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, 2019 and 2018

Monterey Bay Aquarium Research Institute
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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 Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monterey Bay Aquarium Research Institute as of December 31, 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.

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, 2019 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. As described in Note 1 to the schedule of expenditures of federal awards, the accompanying schedule of expenditures of federal awards was prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such 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, on the basis of accounting described in Note 1, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2020 on our consideration of 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, 2019. 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 Monterey Bay Aquarium Research Institute's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

July 6, 2020

Monterey Bay Aquarium Research Institute
Statements of Financial Position
December 31, 2019 and 2018

(in thousands of dollars)	2019	2018
Assets		
Cash and cash equivalents	$ 18,310	$ 18,879
Receivables		
The David and Lucile Packard Foundation	47,407	45,365
Federal awards and other	1,458	1,660
Prepaid expenses and other assets	10,968	8,943
Deferred compensation plan investments	4,575	3,697
Property and equipment, net	46,434	47,383
Total assets	$ 129,152	$ 125,927
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,206	$ 1,931
Accrued expenses and other liabilities	5,985	6,085
Deferred compensation plan liabilities	4,575	3,697
Postretirement benefit liabilities	17,227	13,896
Total liabilities	28,993	25,609
Net assets		
Without donor restrictions		
Undesignated	31,792	35,090
Board designated	13,540	12,392
	45,332	47,482
With donor restrictions		
Time restricted	47,407	45,365
Purpose restricted	7,420	7,471
	54,827	52,836
Total net assets	100,159	100,318
Total liabilities and net assets	$ 129,152	$ 125,927

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

Monterey Bay Aquarium Research Institute
Statement of Activities
Year Ended December 31, 2019

(in thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support			
Contributions			
The David and Lucile Packard Foundation	$ -	$ 47,407	$ 47,407
Individual gifts	630	-	630
Federal awards	6,637	-	6,637
Non-Federal awards	516	-	516
Other	1,316	-	1,316
Net assets released from restrictions	45,416	(45,416)	-
Total revenue and other support	54,515	1,991	56,506
Expenses			
Research and development	40,810	-	40,810
Marine operations	4,187	-	4,187
Information and technology dissemination	1,395	-	1,395
Operational support	6,909	-	6,909
Total expenses	53,301	-	53,301
Increase in net assets, before non-operating postretirement activity	1,214	1,991	3,205
Components of net periodic postretirement benefit cost other than service cost	2,319	-	2,319
Postretirement benefit-related changes other than net periodic postretirement benefit cost	(5,683)	-	(5,683)
(Decrease) increase in net assets	(2,150)	1,991	(159)
Net assets			
Beginning of year	47,482	52,836	100,318
End of year	$ 45,332	$ 54,827	$ 100,159

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
Revenue and other support			
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 revenue and other support	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)
Components of net periodic postretirement benefit cost other than service 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
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(in thousands of dollars)	**2019**	**2018**
Cash flows from operating activities		
Cash received from donors	$ 45,996	$ 43,439
Cash received from grants	6,922	6,989
Cash received from other support	862	1,033
Cash received from interest	496	410
Cash paid for employees	(32,741)	(31,480)
Cash paid for program expenses	(13,722)	(12,648)
Cash paid for taxes	(21)	(4)
Cash paid from deferred compensation	(133)	(304)
Net cash provided by operating activities	7,659	7,435
Cash flows from investing activities		
Purchase of deferred compensation plan investments	(1,301)	(901)
Proceeds from maturity of certificates of deposit	7,500	11,003
Purchase of certificates of deposit	(9,150)	(7,000)
Proceeds from sale and maturity of deferred comp investments	1,178	969
Purchase of property and equipment using capital grant funding	(1,646)	(1,999)
Purchase of property and equipment	(4,809)	(4,845)
Net cash used in investing activities	(8,228)	(2,773)
Net (decrease) increase in cash and cash equivalents	(569)	4,662
Cash and cash equivalents		
Beginning of year	18,879	14,217
End of year	$ 18,310	$ 18,879

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 2019 and 2018 approximately 84% and 85% 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 contributions 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 contributions. At December 31, 2019 and 2018 net assets with donor restrictions consist entirely of contributions from the Foundation restricted to subsequent year's operations and remaining funds from a capital grant that are relieved as capital projects are completed and placed in service. Net assets with donor restrictions of $45,365 and $43,412 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2019 and 2018, respectively. In 2017 the institute was awarded a $10,000 capital grant from the Foundation for specified capital projects. The Institute spent $1,660 and $2,013 of its $10,000 capital grant of which $7,420 and $7,471 remains restricted as capital assets associated with the expenditures were not placed in service during the years ended December 31, 2019 and 2018. 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

(in thousands of dollars)

estimates include the accrual for postretirement benefit liabilities and the estimated useful life for property and equipment.

