Commitments	-	-
Total liabilities and net assets	\$ 81,069,087	\$ 78,030,998

See accompanying notes to financial statements.

**CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**  
**DBA W. M. KECK OBSERVATORY**  
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Statements of Activities

Years Ended September 30, 2021 and 2020

	<b>2021</b>			<b>2020</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenues, support, and gains:						
Operating revenues	\$ 20,892,926	\$ -	\$ 20,892,926	\$ 20,628,679	\$ -	\$ 20,628,679
Net investment return	5,098,854	-	5,098,854	1,847,884	-	1,847,884
Grants and contributions	2,570,747	2,082,883	4,653,630	3,827,180	5,891,584	9,718,764
Gain (loss) on asset disposal	37,863	-	37,863	(625,082)	-	(625,082)
Other income	337,280	-	337,280	68,664	-	68,664
Net assets released from restrictions	5,330,366	(5,330,366)	-	1,923,528	(1,923,528)	-
Total revenues, support, and gains	<u>34,268,036</u>	<u>(3,247,483)</u>	<u>31,020,553</u>	<u>27,670,853</u>	<u>3,968,056</u>	<u>31,638,909</u>
Expenses:						
Program services:						
Operations	22,788,307	-	22,788,307	21,903,792	-	21,903,792
Related party asset projects	762,644	-	762,644	1,712,506	-	1,712,506
Research	140,141	-	140,141	228,604	-	228,604
Supporting services:						
Administration and general	3,059,443	-	3,059,443	3,476,966	-	3,476,966
Fund-raising	755,002	-	755,002	783,191	-	783,191
Total expenses	<u>27,505,537</u>	<u>-</u>	<u>27,505,537</u>	<u>28,105,059</u>	<u>-</u>	<u>28,105,059</u>
Change in net assets	6,762,499	(3,247,483)	3,515,016	(434,206)	3,968,056	3,533,850
Net assets at beginning of year	62,279,493	8,222,826	70,502,319	62,713,699	4,254,770	66,968,469
Net assets at end of year	<u>\$ 69,041,992</u>	<u>\$ 4,975,343</u>	<u>\$ 74,017,335</u>	<u>\$ 62,279,493</u>	<u>\$ 8,222,826</u>	<u>\$ 70,502,319</u>

See accompanying notes to financial statements.

**CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**  
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Statements of Cash Flows

Years Ended September 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 3,515,016	\$ 3,533,850
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,723,017	6,835,039
Net realized and unrealized gains on investments	(4,808,507)	(1,502,724)
Loss (gain) on disposal of property and equipment	(37,863)	625,082
Contributions restricted for investment in property and equipment	(1,733,103)	(5,715,100)
Decrease (increase) in assets:		
Grants and contracts receivable	6,704	550,864
Prepaid expenses and other assets	(133,027)	(70,364)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(476,927)	274,848
Net cash provided by operating activities	3,055,310	4,531,495
Cash flows from investing activities:		
Purchases of long-term investments	(1,706,154)	(1,123,669)
Purchases of property and equipment	(8,026,889)	(7,463,744)
Proceeds on sale of property and equipment	37,863	10,535
Net cash used in investing activities	(9,695,180)	(8,576,878)
Cash flows from financing activities:		
Proceeds from issuance of note	2,500,000	2,950,730
Payment on note	(2,500,000)	(2,950,730)
Contributions restricted for investment in property and equipment	1,733,103	5,715,100
Net cash provided by financing activities	1,733,103	5,715,100
Net increase (decrease) in cash, cash equivalents, and restricted cash	(4,906,767)	1,669,717
Cash, cash equivalents, and restricted cash at beginning of year	10,631,559	8,961,842
Cash, cash equivalents, and restricted cash at end of year	\$ 5,724,792	\$ 10,631,559
Supplemental information:		
Interest paid	\$ 99,589	\$ 1,557

See accompanying notes to financial statements.

**CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**  
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

**(1) Organization and Operations**

California Association for Research in Astronomy (CARA) is a nonprofit corporation formed by the California Institute of Technology (Caltech) and the University of California (UC) in January 1985 to build and operate the W. M. Keck Observatory (the Observatory) near the summit of Mauna Kea in Hawaii. Tax exempt under Section 501(c)(3) of the Internal Revenue Code, CARA is a nonprofit California public benefit corporation and, as such, is qualified as a nonprofit corporation in the state of Hawaii.

