



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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the financial statements, the California Association for Research in Astronomy adopted the provisions of the Financial Accounting Standards Board’s Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*, effective October 1, 2018. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2020 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 13, 2020

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

Statements of Financial Position

September 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents (notes 2, 3, and 4)	\$ 7,280,272	\$ 9,929,083
Restricted cash and cash equivalents (notes 2, 3, 4, and 7)	1,681,570	-
Grants and contracts receivable (note 3)	884,421	1,166,785
Prepaid expenses and other assets (note 13)	741,798	585,136
Total current assets	10,588,061	11,681,004
Noncurrent assets:		
Long-term investments (notes 3 and 4)	19,199,818	19,047,968
Property and equipment, net (notes 6 and 7)	44,434,421	44,277,694
Total assets	\$ 74,222,300	\$ 75,006,666
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses (note 13)	\$ 4,753,831	\$ 3,603,896
Advances (note 2)	-	2,656,153
Total current liabilities	4,753,831	6,260,049
Noncurrent liabilities:		
Note payable (note 7)	2,500,000	-
Total liabilities	7,253,831	6,260,049
Net assets:		
Without donor restrictions:		
Undesignated	61,935,348	63,299,279
Board-designated (note 11)	778,351	622,047
Total net assets without donor restrictions	62,713,699	63,921,326
With donor restrictions (note 12)	4,254,770	4,825,291
Total net assets	66,968,469	68,746,617
Commitments (notes 10 and 13)	-	-
Total liabilities and net assets	\$ 74,222,300	\$ 75,006,666

See accompanying notes to financial statements.

CALIFORNIA ASSOCIATION FOR RESEARCH IN ASTRONOMY
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Statements of Activities

Years Ended September 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, support, and gains:						
Operating revenues (notes 1 and 5)	\$ 25,019,433	\$ -	\$ 25,019,433	\$ 25,240,426	\$ -	\$ 25,240,426
Contributions (notes 2, 11, and 12):						
University of California	-	-	-	16,555,142	-	16,555,142
Other	206,054	284,377	490,431	117,561	5,204,685	5,322,246
Net investment return (note 4)	1,398,656	-	1,398,656	1,273,440	-	1,273,440
Other income	135,992	-	135,992	154,738	-	154,738
Net assets released from restrictions (note 12)	854,898	(854,898)	-	952,700	(952,700)	-
Total revenues, support, and gains	<u>27,615,033</u>	<u>(570,521)</u>	<u>27,044,512</u>	<u>44,294,007</u>	<u>4,251,985</u>	<u>48,545,992</u>
Expenses (notes 2, 6, 9, and 13):						
Program services:						
Observatory operations	21,630,432	-	21,630,432	21,156,053	-	21,156,053
Related party asset projects	2,810,592	-	2,810,592	3,819,034	-	3,819,034
Research	243,780	-	243,780	194,775	-	194,775
Administration and general	3,249,260	-	3,249,260	3,204,112	-	3,204,112
Fund-raising	888,596	-	888,596	556,555	-	556,555
Total expenses	<u>28,822,660</u>	<u>-</u>	<u>28,822,660</u>	<u>28,930,529</u>	<u>-</u>	<u>28,930,529</u>
Change in net assets	(1,207,627)	(570,521)	(1,778,148)	15,363,478	4,251,985	19,615,463
Net assets at beginning of year	63,921,326	4,825,291	68,746,617	48,557,848	573,306	49,131,154
Net assets at end of year	<u>\$ 62,713,699</u>	<u>\$ 4,254,770</u>	<u>\$ 66,968,469</u>	<u>\$ 63,921,326</u>	<u>\$ 4,825,291</u>	<u>\$ 68,746,617</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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (1,778,148)	\$ 19,615,463
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,074,262	7,500,625
Net realized and unrealized gains on investments	(923,845)	(888,473)
Related party asset project expense	-	709,067
Gain on disposal of property and equipment	(29,474)	-
Contributions restricted for investment in property and equipment	(138,309)	(4,711,406)
Decrease (increase) in assets:		
Grants and contracts receivable	282,364	(431,033)
Prepaid expenses and other assets	(156,662)	(88,513)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,149,935	391,678
Advances	(2,656,153)	(15,474,077)
Net cash provided by operating activities	2,823,970	6,623,331
Cash flows from investing activities:		
Purchases of long-term investments	(142,640)	(5,817,106)
Proceeds on sale of long-term investments	914,635	-
Purchases of property and equipment	(7,279,452)	(4,546,578)
Proceeds on sale of property and equipment	77,937	-
Net cash used in investing activities	(6,429,520)	(10,363,684)
Cash flows from financing activities:		
Proceeds from issuance of note	2,500,000	-
Contributions restricted for investment in property and equipment	138,309	4,711,406
Net cash provided by financing activities	2,638,309	4,711,406
Net increase (decrease) in cash and cash equivalents	(967,241)	971,053
Cash and cash equivalents at beginning of year	9,929,083	8,958,030
Cash and cash equivalents at end of year	\$ 8,961,842	\$ 9,929,083

