Monterey Bay Aquarium Research Institute

E.I.N. # 770150580

Reports on Financial Statements and Federal Award Programs in Accordance with the OMB Uniform Guidance

December 31, 2018

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Report of Independent Auditors

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and of cash flows for the year 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 the 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 our 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, we consider internal control relevant to the Institute'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 Institute'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Monterey Bay Aquarium Research Institute as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Institute has restated its 2017 financial statements to correct errors. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the Monterey Bay Aquarium Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2018. 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 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 Monterey Bay Aquarium Research Institute's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

San Francisco, California
June 28, 2019

Monterey Bay Aquarium Research Institute
Statements of Financial Position
December 31, 2018 and 2017

(in thousands of dollars)	2018	2017 (As Restated)
Assets		
Cash and cash equivalents	$ 18,879	$ 14,217
Receivables		
The David and Lucile Packard Foundation	45,365	43,412
Federal awards and other	1,660	1,706
Prepaid expenses and other assets	8,943	13,122
Deferred compensation plan investments	3,697	3,983
Property and equipment, net	47,383	48,873
Total assets	$ 125,927	$ 125,313
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,931	$ 1,392
Accrued expenses and other liabilities	6,085	5,204
Deferred compensation plan liabilities	3,697	3,983
Postretirement benefit liabilities	13,896	38,829
Total liabilities	25,609	49,408
Net assets		
Without donor restrictions		
Undesignated	35,090	10,031
Board designated	12,392	12,462
	47,482	22,493
With donor restrictions		
Time restricted	45,365	43,412
Purpose restricted	7,471	10,000
	52,836	53,412
Total net assets	100,318	75,905
Total liabilities and net assets	$ 125,927	$ 125,313

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

Monterey Bay Aquarium Research Institute
Statement of Activities
Year Ended December 31, 2018

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions			
The David and Lucile Packard Foundation	$ -	$ 45,365	$ 45,365
Federal awards	5,935	-	5,935
Non-Federal awards	765	-	765
Other	1,423	-	1,423
Net assets released from restrictions	45,941	(45,941)	-
Total revenues	54,064	(576)	53,488
Expenses			
Research and development	39,428	-	39,428
Marine operations	4,109	-	4,109
Information and technology dissemination	2,105	-	2,105
Operational support	8,408	-	8,408
Total expenses	54,050	-	54,050
Increase (decrease) in net assets, before non-operating postretirement activity	14	(576)	(562)
Other components of net periodic postretirement benefit cost	1,273	-	1,273
Postretirement benefit-related changes other than net periodic postretirement benefit cost	23,702	-	23,702
Increase (decrease) in net assets	24,989	(576)	24,413
Net assets			
Beginning of year	22,493	53,412	75,905
End of year	$ 47,482	$ 52,836	$ 100,318

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

Monterey Bay Aquarium Research Institute
Statement of Activities
Year Ended December 31, 2017

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions			
The David and Lucile Packard Foundation	$ -	$ 43,412	$ 43,412
Individual gifts	59	-	59
Federal awards	6,114	-	6,114
Non-Federal awards	1,357	-	1,357
Other	1,106	-	1,106
Net assets released from restrictions	41,542	(41,542)	-
Total revenues	50,178	1,870	52,048
Expenses			
Research and development	37,671	-	37,671
Marine operations	3,768	-	3,768
Information and technology dissemination	2,128	-	2,128
Operational support	7,746	-	7,746
Total expenses	51,313	-	51,313
(Decrease) increase in net assets, before non-operating postretirement activity	(1,135)	1,870	735
Other components of net periodic postretirement benefit cost	(1,351)	-	(1,351)
Postretirement benefit-related changes other than net periodic postretirement benefit cost	(4,428)	-	(4,428)
(Decrease) increase in net assets	(6,914)	1,870	(5,044)
Net assets			
Beginning of year	29,407	51,542	80,949
End of year	$ 22,493	$ 53,412	$ 75,905

