The David and Lucile Packard Foundation

Consolidated and Individual Financial Statements
December 31, 2018

Report of Independent Auditors

To the Board of Trustees of
The David and Lucile Packard Foundation:

We have audited the accompanying consolidated financial statements of The David and Lucile Packard Foundation (the "Packard Foundation") and its affiliate, the Monterey Bay Aquarium Research Institute (the "Institute"), and the individual financial statements of the Packard Foundation and the Institute, which comprise the consolidated and individual statements of financial position as of December 31, 2018, and the related consolidated and individual statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Consolidated and Individual Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and individual 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 the consolidated and individual 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 consolidated and individual financial statements based on our audit. We conducted our audit 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 consolidated and individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and individual financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated and individual financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Packard Foundation's and the Institute's preparation and fair presentation of the consolidated and individual 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 Packard Foundation's and the Institute's internal controls. 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

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consolidated and individual 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 consolidated and individual financial statements referred to above present fairly, in all material respects, the financial position of The David and Lucile Packard Foundation and its affiliate and the individual financial statements of the Packard Foundation and the Monterey Bay Aquarium Research Institute as of December 31, 2018, and the consolidated and individual changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Francisco, California
July 11, 2019

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Financial Position
December 31, 2018

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Assets				
Cash and cash equivalents	$ 28,200	$ 18,879	$ -	$ 47,079
Interest and dividends receivable	1,181	-	-	1,181
Investment sales receivable	154,032	-	-	154,032
Investments, at fair value (Note 3)	7,058,289	-	-	7,058,289
Contributions receivable	-	46,974	(45,365)	1,609
Program-related investments (Note 2)	110,596	-	-	110,596
Property and equipment, net (Note 4)	64,369	47,383	-	111,752
Other assets	6,717	12,691	-	19,408
Total assets	$ 7,423,384	$ 125,927	$ (45,365)	$ 7,503,946
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	$ 15,006	$ 11,713	$ -	$ 26,719
Investment purchases payable	2,202	-	-	2,202
Grants payable (Note 5)	165,633	-	(45,365)	120,268
Deferred federal excise tax liabilities	55,305	-	-	55,305
Postretirement benefit liabilities (Note 7)	6,593	13,896	-	20,489
Total liabilities	244,739	25,609	(45,365)	224,983
Net assets				
Without donor restrictions				
Undesignated	7,178,645	35,090	52,836	7,266,571
Board designated	-	12,392	-	12,392
Total without donor restrictions	7,178,645	47,482	52,836	7,278,963
With donor restrictions				
Time restricted	-	45,365	(45,365)	-
Purpose restricted	-	7,471	(7,471)	-
Total with donor restrictions	-	52,836	(52,836)	-
Total net assets	7,178,645	100,318	-	7,278,963
Total liabilities and net assets	$ 7,423,384	$ 125,927	$ (45,365)	$ 7,503,946

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

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Activities
For the Year Ended December 31, 2018

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Changes in net assets without donor restrictions				
Revenues (losses) and other support				
Federal awards	$ -	$ 5,935	$ -	$ 5,935
Program-related investments and other income	1,172	2,188	-	3,360
Investment return, net	(24,045)	-	-	(24,045)
Total (losses) revenues	(22,873)	8,123	-	(14,750)
Net assets released from restrictions	-	45,941	(45,941)	-
Total (losses) revenues and other support	(22,873)	54,064	(45,941)	(14,750)
Expenses				
Grants awarded	333,796	-	(45,365)	288,431
Direct charitable expenses	3,644	45,642	-	49,286
Grantmaking expenses	32,210	-	-	32,210
Operational support expenses	8,304	8,408	-	16,712
Total expenses	377,954	54,050	(45,365)	386,639
(Decrease) increase in net assets without donor restrictions, before nonoperating postretirement benefit activity	(400,827)	14	(576)	(401,389)
Other components of net periodic postretirement benefit cost	904	1,273	-	2,177
Postretirement benefit-related changes other than net periodic postretirement benefit cost	(666)	23,702	-	23,036
(Decrease) increase in net assets without donor restrictions	(400,589)	24,989	(576)	(376,176)
Changes in net assets with donor restrictions				
Contributions	-	45,365	(45,365)	-
Net assets released from restrictions	-	(45,941)	45,941	-
(Decrease) increase in net assets with donor restrictions	-	(576)	576	-
(Decrease) increase in net assets	$ (400,589)	$ 24,413	$ -	$ (376,176)
Net assets				
Beginning of year	7,579,234	75,905	-	7,655,139
End of year	$ 7,178,645	$ 100,318	$ -	$ 7,278,963

