The David and Lucile Packard Foundation

Consolidated and Individual Financial Statements
December 31, 2016

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 and the individual financial statements of the The David and Lucile Packard Foundation (the "Packard Foundation") and The Monterey Bay Aquarium Research Institute (the "Institute") (collectively, the "Foundation"), which comprise the consolidated and individual statements of financial position as of December 31, 2016, and the related consolidated and individual statements of activities and changes in net assets 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates

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made by management, as well as evaluating the overall presentation of the 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 consolidated financial position of The David and Lucile Packard Foundation and its affiliate and the individual financial positions of The David and Lucile Packard Foundation and The Monterey Bay Aquarium Research Institute as of December 31, 2016, and the consolidated and individual changes in their net assets and their consolidated and individual cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

July 20, 2017
San Francisco, California

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Financial Position
December 31, 2016

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Assets				
Cash and cash equivalents	$ 78,148	$ 5,264	$ -	$ 83,412
Interest and dividends receivable	4,086	-	-	4,086
Investment sales receivable	136,640	-	-	136,640
Investments, at fair value (Note 3)	6,680,481	-	-	6,680,481
Contributions receivable	-	62,941	(61,481)	1,460
Program-related investments (Note 2)	117,970	-	-	117,970
Property and equipment, net (Note 4)	68,918	49,681	-	118,599
Other assets	16,160	5,779	-	21,939
Total assets	$ 7,102,403	$ 123,665	$ (61,481)	$ 7,164,587
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	$ 13,087	$ 10,276	$ -	$ 23,363
Grants payable (Note 5)	222,129	-	(61,481)	160,648
Deferred federal excise tax liabilities	51,927	-	-	51,927
Postretirement benefit liabilities (Note 7)	6,978	32,440	-	39,418
Total liabilities	294,121	42,716	(61,481)	275,356
Net assets				
Unrestricted	6,808,282	29,407	51,542	6,889,231
Temporarily restricted	-	51,542	(51,542)	-
Total net assets	6,808,282	80,949	-	6,889,231
Total liabilities and net assets	$ 7,102,403	$ 123,665	$ (61,481)	$ 7,164,587

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

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Activities and Changes in Net Assets
December 31, 2016

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Changes in unrestricted net assets				
Revenue and investment income				
Interest and dividends	$ 50,095	$ 27	$ -	$ 50,122
Federal awards	-	5,263	-	5,263
Rental and other income	109	2,140	-	2,249
Contributions	-	11	-	11
Net realized and unrealized gain on investments (Note 3)	403,076	-	-	403,076
Investment related expenses	(13,938)	-	-	(13,938)
Net assets released from restriction	-	39,754	(39,754)	-
Revenue and investment income	439,342	47,195	(39,754)	446,783
Tax expense on investment income (Note 6)	(9,885)	-	-	(9,885)
Net revenue and investment income	429,457	47,195	(39,754)	436,898
Expenses				
Grants awarded	406,785	-	(51,542)	355,243
Direct charitable expenses (Note 11)	4,315	43,422	-	47,737
Program operating expenses	36,919	10,851	-	47,770
Total expenses	448,019	54,273	(51,542)	450,750
(Decrease) increase in unrestricted net assets before change in unrestricted net assets from actuarial gains and amortization	(18,562)	(7,078)	11,788	(13,852)
Change in unrestricted net assets from actuarial gains and amortization (Note 7)	9,689	9,851	-	19,540
(Decrease) increase in unrestricted net assets	(8,873)	2,773	11,788	5,688
Changes in temporarily restricted net assets				
Contributions	-	51,542	(51,542)	-
Net assets released from restriction	-	(39,754)	39,754	-
Increase (decrease) in temporarily restricted net assets	-	11,788	(11,788)	-
(Decrease) increase in net assets	(8,873)	14,561	-	5,688
Net assets				
Beginning of year	6,817,155	66,388	-	6,883,543
End of year	$ 6,808,282	$ 80,949	$ -	$ 6,889,231

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

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Cash Flows
December 31, 2016

