The David and Lucile Packard Foundation

Consolidated and Individual Financial Statements
December 31, 2017

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of The David and Lucile Packard Foundation (the "Packard Foundation") and its affiliate and the individual financial statements of 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, 2017, and the related consolidated and individual statements of activities, and statements 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 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, 2017, 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

San Francisco, California
July 26, 2018

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Financial Position
December 31, 2017

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Assets				
Cash and cash equivalents	$ 108,406	$ 20,216	$ -	$ 128,622
Interest and dividends receivable	4,258	-	-	4,258
Investment sales receivable	199,776	-	-	199,776
Investments, at fair value (Note 3)	7,354,856	-	-	7,354,856
Contributions receivable	-	44,812	(43,412)	1,400
Program-related investments (Note 2)	105,759	-	-	105,759
Property and equipment, net (Note 4)	66,234	48,873	-	115,107
Other assets	10,942	11,412	-	22,354
Total assets	$ 7,850,231	$ 125,313	$ (43,412)	$ 7,932,132
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	$ 17,786	$ 10,579	$ -	$ 28,365
Grants payable (Note 5)	179,796	-	(43,412)	136,384
Federal excise tax liabilities	66,547	-	-	66,547
Postretirement benefit liabilities (Note 7)	6,868	38,829	-	45,697
Total liabilities	270,997	49,408	(43,412)	276,993
Net assets				
Without donor restrictions				
Undesignated	7,579,234	10,031	53,412	7,642,677
Board designated	-	12,462	-	12,462
With donor restrictions				
Time restricted	-	43,412	(43,412)	-
Purpose restricted	-	10,000	(10,000)	-
Total net assets	7,579,234	75,905	-	7,655,139
Total liabilities and net assets	$ 7,850,231	$ 125,313	$ (43,412)	$ 7,932,132

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

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Activities
For the Year Ended December 31, 2017

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Changes in net assets without donor restrictions				
Revenues				
Federal awards	$ -	$ 6,114	$ -	$ 6,114
Program-related investments and other income	2,248	2,463	-	4,711
Contributions	-	59	-	59
Investment return, net	1,101,104	-	-	1,101,104
Net assets released from restrictions	-	41,542	(41,542)	-
Total revenues	1,103,352	50,178	(41,542)	1,111,988
Expenses				
Grants awarded	291,817	-	(43,412)	248,405
Direct charitable expenses	2,064	43,567	-	45,631
Grantmaking expenses	31,050	-	-	31,050
Operational support expenses	7,678	7,746	-	15,424
Total expenses	332,609	51,313	(43,412)	340,510
Increase (decrease) in net assets without donor restrictions, before non-operating postretirement benefit activity	770,743	(1,135)	1,870	771,478
Other components of net periodic postretirement benefit cost	811	(1,351)	-	(540)
Postretirement benefit-related changes other than net periodic postretirement benefit cost	(602)	(4,428)	-	(5,030)
Increase (decrease) in net assets without donor restrictions	770,952	(6,914)	1,870	765,908
Changes in net assets with donor restrictions				
Contributions	-	43,412	(43,412)	-
Net assets released from restrictions	-	(41,542)	41,542	-
Increase (decrease) in net assets with donor restrictions	-	1,870	(1,870)	-
Increase (decrease) in net assets	$ 770,952	$ (5,044)	$ -	$ 765,908
Net assets				
Beginning of year	6,808,282	80,949	-	6,889,231
End of year	$ 7,579,234	$ 75,905	$ -	$ 7,655,139

The David and Lucile Packard Foundation
Consolidated and Individual Statements of Cash Flows
For the Year Ended December 31, 2017

(dollars in thousands)