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

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Cash Flows
For the Year Ended December 31, 2018

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Cash flows from operating activities				
Cash received from donors	$ -	$ 43,439	$ (43,412)	$ 27
Cash received from grants and other support	-	8,022	-	8,022
Interest and dividends received	63,536	410	-	63,946
Grants paid	(348,024)	-	43,412	(304,612)
Cash paid to employees and suppliers	(57,099)	(44,432)	-	(101,531)
Cash paid for taxes	(14,391)	(4)	-	(14,395)
Net cash (used in) provided by operating activities	(355,978)	7,435	-	(348,543)
Cash flows from investing activities				
Purchase of investments	(2,087,075)	-	-	(2,087,075)
Proceeds from sale of investments	2,368,458	-	-	2,368,458
Program-related investments funded	(51,425)	-	-	(51,425)
Repayments of program-related investments	46,624	-	-	46,624
Purchase of property and equipment	(920)	(6,844)	-	(7,764)
Purchase of certificates of deposit	-	(7,000)	-	(7,000)
Proceeds from maturity of certificates of deposit	-	11,003	-	11,003
Purchase of deferred compensation plan investments	-	(901)	-	(901)
Proceeds from sale and maturity of deferred compensation plan investments	-	969	-	969
Rental receipts received	110	-	-	110
Net cash provided by (used in) investing activities	275,772	(2,773)	-	272,999
Net (decrease) increase in cash and cash equivalents	$ (80,206)	$ 4,662	$ -	$ (75,544)
Cash and cash equivalents				
Beginning of year	108,406	14,217	-	122,623
End of year	$ 28,200	$ 18,879	$ -	$ 47,079

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

(dollars in thousands)

1. Organization

The David and Lucile Packard Foundation (the “Packard Foundation”) is a private foundation established by David and Lucile Packard in 1964. The Packard Foundation provides funding primarily to not-for-profit organizations operating predominantly in program areas that are of interest to the Board of Trustees: conservation and science; population and reproductive health; and children, families and communities. The Packard Foundation’s facilities are in Los Altos, California.

The Monterey Bay Aquarium Research Institute (the “Institute”) is a not-for-profit organization founded in 1987 to conduct 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 public regarding such research. The Institute’s primary facilities are in Moss Landing, California.

Certain trustees and officers of the Packard Foundation are also officers or directors of the Institute. Trustees of the Packard Foundation are not permitted to vote for grants to organizations for which they serve as trustees, officers, or directors. The Packard Foundation is the Institute’s only member, with the power to elect the Board of Directors.

2. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The accompanying financial statements include the accounts of the Packard Foundation and its affiliate, the Institute (collectively, the “Foundation”). Since the Packard Foundation has both control and an economic interest in the Institute, the financial statements of the Institute have been included in the consolidated financial statements of the Foundation. All significant intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation

The accompanying consolidated financial statements of the Foundation and the individual financial statements of the Packard Foundation and the Institute are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Revenues are reported as increases in net assets without donor restrictions, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 valuation of the Foundation’s investments and program-related investments, the expected useful lives of property and equipment, the

(dollars in thousands)

determination of postretirement benefit liabilities, and the determination of functional expense allocations.