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Cash flows from operating activities				
(Decrease) increase in net assets	$ (8,873)	$ 14,561	$ -	$ 5,688
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities				
Net realized and unrealized gain on investments	(403,076)	-	-	(403,076)
Change in net assets from actuarial gains and amortization	(9,689)	(9,851)	-	(19,540)
Depreciation and amortization	3,772	7,158	-	10,930
Loss on disposal of property and equipment	-	42	-	42
Changes in operating assets and liabilities				
Interest and dividends receivable	(2,039)	-	-	(2,039)
Contributions receivable	-	(12,421)	-	(12,421)
Other assets	(2,208)	190	-	(2,018)
Grants payable	89,555	-	-	89,555
Accounts payable and other liabilities	1,422	922	-	2,344
Deferred federal excise tax liabilities	2,070	-	-	2,070
Postretirement benefit liabilities	1,966	4,119	-	6,085
Net cash (used in) provided by operating activities	(327,100)	4,720	-	(322,380)
Cash flows from investing activities				
Purchases of investments	(4,043,456)	-	-	(4,043,456)
Proceeds from sales and maturities of investments	4,414,079	-	-	4,414,079
Principal advances to program-related investment loan recipients	(35,307)	-	-	(35,307)
Principal repayments received from program-related investment loan recipients	26,652	-	-	26,652
Purchases of deferred compensation plan investments	-	(419)	-	(419)
Proceeds from sales and maturities of deferred compensation plan investments	-	257		257
Purchases of property and equipment	(402)	(6,183)	-	(6,585)
Proceeds from sale of property and equipment	2	-	-	2
Net cash provided by (used in) investing activities	361,568	(6,345)	-	355,223
Net increase (decrease) in cash and cash equivalents	34,468	(1,625)	-	32,843
Cash and cash equivalents				
Beginning of year	43,680	6,889	-	50,569
End of year	$ 78,148	$ 5,264	$ -	$ 83,412
Supplemental disclosures of cash flow information				
Cash paid for taxes	$ 10,045	$ 6	$ -	$ 10,051
Accounts payable for capital expenditures	197	30	-	227

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. The Packard Foundation provides funding primarily to not-for-profit organizations operating predominantly in program areas that are of particular interest to the Board of Trustees: conservation and science; population and reproductive health; and children, families and communities. The Packard Foundation's primary facilities are located in Los Altos, California.

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

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 unrestricted net assets, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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 determination of postretirement benefit liabilities, and the determination of functional expense allocations.

(dollars in thousands)

Unrestricted Net Assets
Unrestricted net assets represent unrestricted resources available to support the Foundation's operations.

Temporarily Restricted Net Assets
Temporarily restricted net assets 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 gift. At December 31, 2016, the Institute's temporarily restricted net assets consist entirely of gifts from the Packard Foundation restricted to the subsequent year's operations. Temporarily restricted net assets of $39,754 were released from restriction due to the expiration of time restrictions during the year ended December 31, 2016.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash and money market funds. The Foundation considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

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. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a readily available market for such investments existed and differences could be material. The estimated fair value of real estate investment property is based on recent appraisals. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the consolidated and individual statements of activities and changes in net assets in the period that such fluctuations occur. 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. 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.

Program-Related Investments
Program-related investments at December 31, 2016 include $116,701 of loans made to organizations, $161 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 $1,108 of

(dollars in thousands)

equity investments in sustainable forest management and carbon offset project companies. Interest rates on loans receivable range from 0% to 10.25% as of December 31, 2016, and are generally repayable over 1 to 14 years. Management has reviewed the collectability of all program-related investments and has determined no allowance is necessary as of December 31, 2016.

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 3 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 include prepayments of excise and unrelated business income tax. The Institute's other assets include deferred compensation plan investments 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. There were no conditional promises to give at December 31, 2016.

Revenue Recognition
Contributions are recognized as revenues when they are received or unconditionally pledged. The Institute reports gifts of cash and other assets as restricted support 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated and individual statements of activities and changes in net assets as net assets released from restriction. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

Functional Expense Allocations
The Foundation's operating expenses have been allocated between direct charitable and program operating activities based on direct charitable activity and estimates made by the Foundation's management of time spent by employees on various activities.

The Packard Foundation's direct charitable expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by the Packard Foundation. Program operating expenses pertain to the general grantmaking activities of the Packard Foundation, such as reviewing proposals and awarding, monitoring and evaluating grants.

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. Program operating expenses include costs related to managing the Institute.

(dollars in thousands)

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 below accounting pronouncements have, or may have, an impact on the Foundation's financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for the Foundation beginning January 1, 2018. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Before this new standard, there was minimal guidance in U.S. GAAP specific to going concern. Under the new standard, disclosures are required when conditions give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. The new guidance went into effect for the Foundation beginning January 1, 2016. The Foundation has evaluated the impact of this guidance on the financial statements and concluded that no additional disclosure is necessary.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2015-07"). Previously under ASC 820, *Fair Value Measurement,* reporting entities were required within the notes to the financial statements to categorize investments, including those measured at net asset value as a practical expedient, in one of three levels in the fair value hierarchy based on the observability of the inputs used in valuing the investment. Under ASU 2015-07, investments measured using the practical expedient are excluded from the fair value hierarchy disclosure, and reporting entities are no longer required to include certain other disclosures such as the rollforward of Level III investments. ASU 2015-07 is effective for the Foundation beginning January 1, 2017, and early adoption is permitted. The Foundation adopted this guidance effective January 1, 2016, and the only impact pertained to investment disclosures.