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 $8,672 and $7,485 as of December 31, 2019 and 2018, 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.

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 contributions 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.

Contracts deemed exchange contracts are recognized in accordance with ASC 606. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is measured based on consideration specified in a contract with a customer. We recognize revenue when it satisfies a performance obligation by transferring control over goods and services to a customer.

Performance Obligations
The Institute is occasionally engaged by organizations with the intention to transfer goods or services which are outlined by a scope of work in every contract and have discrete pricing associated with the service to be provided. Each service is accounted for as a separate performance obligation. Generally, these performance obligations are satisfied over time and recognize revenue as the goods or services are provided, as this best represents the transfer of control to the customer. The Institute had $23 and $102 in outstanding receivables associated with contracts accounted for under ASC 606 as of December 31, 2019 and 2018, respectively. The Institute recognized all revenue and expenses associated with contracts as of December 31, 2019.

Disaggregation of Revenue
The Institute's revenue is disaggregated by customer type, contract type and service type. The majority of the Institute's exchange contract revenue is from contracts with government entities either directly or as a subcontractor and is recognized over time as the services are performed. These contracts are cost reimbursable. The Institute also earns royalty revenues from the licensing and sales of intellectual property which are recognized at a point in time.

The following table disaggregates revenue based on the timing of revenue recognition for the year ending December 31, 2019:

Over Time	$	251
Point In Time		305
Total	**$**	**556**

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

(in thousands of dollars)

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, 2019 and 2018.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (ASC 606) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry specific guidance and 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 revenue as performance obligations are satisfied. The guidance has defined these transactions as exchange transactions. The guidance also provided for non-exchange transactions where a contract exists but there is no transfer of goods or services associated with the contract. Contracts that are accounted for under non-exchange transactions are assessed to determine if barriers exist to recognizing revenue. The Institute adopted ASC 606 as of January 1, 2019 using the modified retrospective approach which did not require a cumulative adjustment to be recognized in 2019 nor did it have a material impact for the Institute.

The Institute adopted the standard as of January 1, 2019, using the modified retrospective transition method. Under the modified retrospective method, the new standard applies to new contracts and those that were not completed as of December 31, 2018; therefore, prior period comparative information has not been adjusted and continues to be reported under the previous revenue recognition guidance. Based on our assessment, the adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded. The most significant impact from adopting the new standard on our financial statements relates to the required financial statement disclosures. See Note 2 for the impact of adoption and the required disclosures.

In June 2018, the FASB issued ASU No. 2018-08. ASU 2018-08 modified the guidance in Topic 958, *Not-for-Profit-Entities*, to clarify and improve the scope and accounting guidance for contributions received and contributions made. The amendments assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance within ASC 606. The amendments within this ASU are to be applied on a modified prospective basis, with retrospective application permitted. The Institute adopted the new standard in conjunction with its adoption of ASC 606 for the fiscal year beginning January 1, 2019, utilizing the modified retrospective basis on all agreements not completed as of December 31, 2018 and all agreements entered into after January 1, 2019. This change does not have an impact on our revenue recognition.

(in thousands of dollars)

In August 2018, the FASB issued ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans, which makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. Implementation of this guidance will result in the Institute no longer being required to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. Additionally, the Institute will be required to provide an explanation of the reason for any significant gain and loss related to changes in the benefit obligation for the period. The new guidance is effective for the Institute beginning January 1, 2022 and early adoption is permitted. The Institute has elected early adoption, effective January 1, 2019, and has deemed the impact on the financial statements to be immaterial.

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 the statement of financial position. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for the Institute after December 15, 2021. The Institute is evaluating the impact of the new guidance on the financial statements.

In November 2016, the FASB issued clarifying guidance on ASU 2016-18, *Restricted Cash (Topic 230): Statement of Cash Flows.* The amendments in the update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the update do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for fiscal year 2019 for the Institute. This change does not have an impact on our statement of cash flows presentation.