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

Net Assets with Donor Restrictions
Net assets with donor restrictions represent gifts that are limited in use by the Institute in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Institute according to the terms of the gifts. As of December 31, 2018, the Institute's net assets with donor restrictions consist entirely of gifts from the Packard Foundation restricted to the subsequent year's operations and depreciation expense incurred on capital projects. Net assets with donor restrictions of $45,941 were released from restriction during the year ended December 31, 2018: $43,412 were released from restriction due to the expiration of time restrictions, and $2,529 were released from restriction due to purpose restrictions being met. The Institute spent $2,013 of its $10,000 Packard Foundation capital grant of which $7,471 remains restricted as capital assets associated with the expenditures were not placed in service during the year ended December 31, 2018. This restriction will be released as capital assets are placed in service.

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.

Investments
Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments is based on quoted market prices, except for alternative investments and real estate investment property, for which quoted market prices are not available. Alternative investments include private equities, marketable alternatives (including hedge funds), and real assets. The estimated fair value of alternative investments is based on the net asset value of the fund provided by the general partner. The Packard Foundation reviews and evaluates the net asset values provided by the general partner and assesses the valuation methods and assumptions used in determining the fair value of the alternative investments. Alternative investments are not readily marketable, and as such, their estimated value is subject to uncertainty and may differ from the value that would have been used had a readily available market for such investments existed. These differences could be material. The estimated fair value of real estate investment property is based on a recent appraisal. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the period that such fluctuations occur. Realized gains or losses, unrealized gains or losses, and interest income and dividends are reported in the consolidated and individual statements of activities within the "investment return, net" row. Investment sales and purchases are recorded on a trade date basis, which results in both investment receivables and payables on unsettled investment trades. The Packard Foundation is subject to credit risk should a broker be unable to meet its obligations to the Packard Foundation.

Concentrations of Credit Risk
Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments, and unsettled investment trades. The Foundation maintains cash

(dollars in thousands)

and cash equivalents primarily with major financial institutions. Cash equivalents include investments in money market funds and certificates of deposit. Such amounts may exceed Federal Deposit Insurance Corporation limits. The Packard Foundation's readily marketable securities have been placed with major financial institutions. Contributions receivable consists primarily of funds due to the Institute from the Packard Foundation.

Contributions Receivable
The majority of the Institute's contributions receivable as of December 31, 2018 represents funds due from the Packard Foundation to be received in the subsequent year and to be used for operations, research projects, and ordinary capital expenses in the subsequent year. The carrying value of contributions receivable approximates fair value. The Institute closely monitors receivables and has not experienced credit losses to date.

Program-Related Investments
Program-related investments as of December 31, 2018 include $109,342 of loans made to organizations, $114 of collateral deposits that serve to guarantee loans made by third-party lenders to organizations as a means of assisting them in achieving charitable objectives, and $1,140 of equity investments in sustainable forestry and fisheries management, and carbon offset project companies. Interest rates on loans receivable range from 1% to 2% as of December 31, 2018 and are generally repayable over one to 10 years. Management has reviewed the collectability of all program-related investments and has determined no allowance is necessary as of December 31, 2018.

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

Other Assets
The Packard Foundation's other assets primarily include prepayments of excise and unrelated business income tax. The Institute's other assets primarily include deferred compensation plan investments and certificates of deposit with maturity dates greater than three months at the time of purchase, which are reported at fair value. The Institute's certificates of deposit totaled $7,485 as of December 31, 2018.

Grants
Grants are recognized when the unconditional promise to give is approved. Conditional promises to give are recognized as grant expense in the period in which the recipient meets the terms of the condition. There were no conditional promises to give as of December 31, 2018.

Revenue Recognition
Contributions are recognized as revenues when they are received or unconditionally pledged. The Institute reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated and individual statements of activities as net assets released from

(dollars in thousands)

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.

Tax-Exempt Status
The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. To the extent the Foundation carries out investment activities that are subject to unrelated business income tax, it is subject to income taxation.