	Packard Foundation	Institute	Eliminations	Total
Cash flows from operating activities				
Cash received from donors	$ -	$ 61,540	$ (61,481)	$ 59
Cash received from grants and other support	-	7,987	-	7,987
Interest and dividends received	84,738	164	-	84,902
Grants paid	(334,154)	-	61,481	(272,673)
Cash paid to employees and suppliers	(51,025)	(43,012)	-	(94,037)
Cash paid for taxes	(2,057)	(3)	-	(2,060)
Cash paid for deferred compensation	-	(44)	-	(44)
Net cash (used in) provided by operating activities	(302,498)	26,632	-	(275,866)
Cash flows from investing activities				
Purchase of investments	(2,397,988)	-	-	(2,397,988)
Proceeds from sale of investments	2,718,424	-	-	2,718,424
Program-related investments funded	(30,175)	-	-	(30,175)
Repayments of program-related investments	43,172	-	-	43,172
Purchase of property and equipment	(774)	(6,520)	-	(7,294)
Purchase of deferred compensation plan investments	-	(1,011)	-	(1,011)
Proceeds from sale of deferred compensation plan investments	-	841	-	841
Purchase of certificates of deposit	-	(4,990)	-	(4,990)
Rental receipts received	97	-	-	97
Net cash provided by (used in) investing activities	332,756	(11,680)	-	321,076
Net increase in cash and cash equivalents	30,258	14,952	-	45,210
Cash and cash equivalents				
Beginning of year	78,148	5,264	-	83,412
End of year	$ 108,406	$ 20,216	$ -	$ 128,622

(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 net assets without donor restrictions, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in net assets without donor restrictions. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the valuation of the Foundation's investments and program-related investments, the expected useful lives of property and equipment, the

(dollars in thousands)

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

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

Net Assets with Donor Restrictions
Net assets with donor restrictions represent gifts that are limited in use by the Institute in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Institute according to the terms of the gift. As of December 31, 2017, the Institute's net assets with donor restrictions consist entirely of gifts from the Packard Foundation restricted to the subsequent year's operations and depreciation expense incurred on capital projects. Net assets with donor restrictions of $41,542 were released from restriction due to the expiration of time restrictions during the year ended December 31, 2017. The Institute spent $1,063 of its $10,000 Packard Foundation capital grant of which $10,000 remains restricted as capital assets associated with the expenditures were not placed in service during the year ended December 31, 2017. This restriction will be released as capital assets are placed in service.

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 period that such fluctuations occur. Realized gains or losses, unrealized gains or losses, and interest income and dividends are reported in the consolidated and individual statements of activities within investment return, net. Investment sales and purchases are recorded on a trade date basis, which results in both investment receivables and payables on unsettled investment trades. The Packard Foundation is subject to credit risk should a broker be unable to meet its obligations to the Packard Foundation.

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

(dollars in thousands)

and cash equivalents primarily with major financial institutions. Cash equivalents include investments in money market funds. 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 as of December 31, 2017 include $104,429 of loans made to organizations, $138 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 $1,192 of equity investments in sustainable forest management and carbon offset project companies. Interest rates on loans receivable range from 1% to 10.25% as of December 31, 2017, and are generally repayable over one to 10 years. Management has reviewed the collectability of all program-related investments and has determined no allowance is necessary as of December 31, 2017.

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

Other Assets
The Packard Foundation's other assets primarily include prepayments of unrelated business income tax and investments. The Institute's other assets primarily include deferred compensation plan investments and certificates of deposit with maturity dates greater than 90 days, 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 as of December 31, 2017.

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

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

(dollars in thousands)

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, 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 statement of financial position. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for the Foundation beginning January 1, 2020. The Foundation is currently evaluating the impact the new guidance will have on the financial statements.

In 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 has evaluated the impact of the new guidance on the financial statements and has elected for early adoption, effective January 1, 2017. Implementation of this guidance resulted in a change in presentation of net assets and additional disclosures surrounding the Foundation's functional expense classifications and liquidity. The ASU also eliminated the requirement to present operating cash flows using the indirect reconciliation method if the direct method is chosen.

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 presentation 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 has evaluated the impact of the new guidance on the financial statements and has elected for early adoption, effective January 1, 2017. Implementation of this guidance required the Foundation to report service cost of the postretirement medical benefits plans as an expense in the consolidated and individual statements of activities; all other costs of the postretirement medical benefits plans are reported in the consolidated and individual statements of activities as non-operating changes in net assets.

(dollars in thousands)

In December 2017, the United States enacted tax reform legislation, Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The provisions of the law are effective for the Foundation beginning January 1, 2018. The Foundation is currently evaluating the impact the Tax Act will have on the 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 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 general partners of such investments could maintain the ability to subject our available redemptions to lockups or gates. The Packard Foundation's investments (held directly or indirectly) in fixed income securities consist primarily of investment grade instruments issued by the U.S. government and its agencies, investments issued by U.S. corporations and mortgage-backed securities. The Packard Foundation maintains a real estate investment property located in Los Altos, California which is valued based upon 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

(dollars in thousands)

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 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.