The principal purpose of CARA is to foster astronomical research and to provide technical direction for the development and operation of astronomical facilities on the island of Hawaii, principally on land owned by the state of Hawaii, leased to the University of Hawaii, and subleased to Caltech. The Observatory is owned by Caltech and is leased to CARA for \$1 per year. In consideration for subleasing the land to Caltech for \$1 per year through 2033, the University of Hawaii receives an opportunity to use the Observatory and related facilities and improvements. The astronomical facilities include two 10-meter telescopes (Keck I and Keck II), related instrumentation, adaptive optics technology, support facilities, and required infrastructure improvements.

Caltech and UC were equal participants in the design, construction, and pre-operating phase of the Observatory and made financial contributions to those endeavors that differed in both amount and type, with Caltech contributing the majority of the funds, largely through grants from the W. M. Keck Foundation (the Foundation). Caltech owns the telescopes, domes, and physical plant. When Keck I and Keck II telescopes began operations, UC and Caltech continued their equal participation; however, the funding by each institution changed, with UC contributing substantial cash for operating expenses from fiscal year 1992 for Keck I and fiscal year 1996 for Keck II. UC contributed set amounts for each telescope, adjusted annually by a specified factor, through March 31, 2018.

On April 1, 2018, Caltech and UC entered into the Second Amended and Restated Agreement (the Agreement) to continue their financial contributions to the operation of the Observatory. Under the Agreement, UC and Caltech are to provide equal financial support beginning on April 1, 2018; the Agreement will continue until terminated under the terms of the Agreement.

Under the Agreement, during each of the fiscal years 2021 and 2020, CARA recognized operating revenues for observatory operations of \$7,905,300 from UC and Caltech (see Note 5).

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

**(2) Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying financial statements have been prepared using the accrual basis of accounting and accounting principles generally accepted in the United States of America (GAAP).

***Net Assets***

The financial statements report net assets and changes in net assets based upon the existence or absence of restrictions on use that are placed by its donors or grantors, as follows:

*Net Assets Without Donor Restrictions* – net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the objectives of CARA. CARA’s governing board has designated, from net assets without donor restrictions, net assets for a Director’s Fund as further described in Note 11.

*Net Assets With Donor Restrictions* – net assets subject to donor-imposed stipulations that may or will be met either by actions and/or the passage of time. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose which the resource was restricted has been fulfilled, when the stipulated time has elapsed, or both.

***Cash, Cash Equivalents, and Restricted Cash***

CARA considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. As of September 30, 2021 and 2020, cash equivalents of \$4,652,142 and \$9,927,132, respectively, were invested in the University of California Short-term Investment Pool (UC STIP), and reported at fair value in the accompanying financial statements. See Note 4 for further discussion and disclosures related to fair value measurements. Cash equivalents held to satisfy the purpose of a note payable (see Note 7) are reported separately as restricted cash and cash equivalents in the accompanying statements of financial position.

The following table reconciles cash and cash equivalents reported within the statements of financial position to the sum of the corresponding amounts within the statements of cash flows as of September 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 3,283,032	\$ 10,631,559
Cash equivalents restricted for instrumentation development	2,441,760	-
Total cash and cash equivalents	<b>\$ 5,724,792</b>	<b>\$ 10,631,559</b>

**CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY**  
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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

***Long-Term Investments***

CARA's investments in the University of California Total Return Investment Pool (UC TRIP) and General Endowment Pool (UC GEP) are stated at fair value. Fair value is defined as 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 (an exit price). See Note 4 for further discussion and disclosures related to fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Realized and unrealized gains (losses) on investments are based on the difference between the fair value of assets at the beginning of the fiscal year, or at the time of purchase for assets purchased during the fiscal year, and the related fair value on the day investments are sold with respect to realized gains (losses), or on the last day of the fiscal year for unrealized gains (losses).

***Property and Equipment***

Expenditures incurred by CARA for observatory instrumentation and facilities, operating equipment, and vehicles are capitalized at cost, except for donated property that is valued at fair market value at the date of the gift, and depreciated when placed in service. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives are as follows:

<u>Class of assets</u>	<u>Estimated useful lives</u>
Observatory instrumentation	5-20 years
Observatory facility	3-15 years
Vehicles and equipment	3-20 years

CARA reports contributions designated by donors to acquire long-lived assets as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, CARA reports expirations of donor restrictions for construction in progress when costs are incurred.