Recent Accounting Pronouncements
The following accounting pronouncements have, or may have, an impact on the Foundation's financial statements.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for the Foundation beginning January 1, 2020. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, along with ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* issued in November 2018, which amend existing guidance on the impairment of financial instruments. These ASUs add to U.S. GAAP an impairment model (known as the current expected credit loss model, or CECL model) that is based on expected losses rather than incurred losses. Companies must estimate an expected lifetime credit loss on a financial asset and recognize that estimate as an allowance (or contra-asset). The new guidance is effective for the Foundation beginning January 1, 2022. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution. The guidance also clarifies that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The new guidance is effective for the Foundation beginning January 1, 2019. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements. The new guidance is effective for the Foundation beginning January 1, 2020, and early adoption is permitted. The Foundation has evaluated the impact of the new guidance on the financial statements and has elected for early adoption, effective January 1, 2018. Implementation of this guidance resulted in the Foundation no longer being required to disclose the following: the amount of and reasons for transfers between Level I and Level II of the fair value hierarchy, the

(dollars in thousands)

Foundation's policy for timing of transfers between levels of the fair value hierarchy, the Foundation's valuation processes for Level III fair value measurements, and changes in unrealized gains and losses for the period included in earnings for recurring Level III fair value measurements. Additionally, while the Foundation is still required to disclose transfers into and out of Level III of the fair value hierarchy, as well as purchases and issuances of Level III assets and liabilities, the requirement to reconcile opening balances to closing balances of Level III assets and liabilities has been removed.

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 Foundation 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 Foundation 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 Foundation beginning January 1, 2022. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires a customer in a cloud computing arrangement (i.e., hosting arrangement) that is a service contract to capitalize certain implementation costs as if the arrangement was an internal-use software project. Capitalized implementation costs related to a hosting arrangement that is a service contract must be amortized over the term of the hosting arrangement. The guidance also broadens the definition of a "hosting arrangement" to include arrangements in which a customer accesses or uses software but does not take possession of the software. The new guidance is effective for the Foundation beginning January 1, 2021. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

(dollars in thousands)

3. Investments

The investment goal of the Packard Foundation is to maintain or grow its spending power in real inflation adjusted terms with risk at a level appropriate to the Packard Foundation's programmatic spending and objectives. To accomplish this investment goal, the Packard Foundation diversifies its investments (held directly and indirectly) across various financial instruments and asset categories and implements multiple investment strategies. The Packard Foundation's financial assets are managed by a select group of external investment management firms and held in custody by major banks. Investments allocated to partnerships, limited liability companies, and commingled funds have separate arrangements appropriate to their legal structure.

The Packard Foundation's investments (held directly or indirectly) in developed market securities and emerging market securities consist of exchange traded public equities, treasury, and corporate bonds. The Packard Foundation's investments in marketable alternatives consist of long/short, opportunistic, and special situation investment management firms, trading public securities and over-the-counter securities. The Packard Foundation's investments in limited partnerships, private equity, and real assets are in securities and companies that cannot be immediately liquidated, such as buyout and venture capital firms, real estate firms, and natural resource firms. The general partners of such investments could maintain the ability to subject available redemptions to lock-ups or gates. The Packard Foundation's investments (held directly or indirectly) in fixed income securities consist primarily of investment grade instruments issued by the U.S. government and its agencies, investments issued by U.S. corporations, and mortgage-backed securities. The Packard Foundation maintains a real estate investment property located in Los Altos, California which is valued based upon a recent appraisal.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Packard Foundation's investments and total net assets balances could fluctuate materially.

Legal, tax, and regulatory changes could occur during the term of the Packard Foundation's private partnerships. The regulatory environment for private partnerships is evolving, and changes in the regulation of these partnerships may adversely affect the value of investments held by the Packard Foundation. The Packard Foundation believes that the effect of any future regulatory change on the Packard Foundation's assets would not be material.

Fair Value of Financial Instruments

In accordance with Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the

(dollars in thousands)

reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best available information.