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

Monterey Bay Aquarium Research Institute
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in thousands of dollars)	2018	2017 (As Restated)
Cash flows from operating activities		
Cash received from donors	$ 43,439	$ 51,540
Cash received from grants	6,989	6,849
Cash received from other support	1,033	1,138
Cash received from interest	410	164
Cash paid for employees	(31,480)	(30,108)
Cash paid for program expenses	(12,648)	(12,904)
Cash paid for taxes	(4)	(3)
Cash paid from deferred compensation	(304)	(44)
Net cash provided by operating activities	7,435	16,632
Cash flows from investing activities		
Purchase of deferred compensation plan investments	(901)	(1,011)
Proceeds from maturity of certificates of deposit	11,003	-
Purchase of certificates of deposit	(7,000)	(10,989)
Proceeds from sale and maturity of deferred comp investments	969	841
Purchase of property and equipment using capital grant funding	(1,999)	(1,063)
Purchase of property and equipment	(4,845)	(5,457)
Net cash used in investing activities	(2,773)	(17,679)
Cash flows from financing activities		
Cash received from capital grant	-	10,000
Net cash provided by financing activities	-	10,000
Cash and cash equivalents		
Net increase (decrease) in cash and cash equivalents	4,662	8,953
Beginning of year	14,217	5,264
End of year	$ 18,879	$ 14,217

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

(in thousands of dollars)

1. Organization and Summary of Significant Accounting Policies

Organization

The Monterey Bay Aquarium Research Institute (the "Institute") is a not-for-profit organization founded in 1987 for the purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay and elsewhere and to educate the scientific community and the general public in regard to such research. The Institute's primary facilities are located in Moss Landing, California.

Since 1994, The David and Lucile Packard Foundation (the "Foundation") has been the Institute's only member, with the power to elect the Board of Directors. In 2018 and 2017 approximately 85% and 83% of the Institute's revenues came from the Foundation, respectively. In addition, certain trustees and officers of the Foundation are also directors or officers of the Institute.

Basis of Presentation

The financial statements are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities,* which requires the Institute to classify its net assets into two categories according to donor imposed restrictions – net assets without donor imposed restrictions and net assets with donor imposed restrictions.

Net Assets without Donor Restrictions

Net assets without donor restrictions represent resources which do not have donor-imposed stipulations available to support the Institute's operations. Additionally, an operating reserve has been established for use on specific projects subject to the Board of Directors' approval.

Net Assets with Donor Restrictions

Net assets with donor restrictions represent gifts that are limited in use by the Institute in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Institute according to the terms of the gifts. At December 31, 2018 and 2017 net assets with donor restrictions consist entirely of gifts from the Foundation restricted to subsequent year's operations and depreciation expense incurred on capital projects, respectively. Net assets with donor restrictions of $43,412 and $41,542 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2018 and 2017, respectively. The Institute spent $2,013 and $1,063 of its $10,000 capital grant of which $7,471 and $10,000 remains restricted as capital assets associated with the expenditures were not placed in service during the years ended December 31, 2018 and 2017. This restriction will be released as capital assets are placed in service.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions 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. Significant estimates include the accrual for postretirement benefit liabilities and the estimated useful life for property and equipment.

(in thousands of dollars)

Concentrations of Credit Risk
Financial instruments that potentially subject the Institute to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents are maintained by major financial institutions and include investments in money market funds. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. Receivables consist primarily of funds due from the Foundation (Note 3). The Institute closely monitors receivables and has not experienced significant credit losses to date.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and in banks, money market funds and highly liquid investments purchased with an original maturity date of three months or less.

Other Assets
The Institute's other assets include deferred compensation plan investments and certificates of deposits with original maturity dates greater than 90 days which are reported at fair value. Certificates of deposit totaled $7,485 and $11,489 as of December 31, 2018 and 2017, respectively. Fair value is determined in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the measurement date. The Institute determines fair value based upon the fair value hierarchy established under applicable accounting guidance which requires an entity to prioritize the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. Investments are categorized as Level 1 when the valuation is based upon quoted prices in active markets for identical assets or liabilities; Level 2 when the valuation is based upon inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 when the valuation is based upon unobservable inputs in which little or no market data exists, therefore requiring the Institute to develop assumptions to determine the best estimate of fair value.