2. Property and Equipment

Property and equipment at December 31, 2019 and 2018 consist of the following:

	2019	**2018**
Land	$ 4,236	$ 4,236
Buildings	53,153	52,864
Research vessels	46,191	46,038
Remotely operated vehicles	22,837	21,315
Ocean deployed equipment	29,767	26,903
General equipment, furniture, and fixtures	20,770	19,377
Capital projects in progress	6,272	6,792
	183,226	177,525
Less: Accumulated depreciation	(136,792)	(130,142)
Property and equipment, net	$ 46,434	$ 47,383

(in thousands of dollars)

Depreciation expense for the years ended December 31, 2019 and 2018 was $7,448 and $7,766, respectively. As of December 31, 2019 and 2018, the carrying value of the leased property for which MBARI is the lessor is as follows:

	2019	2018
Land	$ 165	$ 165
Buildings	1,397	1,397
Less: Accumulated depreciation	(927)	(880)
Lease property, net	$ 635	$ 682

3. Related-Party Transactions

In December of 2019 and 2018, the Institute received a grant from the Foundation to support the subsequent year's operations. In 2019, the Institute received a grant of $47,407 to be used for operations, research projects and ordinary capital expenses in 2020. The receivable from the Foundation was $47,407 and $45,365 as of December 31, 2019 and 2018, 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, 2019 are approximately as follows:

Year Ending December 31	
2020	$ 179
2021	31
2022	32
2023	33
2024	34
Thereafter	589
	$ 898

Rent expense was $225 and $221 for the years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018 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

(in thousands of dollars)

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 2020 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, 2019 are approximately as follows:

Year Ending December 31		
2020	$	103
2021		37
2022		37
2023		38
2024		39
Thereafter		40
	$	294

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 $2,369 and $2,274 in 2019 and 2018, 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, 2019 and 2018 the Institute held plan investments of $4,518 and $3,660 that are included in deferred compensation plan investments, respectively. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of $4,518 and $3,660, as of December 31, 2019 and 2018, 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

(in thousands of dollars)

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, 2019 and 2018 the Institute held plan investments of $57 and $37, that are included in deferred compensation plan investments, which are designated by the Institute to pay future Compensation Restoration Plan liabilities of $57 and $37 as of December 31, 2019 and 2018, respectively. These liabilities are included in deferred compensation plan liabilities.

At December 31, 2019 and 2018 all 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:

	2019	2018
Equity and bond mutual funds	$ 1,832	$ 1,808
Equity mutual funds	2,005	1,316
U.S. Government securities mutual funds	611	453
Real estate mutual funds	127	120
Total fair value of deferred compensation plan investments	$ 4,575	$ 3,697

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 contributes 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.

The Institute plan was amended effective September 1, 2019, regarding certain surviving spouse benefits, which had an immaterial impact on the financial statements.

The following information presents the Plan's unfunded status and the amounts recognized in the statement of financial position as of December 31, 2019 and 2018 based on a measurement date of December 31:

	2019	2018
Benefit obligation	$ 17,227	$ 13,896
Fair value of plan assets	-	-
Unfunded status	$ 17,227	$ 13,896
Amount recognized in the statements of financial position as postretirement benefit liabilities	$ 17,227	$ 13,896

Amounts recognized in net assets without donor restrictions at December 31, 2019 and 2018 were as follows:

(in thousands of dollars)

	2019	2018
Net loss	$ 7,644	$ 5,608
Prior service cost	(18,203)	(21,850)
	$ (10,559)	$ (16,242)

The Institute Plan's net periodic postretirement benefit cost reflected in the statement of activities for the years ended December 31, 2019 and 2018 were ($2,079) and ($923), 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:

	2019	2018
Net actuarial loss (gain)	$ 2,544	$ (1,301)
Amortization of net loss	(508)	(551)
Plan amendment	259	(24,391)
Amortization of prior service cost	3,388	2,541
Total changes other than net periodic postretirement benefit cost/(credit)	$ 5,683	$ (23,702)

The net actuarial loss during the year ended December 31, 2019 was primarily attributable to the decrease in the discount rate from 4.10% as of December 31, 2018 to 3.07% as of December 31, 2019 and a change in mortality tables used for underlying assumptions.