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level I — Quoted prices in active markets for identical assets and liabilities.

Level II — Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined using models or other valuation methodologies.

Level III — Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The following table summarizes the valuation of the Packard Foundation's investments per the ASC 820 fair value hierarchy levels as of December 31, 2018:

	Level I	Level II	Level III	NAV [1]	Total
Developed market equities	$ 13,553	$ -	$ -	$ 1,066,693	$ 1,080,246
Emerging market equities	49,876	-	-	936,971	986,847
Private equities	-	-	-	1,468,718	1,468,718
Marketable alternatives	-	-	-	1,810,626	1,810,626
Real assets	-	-	-	1,103,212	1,103,212
Fixed income securities	-	605,420	-	-	605,420
Los Altos real estate	-	-	3,220	-	3,220
Total investments	$ 63,429	$ 605,420	$ 3,220	$ 6,386,220	$ 7,058,289

[1] Investments measured using net asset value as the practical expedient are excluded from the fair value hierarchy. These amounts are presented here to facilitate reconciliation of the fair value hierarchy to the consolidated and individual statements of financial position.

There were no transfers between levels of the fair value hierarchy for the year ended December 31, 2018.

(dollars in thousands)

The Packard Foundation uses net asset value (“NAV”) to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per the fair value measurement guidelines, the below table lists investment companies (in partnership format) by major asset class as of December 31, 2018:

Asset Class	Strategy	NAV in Funds	No. of Funds	Remaining Life, in Years (if definite)	Amount of Unfunded Commitments	Timing to Draw Down Commitments (Years)	Redemption Terms	Redemption Restrictions
Public equities	Contains developed and emerging equity	$ 2,003,664	19	N/A	$ 25,250	1 to 4	Ranges between monthly redemption with 90 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 5 years
Private equities	Contains growth, international, leveraged buyouts, and venture capital	1,468,718	59	1 to 14	490,995	1 to 8	Not eligible for redemption	Not eligible for redemption
Marketable alternatives	Contains global long/short equity, opportunistic, and special situations	1,810,626	24	1 to 10	129,815	1 to 3	Ranges between quarterly redemption with 45 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 10 years
Real assets	Contains natural resources and real estate	1,103,212	63	1 to 10	497,216	1 to 4	Not eligible for redemption	Not eligible for redemption
		$ 6,386,220	165		$ 1,143,276			

(dollars in thousands)

4. Property and Equipment

Property and equipment as of December 31, 2018 consisted of the following:

	Packard Foundation	Institute	Total
Land	$ 28,612	$ 4,236	$ 32,848
Buildings	51,407	52,864	104,271
Research vessels	-	46,038	46,038
Remotely operated vehicles	-	21,315	21,315
Ocean deployed equipment	-	26,903	26,903
Office furniture and equipment	15,256	19,377	34,633
Capital projects in progress	207	6,792	6,999
	95,482	177,525	273,007
Accumulated depreciation	(31,113)	(130,142)	(161,255)
Property and equipment, net	$ 64,369	$ 47,383	$ 111,752

Depreciation expense for the year ended December 31, 2018 was $2,911 and $7,766 for the Packard Foundation and the Institute, respectively.

As of December 31, 2018, the carrying value of leased property for which the Institute is the lessor was as follows:

	Institute
Land	$ 165
Buildings	1,397
Accumulated depreciation	(880)
Leased property, net	$ 682

5. Grants Payable

The Packard Foundation ordinarily makes grants to organizations that qualify as public charities under the IRC. When distributions are made to nonqualifying organizations, the Packard Foundation assumes the responsibility for the ultimate charitable use.

Grants awarded but unpaid are payable as of December 31, 2018 as follows:

	Packard Foundation
Less than one year	$ 134,794
One to five years	30,839
Grants payable	$ 165,633

(dollars in thousands)

6. Federal Excise and Unrelated Business Income Tax

In accordance with the applicable provisions of the IRC, both the Packard Foundation and the Institute are private foundations and qualify as tax-exempt organizations. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains, as defined. The Packard Foundation was subject to the 1% rate for the year ended December 31, 2018. The Institute was subject to the 2% rate for the year ended December 31, 2018. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Foundation. The income from certain investments is subject to federal and state unrelated business income tax.