See accompanying notes to financial statements.

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Notes to Financial Statements

September 30, 2019 and 2018

(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 original agreement, for fiscal year 2018, CARA recognized operating revenues for Keck I and Keck II operations from UC of \$7,556,546. Under the Agreement, during fiscal years 2019 and 2018, CARA recognized operating revenues for observatory operations of \$7,777,100, and \$3,780,000, respectively, from UC and \$7,777,100, and \$3,780,000, respectively from Caltech (see Note 5).

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(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).

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the understandability of net asset classifications as well as provides further information about expenses by functional categories. Additional insight into liquidity and availability of resources is also provided by part of this update. Effective October 1, 2018, CARA adopted provisions of ASU 2016-14 and has adjusted the presentation in the financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except that certain information about liquidity and availability of resources and expenses by functional categories is only presented as of and for the fiscal year ended September 30, 2019, as permitted by ASU 2016-14.

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, 2019 and 2018, cash equivalents of \$8,850,041 and \$9,891,587, 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.

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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, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 7,280,272	\$ 9,929,083
Cash equivalents restricted for instrumentation development	1,681,570	-
Total cash and cash equivalents	\$ 8,961,842	\$ 9,929,083

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:

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

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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.

Advances

Under the original operating agreement, operating and instrumentation funds received from UC were recorded as advances until expended for operating expenditures, observatory instrumentation, or vehicles and equipment. In connection with the implementation of the Agreement, advances from UC for observatory operations, which amounted to \$16,555,142 at September 30, 2017, were recognized as contributions in the accompanying statements of activities during the fiscal year ended September 30, 2018.

Under the Agreement, operating funds received from UC or Caltech in advance of the fiscal year intended for are recorded as advances. Funds received from other foundation grants for the purpose of developing certain instruments for the Keck telescopes or adaptive optics development are recorded as advances until expended for their stated purpose.

A summary of advances at September 30, 2018 follows:

University of California – observatory operations	\$	1,944,275
Heising-Simons Foundation		705,517
Other		<u>6,361</u>
Total advances	\$	<u><u>2,656,153</u></u>

Contributions

Contributions are recorded in the period received. CARA reports gifts as restricted support if they are received with donor-imposed stipulations that limit the use of the donated assets. 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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Notes to Financial Statements

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Functional Allocation of Expenses

The costs of program and supporting services activities are summarized on a functional basis in the statement of activities. The following table presents the natural classification detail of expenses by function for the fiscal year ended September 30, 2019:

	Program Services			Administration and General	Fund-raising	Total
	Observatory Operations	Related Party Asset Projects	Research			
Salaries and benefits	\$ 10,850,761	\$ 1,727,036	\$ 129,990	\$ 2,340,711	\$ 724,905	\$ 15,773,403
Depreciation (Note 6)	7,057,617	-	677	12,192	3,776	7,074,262
Services, supplies, and other	1,280,014	193,277	101,200	753,067	127,303	2,454,861
Equipment	606,088	890,279	8,786	51,388	15,176	1,571,717
Occupancy	1,359,445	-	3,127	91,902	17,436	1,471,910
Grants to others	455,000	-	-	-	-	455,000
Interest	21,507	-	-	-	-	21,507
Total expenses	<u>\$ 21,630,432</u>	<u>\$ 2,810,592</u>	<u>\$ 243,780</u>	<u>\$ 3,249,260</u>	<u>\$ 888,596</u>	<u>\$ 28,822,660</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.

