Monterey Bay Aquarium Research Institute

Financial Statements

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. 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Institute has restated its 2019 and 2018 financial statements to correct errors. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

San Francisco, California
July 6, 2020, except for the effects of the restatement discussed in Note 1 to the financial statements, as to which the date is August 2, 2021

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

(in thousands of dollars)	2019	2018 *(As Restated)*
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	33,960	35,637
Board designated	13,540	12,392
From The David and Lucile Packard Foundation		
For ongoing operations	47,407	45,365
For vessel and shore side infrastructure	5,252	6,924
	100,159	100,318
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
Years Ended December 31, 2019 and 2018

(in thousands of dollars)	2019	2018 *(As Restated)*
Revenue and other support		
Funding from The David and Lucile Packard Foundation	$ 47,407	$ 45,365
Federal awards	6,637	5,935
Non-Federal awards	516	765
Other	1,946	1,423
Total revenue and other support	56,506	53,488
Expenses		
Research and development	40,810	39,428
Marine operations	4,187	4,109
Information and technology dissemination	1,395	2,105
Operational support	6,909	8,408
Total expenses	53,301	54,050
Increase in net assets, before non-operating postretirement activity	3,205	(562)
Components of net periodic postretirement benefit cost other than service cost	2,319	- 1,273
Postretirement benefit-related changes other than net periodic postretirement benefit cost	(5,683)	23,702
(Decrease) increase in net assets	(159)	24,413
Net assets		
Beginning of year	100,318	75,905
End of year	$ 100,159	$ 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** *(As Restated)*
Cash flows from operating activities		
Cash received from donors	$ 631	$ 27
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 used in operating activities	(37,706)	(35,977)
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)
Cash flows from financing activities		
Cash received from The David and Lucile Packard Foundation	45,365	43,412
Net cash provided by financing activities	45,365	43,412
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

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 and other support 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. Funding received from the Foundation are considered equity transactions. In 2019 and 2018, the Foundation committed to fund the Institute's subsequent year's operations in the amounts of $47,407 and $45,365, respectively. In 2017 the institute was awarded funding in the amount of $10,000 from the Foundation for specified capital projects of which $5,252 and $6,924 remain unspent as of 2019 and 2018 respectively. As these funds are used to pay for those capital projects, the Institute will report these funds as undesignated within net assets without donor restriction on the statement of financial position.

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 there were no net assets with donor restrictions.

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.

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 $9,174 and $7,485 as of December 31, 2019 and 2018, respectively.

Investments
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. All of the Institute's financial securities (nonretirement investments) are considered Level 1, as disclosed in the following table:

	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		(As Restated)				*(As Restated)*		
Money market funds	$ 17,133	$ -	$ -	$ 17,133	$ 17,561	$ -	$ -	$ 17,561
Certificates of deposit	9,174	-	-	9,174	7,485	-	-	7,485
	$ 26,307	$ -	$ -	$ 26,307	$ 25,046	$ -	$ -	$ 25,046

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.

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:

	2019
Over time (procurement)	$ 251
Point in time (royalties)	305
	$ 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 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.

Restatement
During 2021, management determined the 2019 and 2018 financial statements incorrectly reported the funds received from the Foundation as contributions with donor restrictions. ASC 958-20-25-4 requires such funds received from the Foundation to be reported as equity transactions, which are not subject to restrictions. The Institute has concluded the impact of this error is material. This error had no impact on any other underlying accounting transactions and classifications presented in these financial statements. This correction only pertains to the single donation received from the Foundation and its presentation in these financial statements. The Institute has restated its comparative 2019 and 2018 financial statements as follows:

	December 31, 2019		
(amounts in thousands)	**As Reported**	**Adjustments**	**As Restated**
Statement of financial position			
Net assets			
Without donor restrictions			
Undesignated	$ 31,792	$ 2,168	$ 33,960
Board designated	13,540	-	13,540
From The David and Lucile Packard Foundation			
For ongoing operations	-	47,407	47,407
For vessel and shore side infrastructure	-	5,252	5,252
With donor restrictions			
Time restricted	47,407	(47,407)	-
Purpose restricted	7,420	(7,420)	-
Total net assets	$ 100,159	$ -	$ 100,159

(amounts in thousands)	December 31, 2018 As Reported	December 31, 2018 Adjustments	December 31, 2018 As Restated
Statement of financial position			
Net assets			
Without donor restrictions			
Undesignated	$ 35,090	$ 547	$ 35,637
Board designated	12,392	-	12,392
From The David and Lucile Packard Foundation			
For ongoing operations	-	45,365	45,365
For vessel and shore side infrastructure	-	6,924	6,924
With donor restrictions			
Time restricted	45,365	(45,365)	-
Purpose restricted	7,471	(7,471)	-
Total net assets	$ 100,318	$ -	$ 100,318

