

# **The David and Lucile Packard Foundation**

**Consolidated Financial Statements  
December 31, 2020**



## **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 and its affiliate, the Monterey Bay Aquarium Research Institute (collectively “the Foundation”), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities and of cash flows for the year then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the consolidated 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 Foundation'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 consolidated 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 financial statements referred to above present fairly, in all material respects, the financial position of The David and Lucile Packard Foundation and its affiliate as of December 31, 2020, and the consolidated 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  
August 5, 2021

**The David and Lucile Packard Foundation**  
**Consolidated Statement of Financial Position**  
**December 31, 2020**

*(dollars in thousands)*

	<b>Packard Foundation</b>	<b>Institute</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 65,894	\$ 45,051	\$ -	\$ 110,945
Interest and dividends receivable	1,655	-	-	1,655
Investment sales receivable	251,541	-	-	251,541
Investments, at fair value	8,568,665	-	-	8,568,665
Contributions and support receivable	-	106,184	(104,490)	1,694
Program-related investments	85,958	-	-	85,958
Property and equipment, net	60,228	45,490	-	105,718
Other assets	9,511	11,896	-	21,407
Total assets	<u>\$ 9,043,452</u>	<u>\$ 208,621</u>	<u>\$ (104,490)</u>	<u>\$ 9,147,583</u>
<b>Liabilities and Net Assets</b>				
Liabilities				
Accounts payable and other liabilities	\$ 14,790	\$ 13,891	\$ -	\$ 28,681
Grants and support payable	245,133	-	(104,490)	140,643
Deferred federal excise tax liabilities	55,763	-	-	55,763
Postretirement benefit liabilities	8,540	18,627	-	27,167
Total liabilities	<u>324,226</u>	<u>32,518</u>	<u>(104,490)</u>	<u>252,254</u>
Net assets, unrestricted				
Undesignated	8,719,226	159,774	-	8,879,000
Board designated	-	16,329	-	16,329
Total net assets	<u>8,719,226</u>	<u>176,103</u>	<u>-</u>	<u>8,895,329</u>
Total liabilities and net assets	<u>\$ 9,043,452</u>	<u>\$ 208,621</u>	<u>\$ (104,490)</u>	<u>\$ 9,147,583</u>

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

**The David and Lucile Packard Foundation**  
**Consolidated Statement of Activities**  
**For the Year Ended December 31, 2020**

(dollars in thousands)

	<b>Packard Foundation</b>	<b>Institute</b>	<b>Eliminations</b>	<b>Total</b>
<b>Changes in net assets, unrestricted</b>				
Revenues and other support				
Federal awards	\$ -	\$ 7,530	\$ -	\$ 7,530
Other income	606	1,771	-	2,377
Investment return, net	<u>1,470,690</u>	<u>-</u>	<u>-</u>	<u>1,470,690</u>
Total revenues	1,471,296	9,301	-	1,480,597
Support from Packard Foundation	<u>-</u>	<u>124,490</u>	<u>(124,490)</u>	<u>-</u>
Total revenues and other support	1,471,296	133,791	(124,490)	1,480,597
Expenses				
Grants and support awarded	476,800	-	(124,490)	352,310
Direct charitable expenses	2,619	47,160	-	49,779
Grantmaking expenses	34,131	-	-	34,131
Operational support expenses	9,364	9,193	-	18,557
Program-related investments	<u>1,656</u>	<u>-</u>	<u>-</u>	<u>1,656</u>
Total expenses	524,570	56,353	(124,490)	456,433
Change in net assets, unrestricted, before nonoperating postretirement benefit activity	946,726	77,438	-	1,024,164
Components of net periodic postretirement benefit cost, other than service cost	770	2,121	-	2,891
Postretirement benefit-related changes other than net periodic postretirement benefit cost	<u>(1,638)</u>	<u>(3,615)</u>	<u>-</u>	<u>(5,253)</u>
Change in net assets, unrestricted	945,858	75,944	-	1,021,802
<b>Net assets, unrestricted</b>				
Beginning of year	<u>7,773,368</u>	<u>100,159</u>	<u>-</u>	<u>7,873,527</u>
End of year	<u>\$ 8,719,226</u>	<u>\$ 176,103</u>	<u>\$ -</u>	<u>\$ 8,895,329</u>