***Revenue and Revenue Recognition***

CARA recognizes revenue from UC and Caltech under the Agreement in the fiscal year in which the amounts are intended under the Agreement.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

Recognition of revenue from contracts with customers occurs as CARA satisfies one or more performance obligations, which are promises in a contract to transfer a distinct good or service to a customer. CARA's performance obligations under its cooperative agreement with the National Aeronautics and Space Administration (NASA) are, in general, the use of the Observatory by NASA, as well as other support and development activities. CARA satisfies its performance obligations under the cooperative agreement on an over-time basis, as it incurs allowable direct costs and therefore recognizes revenue from such agreements as exchange transactions. All services provided under the cooperative agreement, which are measured by allowable costs incurred, immediately accrue to the benefit of NASA. The current NASA cooperative agreement began March 1, 2018 and has a 5-year term. Based upon the cooperative agreement's terms at September 30, 2021, the maximum remaining obligation to potentially be authorized under the cooperative agreement was approximately \$7,250,000 at September 30, 2021.

Other operating revenues recognized by CARA include direct revenues from various subcontracts in which CARA provides personnel, equipment, and facilities in support of instrumentation development by UC and Caltech. Title to such instrumentation is held by the prime contractor. Accordingly, CARA recognizes revenue from such contracts as exchange transactions. Performance obligations under such contracts are distinct tasks, and revenue is recognized as costs are billed for tasks performed.

Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or a notice of beneficial interest is received. Conditional promises to give (those with a measurable performance or other barrier, and a right of return) are not recognized until the conditions on which they depend have been substantially met. A portion of CARA's revenue is derived from cost-reimbursable federal grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when such expenditures have been incurred in compliance with specific grant provisions. CARA has elected to report such donor-restricted contributions whose restrictions are met in the same period as the revenue is recognized as contributions without donor restrictions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. No amounts have been received in advance under CARA's federal grants as of September 30, 2021 and 2020. Contributed goods and services received from subrecipients are recorded at fair value at the date of donation.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

As described in Note 1, CARA leases the Observatory and related facilities and improvements from Caltech for \$1 per year. As the use of the Observatory is so specific that there is no assignable value, it is impractical to determine a fair rental value to be reported as contribution revenue in the accompanying statements of activities.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

***Functional Allocation of Expenses***

The costs of program and supporting services activities are summarized on a functional basis in the statements of activities. The following table presents the natural classification detail of expenses by function for the fiscal years ended September 30, 2021 and 2020:

	September 30, 2021					
	Program Services			Supporting Services		
	Operations	Related Party Asset Projects	Research	Administration and General	Fund-raising	Total
Salaries and benefits	\$ 12,057,510	\$ 517,667	\$ 127,891	\$ 2,252,179	\$ 658,887	\$ 15,614,134
Depreciation	6,701,716	-	1,000	16,184	4,117	6,723,017
Services, supplies, and other	1,689,499	96,597	7,487	671,524	66,325	2,531,432
Occupancy	1,281,843	9,484	2,221	76,598	11,442	1,381,588
Equipment	550,619	138,896	1,542	42,958	14,231	748,246
Grants to others	461,504	-	-	-	-	461,504
Interest	45,616	-	-	-	-	45,616
Total expenses	<u>\$ 22,788,307</u>	<u>\$ 762,644</u>	<u>\$ 140,141</u>	<u>\$ 3,059,443</u>	<u>\$ 755,002</u>	<u>\$ 27,505,537</u>

	September 30, 2020					
	Program Services			Supporting Services		
	Operations	Related Party Asset Projects	Research	Administration and General	Fund-raising	Total
Salaries and benefits	\$ 11,771,293	\$ 966,637	\$ 159,702	\$ 2,584,745	\$ 657,522	\$ 16,139,899
Depreciation	6,808,937	-	1,225	19,832	5,045	6,835,039
Services, supplies, and other	1,151,024	189,015	53,106	731,370	59,247	2,183,762
Equipment	1,257,991	8,220	2,652	87,328	10,920	1,367,111
Occupancy	429,547	548,634	11,919	52,134	10,457	1,052,691
Grants to others	435,000	-	-	-	40,000	475,000
Interest	50,000	-	-	1,557	-	51,557
Total expenses	<u>\$ 21,903,792</u>	<u>\$ 1,712,506</u>	<u>\$ 228,604</u>	<u>\$ 3,476,966</u>	<u>\$ 783,191</u>	<u>\$ 28,105,059</u>