Distribution Requirements
The Packard Foundation is a private nonoperating foundation and is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year a minimum of 5% of the net value of its noncharitable-use assets, as defined. The investments included in the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. Management believes the Packard Foundation has complied with the distribution requirements for the year ended December 31, 2018.

The Institute is a private operating foundation within the meaning of Section 509(a) of the IRC that makes its required charitable expenditures by sponsoring and managing its own programs. 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 for the year ended December 31, 2018.

(dollars in thousands)

7. Retirement Plans

Packard Foundation Retirement Plans

The Packard Foundation sponsors defined contribution plans under both IRC Section 401(a) and 403(b) for its eligible employees. Total expense related to such plans for the year ended December 31, 2018 was $2,564. The Packard Foundation also has a voluntary salary deferral plan for highly compensated employees under IRC Section 457(b). The Packard Foundation has a Nonqualified Benefits Restoration Plan (i.e., IRC Section 457(f)) that allows the Packard Foundation to make contributions to a participant's account equal to the amount in excess of IRC limits that the participant would otherwise have been eligible for in accordance with the Packard Foundation's 401(a) plan. The Nonqualified Benefits Restoration Plan is intended to be an unfunded plan although voluntary contributions are made to a grantor trust.

The Packard Foundation has a postretirement medical benefits plan (the "Packard Foundation Plan"), where eligible retired employees receive $5 per year of service designated in a health reimbursement account.

The following information presents the Packard Foundation Plan's unfunded status and amounts recognized in the consolidated and individual statements of financial position in postretirement benefit liabilities as of December 31, 2018, based on a measurement date of December 31, 2018:

	Packard Foundation
Benefit obligation	$ 6,593
Fair value of plan assets	-
Unfunded status	6,593
Postretirement benefit liabilities	$ 6,593

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

	Packard Foundation
Net (gain)/loss	$ (2,328)
Prior service cost/(credit)	(5,729)
	$ (8,057)

The Packard Foundation Plan's net periodic postretirement benefit cost/(credit) reflected in the consolidated and individual statements of activities for the year ended December 31, 2018 was $(651).

(dollars in thousands)

Changes other than net periodic postretirement benefit cost recognized in the consolidated and individual statements of activities for the year ended December 31, 2018 were as follows:

	Packard Foundation
Net actuarial gain	$ (454)
Amortization of net gain	165
Amortization of prior service cost	955
Total changes other than net periodic postretirement benefit cost	$ 666

The estimated net gain and prior service cost for the Packard Foundation Plan that will be amortized from net assets without donor restrictions into net periodic postretirement benefit cost in 2019 are as follows:

	Packard Foundation
Amortization of net gain	$ 209
Amortization of prior service cost	955
	$ 1,164

The net actuarial gain during 2018 was primarily attributable to the increase in the discount rate from 3.24% as of December 31, 2017 to 3.92% as of December 31, 2018.

The Packard Foundation 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 Packard Foundation are as follows:

	Packard Foundation
Years Ending December 31,	
2019	$ 389
2020	400
2021	428
2022	451
2023	475
2024-2028	2,670

Contributions to the Packard Foundation Plan and benefit payments made from the Packard Foundation Plan for the year ended December 31, 2018 were $290 and $290, respectively. Participants' contributions totaled $10 for the year ended December 31, 2018.

(dollars in thousands)

A weighted-average discount rate of 3.92% was used in determining the accumulated postretirement benefit obligation as of December 31, 2018, and a weighted-average discount rate of 3.24% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2018.

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) is assumed to be 7.25% in 2019, declining by 0.25% per year through 2028 and then remaining at 5% thereafter.