	Year Ended December 31, 2019						
	As Reported			Adjustments			
(amounts in thousands)	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	As Restated Total
Statement of activities							
Revenue and other support							
Contributions							
The David and Lucile Packard Foundation	$ -	$ 47,407	$ 47,407	$ -	$ (47,407)	$ (47,407)	$ -
Funding received from The David and Lucile Packard Foundation	-	-	-	47,407		47,407	47,407
Net assets released from restrictions	45,416	(45,416)	-	(45,416)	45,416	-	-
Total revenue and other support	54,515	1,991	56,506	1,991	(1,991)	-	56,506
Increase in nets assets, before non-operating postretirement activity	1,214	1,991	3,205	1,991	(1,991)	-	3,205
(Decrease)/increase in net assets	(2,150)	1,991	(159)	1,991	(1,991)	-	(159)
Net assets							
Beginning of year	47,482	52,836	100,318	52,836	(52,836)	-	100,318
End of year	45,332	54,827	100,159	54,827	(54,827)	-	100,159

	Year Ended December 31, 2018						
	As Reported			Adjustments			
(amounts in thousands)	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	As Restated Total
Statement of activities							
Revenue and other support							
Contributions							
The David and Lucile Packard Foundation	$ -	$ 45,365	$ 45,365	$ -	$ (45,365)	$ (45,365)	$ -
Funding received from The David and Lucile Packard Foundation	-	-	-	45,365		45,365	45,365
Net assets released from restrictions	45,941	(45,941)	-	(45,941)	45,941	-	-
Total revenue and other support	54,064	(576)	53,488	(576)	576	-	53,488
Increase in nets assets, before non-operating postretirement activity	14	(576)	(562)	(576)	576	-	(562)
(Decrease)/increase in net assets	24,989	(576)	24,413	576	(576)	-	24,413
Net assets							
Beginning of year	22,493	53,412	75,905	53,412	(53,412)	-	75,905
End of year	47,482	52,836	100,318	52,836	(52,836)	-	100,318

(amounts in thousands)	Year Ended December 31, 2019		
	As Reported	**Adjustments**	**As Restated**
Statement of cash flows			
Cash flows from operating activities			
Cash received from donors	$ 45,996	$ (45,365)	$ 631
Net cash provided by/(used in) operating activities	7,659	(45,365)	(37,706)
Cash flows from financing activities			
Cash received from The David and Lucile Packard Foundation	-	45,365	45,365
Net cash provided by financing activities	-	45,365	45,365

(amounts in thousands)	Year Ended December 31, 2018		
	As Reported	**Adjustments**	**As Restated**
Statement of cash flows			
Cash flows from operating activities			
Cash received from donors	$ 43,439	$ (43,412)	$ 27
Net cash provided by/(used in) operating activities	7,435	(43,412)	(35,977)
Cash flows from financing activities			
Cash received from The David and Lucile Packard Foundation	-	43,412	43,412
Net cash provided by financing activities	-	43,412	43,412

Management has also restated Notes 1, 3 and 7 to reflect the impact of these matters. a

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 nonexchange transactions where a contract exists but there is no transfer of goods or services associated with the contract. Contracts that are accounted for under nonexchange 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.

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 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 fiscal year 2022 for the Institute. 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

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 the Institute 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 funding from the Foundation to support the subsequent year’s operations. 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 without donor restrictions.

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 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.

4. 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

5. 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 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:

	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)
Net periodic postretirement benefit cost	1,067	1,067
Total recognized in net periodic benefit cost and net assets without donor restriction	$ 6,750	$ (22,635)

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.

6. 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

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.

7. 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 (As Restated)	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
From the David and Lucile Packard Foundation:		
For ongoing operations	7,420	7,471
For vessel and shoreside infrastructure	(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

8. Subsequent Events

The Institute has evaluated subsequent events for the period December 31, 2019 through July 6, 2020, the date financial statements were issued.

Events Subsequent to Original Issuance of Financial Statements (Unaudited)

In connection with the reissuance of the financial statements, the Institute has evaluated subsequent events through August 2, 2021, the date the financial statements were reissued.

The Institute entered into a contract with Avila Brothers, Inc. for approximately $4,100 as of January 2021 for the construction of the field exhibition staging building. The building is expected to be completed by the end of 2021. The Institute also entered into contracts with Construcciones Navales P. Freire S.A. and Glosten Associates, Inc. totaling $45,120 for the construction of a new flagship vessel. These contract amounts do not include contingencies, which are not expected to exceed $10,040. Construction of the vessel is expected to begin in 2021 with completion anticipated in 2023.