(dollars in thousands)

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using net asset value, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category. 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 February 2016, the FASB issued 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 balance sheet. 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 August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update aims to improve the current net asset classification requirements and the information presented in the financial statements and notes regarding a not-for-profit entity's liquidity, financial performance, and cash flows. The new guidance is effective for the Foundation beginning January 1, 2018, and early adoption is permitted. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

During 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, and ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance is effective for the Foundation beginning January 1, 2019, and early adoption is permitted. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost by requiring bifurcation of net benefit cost. The new guidance is effective for the Foundation beginning January 1, 2019, and early adoption is permitted. 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 and natural resource firms. 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 and 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 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 balance 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 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.

(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 through the use of 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. Investments that are included in this category generally include privately held investments and partnership interests.

The following table summarizes the valuation of the Packard Foundation's investments per the ASC 820 fair value hierarchy levels as of December 31, 2016:

	Level I	Level II	Level III	NAV [1]	Total
Developed market equities	$ 35,207	$ -	$ -	$ 1,272,853	$ 1,308,060
Emerging market equities	105,712	-	-	854,674	960,386
Private equities	-	-	-	876,954	876,954
Marketable alternatives	-	-	-	1,957,181	1,957,181
Real assets	-	-	-	1,041,715	1,041,715
Fixed income securities	-	533,785	-	-	533,785
Los Altos real estate	-	-	2,400	-	2,400
Total investments	$ 140,919	$ 533,785	$ 2,400	$ 6,003,377	$ 6,680,481

[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.

Transfers between levels of the fair value hierarchy are recognized at the beginning of the year. There were no transfers between levels of the fair value hierarchy during the year ended December 31, 2016.

(dollars in thousands)

The following table summarizes the Packard Foundation's Level III rollforward per ASC 820 as of December 31, 2016:

	Beginning Balance at January 1, 2016	Net Realized Gains	Net Change in Unrealized Gains [1]	Purchases	Sales and Settlements	Transfers In (Out)	Ending Balance at December 31, 2016
Level III Assets							
Los Altos real estate	$ 2,120	$ -	$ 280	$ -	$ -	$ -	$ 2,400

[1] Total change in unrealized gains pertaining to Level III assets still held as of December 31, 2016 is $280, and is reflected in the consolidated and individual statements of activities and changes in net assets.

The net gain on the Packard Foundation's investment portfolio for the year ended December 31, 2016 consists of the following:

	Packard Foundation
Net realized gain	$ 305,233
Net change in unrealized gain	97,843
	$ 403,076

(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:

Asset Class	Strategy	NAV in Funds	No. of Funds	Remaining Life (Years)	Amount of Unfunded Commitments	Timing to Draw Down Commitments (Years)	Redemption Terms	Redemption Restrictions
Public equity	Contains developed and emerging equity	$ 2,127,527	19	1 to 15	$ 30,500	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 equity	Contains growth, international, leveraged buyouts and venture capital	876,954	46	1 to 11, or N/A	615,910	1 to 11	Not eligible for redemption	Not eligible for redemption
Marketable alternatives	Contains global long/short equity, opportunistic and special situations	1,957,181	25	1 to 10	95,307	1 to 4	Ranges between quarterly redemption with 45 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 5 years
Real assets	Contains natural resources and real estate	1,041,715	59	1 to 11	689,967	1 to 5	Not eligible for redemption	Not eligible for redemption
		$ 6,003,377	149		$ 1,431,684			

(dollars in thousands)

4. Property and Equipment

Property and equipment at December 31, 2016 consisted of the following:

	Packard Foundation	Institute	Total
Land	$ 26,648	$ 4,236	$ 30,884
Buildings	53,328	50,538	103,866
Research vessels	-	44,153	44,153
Remotely operated vehicles	-	20,060	20,060
Ocean deployed equipment	-	26,894	26,894
Office furniture and equipment	17,356	19,621	36,977
Capital projects in progress	208	5,481	5,689
	97,540	170,983	268,523
Accumulated depreciation	(28,622)	(121,302)	(149,924)
Property and equipment, net	$ 68,918	$ 49,681	$ 118,599

Depreciation expense for the year ended December 31, 2016 was $3,772 and $7,158 for the Packard Foundation and the Institute, respectively.