The David and Lucile Packard Foundation receivables are categorized in Level 3 of the fair value hierarchy. The carrying value of these receivables approximates fair value.

Investment transactions are recorded on a trade date basis. Realized gains and losses on dispositions of investments represent the difference between the original cost of the investment and the proceeds received from the sale.

Property and Equipment
Property and equipment are stated at cost or at the fair market value at the date of donation and are depreciated on the straight-line basis over the estimated useful lives of the assets (3 to 30 years). Capitalized costs for self-constructed assets include direct labor and benefits for employees specifically identified with the project. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(in thousands of dollars)

Revenue Recognition
Contributions are recognized as revenues when they are unconditionally pledged or received. The Institute reports gifts of cash and other assets as support with donor restrictions if they are received with donor 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 restriction and reported in the accompanying statement of activities as net assets released from restrictions. Contributions with donor restrictions are reported as contributions without donor restrictions when the restriction is met in the same period as the contribution is received.

Deferred Grant Revenue
Deferred grant revenue represents funds which have been received for programs which have not yet been completed or taken place, and therefore have not yet been earned.

Income Taxes
The Institute is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes pursuant to Section 501(a) of the Code and Section 23701(d) of the California Tax Code. To the extent that the Institute carries out activities that are subject to unrelated business income tax, it is subject to income taxation.

The Institute is a private operating foundation within the meaning of Section 509(a) of the Code that makes its required charitable expenditures by sponsoring and managing its own programs. Pursuant to Section 4940(a) of the Code, the Institute's investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 2% of investment income. The Institute's status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. The Institute has met the requirements for private operating foundation status through December 31, 2018 and 2017.

New accounting pronouncements
In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for the Institute in 2019. As a result of this change recognition of revenue from contributions, which makes up a majority of the Institute's support, will not be changed from prior years' treatment. The Institute has determined that the grants are expected to have an immaterial impact on revenue recognition.

(in thousands of dollars)

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for the Institute in 2020. The Institute is evaluating the impact of the new guidance on the financial statements.

Comparative financial statements

During 2018, management determined the 2017 Statement of financial position incorrectly classified as cash and cash equivalents approximately $6 million of short-term certificates of deposit scheduled to mature in January of 2018 (generally accepted accounting principles require such assets to be excluded from cash equivalents). Additionally, management incorrectly reported the $10 million capital grant received in 2017 from the Foundation as a cash inflow from operating activities (generally accepted accounting principles require such contributions designated for capital to be reported as an inflow from financing activities). These errors had no effect on total assets, total liabilities, or the statement of activities of the Institute.

As a result of these errors the Institute has restated 2017 financial statements as follows:

	Fiscal Year 2017		
(in thousands of dollars)	**As Previously Reported**	**Adjustments**	**As Restated**
Statement of Cash Flows			
Operating activities	$ 26,632	$ (10,000)	$ 16,632
Investing activities	(11,680)	(5,999)	(17,679)
Financing activites	-	10,000	10,000
Total change in cash and cash equivalents	$ 14,952	$ (5,999)	$ 8,953

	Fiscal Year 2017		
(in thousands of dollars)	**As Previously Reported**	**Adjustments**	**As Restated**
Statement of Financial Position			
Cash and cash equivalents	$ 20,216	$ (5,999)	$ 14,217
Prepaid expenses and other assets	7,123	5,999	13,122
All other assets	97,974	-	97,974
Total assets	$ 125,313	$ -	$ 125,313

(in thousands of dollars)

2. Property and Equipment

Property and equipment at December 31, 2018 and 2017 consist of the following:

	2018	2017
Land	$ 4,236	$ 4,236
Buildings	52,864	50,562
Research vessels	46,038	45,442
Remotely operated vehicles	21,315	20,332
Ocean deployed equipment	26,903	25,642
General equipment, furniture, and fixtures	19,377	18,880
Capital projects in progress	6,792	6,783
	177,525	171,877
Less: Accumulated depreciation	(130,142)	(123,004)
Property and equipment, net	$ 47,383	$ 48,873

Depreciation expense for the years ended December 31, 2018 and 2017 was $7,766 and $7,158, respectively. As of December 31, 2018 and 2017, the carrying value of the leased property for which MBARI is the lessor is as follows:

	2018	2017
Land	$ 165	$ 165
Buildings	1,397	1,397
Less: Accumulated depreciation	(880)	(833)
Lease property, net	$ 682	$ 729

3. Related-Party Transactions

In December of 2018 and 2017, the Institute receives a grant from the Foundation to support the subsequent year's operations. In 2018 and 2017, the Institute received a grant of $45,365 and $43,412 to be used for operations, research projects and ordinary capital expenses in 2019. The receivable from the Foundation was $45,365 and $43,412 as of December 31, 2018 and 2017, respectively and is included in net assets with donor restrictions.

4. Commitments and Contingencies

The Institute leases certain land and facilities under noncancelable operating leases. The terms of these leases expire in 2020 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under noncancelable operating leases as of December 31, 2018 are approximately as follows:

(in thousands of dollars)

Year Ending December 31		
2019	$	223
2020		179
2021		31
2022		32
2023		33
Thereafter		623
	$	1,121

Rent expense was $221 and $189 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017 the Institute has $500 and $500 on deposit as collateral to guarantee that the Institute will comply with the provisions of a land lease entered into with the State of California, California State Lands Commission to obtain right-of-way use needed for the operation of one of the Institute's projects, the MARS Project, respectively. This amount is included in prepaid expenses and other assets in the statement of financial position.

The Institute derives a portion of its revenues from various federally funded programs that are subject to review and audit by governmental oversight agencies. Institute management believes that the Institute is in material compliance with the standards set forth by the federal governmental agencies and that the outcome of reviews and audits conducted by such agencies will not have a significant effect on the financial position of the Institute.

Claims

Claims are filed from time to time against the Institute in the ordinary course of business. The Institute is not aware of any such matters that would have a material adverse effect on the Institute's financial position.

5. Minimum Future Rental Revenues

The Institute leases land and facilities to others under noncancelable leases with lease terms expiring in 2019 and 2025, with options to renew. Certain rental rates are subject to annual increases ranging up to 3%.

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year as of December 31, 2018 are approximately as follows:

Year Ending December 31		
2019	$	118
2020		36
2021		36
2022		37
2023		38
Thereafter		78
	$	343

(in thousands of dollars)

6. Retirement Plans

The Institute sponsors a defined contribution plan under IRC 403(b). The plan covers all employees who meet eligibility requirements. Contributions to the 403(b) plan are made by the Institute at 10% of an employee's annual salary. Under the 403(b) plan and subject to statutory limits, employees may make voluntary deferred salary contributions to the plan. Total expenses related to this plan were $2,274 and $2,211 in 2018 and 2017, respectively.

The Institute sponsors a Section 457(b) Qualified Eligible Salary Deferral Plan (the "Salary Deferral Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Salary Deferral Plan enables participants to defer income on a pre-tax basis. There are no Institute contributions related to this plan. At December 31, 2018 and 2017 the Institute held plan investments of $3,660 and $3,953 that are included in deferred compensation plan investments, respectively. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of $3,660 and $3,953, as of December 31, 2018 and 2017, respectively. These liabilities are included in deferred compensation plan liabilities.