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.

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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 CARA's cognizant agency, the National Aeronautics and Space Administration (NASA). Indirect costs recovered on all other grants and contracts are based on rates negotiated with the respective parties.

Reclassifications

Certain reclassifications were made to the 2018 financial information to conform to the 2019 presentations. Such reclassifications had no effect on previously reported change in net assets.

Recently Issued Accounting Pronouncement

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) regarding the recognition of revenue from contracts with customers. ASU 2014-09 outlines a single comprehensive standard for revenue recognition across all industries and supersedes most existing revenue recognition guidance.

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the scope and accounting guidance for contributions, and, in particular, the definition of donor-imposed conditions.

ASU 2014-09 and ASU 2018-08 are effective for CARA's fiscal year ending September 30, 2020. Management is currently evaluating the effect their adoption will have on CARA's financial statements.

Subsequent Events

CARA has evaluated subsequent events from the balance sheet date through March 13, 2020, the date at which the financial statements were available to be issued. There are no other matters to disclose.

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September 30, 2019 and 2018

(3) Liquidity and Availability

CARA manage 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, 2019, CARA’s financial assets available for general expenditures within one year were as follows:

Financial assets:

Cash and cash equivalents	\$ 7,280,272
Restricted cash and cash equivalents	1,681,570
Grants and contracts receivable	884,421
Long-term investments	<u>19,199,818</u>
Total financial assets	29,046,081
Less amounts not available to be used within one year –	
long-term investments in excess of fund redemption limits	<u>(12,348,933)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 16,697,148</u></u>

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 \$778,351 at September 30, 2019. 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.

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(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 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, 2019 and 2018.

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, 2019 and 2018:

	<u>Fair Value as of September:</u>		<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2019</u>	<u>2018</u>		
Cash and cash equivalents:				
University of California				
Short-Term Investment Pool	\$ 8,850,041	\$ 9,891,587	Daily	Trade date
Long-term investments:				
University of California				
Total Return Investment Pool	6,200,941	5,881,633	Monthly	30 days
General Endowment Pool	<u>12,998,877</u>	<u>13,166,335</u>	Monthly	30 days
	<u>\$ 28,049,859</u>	<u>\$ 28,939,555</u>		

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 – it is a unitized fund where by 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, 2019: 50.0% fixed income securities, 32.9% growth equity, 13.6% absolute return funds, and 3.5% cash. Under CARA's investment agreements with UC, investments in the UC TRIP are redeemable at net asset value. As of September 30, 2019, the UC TRIP amounted to approximately \$9.0 billion, with unfunded commitments amounting to \$213.2 million.

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UC GEP – it 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, 2019: 33.1% public equity funds, 22.7% absolute return funds, 10.4% fixed income, 14.6% private equity funds, 7.1% U.S. real estate funds, 4.6% real asset funds, and 7.5% 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, 2019, the UC GEP amounted to approximately \$13.3 billion, with unfunded commitments amounting to \$2.9 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 GEP.

Net investment return for the fiscal years ended September 30, 2019 and 2018 are net of investment expenses and are comprised of the following:

	2019	2018
Net realized and unrealized gains on investments	\$ 923,845	\$ 888,473
Dividend and Interest Income	474,811	384,967
Net investment return	\$ 1,398,656	\$ 1,273,440

(5) Operating Revenues

A summary of operating revenues for the fiscal years ended September 30, 2019 and 2018 follows:

	2019	2018
Observatory operations (note 1):		
University of California	\$ 7,777,100	\$ 11,336,546
California Institute of Technology	7,777,100	3,780,000
National Aeronautics and Space Administration	4,119,262	4,327,359
National Science Foundation	3,972,769	1,539,522
Heising-Simons Foundation	705,517	1,470,583
Other	667,685	2,786,416
Total operating revenues	\$ 25,019,433	\$ 25,240,426

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(6) Property and Equipment

A summary of property and equipment at September 30, 2019 and 2018 follows:

	2019	2018
Observatory instrumentation and adaptive optics:		
Property and equipment	\$ 113,362,116	\$ 113,160,060
Construction in progress	14,019,905	7,931,741
	127,382,021	121,091,801
Observatory infrastructure:		
Property and equipment	5,265,156	4,782,038
Vehicles and equipment	5,198,116	4,968,611
	137,845,293	130,842,450
Less accumulated depreciation	(93,410,872)	(86,564,756)
Total property and equipment, net	\$ 44,434,421	\$ 44,277,694

Depreciation expense amounted to \$7,074,262 and \$7,500,625 for the fiscal years ended September 30, 2019 and 2018, respectively.

(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 is for \$2.5 million, unsecured, with 2% accumulated interest and principal due June 1, 2023, without prepayment penalties. Unused loan proceeds amounting to \$1,681,570 as of September 30, 2019 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.

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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, 2019 and 2018. CARA is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016.

(9) Related-Party Transactions

Caltech and UC provide various instrument and adaptive optics development services to CARA. During the fiscal years ended September 30, 2019 and 2018, total expenditures for these services charged to CARA were \$1,502,734 and \$641,154, respectively, by Caltech, and \$2,454,394 and \$2,399,359, respectively, by UC.

In 2018, under the Agreement, CARA transferred ownership of the Near InfraRed Echelle Spectrograph (NIREs), a focal plane instrumentation development project included in construction in progress at September 30, 2017, to Caltech. Accordingly, costs of \$709,067 are included in related party asset projects expense in the accompanying statements of activities for the fiscal year ended September 30, 2018.

CARA provided services for projects on Caltech's observatory assets located in Hawaii including: development 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 ongoing installation of a spare secondary mirror. During the fiscal years ended September 30, 2019 and 2018, total expenditures for these projects were \$2,681,250 and \$3,388,394, respectively.

CARA provided services for projects as a subawardee to UC including development of a tertiary mirror and development of a spectrograph. During the fiscal years ended September 30, 2019 and 2018, total expenditures for these projects were \$129,342 and \$430,640, respectively.

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(10) Commitments

CARA entered into various contractual agreements for operations, laser guide star and adaptive optics systems, and observatory construction and development of instrumentation and interferometry systems. A summary of commitments at September 30, 2019 follows:

Operations	\$	1,632,021
Instrumentation		2,434,064
Laser guide star and adaptive optics systems		<u>1,063,057</u>
Total commitments		<u><u>\$ 5,129,142</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 2019 and 2018, CARA received contributions of \$206,054 and \$117,561, respectively, which were board-designated for the Director’s Fund. At September 30, 2019 and 2018, respectively, the board-designated net assets amounted to \$778,351 and \$622,047.

(12) Net Assets With Donor Restrictions

Net assets with donor restrictions at September 30, 2019 and 2018 are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Instrument and AO development	\$ 3,921,620	\$ 4,320,106
Education and outreach	333,150	295,185
Related party asset projects	-	<u>210,000</u>
Total net assets with donor restrictions	<u><u>\$ 4,254,770</u></u>	<u><u>\$ 4,825,291</u></u>

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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, 2019 and 2018:

	2019	2018
Instrument and AO development	\$ 484,294	\$ 592,298
Education and outreach	160,604	195,399
Related party asset projects	210,000	165,003
Total net assets released from restrictions	\$ 854,898	\$ 952,700

(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 \$1,015,654 and \$952,422 for the fiscal years ended September 30, 2019 and 2018, 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 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 \$489,369 and \$399,834 as of September 30, 2019 and September 30, 2018, respectively, are included within other assets and accounts payable and accrued expenses in the accompanying statements of financial position.