As of December 31, 2016, the carrying value of leased property for which the Institute is the lessor was as follows:

	Institute
Land	$ 165
Buildings	1,397
Accumulated depreciation	(786)
Leased property, net	$ 776

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 at December 31, 2016 as follows:

	Packard Foundation
Less than 1 year	$ 115,626
1 to 5 years	106,503
	$ 222,129

(dollars in thousands)

6. Federal Excise and Unrelated Business Income Tax

In accordance with the applicable provisions of the IRC, the Packard Foundation is a private foundation and qualifies as a tax-exempt organization. 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, 2016. 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 Packard Foundation.

The income from certain investments is subject to federal and state unrelated business income tax.

The provision for taxes for the year ended December 31, 2016 was as follows:

	Packard Foundation
Current federal excise tax expense	$ 5,307
Deferred federal excise tax expense	2,070
Unrelated business income tax expense	2,508
	$ 9,885

Distribution Requirements
The Packard Foundation is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined. The investments included in the 5% distribution requirement are based on average monthly balances and are exclusive of those investments 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 through December 31, 2016.

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. Pursuant to Section 4940(a) of the IRC, the Institute's investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 2% of investment income. The Institute's status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. The Institute has met the requirements for private operating foundation status through December 31, 2016.

(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 during 2016 was $2,196. 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 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 Packard Foundation plan was amended effective January 1, 2017.

The following information presents the Packard Foundation Plan's unfunded status and amounts recognized in the consolidated and individual statements of financial position as of December 31, 2016, based on a measurement date of December 31, 2016:

	Packard Foundation
Benefit obligation	$ (6,978)
Fair value of plan assets	-
Unfunded status	(6,978)
Amount recognized in the consolidated and individual statements of financial position as postretirement benefit liabilities	$ (6,978)

Amounts recognized in unrestricted net assets at December 31, 2016 were as follows:

	Packard Foundation
Prior service cost	$ (7,639)
Net gain	(1,687)
	$ (9,326)

(dollars in thousands)

The estimated prior service cost and net loss for the Packard Foundation Plan that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2017 is as follows:

		Packard Foundation
Amortization of prior service cost	$	(955)
Amortization of net gain		(124)
	$	(1,079)

Changes in unrestricted net assets as a result of actuarial gains/losses and amounts amortized for the year ended December 31, 2016 were as follows:

		Packard Foundation
Net actuarial gain	$	(1,047)
Amortization of net gain		-
Plan amendment		(8,458)
Amortization of prior service cost		(184)
Total recognized in unrestricted net assets	$	(9,689)

The Packard Foundation’s contributions to the Packard Foundation Plan and benefit payments made from the Packard Foundation Plan for the year ended December 31, 2016 were $205. Participants’ contributions totaled $118 for the year ended December 31, 2016.

The net periodic postretirement benefit cost reflected in the consolidated and individual statements of activities and changes in net assets related to the Packard Foundation Plan for the year ended December 31, 2016 was $2,171.

A weighted-average discount rate of 3.91% was used in determining the accumulated postretirement benefit obligation as of December 31, 2016 and a weighted-average discount rate of 4.38% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2016.

(dollars in thousands)

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, as appropriate, to be paid by the Packard Foundation are as follows:

	Packard Foundation
Years Ending December 31,	
2017	$ 269
2018	291
2019	314
2020	335
2021	372
2022-2026	2,208

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) is assumed to be 7.5% in 2018, declining by 0.25% per year through 2028 and then remaining at 5% thereafter. A 1% point increase in this rate would increase the accumulated postretirement benefit obligation by $470 and the service cost plus interest cost components of the net periodic postretirement benefit cost by $62. A 1% point decrease in this rate would decrease the accumulated postretirement benefit obligation by $359 and the service cost plus interest cost components of net periodic postretirement benefit cost by $51.

Institute Retirement Plans

The Institute sponsors defined contribution plans under both IRC Section 401(a) and 403(b). The plans cover all employees who meet eligibility requirements. Contributions to the 401(a) 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 such plans was $2,167 during 2016. As of March 2016, the 401(a) plan was closed and plan assets were merged with the 403(b) plan. The 10% contribution from the Institute continued to be paid into the 403(b) plan as of the March 2016 merger date.

The Institute sponsors a Section 457(b) Qualified Eligible Salary Deferral Plan (the "Institute Salary Deferral Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Institute Salary Deferral Plan enables participants to defer income on a pre-tax basis. At December 31, 2016, the Institute held plan investments of $3,295 that are included in other assets. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of $3,295 as of December 31, 2016. 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 the purpose of 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 401(a) plan. At December 31, 2016, the Institute held plan investments of $20 that are included in other assets, which are designated by the Institute to pay future Deferred Compensation Restoration Plan liabilities of $20 as of December 31, 2016. These liabilities are included in accounts payable and other liabilities.