The Institute also sponsors a Nonqualified Deferred Compensation Restoration Plan (the "Compensation Restoration Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Compensation Restoration Plan provides for the Institute to make contributions to a participant's account equal to the amount in excess of IRC limits which the participant would otherwise have been eligible for in accordance with the Institute's 403(b) plan. At December 31, 2018 and 2017 the Institute held plan investments of $37 and $30, that are included in deferred compensation plan investments, which are designated by the Institute to pay future Compensation Restoration Plan liabilities of $37 and $30 as of December 31, 2018 and 2017, respectively. These liabilities are included in deferred compensation plan liabilities.

At December 31, 2018 and 2017 all of the Institute's deferred compensation plan investments were classified as Level 1 as they are mutual funds with daily traded fair market values and consisted of the following:

	2018	2017
Equity and bond mutual funds	$ 1,808	$ 2,094
Equity mutual funds	1,316	1,233
Bond mutual funds	-	377
U.S. Government securities mutual funds	453	146
Real estate mutual funds	120	133
Total fair value of deferred compensation plan investments	$ 3,697	$ 3,983

The Institute has a contributory retiree health insurance program (the "Plan") which covers substantially all employees who meet the eligibility requirements. Each August 1, the Institute makes a contribution on behalf of each retired employee to a health reimbursement account (HRA). The amount of the contribution is 50% of the premium in effect as of August 1, 2017 with the same family status (single or two-party coverage) as the retiree. The retiree may then spend the amount in the HRA on any medical expenses that are tax-deductible, including premiums for health insurance.

(in thousands of dollars)

Effective April 1, 2018 the Institute implemented changes to the Plan as follows:

- For employees hired after 2007, an additional requirement has been added to be eligible for benefits: age plus years of service must be 70.

- MBARI contributions to the HRA for retirees over age 65 are limited to 50% of the medical premium amounts in effect on August 1, 2017

The effect of these two changes was a reduction in the APBO of $24,391. This will be recognized at the rate of $3,388 per year beginning January 1, 2018.

The following information presents the Plan's unfunded status and the amounts recognized in the statement of financial position as of December 31, 2018 and 2017 based on a measurement date of December 31:

	2018	**2017**
Benefit obligation	$ 13,896	$ 38,829
Fair value of plan assets	-	-
Unfunded status	$ 13,896	$ 38,829
Amount recognized in the statements of financial position as postretirement benefit liabilities	$ 13,896	$ 38,829

Amounts recognized in net assets without donor restrictions at December 31, 2018 and 2017 were as follows:

	2018	**2017**
Net loss/(gain)	$ 5,608	$ 7,460
Prior service cost	(21,850)	
	$ (16,242)	$ 7,460

The Institute Plan's net periodic postretirement benefit (cost) / credit reflected in the statement of activities for the years ended December 31, 2018 and 2017 were $(923) and $2,143, respectively.

Changes other than net periodic postretirement benefit cost recognized in the statement of activities for the years ended December 31, 2018 and 2017 were as follows:

	2018	**2017**
Net actuarial (gain) loss	$ (1,301)	$ 4,428
Amortization of net gain (loss)	(551)	-
Plan amendment	(24,391)	-
Amortization of prior service cost	2,541	-
Total changes other than net periodic postretirement benefit cost/(credit)	$ (23,702)	$ 4,428

(in thousands of dollars)

The estimated net loss and prior service cost of the Institute that will be amortized from net assets without donor restrictions into net periodic postretirement benefit cost in 2019 are as follows:

Amortization of net loss	$	(508)
Amortization of prior service cost		3,388
	$	2,880

Total contributions paid by the Institute to the Plan for the years ended December 31, 2018 and 2017 were $267 and $182, respectively. Total benefit payments made from the Plan for the years ended December 31, 2018 and 2017 were $308 and $209, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 4.10% and 3.61% as of December 31, 2018 and 2017 and in determining the net periodic postretirement benefit cost was 3.61% and 4.18% for the years ended December 31, 2018 and 2017, respectively.