Total contributions paid by the Institute to the Plan for the years ended December 31, 2019 and 2018 were $255 and $267, respectively. Total benefit payments made from the Plan for the years ended December 31, 2019 and 2018 were $273 and $308, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 3.07% and 4.10% as of December 31, 2019 and 2018 and in determining the net periodic postretirement benefit cost was 4.10% and 3.61% for the years ended December 31, 2019 and 2018, 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:

2020 / 2019	$404	$435
2021 / 2020	508	503
2022 / 2021	589	572
2023 / 2022	661	644
2024 / 2023	726	705
2025-2029 / 2024-2028	4,430	4,209

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 8.0% in 2020, 7.5% in 2021 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

2019

	Program Services				Supporting Activities	
	Research and Development	Marine Operations	Information Dissemination	Program Subtotal	Operational Support	Total Expenses
Salary, benefits and payroll taxes	$ 21,281	$ 6,670	$ 919	$ 28,870	$ 4,151	$ 33,021
Legal fees	-	-	-	-	85	85
Accounting fees	-	-	-	-	202	202
Depreciation	2,559	2,533	24	5,116	2,332	7,448
Occupancy	3,496	607	196	4,299	(3,079)	1,220
Travel, conferences, and meetings	499	59	27	585	155	740
Printing and publications	83	6	109	198	25	223
Other expenses and allocations	12,892	(5,688)	120	7,324	3,038	10,362
Postretirement benefit costs - interest and amortization	(1,494)	(468)	(65)	(2,027)	(292)	(2,319)
Total expenses	$ 39,316	$ 3,719	$ 1,330	$ 44,365	$ 6,617	$ 50,982

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

(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 $13,540 and $12,392 at December 31, 2019 and 2018, 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 is held as money market funds 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, 2019 and 2018.

	2019	2018
Cash and cash equivalents	$ 18,310	$ 18,879
Certificates of deposit maturing in less than 90 days	3,002	3,496
Certificates of deposit maturing in greater than 90 days	5,670	3,490
David and Lucile Packard Foundation receivables	47,407	45,365
Federal awards and other receivables	1,458	1,660
Total financial assets	75,847	72,890
Less those unavailable due to designations		
Board designations:		
Operating reserve	13,540	12,392
Donor designations:		
David and Lucile Packard Foundation capital grant	7,420	7,471
Capital grant spent not yet in service	(2,168)	(547)
Total amounts unavailable for general expenditures	18,792	19,316
Financial assets available to meet cash needs for operating expenditures for one year	$ 57,055	$ 53,574

9. Subsequent Events

The Institute has evaluated subsequent events for the period December 31, 2019 through July 6, 2020, the date financial statements were available to be issued. The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across the world causing disruptions to businesses and economic activity. In March 2020, following guidance from the State of California, Monterey County adopted various measures to address the spread of the pandemic. The Institute received commitment for its 2020 funding from the Foundation in December 2019 and continues to perform research where it is practical to do so. Management continues to monitor the State's restrictions and we believe we have sufficient liquidity to meet our operating and financing needs; however, given the difficulty in predicting the ultimate duration and severity of the impact of the

(in thousands of dollars)

novel coronavirus on our organization, the economy and the financial markets, the ultimate impact may be material.

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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					
Biological Sciences	47.074	DEB-1542679		$ 150,018	$ -
Biological Sciences	47.074	DEB-1639033		250,998	
Geosciences	47.050	OCE-1514756		255,803	
Geosciences	47.050	OCE-1736864		63,396	
Geosciences	47.050	OCE-1756932		123,992	
Geosciences	47.050	OCE-1812535		63,887	
Geosciences	47.050	OCE-1829805		35,467	
Geosciences	47.050	OPP-1744773		913	
Geosciences	47.050	PLR-1602946		10,648	
Geosciences	47.050	OCE-1636527		211,725	
Geosciences	47.050	OCE-1737019		19,859	
Subtotal Direct Awards - National Science Foundation (NSF)				1,186,706	-
Pass Through from University of Rhode Island - Geosciences	47.050	OCE-1842412	0007337/01232019	2,330	-
Pass-Through from Princeton University - Geosciences	47.050	PLR-1425989	SUB0000010 A6	1,114,763	
Pass-Through from University of Washington - Geosciences	47.050	OCE-1737080	UWSC10121	79,998	
Pass-Through from WHOI - Engineering Grants	47.041	IIP-1534054	A101277	43,703	
Total National Science Foundation				2,427,500	-
U.S. Geological Survey					
Direct Programs					
Research and Data Collection	15.808	G18AC00216		36,978	
Research and Data Collection	15.808	G19AC00041		65,620	
Total US Geological Survey				102,598	-
U.S. Department of Defense - Office of Naval Research					
Direct Programs					
Basic & Applied Scientific Research	12.300	N00014-17-1-2752		7,621	
Basic & Applied Scientific Research	12.300	N00014-18-1-2169		91,639	44,657
Basic & Applied Scientific Research	12.300	N00014-19-1-2240		126,587	
Total Office of Naval Research				225,847	44,657