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

**The David and Lucile Packard Foundation**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended December 31, 2020**

(dollars in thousands)

	<b>Packard Foundation</b>	<b>Institute</b>	<b>Eliminations</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Cash received from grants and other support	\$ -	\$ 8,747	\$ -	\$ 8,747
Interest and dividends received	38,958	255	-	39,213
Grants paid	(293,259)	-	-	(293,259)
Cash paid to employees and suppliers	(57,944)	(46,320)	-	(104,264)
Cash paid for taxes	(3,859)	(17)	-	(3,876)
Net cash used in operating activities	<u>(316,104)</u>	<u>(37,335)</u>	<u>-</u>	<u>(353,439)</u>
<b>Cash flows from investing activities</b>				
Purchase of investments	(2,126,789)	-	-	(2,126,789)
Proceeds from sale of investments	2,483,297	-	-	2,483,297
Program-related investments funded	(24,203)	-	-	(24,203)
Repayments of program-related investments	32,583	-	-	32,583
Purchase of property and equipment	(436)	(7,354)	-	(7,790)
Purchase of certificates of deposit	-	(4,000)	-	(4,000)
Proceeds from maturity of certificates of deposit	-	8,150	-	8,150
Purchase of deferred compensation plan investments	-	(890)	-	(890)
Proceeds from sale and maturity of deferred compensation plan investments	-	763	-	763
Rental receipts received	519	-	-	519
Net cash provided by (used in) investing activities	<u>364,971</u>	<u>(3,331)</u>	<u>-</u>	<u>361,640</u>
<b>Cash flows from financing activities</b>				
Cash (paid to) received by Institute	(67,407)	67,407	-	-
Net cash (used in) provided by financing activities	<u>(67,407)</u>	<u>67,407</u>	<u>-</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(18,540)	26,741	-	8,201
<b>Cash and cash equivalents</b>				
Beginning of year	84,434	18,310	-	102,744
End of year	<u>\$ 65,894</u>	<u>\$ 45,051</u>	<u>\$ -</u>	<u>\$ 110,945</u>
<b>Supplemental Information</b>				
Noncash in-kind stock distributions	\$ 125,865	\$ -	\$ -	\$ 125,865
Noncash donation of capital asset by Institute	-	618	-	618

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

# The David and Lucile Packard Foundation

## Notes to Consolidated Financial Statements

### December 31, 2020

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*(dollars in thousands)*

#### 1. Organization

The David and Lucile Packard Foundation (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; reproductive health; and children, families, and communities. The Packard Foundation's facilities are in Los Altos, California.

The Monterey Bay Aquarium Research Institute (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 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. For the year ended December 31, 2020, approximately 93% of the Institute's revenues and support came from the Packard Foundation.

#### 2. Summary of 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 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.

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

##### 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.

# The David and Lucile Packard Foundation

## Notes to Consolidated Financial Statements

### December 31, 2020

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*(dollars in thousands)*

#### **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 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 statement 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 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 Foundation's readily marketable securities have been placed with major financial institutions.

#### **Program-Related Investments**

Program-related investments as of December 31, 2020 include \$85,756 of loans made to organizations; \$63 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 \$139 of equity investments in sustainable fisheries management, which are reported at fair value. Interest rates on loans receivable range from 0.5% to 2% as of December 31, 2020 and are generally repayable over two to ten years. Program-related investments are recorded when disbursed. Loans are monitored to determine net realizable value based on an evaluation of recoverability that utilizes experience. Management has reviewed the collectability of all program-related investments and has determined no allowance is necessary as of December 31, 2020.