The financial statements report certain categories of expenses which are attributable to more than one program or supporting function. Therefore, such expenses require allocation on a reasonable basis that is consistently applied. The allocated expenses include salaries and benefits, as well as certain information technology and occupancy expenses, which are allocated on the basis of time and effort.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

***Use of Estimates***

The preparation of the financial statements in accordance with GAAP requires management of CARA to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the 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. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and the valuation of grants and contracts receivables and long-term investments. Actual results could differ from those estimates.

***Long-Lived Assets***

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, CARA first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as necessary.

***Sponsored Programs, Grants, and Contracts***

Governmental and private grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. CARA recognizes revenues associated with direct costs as incurred. Indirect costs recovered on federally sponsored programs are based on cost reimbursement rates negotiated with NASA, CARA's cognizant agency. Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective parties.

***Recently Issued Accounting Pronouncement***

In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities. ASU 2016-02 is effective for CARA's annual reporting period beginning October 1, 2022, with early adoption permitted. CARA is currently evaluating the effect that ASU 2016-02 will have on its financial statements.

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

***Economic Uncertainties and Subsequent Events***

The COVID-19 pandemic is causing widespread concern and economic hardship for consumers, businesses, and communities across the globe. The extent of the impact of COVID-19 on CARA’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and its impacts on CARA’s funders, employees, and vendors, all of which at present cannot be determined. Accordingly, the extent to which COVID-19 may impact CARA’s financial position and changes in net assets and cash flows is uncertain, and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

CARA has evaluated subsequent events from the statement of financial position date through March 11, 2022, the date at which the financial statements were available to be issued. There are no other matters to disclose.

**(3) Liquidity and Availability**

CARA manages its financial assets and the availability of reserves required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Financial assets classified below as available for general expenditures within one year are those that are considered both convertible to cash and free of donor-imposed and/or contractual restrictions that would limit or prevent the use of such cash to fund general expenditures.

At September 30, 2021 and 2020, CARA’s financial assets available for general expenditures within one year were as follows:

	<b>2021</b>	<b>2020</b>
Financial assets:		
Cash and cash equivalents	\$ 3,283,032	\$ 10,631,559
Restricted cash and cash equivalents	2,441,760	-
Grants and contracts receivable	326,853	333,557
Long-term investments	28,340,872	21,826,211
Total financial assets	34,392,517	32,791,327
Less amounts not available to be used within one year –		
long-term investments in excess of fund redemption limits	(17,157,645)	(13,477,564)
Financial assets available to meet general expenditures within one year	\$ 17,234,872	\$ 19,313,763

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

As part of its liquidity management plan, CARA monitors and then invests cash in excess of daily requirements in the UC STIP to maintain financial flexibility. To generate investment returns, cash in excess of annual requirements is invested in the UC TRIP and UC GEP funds. However, financial assets contain certain investments with limitations on liquidity that would reduce the total investments that could be made available but could not be accessed if warranted. See Note 4 for further disclosure about CARA's investments.

CARA has a board-designated Director's Fund (see Note 11) separate from its undesignated net assets without donor restrictions in the amount of \$1,328,786 and \$978,497 at September 30, 2021 and 2020, respectively. Although CARA does not intend to spend from the Director's Fund other than amounts appropriated for general expenditures as part of its annual budget approval process, amounts from the Director's Fund could be made available if necessary.

**(4) Fair Value Measurements**

The fair value of CARA's investments have been estimated using the net asset value per share as a practical expedient, and in accordance with the FASB's Accounting Standards Codification Subtopic 820-10, *Fair Value Measurement and Disclosures*, are not required to be presented in a fair value hierarchy. There have been no changes in the methodologies used at September 30, 2021 and 2020.

The following table summarizes CARA's investments for which fair value is measured using the net asset value per share practical expedient as of September 30, 2021 and 2020:

	<u>Fair Value as of September:</u>		<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2021</u>	<u>2020</u>		
Cash and cash equivalents:				
University of California				
Short-Term Investment Pool	\$ 4,652,142	\$ 9,927,132	Daily	Trade date
Long-term investments:				
University of California				
Total Return Investment Pool	10,280,193	7,639,302	Monthly	30 days
General Endowment Pool	18,060,679	14,186,909	Monthly	30 days
	<u>\$ 32,993,014</u>	<u>\$ 31,753,343</u>		

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Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

The following is a description of CARA’s investments:

**UC STIP** – is a highly liquid investment fund held by UC. Shares of the UC STIP are purchased and redeemed at a constant value of \$1 per share.