The following table summarizes the valuation of the Packard Foundation's investments per the ASC 820 fair value hierarchy levels as of December 31, 2017:

	Level I	Level II	Level III	NAV [1]	Total
Developed market equities	$ 53,832	$ -	$ -	$ 1,424,395	$ 1,478,227
Emerging market equities	215,490	-	-	961,581	1,177,071
Private equities	-	-	-	1,248,997	1,248,997
Marketable alternatives	-	-	-	1,803,183	1,803,183
Real assets	-	-	-	1,131,466	1,131,466
Fixed income securities	-	513,292	-	-	513,292
Los Altos real estate	-	-	2,620	-	2,620
Total investments	$ 269,322	$ 513,292	$ 2,620	$ 6,569,622	$ 7,354,856

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

There were no transfers between levels of the fair value hierarchy for the year ended December 31, 2017.

(dollars in thousands)

The following table summarizes the Packard Foundation's Level III rollforward per ASC 820 as of December 31, 2017:

	Beginning Balance at January 1, 2017	Net Realized Gains	Net Change in Unrealized Gains [1]	Purchases	Sales and Settlements	Transfers In (Out)	Ending Balance at December 31, 2017
Level III Assets							
Los Altos real estate	$ 2,400	$ -	$ 220	$ -	$ -	$ -	$ 2,620

[1] Total change in unrealized gains pertaining to Level III assets still held as of December 31, 2017 is $220, and is reflected in the consolidated and individual statements of activities.

(dollars in thousands)

The Packard Foundation uses net asset value ("NAV") to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Per the fair value measurement guidelines, the below table lists investment companies (in partnership format) by major asset class as of December 31, 2017:

Asset Class	Strategy	NAV in Funds	No. of Funds	Remaining Life, in Years (if definite)	Amount of Unfunded Commitments	Timing to Draw Down Commitments (Years)	Redemption Terms	Redemption Restrictions
Public equity	Contains developed and emerging equity	$ 2,385,976	20	N/A	$ 24,500	1 to 5	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	1,248,997	51	1 to 15	475,757	1 to 9	Not eligible for redemption	Not eligible for redemption
Marketable alternatives	Contains global long/short equity, opportunistic and special situations	1,803,183	23	1 to 9	68,779	1 to 3	Ranges between quarterly redemption with 45 day notice, to annual redemption with 90 day notice	Lock up provisions of up to 4 years
Real assets	Contains natural resources and real estate	1,131,466	62	1 to 10	564,340	1 to 5	Not eligible for redemption	Not eligible for redemption
		$ 6,569,622	156		$ 1,133,376			

(dollars in thousands)

4. Property and Equipment

Property and equipment as of December 31, 2017 consisted of the following:

	Packard Foundation	Institute	Total
Land	$ 26,648	$ 4,236	$ 30,884
Buildings	53,328	50,562	103,890
Research vessels	-	45,442	45,442
Remotely operated vehicles	-	20,332	20,332
Ocean deployed equipment	-	25,642	25,642
Office furniture and equipment	16,753	18,880	35,633
Capital projects in progress	354	6,783	7,137
	97,083	171,877	268,960
Accumulated depreciation	(30,849)	(123,004)	(153,853)
Property and equipment, net	$ 66,234	$ 48,873	$ 115,107

Depreciation expense for the year ended December 31, 2017 was $3,264 and $7,158 for the Packard Foundation and the Institute, respectively.

As of December 31, 2017, the carrying value of leased property for which the Institute is the lessor was as follows:

	Institute
Land	$ 165
Buildings	1,397
Accumulated depreciation	(833)
Leased property, net	$ 729

5. Grants Payable

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

Grants awarded but unpaid are payable as of December 31, 2017 as follows:

	Packard Foundation
Less than one year	$ 95,996
One to five years	83,800
	$ 179,796

(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 2% rate for the year ended December 31, 2017. 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.

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 for the year ended December 31, 2017.

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 1% 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 for the year ended December 31, 2017.

(dollars in thousands)

7. Retirement Plans

Packard Foundation Retirement Plans

The Packard Foundation sponsors defined contribution plans under both IRC Section 401(a) and 403(b) for its eligible employees. Total expense related to such plans for the year ended December 31, 2017 was $2,356. 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 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, 2017, based on a measurement date of December 31, 2017:

	Packard Foundation
Benefit obligation	$ (6,868)
Fair value of plan assets	-
Unfunded status	(6,868)
Amount recognized in the consolidated and individual statements of financial position as postretirement benefit liabilities	$ (6,868)

Contributions to the Packard Foundation Plan and benefit payments made from the Packard Foundation Plan for the year ended December 31, 2017 were $256 and $256, respectively. There were no participants' contributions for the year ended December 31, 2017.