#### **Property and Equipment**

Property and equipment are stated at cost when purchased or fair value at the date of donation and are 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 Foundation's other assets primarily include prepayments of excise and unrelated business income tax, capitalized implementation costs of cloud computing arrangements, deferred



# The David and Lucile Packard Foundation

## Notes to Consolidated Financial Statements

### December 31, 2020

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(dollars in thousands)

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.

#### **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.

#### **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. The Foundation is subject to federal excise taxes and taxes on unrelated business income.

#### **Revenue Recognition**

Contracts deemed exchange contracts are recognized in accordance with Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. 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. The Institute recognizes revenue when it satisfies a performance obligation by transferring control over goods and services to a customer.

#### **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, 2022. The Foundation is currently evaluating the impact the new guidance will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. The London Interbank Offered Rate (LIBOR) is expected to be phased out by the end of 2021 and ASU 2020-04 contains practical expedients for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The relief provided by ASC 2020-04 is considered temporary in nature and is meant to coincide with the period that global financial markets transition away from reference rates that will cease to exist. The standard is available to be adopted upon issuance and is effective between March 12, 2020 to December 31, 2022 for all companies (public and non-public). The Foundation is in the process of evaluating the impact of this guidance on its consolidated financial statements.

### **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

# The David and Lucile Packard Foundation

## Notes to Consolidated Financial Statements

### December 31, 2020

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*(dollars in thousands)*

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 funds, trading public securities and over-the-counter securities. The Packard Foundation's investments in limited partnerships, private equity, and real assets cannot be immediately liquidated, include buyout and venture capital funds, real estate funds, and natural resource funds. The general partners of certain investments 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 two real estate investment properties located in Los Altos, California which are valued based upon recent appraisals.

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 investments. 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 will not be material.

#### **Fair Value of Financial Instruments**

In accordance with 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 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 David and Lucile Packard Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

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(dollars in thousands)

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, 2020:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>NAV<sup>1</sup></u>	<u>Total</u>
Developed market equities	\$ 157,782	\$ -	\$ -	\$ 1,371,102	\$ 1,528,884
Emerging market equities	105,729	-	-	1,254,345	1,360,074
Private equities	23,506	-	-	2,181,261	2,204,767
Marketable alternatives	-	-	-	1,967,789	1,967,789
Real assets	-	-	-	1,031,539	1,031,539
Fixed income securities	-	462,319	-	-	462,319
Los Altos real estate	-	-	13,293	-	13,293
Total investments	<u>\$ 287,017</u>	<u>\$ 462,319</u>	<u>\$ 13,293</u>	<u>\$ 7,806,036</u>	<u>\$ 8,568,665</u>

<sup>1</sup> 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 statement of financial position.

There were no transfers between levels of the fair value hierarchy for the year ended December 31, 2020.

**The David and Lucile Packard Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

*(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 companies in which the Packard Foundation invests by major asset class as of December 31, 2020:

<u>Asset Class</u>	<u>Strategy</u>	<u>NAV in Funds</u>	<u># of Funds</u>	<u>Remaining Life, if definite (Years)</u>	<u>Unfunded Commitments</u>	<u>Commitments Draw Down Time (Years)</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>
Public equities	Contains developed and emerging equity	\$ 2,625,447	20	N/A	\$ 60,931	1 to 4	Ranges between monthly redemption with 90 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 3 years
Private equities	Contains growth, international, leveraged buyouts, and venture capital	2,181,261	82	1 to 15	481,589	1 to 6	Not eligible for redemption	Not eligible for redemption
Marketable alternatives	Contains global long/short equity, opportunistic, and special situations	1,967,789	23	1 to 8	85,508	1 to 2	Ranges between quarterly redemption with 45 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 8 years
Real assets	Contains natural resources and real estate	1,031,539	68	1 to 11	447,336	1 to 4	Not eligible for redemption	Not eligible for redemption
		<u>\$ 7,806,036</u>	<u>193</u>		<u>\$ 1,075,364</u>			

**The David and Lucile Packard Foundation**  
**Notes to Consolidated Financial Statements**  
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*(dollars in thousands)*

Certain natural resources investments do not issue audited financial statements with investments at fair value, and utilize significant unobservable inputs developed by the portfolio funds' managers to determine their fair value. These inputs include projected oil and gas production, futures prices, and discount rates.