Institute Retirement Plans
The Institute sponsors defined contribution plans under IRC Section 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 make voluntary deferred salary contributions to the plan. Total expense related to this plan for the year ended December 31, 2018 was $2,274.

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

The Institute also sponsors a Nonqualified Deferred Compensation Restoration Plan (the "Institute Compensation Restoration Plan") primarily for providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Institute 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. As of December 31, 2018, the Institute held plan investments of $37 that are included in other assets, which are designated by the Institute to pay future Institute Compensation Restoration Plan liabilities of $37 as of December 31, 2018. These liabilities are included in accounts payable and other liabilities.

As of December 31, 2018, all the Institute's deferred compensation plan investments were classified as Level I, as they are mutual funds with daily traded market values. Reported in other assets in the individual and consolidated statements of financial position, these consisted of the following as of December 31, 2018:

	Institute
Equity and bond mutual funds	$ 1,808
Equity mutual funds	1,316
U.S. Government securities mutual funds	453
Real estate mutual funds	120
Total fair value of deferred compensation plan investments	$ 3,697

(dollars in thousands)

The Institute has a contributory retiree health insurance program (the "Institute 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.

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

- For employees hired after 2007, an additional requirement has been added to be eligible for benefits: age plus years of service must be 70.
- Institute contributions to the HRA for retirees over age 65 are limited to 50% of the medical premium amounts in effect on August 1, 2017.

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

The following information presents the Institute Plan's unfunded status and amounts recognized in the consolidated and individual statements of financial position in postretirement benefit liabilities as of December 31, 2018, based on a measurement date of December 31, 2018:

	Institute
Benefit obligation	$ 13,896
Fair value of plan assets	-
Unfunded status	13,896
Postretirement benefit liabilities	$ 13,896

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

	Institute
Net loss/(gain)	$ 5,608
Prior service cost/(credit)	(21,850)
	$ (16,242)

The Institute Plan's net periodic postretirement benefit cost/(credit) reflected in the consolidated and individual statements of activities for the year ended December 31, 2018 was $(923).

(dollars in thousands)

Changes other than net periodic postretirement benefit cost recognized in the consolidated and individual statements of activities for the year ended December 31, 2018 were as follows:

	Institute
Net actuarial gain	$ (1,301)
Amortization of net loss	(551)
Amortization of prior service cost	2,541
Plan amendment	(24,391)
Total changes other than net periodic postretirement benefit cost	$ (23,702)

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

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

The Institute's 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:

	Institute
Years Ending December 31,	
2019	$ 435
2020	503
2021	572
2022	644
2023	705
2024-2028	4,209

Contributions to the Institute Plan and benefit payments made from the Institute's Plan for the year ended December 31, 2018 were $267 and $308, respectively.

A weighted-average discount rate of 4.10% was used in determining the accumulated postretirement benefit obligation as of December 31, 2018, and a weighted-average discount rate of 3.61% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2018.

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) is assumed to be 8.5% in 2019, declining by 0.5% per year through 2026 and then remaining at 5% thereafter.

(dollars in thousands)

8. Commitments and Contingencies

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

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

Rent expense for the Institute for the year ended December 31, 2018 was $221.

As of December 31, 2018, the Institute has $500 on deposit as collateral to guarantee that the Institute will comply with the provisions of a land lease 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. This amount is included in other assets in the consolidated and individual statements 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.

(dollars in thousands)

9. Minimum Future Rental Revenues

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

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

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

10. Credit Facilities

The Packard Foundation has an uncommitted line of credit of $100,000 with The Northern Trust Company. As of December 31, 2018, the outstanding principal balance on the line of credit was $0. The Packard Foundation has the option of choosing the interest rate on the line of credit based upon the Prime-Based Rate, London Interbank Offered Rate (“Libor”), or Bank Offered Rate. The line of credit remains in force until otherwise elected by either of the parties.