**UC TRIP** – is a unitized fund whereby CARA participates in investment returns and income on an equivalent pro-rated basis with all participants in the pool. The UC TRIP consists of the following investments at September 30, 2021: 49.8% fixed income securities, 50.1% public equity, and 0.1% cash. Under CARA’s investment agreements with UC, investments in the UC TRIP are redeemable at net asset value. As of September 30, 2021, the UC TRIP amounted to approximately \$13.0 billion, with no unfunded commitments.

**UC GEP** – is a unitized fund whereby CARA participates in investment returns and income on an equivalent pro-rated basis with all participants in the pool. The UC GEP consists of the following investments at September 30, 2021: 47.9% public equity funds, 9.6% absolute return funds, 2.8% fixed income, 25.2% private equity funds, 6.0% U.S. real estate funds, 2.8% real asset funds, 4.7% private credit, and 1.0% cash. Under CARA’s investment agreements with UC, investments in the UC GEP are redeemable at net asset value. The funds held in the UC GEP are not subject to an initial lockup period, however, fund redemptions are limited to 5% per year unless additional redemptions are approved by UC. As of September 30, 2021, the UC GEP amounted to approximately \$19.2 billion, with unfunded commitments amounting to \$2.4 billion.

Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the fund and, consequently, the fair value of CARA’s interests in the UC TRIP and UC GEP.

Net investment return for the fiscal years ended September 30, 2021 and 2020 are net of investment expenses and are comprised of the following:

	<b>2021</b>	<b>2020</b>
Net realized and unrealized gains on investments	\$ 4,808,507	\$ 1,502,724
Dividend and interest income	290,347	345,160
Net investment return	\$ 5,098,854	\$ 1,847,884

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**(5) Operating Revenues**

A summary of operating revenues for the fiscal years ended September 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Observatory operations (see Note 1):		
University of California	\$ 7,905,300	\$ 7,905,300
California Institute of Technology	7,905,300	7,905,300
National Aeronautics and Space Administration	4,595,586	4,209,979
Other	<u>486,740</u>	<u>608,100</u>
Total operating revenues	<u>\$ 20,892,926</u>	<u>\$ 20,628,679</u>

**(6) Property and Equipment**

A summary of property and equipment at September 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Observatory instrumentation and adaptive optics:		
Property and equipment	\$ 113,842,691	\$ 113,017,567
Construction in progress	<u>24,839,153</u>	<u>18,393,008</u>
	138,681,844	131,410,575
Observatory infrastructure:		
Property and equipment	5,265,156	5,265,156
Vehicles and equipment	<u>5,592,259</u>	<u>5,425,659</u>
	149,539,259	142,101,390
Less accumulated depreciation	<u>(103,807,878)</u>	<u>(97,673,881)</u>
Total property and equipment, net	<u>\$ 45,731,381</u>	<u>\$ 44,427,509</u>

Depreciation expense amounted to \$6,723,017 and \$6,835,039 for the fiscal years ended September 30, 2021 and 2020, respectively.

In 2020, CARA replaced the laser in the Keck I telescope with an upgraded laser, resulting in a net loss of \$625,082 for the year ended September 30, 2020.

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**(7) Note Payable**

In March 2019, CARA entered into an agreement with the Heising-Simons Foundation for a program related investment (PRI) loan in support of its strategic mission for the continued development and building of the Keck Planet Finder instrument. The loan was for \$2,500,000, unsecured, with 2% accumulated interest and principal due June 1, 2023, without prepayment penalties. The note was repaid early in full in March 2021, including accrued interest of \$99,589.

In May 2021, CARA entered into an agreement with the Heising-Simons Foundation for a program related investment (PRI) loan in support of its strategic mission for the development and building of the Santa Cruz Array of Lenslets for Exoplanet Spectroscopy (SCALES) instrument. The loan is for \$2,500,000, unsecured, with 2% accumulated interest and principal due June 1, 2025, without prepayment penalties. Unused loan proceeds amounting to \$2,441,760 as of September 30, 2021, are reported as restricted cash and cash equivalents in the accompanying statements of financial position.