Certain real estate investments do not issue audited financial statements with investments at fair value, and utilize significant unobservable inputs developed by the portfolio funds' managers to determine their fair value. These inputs include projected operating cash flows, capitalization rates, discount rates, and market and sales comparisons.

**4. Property and Equipment**

Property and equipment as of December 31, 2020 consisted of the following:

	<b>Packard Foundation</b>	<b>Institute</b>	<b>Total</b>
Land	\$ 28,664	\$ 4,236	\$ 32,900
Buildings	51,709	53,548	105,257
Research vessels	-	46,748	46,748
Remotely operated vehicles	-	23,099	23,099
Ocean deployed equipment	-	30,952	30,952
Office furniture and equipment	15,947	20,491	36,438
Capital projects in progress	315	9,938	10,253
	<u>96,635</u>	<u>189,012</u>	<u>285,647</u>
Accumulated depreciation	<u>(36,407)</u>	<u>(143,522)</u>	<u>(179,929)</u>
Property and equipment, net	<u>\$ 60,228</u>	<u>\$ 45,490</u>	<u>\$ 105,718</u>

Depreciation expense for the year ended December 31, 2020 was \$2,591 and \$8,322 for the Packard Foundation and the Institute, respectively.

**5. Grants and Support 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. The Packard Foundation had unpaid conditional grants as of December 31, 2020 of \$500. This amount is not included in the consolidated statement of financial position nor the consolidated statement of activities, as per accounting guidance. Conditional grants will be expensed and paid when the defined barriers are overcome.

**The David and Lucile Packard Foundation**  
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*(dollars in thousands)*

Grants and support awarded but unpaid are payable as of December 31, 2020 as follows:

	<b>Packard Foundation</b>
Less than one year	\$ 174,516
One to five years	70,617
Grants and support payable	<u>\$ 245,133</u>

**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. Until 2020, private foundations were liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC were met) on net investment income, excluding unrealized gains, as defined.

On December 20, 2019, the Further Consolidated Appropriations Act of 2020 (the Act) was signed into law simplifying the federal excise tax on private foundations. The Act eliminated the two-tiered system of excise tax on net investment income described above and replaced it with a flat excise tax rate of 1.39%. This flat rate is effective January 1, 2020 for the Foundation.

Deferred tax items are created when certain income and expense items are accounted for in different time periods for financial statement purposes than for tax purposes. Deferred federal excise tax liabilities result from changes in unrealized gains on investments.

The Foundation is also subject to current federal and state unrelated business income tax.

The Foundation believes that it has appropriate support for the excise and other tax positions taken and does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or change in net assets.

**7. 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, 2020 was \$2,892. 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 (Packard Foundation Plan), where eligible retired employees receive \$5 per year of service designated in a health reimbursement account. The Packard Foundation Plan was amended effective January 1, 2020, regarding certain surviving spouse benefits, which had an immaterial impact on the financial statements.

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*(dollars in thousands)*

The Institute has a contributory retiree health insurance program (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.