(dollars in thousands)

11. Analysis of Expenses

The Packard Foundation's expenses have been allocated between direct charitable, grantmaking, and operational support activities, based on estimates made by the Foundation's management of time spent by employees on various activities. Direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by the Packard Foundation. Grantmaking expenses pertain to the general grantmaking activities of the Packard Foundation, such as reviewing proposals and awarding, monitoring, and evaluating grants. Operational support expenses include costs related to managing the Packard Foundation.

The Packard Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2018 were as follows:

	Packard Foundation			
	Direct Charitable	Grantmaking	Operational Support	Total Expenses
Grants awarded	$ 15,013	$ 318,783	$ -	$ 333,796
Salary, benefits, and payroll taxes	676	15,940	4,255	20,871
Legal fees	27	478	146	651
Accounting fees	-	-	265	265
Other professional fees	365	7,792	857	9,014
Depreciation	339	1,969	602	2,910
Occupancy	410	540	495	1,445
Travel, conferences, and meetings	1,243	2,893	482	4,618
Printing and publications	-	37	110	147
Other expenses	584	2,561	1,092	4,237
Postretirement benefit costs - interest and amortization	(33)	(593)	(278)	(904)
	$ 18,624	$ 350,400	$ 8,026	$ 377,050

(dollars in thousands)

The Institute's expenses have been allocated between direct charitable and operational support activities. Costs 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 resources.

The Institute's direct charitable expenses pertain to the general purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay. Direct charitable expenses are classified into three divisions: Research and Development, Marine Operations, and Information Dissemination. Research and Development expenses include developing and adapting innovative technologies for advancing our understanding of the ocean. Marine Operations expenses include operating and maintaining the Institute's research vessels and remotely operated vehicles. Information Dissemination expenses include those incurred in transferring knowledge gained, solutions devised, and technology developed to communities outside of the Institute, including researchers, educators, policy makers, resource managers, industry, and the public. The Institute's operational support expenses include costs related to managing the Institute.

The Institute's functional expenses, displayed by natural expense classification, for the year ended December 31, 2018 were as follows:

	Institute					
	Direct Charitable				Operational Support	Total Expenses
	Research and Development	Marine Operations	Information Dissemination	Total Direct Charitable		
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	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)
	$ 38,641	$ 3,851	$ 2,051	$ 44,543	$ 8,234	$ 52,777

(dollars in thousands)

12. Liquidity

The Packard Foundation's financial assets available within one year of December 31, 2018 to meet general expenditures include:

	Packard Foundation
Cash and cash equivalents	$ 28,200
Interest and dividends receivable	1,181
Investment sales receivable	154,032
Fixed income securities	605,420
Public market equities	63,429
Available financial assets	$ 852,262

The Packard Foundation endeavors to structure its financial assets to be available and liquid as its general expenditures, liabilities, and other obligations become due. In addition to the available financial assets listed above, the Packard Foundation has a line of credit agreement of $100,000 which can be drawn upon in the event of immediate liquidity needs. Furthermore, there are likely to be additional components of the Packard Foundation's investments that may be available and liquid within one year. These components include certain portions of marketable alternatives, as well as return of capital from both private equity and real asset holdings.

The Institute's financial assets available within one year of December 31, 2018 to meet general expenditures include:

	Institute
Cash and cash equivalents	$ 18,879
Certificates of deposit maturing in less than 90 days	3,496
Certificates of deposit maturing in greater than 90 days	3,490
Contributions receivable from the Packard Foundation	45,365
Other receivables	1,660
Available financial assets	72,890
Less financial assets unavailable for general expenditures due to designations:	
Board designations	
Operating reserve	12,392
Donor designations	
Packard Foundation capital grant	7,471
Packard Foundation capital grant spent, not yet in service	(547)
Financial assets unavailable for general expenditures	19,316
Net available financial assets	$ 53,574

(dollars in thousands)

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

13. Subsequent Events

The Foundation has evaluated subsequent events for the period December 31, 2018 through July 11, 2019, the date the financial statements were available to be issued, and believes no additional disclosures are required.