The Plan is fully insured, and is funded on a pay-as-you-go basis. The estimated minimum benefit payments by year that reflect expected future service to be paid by the Institute are as follows:

2019 / 2018	$435	$376
2020 / 2019	503	472
2021 / 2020	572	553
2022 / 2021	644	685
2023 / 2022	705	792
2024-2028 / 2023-2027	4,209	6,014

The annual rate of increase in the per capita cost of medical benefits (i.e. health care cost trend rate) was assumed to be 8.5% in 2019, 8.0% in 2020 and declining by 0.5% per year until the ultimate trend rate of 5.0% is reached by 2026.

(in thousands of dollars)

7. Analysis of Expenses

2018

	Program Services				Supporting Activities	
	Research and Development	Marine Operations	Information Dissemination	Program Subtotal	Operational Support	Total Expenses
Salary, benefits and payroll taxes	$ 19,710	$ 6,469	$ 1,346	$ 27,525	$ 4,348	$ 31,873
Legal fees	-	-	-	-	95	95
Accounting fees	-	-	-	-	212	212
Depreciation	3,017	2,485	28	5,530	2,236	7,766
Occupancy	3,359	596	187	4,142	(2,935)	1,207
Travel, conferences, and meetings	651	106	64	821	160	981
Printing and publications	123	6	85	214	23	237
Other expenses and allocations	12,568	(5,553)	395	7,410	4,269	11,679
Postretirement benefit costs - interest and amortization	(787)	(258)	(54)	(1,099)	(174)	(1,273)
Total expenses	$ 38,641	$ 3,851	$ 2,051	$ 44,543	$ 8,234	$ 52,777

2017

	Program Services				Supporting Activities	
	Research and Development	Marine Operations	Information Dissemination	Program Subtotal	Operational Support	Total Expenses
Salary, benefits and payroll taxes	$ 19,471	$ 5,778	$ 1,220	$ 26,469	$ 4,237	$ 30,706
Legal fees	-	1	-	1	94	95
Accounting fees	-	-	-	-	217	217
Depreciation	2,974	2,124	25	5,123	2,035	7,158
Occupancy	2,753	489	153	3,395	(2,168)	1,227
Travel, conferences, and meetings	430	200	58	688	138	826
Printing and publications	58	6	112	176	19	195
Other expenses and allocations	11,985	(4,830)	560	7,715	3,174	10,889
Postretirement benefit costs - interest and amortization	820	243	52	1,115	236	1,351
Total expenses	$ 38,491	$ 4,011	$ 2,180	$ 44,682	$ 7,982	$ 52,664

(in thousands of dollars)

The Institute classifies operating cost amongst its three main activities. Cost are associated with each activity either by occurring directly within that activity or by allocation from another activity. Allocations are made for facility and ship usage to better align costs with each activity's use of resources. The Institute's expenses are classified within the following activities:

Research and Development

Develop and adapt innovative technologies for advancing our understanding of the ocean.

Marine Operations

The Division of Marine Operations serves a role in the support of the Institute's research and development by operating and maintaining the Institute's research vessels and remotely operated vehicles. The support provided by the Division of Marine Operations facilitates the work of developing, adapting and utilizing innovative technology.

Information Dissemination

Information and technology dissemination serves as a gateway for the transfer of knowledge gained, solutions devised and technologies developed to communities outside of the Institute. These communities include researchers, educators, policy makers, resource managers, industry and the general public.

(in thousands of dollars)

8. Available Resources and Liquidity

The Institute has a board designated operating reserve of $12,392 and $12,462 at December 31, 2018 and 2017, respectively. This is a governing board-designated reserve with the object of setting aside funds to be used on specifically approved projects. The Institute maintains the reserve at no less than $6,000 which was determined by management as the minimum needed to meet capital fluctuations during a given year. The operating reserve consists of unused funds that result from support in excess of actual expenditures. Over the course of a given year, the Institute may realize surpluses or deficits relative to its proposed revenue and expenditures; these fluctuations are added to or are deducted from the operating reserve at the end of each calendar year. The operating reserve funds are held in money market accounts and certificates of deposit. Although the Institute does not intend to spend from its board designated funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the operating reserve could be made available by the Board of Directors if necessary.