The following information presents the consolidated (Foundation Plan) postretirement medical benefits unfunded status and amounts recognized in the consolidated financial position in postretirement benefit liabilities as of December 31, 2020, based on a measurement date of December 31, 2020:

	<u>Packard Foundation</u>	<u>Institute</u>	<u>Total</u>
Benefit obligation	\$ 8,540	\$ 18,627	\$ 27,167
Fair value of plan assets	-	-	-
Unfunded status	<u>8,540</u>	<u>18,627</u>	<u>27,167</u>
Postretirement benefit liabilities	<u>\$ 8,540</u>	<u>\$ 18,627</u>	<u>\$ 27,167</u>

Amounts recognized in net assets as of December 31, 2020 were as follows:

	<u>Packard Foundation</u>	<u>Institute</u>	<u>Total</u>
Net (gain) loss	\$ (416)	\$ 7,902	\$ 7,486
Prior service cost	<u>(3,663)</u>	<u>(14,846)</u>	<u>(18,509)</u>
	<u>\$ (4,079)</u>	<u>\$ (6,944)</u>	<u>\$ (11,023)</u>

The Foundation Plan's net periodic postretirement benefit cost reflected in the consolidated statement of activities for the year ended December 31, 2020 was \$(2,394), consisting of \$(557) and \$(1,837) for the Packard Foundation and the Institute, respectively.

Changes other than net periodic postretirement benefit cost recognized in the consolidated statement of activities for the year ended December 31, 2020 were as follows:

	<u>Packard Foundation</u>	<u>Institute</u>	<u>Total</u>
Net actuarial loss	\$ 655	\$ 971	\$ 1,626
Amortization of net gain (loss)	41	(713)	(672)
Amortization of prior service cost	<u>942</u>	<u>3,357</u>	<u>4,299</u>
Total changes other than net periodic postretirement benefit cost	<u>\$ 1,638</u>	<u>\$ 3,615</u>	<u>\$ 5,253</u>

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*(dollars in thousands)*

The net actuarial loss for the year ended December 31, 2020 was primarily attributable to the decrease in the discount rate from 2.79% as of December 31, 2019 to 1.90% as of December 31, 2020 for the Packard Foundation, and from 3.07% to 2.30% for the Institute.

The weighted-average discount rate of 1.90% and 3.07% was used in determining the accumulated postretirement benefit obligation as of December 31, 2020 for the Packard Foundation and the Institute, respectively. The weighted-average discount rate of 2.79% and 4.10% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2020 for the Packard Foundation and the Institute, respectively.

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) is assumed to be 6.50% in 2021 and 2022, declining by 0.15% per year through 2032 and then remaining at 5% thereafter for the Packard Foundation. The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 7.0% in 2021, 6.8% in 2022 and declining by 0.2% per year until the ultimate trend rate of 5.0% is reached by 2031 for the Institute.

The Foundation Plans are fully insured and 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 Foundation are as follows:

	<u>Packard Foundation</u>	<u>Institute</u>	<u>Total</u>
<b>Years Ending December 31,</b>			
2021	\$ 470	\$ 454	\$ 924
2022	466	545	1,011
2023	485	612	1,097
2024	521	668	1,189
2025	585	718	1,303
2026-2030	2,872	4,331	7,203

Contributions to the Foundation Plans for the year ended December 31, 2020 were \$396 and \$305 by the Packard Foundation and the Institute, respectively. Benefit payments made from the Foundation Plans for the year ended December 31, 2020 were \$396 and \$378 by the Packard Foundation and the Institute, respectively. Packard Foundation Plan participants' contributions totaled \$21 for the year ended December 31, 2020.

**8. Related-Party Transactions**

In 2020, the Institute received a grant from the Packard Foundation of \$49,540 to support the subsequent year's operations. In addition, the Institute received funding from the Packard Foundation in the amount of \$75,000 for capital project management and construction costs. These funds, net of present value discount of \$(50), are eliminated in the Consolidated Statement of Activities for the year ended December 31, 2020.



# The David and Lucile Packard Foundation

## Notes to Consolidated Financial Statements

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*(dollars in thousands)*

#### **9. Credit Facilities**

The Packard Foundation has an uncommitted line of credit of \$150,000 with The Northern Trust Company. The Packard Foundation has the option of choosing the interest rate based upon the Prime-Based Rate, London Interbank Offered Rate (LIBOR), or Bank Offered Rate. The uncommitted line of credit remains in force until otherwise elected by either of the parties. As of December 31, 2020, the outstanding principal balance on the uncommitted line of credit was \$0.