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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	1&STADA00001-02-00	P516972A	167,895	
Total Department of Homeland Security				167,895	-
National Aeronautics and Space Administration					
Direct Program s					
Science	43.001	80NSSC17K0574		153,885	71,156
Science	43.001	80NSSC18K1678		18,468	
Subtotal Direct Awards - National Aeronautics and Space Administration				172,353	71,156
Pass-Through from University of South Florida - Science	43.001	NNX14AP62A	2500-1616-00-A	214,233	
Pass-Through from UC San Diego - Science	43.001	80NSSC17K0049	94607843	13,423	
Total National Aeronautics and Space Administration				400,009	-
National Oceanic and Atmospheric Administration					
Direct Program s					
Integrated Ocean Observing System (IOOS)	11.012	NA11NOS0120032		(1,891)	(1,891)
Integrated Ocean Observing System (IOOS)	11.012	NA16NOS0120021		3,057,273	2,142,742
Subtotal Direct Awards - Natoinal Oceanic and Atomospheric Administration(NOAA)				3,055,382	2,140,851
Pass Through from Massachusetts Institue of Technology - Sea Grant Support	11.417	NA18OAR4170105	S4726	25,000	
Pass Through from University of Michigan - Cooperative Institutes	11.432	3005203303	3004716165	301,114	25,638.00
Pass Through from University of Santa Cruz - IOOS	11.012	NA17NOS0120176	A-18-0318-S001-P0643495	11,056	
Pass Through from University of Santa Cruz - IOOS	11.012	NA18NOS0120161	A19-0200-S002-P0693600	4,450	
Pass-Through from University of Miami - OAR Cooperative Institutes	11.432	NA15OAR4320064	SPC-000364	172,565	
Pass-Through from University of Santa Cruz - IOOS	11.012	NA14NOS0120148	A00-1118-S002	73,699	48,056.00
Total National Oceanic and Atmospheric Administration				3,643,266	73,694.00
Total Research and Development - Cluster				6,967,115	2,330,358
Total Expenditures of Federal Awards				**$ 6,967,115**	**$ 2,330,358**

Monterey Bay Aquarium Research Institute
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

1. Basis of Presentation (*in thousands of dollars*)

The accompanying schedule of expenditures of federal awards (the "Schedule"), presents the federal grant activity of the Monterey Bay Aquarium Research Institute (the "Institute"). 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, 2019, no noncash awards were received by the Institute. Expenditures reported on the schedule are reported on the cash basis of accounting. In previous years the SEFA had been presented on the accrual basis of accounting. The change from an accrual to cash basis resulted in a negative difference of approximately $22 of expenditures in the 2019 SEFA. Negative amounts shown on the SEFA represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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 Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statement of financial position as of December 31, 2019, 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 July 6, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

July 6, 2020

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 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, 2019. 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, 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, 2019.

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

July 6, 2020

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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?	No
• 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?	No

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

II. Financial Statement Findings

None to report

III. Federal Award Findings and Questioned Costs

None to report

Monterey Bay Aquarium Research Institute
Summary Schedule of Prior Year Audit Findings
December 31, 2019

Finding 2018-001: Accounting for Unusual Transactions

During the 2018 financial audit, two financial reporting misclassifications were made regarding classifications on the statement of cash flows and balance sheet. As a result a corrective action plan was adopted to prevent these misclassifications in the future. The corrective action plan involved discussing all new types of transactions as they arise and reviewing authoritative materials for appropriate reporting of new transactions. As a result of implementing the corrective action plan during 2019, management considers these actions adequate to mitigate any errors in current and future financial reporting.