The following represents the Institute's financial assets as of December 31, 2018 and 2017.

	2018	2017
Cash and cash equivalents	$ 18,879	$ 14,217
Certificates of deposit maturing in less than 90 days	3,496	5,999
Certificates of deposit maturing in greater than 90 days	3,490	4,990
2018 David and Lucile Packard Foundation receivables	45,365	43,412
Federal awards and other receivables	1,660	1,706
Total financial assets	72,890	70,324
Less those unavailable for general expenditures due to designations		
Board designations:		
Operating reserve	12,392	12,462
Donor designations:		
Foundation Capital Grant	7,471	10,000
Capital grant spent not yet in service	(547)	(1,063)
Total amounts unavailable for general expenditures	19,316	21,399
Financial assets available to meet cash needs for operating expenditures for one year	$ 53,574	$ 48,925

9. Subsequent Events

Management has evaluated subsequent events through June 28, 2019, which is the date the financial statements were available to be issued.

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA#	Award Number	Pass Through Number	Federal Expenditures	Pass Through to Subrecipient
Research and Development - Cluster					
National Science Foundation					
Direct Programs					
Geosciences	47.050	OCE-1337601		19,289	
Geosciences	47.050	OCE-1357042		26,776	
Geosciences	47.050	OCE-1416877		73,856	
Geosciences	47.050	OCE-1514756		204,708	
Geosciences	47.050	OCE-1736864		2,647	
Geosciences	47.050	OCE-1737019		129,135	
Geosciences	47.050	OCE-1812535		21,795	
Geosciences	47.050	OCE-1756932		268,706	
Biological Sciences	47.074	BIO-1455501		45,328	
Biological Sciences	47.074	DEB-1542679		80,772	
Geosciences	47.050	PLR-1602946		10,326	
Biological Sciences	47.074	DEB-1639033		446,863	
Geosciences	47.050	OCE-1636527		131,829	
Geosciences	47.050	OCE-1260295		141,237	
Subtotal Direct Awards - National Science Foundation (NSF)				1,603,267	-
Pass-Through from WHOI - Engineering Grants	47.041	IIP-1534054	A101277	57,868	-
Pass-Through from University of Washington - Geosciences	47.050	OCE-1737080	UWSC10121	19,049	
Pass-through from Princeton University - Geosciences	47.050	PLR-1425989	SUB0000010	878,401	43,740
Pass-through from UC San Diego - Biological Sciences	47.074	DBI-1458145	70365181	14,006	
Total National Science Foundation				2,572,591	43,740
US Geological Survey					
Direct Programs					
Research and Data Collection	15.808	G18AC00216		49,953	
Total US Geological Survey				49,953	-
U.S. Department of Defense - Office of Naval Research					
Direct Programs					
Basic & Applied Scientific Research	12.300	N00014-18-1-2169		8,066	
Basic & Applied Scientific Research	12.300	N00014-17-1-2752		5,064	
Total Office of Naval Research				13,130	-