In 2020, the Packard Foundation executed an amendment to its committed line of credit of \$250,000 with The Northern Trust Company, which contains a commitment fee on the unused available balance of 0.10% annually. The Packard Foundation has the option of choosing the interest rate based upon the Prime-Based Rate, London Interbank Offered Rate (LIBOR), or Bank Offered Rate. The aggregate outstanding principal, interest, and related fees are due in full on the commitment termination date of October 15, 2021. As of December 31, 2020, the outstanding principal balance on the committed line of credit was \$0.

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**10. Analysis of Expenses**

The 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 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 Foundation.

The Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2020 were as follows:

	Direct Charitable			Grantmaking	Operational Support			Eliminations	Total Expenses
	Packard Foundation	Institute	Total Direct Charitable	Packard Foundation	Packard Foundation	Institute	Total Operational Support		
Grants awarded	\$ 17,190	\$ -	\$ 17,190	\$ 459,610	\$ -	\$ -	\$ -	\$ (124,490)	\$ 352,310
Salary, benefits, and payroll taxes	774	28,588	29,362	18,434	5,775	5,413	11,188	-	58,984
Legal fees	33	-	33	595	156	141	297	-	925
Accounting fees	-	-	-	-	322	200	522	-	522
Other professional fees	198	-	198	8,562	644	-	644	-	9,404
Depreciation	324	5,922	6,246	1,796	471	2,400	2,871	-	10,913
Occupancy	349	4,169	4,518	281	295	(2,929)	(2,634)	-	2,165
Travel, conferences, and meetings	319	326	645	596	223	98	321	-	1,562
Printing and publications	1	210	211	105	29	19	48	-	364
Other expenses	621	7,945	8,566	3,762	1,449	3,851	5,300	-	17,628
Postretirement benefit costs - interest and amortization	(29)	(1,783)	(1,812)	(526)	(215)	(338)	(553)	-	(2,891)
	<u>\$ 19,780</u>	<u>\$ 45,377</u>	<u>\$ 65,157</u>	<u>\$ 493,215</u>	<u>\$ 9,149</u>	<u>\$ 8,855</u>	<u>\$ 18,004</u>	<u>\$ (124,490)</u>	<u>\$ 451,886</u>

**The David and Lucile Packard Foundation**  
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(dollars in thousands)

**11. Liquidity**

The Foundation's financial assets available within one year of December 31, 2020 to meet general expenditures include:

	<u>Packard Foundation</u>	<u>Institute</u>	<u>Eliminations</u>	<u>Total</u>
Cash and cash equivalents	\$ 65,894	\$ 45,051	\$ -	\$ 110,945
Certificates of deposit	-	4,500	-	4,500
Receivable from Packard Foundation	-	79,540	(79,540)	-
Interest and dividends receivable	1,655	-	-	1,655
Federal awards and other receivables	-	1,694	-	1,694
Investment sales receivable	251,541	-	-	251,541
Fixed income securities	462,319	-	-	462,319
Public market equities	263,511	-	-	263,511
Available financial assets	<u>1,044,920</u>	<u>130,785</u>	<u>(79,540)</u>	<u>1,096,165</u>
Less financial assets unavailable for general expenditures:				
Board designated operating reserve	-	16,329	-	16,329
Packard Foundation capital grant	-	78,944	(78,944)	-
Financial assets unavailable for general expenditures	<u>-</u>	<u>95,273</u>	<u>(78,944)</u>	<u>16,329</u>
Net available financial assets	<u>\$ 1,044,920</u>	<u>\$ 35,512</u>	<u>\$ (596)</u>	<u>\$ 1,079,836</u>

The 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 line of credit agreements totaling \$400,000 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.

**12. Subsequent Events**

The Foundation has performed an evaluation of subsequent events from December 31, 2020 through August 5, 2021, the date the consolidated financial statements were available to be issued, and believes no additional subsequent events disclosures are required.