**(8) Income Taxes**

CARA has received a determination from taxing authorities that it is an organization exempt from taxation under Section 501(c)(3) of the U.S. Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, CARA is subject to income taxes on any net income derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

CARA applies the provisions of ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest, and penalties, disclosure, and transition. Management believes that no such uncertain tax position exists for CARA requiring accrual or disclosure at September 30, 2021 and 2020. CARA is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2018.

**(9) Related-Party Transactions**

Caltech and UC provide various instrument and adaptive optics development services to CARA. During the fiscal years ended September 30, 2021 and 2020, total expenditures for these services charged to CARA were \$1,432,627 and \$2,291,197, respectively, by Caltech, and \$3,691,051 and \$2,883,097, respectively, by UC.

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CARA provided services for projects on Caltech’s observatory assets located in Hawaii, including the upgrade of NIRES, ongoing repair of the telescope mirror segments, telescope control system upgrades, dome shutter improvements, installation of a photo-voltaic system on Caltech’s summit observatory building, and various facilities improvements. During the fiscal years ended September 30, 2021 and 2020, total expenditures for these projects were \$704,404 and \$1,690,749, respectively.

CARA provided services for projects as a subawardee to UC, including development of a tertiary mirror and development of SCALES. During the fiscal years ended September 30, 2021 and 2020, total expenditures for these projects were \$58,240 and \$21,757, respectively.

**(10) Commitments**

CARA entered into various contractual agreements for operations, instrument and adaptive optics development, and facilities improvements. A summary of commitments at September 30, 2021 follows:

Operations	\$	2,053,941
Instrumentation		1,365,702
Adaptive optics systems		<u>1,211,802</u>
Total commitments	\$	<u><u>4,631,445</u></u>

**(11) Board-Designated Net Assets Without Donor Restrictions**

CARA established a board-designated Director’s Fund separate from its undesignated net assets without donor restrictions to be spent at the Observatory Director’s discretion, except that there is a ceiling of \$100,000 for each activity unless Board approval is obtained. The Director will report annually to the Board on the use of this fund. In 2021 and 2020, CARA received contributions of \$494,484 and \$331,466, respectively, which were board-designated for the Director’s Fund. At September 30, 2021 and 2020, the board-designated net assets amounted to \$1,328,786 and \$978,497, respectively.

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**(12) Net Assets With Donor Restrictions**

Net assets with donor restrictions at September 30, 2021 and 2020 are restricted for the following purposes:

	<u>2021</u>	<u>2020</u>
Instrument and AO development	\$ 4,363,714	\$ 7,890,876
Education and outreach	606,429	331,950
Related party asset projects	5,200	-
Total net assets with donor restrictions	<u>\$ 4,975,343</u>	<u>\$ 8,222,826</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donor as follows for the fiscal years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Instrument and AO development	\$ 5,255,265	\$ 1,697,915
Education and outreach	75,101	172,684
Related party asset projects	-	52,929
Total net assets released from restrictions	<u>\$ 5,330,366</u>	<u>\$ 1,923,528</u>

**(13) Deferred Compensation**

***403(b) Plan***

CARA sponsors a defined contribution retirement plan (the Plan), which was established under Section 403(b) of the U.S. Internal Revenue Code. The Plan provides for CARA to make contributions at various percentages of base salary depending on the participant's age and grade. Eligible employees, as defined in the Plan, may make contributions not to exceed amounts allowable under the U.S. Internal Revenue Code. Contributions to the Plan amounted to \$1,023,849 and \$1,061,866 for the fiscal years ended September 30, 2021 and 2020, respectively.

***457(b) Plan***

In 2014, CARA established a voluntary deferred compensation plan for a specific group of management designed in accordance with the provisions of Section 457 of the Internal Revenue Code. The plan allows participants to defer a portion of their compensation until after employment termination. Assets in the plan are held by CARA on a non-trust basis and are subject to the claims

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of its creditors. The plan is funded entirely from the compensation of the participants and vests with the employee immediately. CARA makes no contributions to the plan. The 457(b) plan assets and related liability obligation to participants of \$659,358 and \$542,477 as of September 30, 2021 and September 30, 2020, respectively, are included within other assets and accounts payable and accrued expenses in the accompanying statements of financial position.