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass Through Number	Federal Expenditures	Pass Through to Subrecipient
U.S. Department of Homeland Security					
Pass-Through from University of Alaska- Centers for Homeland Security	97.061	2014-ST-061-ML-0002	P0516972	130,648	-
Pass-Through from University of Alaska- Centers for Homeland Security	97.061	1&STADA00001-02-00	P516972A	19,990	
Total Department of Homeland Security				150,638	-
National Aeronautics and Space Administration					
Direct Programs					
Science	43.001	80NSSC17K0574		178,048	98,773
Science	43.001	80NSSC18K1678		8,797	
Subtotal Direct Awards - National Aeronautics and Space Administration				186,845	98,773
Pass-Through from University of South Florida - Science	43.001	NNX14AP62A	2500-1616-00-A	93,911	
Pass-Through from UC San Diego - Science	43.001	80NSSC17K0049	94607843	160	
Total National Aeronautics and Space Administration				280,916	-
National Oceanic and Atmospheric Administration					
Direct Programs					
Integrated Ocean Observing System (IOOS)	11.012	NA16NOS0120021		2,294,136	1,297,971
Subtotal Direct Awards - National Oceanic and Atmospheric Administration(NOAA)				2,294,136	1,297,971
Pass-Through from University of Washington - IOOS	11.012	NA14NOS0120151	UWSC8423	37,439	
Pass-Through from University of Miami - OAR Cooperative Institutes	11.432	NA15OAR4320064	SPC-000364	163,473	
Pass-Through from University of Michigan - OAR Cooperative Institutes	11.432	NA17OAR4320152	3004716165	269,822	
Pass-Through from University of Santa Cruz - OAR Cooperative Institutes	11.012	NA14NOS0120148	A00-1118-S002	103,132	80,657
Total National Oceanic and Atmospheric Administration				2,868,002	80,657
Total Research and Development - Cluster				**5,935,230**	**1,521,141**
Total Expenditures of Federal Awards				**$ 5,935,230**	**$ 1,521,141**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”), presents the federal grant activity of the Monterey Bay Aquarium Research Institute (the “Institute”) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from the presentation of the amounts in the financial statements. All federal awards passed through from other governmental agencies are included in the Schedule. During the year ended December 31, 2018, no noncash awards were received by the Institute.

2. Facilities and Administrative Costs

The Institute uses its negotiated indirect cost rates rather than the 10% de minimis rate allowed by Uniform Guidance.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

We have audited, 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, the financial statements of the Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

San Francisco, California
June 28, 2019

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

Report on Compliance for Each Major Federal Program

We have audited the Monterey Bay Aquarium Research Institute's ("the Institute") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2018. The Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Monterey Bay Aquarium Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111-4004
T: (415) 498 5000, F: (415) 498 7100, www.pwc.com/us

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

San Francisco, California
June 28, 2019

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111-4004
T: (415) 498 5000, F: (415) 498 7100, www.pwc.com/us

I. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financing reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Noncompliance material to financial statements noted?	No

2. Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

3. Identification of Major Programs

CFDA Numbers	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

Finding 2018-001: Accounting for Unusual Transaction

Criteria
As part of our substantive audit testing, we review the accounting treatment for significant unusual transactions.

Condition
In our review of the financial statements, we identified errors in the accounting for transactions that were unusual in nature and significant to the 2017 financial statements. These items did not have an impact on federal awards.

Cause
On occasion, MBARI encounters significant transactions outside of the course of its typical operations, and given the varying nature of these transactions, it can be difficult to determine the proper accounting treatment for them.

Effect
The risk of misreporting such occurrences is not considered to be pervasive given their infrequency. However, given the quantitative impact to the 2017 financial statements, this is considered to be a material weakness in internal control.

Recommendation
We recommend management update the process around accounting for the types of transactions that were in error.

Management's Views and Corrective Action Plan
Management's responses are reported in the Corrective Action Plan and are considered part of this report.

III. Federal Award Findings and Questioned Costs

None to report

Monterey Bay Aquarium Research Institute
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018

There were no prior year findings which require an update in this report

June 28, 2019

Corrective Action Plan

Finding 2018-001: Accounting for Unusual Transactions

The management of the Monterey Bay Aquarium Research Institute have reviewed finding 2018-001: Accounting for Unusual Transactions as included within this report. We present the following corrective action plan.

The process around ensuring the appropriate accounting for the types of transactions that were in error in the prior year has been updated by management as of the date of this report, and as applicable the transactions have presented appropriately in accordance with GAAP in the current year financial statements. Management considers the errors to be isolated, and there was no indication of any error outside of these specified transactions.

The contact person for the corrective action plan is Basilio Martinez. I can be reached by phone at 831-775-1731 or by email at basilio@mbari.org

Sincerely,

Basilio Martinez

Chief Financial Officer