(dollars in thousands)

At December 31, 2016, all of the Institute's deferred compensation plan investments, included in other assets, were classified as Level I and consisted of the following:

	Institute
Equity mutual funds	$ 1,388
U.S. Government securities mutual funds	143
Bond mutual funds	61
Equity and bond mutual funds	1,600
Real estate mutual funds	123
Total fair value of deferred compensation plan investments	$ 3,315

The Institute has a contributory retiree health insurance program (the "Institute Plan") which covers substantially all employees who meet the eligibility requirements. Each August 1st, the Institute makes a contribution on behalf of each retired employee to a health reimbursement account (HRA). The amount of the contribution is 50% of the annual premium that is charged by the Institute's health insurer for an employee 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 Institute Plan's unfunded status and amount recognized in the consolidated and individual statements of financial position as of December 31, 2016, based on a measurement date of December 31, 2016:

	Institute
Benefit obligation	$ (32,440)
Fair value of plan assets	-
Unfunded status	(32,440)
Amount recognized in the consolidated and individual statements of financial position as postretirement benefit liabilities	$ (32,440)

Amounts recognized in unrestricted net assets at December 31, 2016 were as follows:

	Institute
Prior service cost	$ -
Net loss	3,032
	$ 3,032

(dollars in thousands)

Changes in postretirement benefit liabilities recognized in unrestricted net assets were as follows:

	Institute
Net gain	$ (8,574)
Prior service cost	-
Amortization of net loss	(1,277)
Amortization of prior service cost	-
Total recognized in unrestricted net assets	$ (9,851)

Total contributions paid and benefit payments made from the Institute's Plan for the year ended December 31, 2016 were $110 and $110, respectively.

The net periodic postretirement benefit cost reflected in the consolidated and individual statements of activities and changes in net assets related to the Institute Plan for the year ended December 31, 2016 was $4,229.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.19% as of December 31, 2016, and in determining the net periodic postretirement benefit cost was 4.39% for the year ended December 31, 2016.

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, as appropriate, to be paid by the Institute are as follows:

	Institute
Years Ending December 31,	
2017	$ 254
2018	348
2019	425
2020	514
2021	661
2022-2026	5,248

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 9.5% in 2017 and 9.0% in 2018, declining by 0.5% per year through 2026, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit obligation by $7,613 and $(5,898), respectively, and increase or decrease the service cost plus interest cost components of the net periodic postretirement benefit cost by $737 and $(557), respectively, for the year ended December 31, 2016.

(dollars in thousands)

8. Commitments and Contingent Liabilities

The Institute has noncancelable operating leases for certain land, facilities, furniture and equipment. The terms of these leases expire in 2017 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 at December 31, 2016 are as follows:

	Institute
Years Ending December 31,	
2017	$ 135
2018	28
2019	29
2020	30
2021	31
Thereafter	688
	$ 941

Rent expense for the Foundation for the year ended December 31, 2016 was $171.

As of December 31, 2016, the Institute has $500 on deposit as collateral to guarantee that the Institute will comply with the provisions of a land lease entered into with the State of California, California State Lands Commission to obtain right-of-way use needed for the operation of one of the Institute's projects, the MARS Project. 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. The 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 2017 and 2025, with options to renew. Certain rental rates are subject to annual increases ranging up to 3%.

Minimum future rental receipts from operating leases having noncancelable lease terms in excess of one year as of December 31, 2016 are approximately as follows:

	Institute
Years Ending December 31,	
2017	$ 112
2018	34
2019	36
2020	37
2021	38
Thereafter	127
	$ 384

10. Credit Facilities

The Packard Foundation has an uncommitted line of credit (“LOC”) of $100,000 with The Northern Trust Company. At December 31, 2016, the outstanding principal balance on the line of credit was $0. The Packard Foundation has the option of choosing the interest rate on the LOC based upon the Prime-Based Rate, London Interbank Offered Rate (“Libor”) or Bank Offered Rate.

11. Direct Charitable Expenses

The Institute’s direct charitable expenses, by division, for the year ended December 31, 2016 are as follows:

	Institute
Division of marine operations	$ 4,453
Research and development	36,826
Information and technology dissemination	2,143
	$ 43,422

12. Subsequent Events

The Foundation has evaluated subsequent events for the period December 31, 2016 through July 20, 2017, the date the financial statements were available to be issued, and believes no additional disclosures are required.