Amounts recognized in net assets without donor restrictions as of December 31, 2017 were as follows:

	Packard Foundation
Net gain	$ (2,039)
Prior service cost	(6,684)
	$ (8,723)

(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,		
2018	$	397
2019		420
2020		426
2021		450
2022		450
2023-2027		2,526

Changes in net assets without donor restrictions attributed to actuarial gains/losses and amortization for the year ended December 31, 2017 were as follows:

		Packard Foundation
Net actuarial gain	$	477
Amortization of net gain		(124)
Amortization of prior service cost		(955)
Changes other than net periodic postretirement benefit cost	$	(602)

A weighted-average discount rate of 3.24% was used in determining the accumulated postretirement benefit obligation as of December 31, 2017, and a weighted-average discount rate of 3.91% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2017.

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

The estimated net gain and prior service cost for the Packard Foundation Plan that will be amortized from net assets without donor restrictions into net periodic postretirement benefit cost in 2018 are as follows:

		Packard Foundation
Amortization of net gain	$	165
Amortization of prior service cost		955
	$	1,120

(dollars in thousands)

The Packard Foundation Plan's net periodic postretirement benefit cost/(credit) reflected in the consolidated and individual statements of activities for the year ended December 31, 2017 was $(456).

Institute Retirement Plans

The Institute sponsors defined contribution plans under IRC Section 403(b). The plan covers all employees who meet eligibility requirements. Contributions to the 403(b) plan are made by the Institute at 10% of an employee's annual salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expense related to this plan for the year ended December 31, 2017 was $2,211.

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. As of December 31, 2017, the Institute held plan investments of $3,953 that are included in other assets. These assets are designated by the Institute to pay future Institute Salary Deferral Plan liabilities of $3,953 as of December 31, 2017. 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 403(b) plan. As of December 31, 2017, the Institute held plan investments of $30 that are included in other assets, which are designated by the Institute to pay future Institute Compensation Restoration Plan liabilities of $30 as of December 31, 2017. These liabilities are included in accounts payable and other liabilities.

As of December 31, 2017, all the Institute's deferred compensation plan investments, included in other assets, were classified as Level I and consisted of the following:

	Institute
Equity and bond mutual funds	$ 2,094
Equity mutual funds	1,233
Bond mutual funds	377
U.S. Government securities mutual funds	146
Real estate mutual funds	133
Total fair value of deferred compensation plan investments	$ 3,983

The Institute has a contributory retiree health insurance program (the "Institute Plan") which covers substantially all employees who meet the eligibility requirements. Each August 1, the Institute 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.

(dollars in thousands)

The following information presents the Institute Plan's unfunded status and amounts recognized in the consolidated and individual statements of financial position as of December 31, 2017, based on a measurement date of December 31, 2017:

		Institute
Benefit obligation	$	(38,829)
Fair value of plan assets		-
Unfunded status		(38,829)
Amount recognized in the consolidated and individual statements of financial position as postretirement benefit liabilities	$	(38,829)

Contributions to the Institute Plan and benefit payments made from the Institute's Plan for the year ended December 31, 2017 were $182 and $182, respectively.

Amounts recognized in net assets without donor restrictions as of December 31, 2017 were as follows:

		Institute
Net loss	$	7,460
Prior service cost		-
	$	7,460

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,		
2018	$	376
2019		472
2020		553
2021		685
2022		792
2023-2027		6,014

(dollars in thousands)

Changes in net assets without donor restrictions attributed to actuarial gains/losses and amortization for the year ended December 31, 2017 were as follows:

		Institute
Net actuarial loss	$	(4,428)
Amortization of net loss		-
Amortization of prior service cost		-
Changes other than net periodic postretirement benefit cost	$	(4,428)

A weighted-average discount rate of 3.61% was used in determining the accumulated postretirement benefit obligation as of December 31, 2017, and a weighted-average discount rate of 4.18% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2017.

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) is assumed to be 9.0% in 2018 and 8.5% in 2019, declining by 0.5% per year through 2026 and then remaining at 5% thereafter.

The estimated net loss and prior service cost for the Institute that will be amortized from net assets without donor restrictions into net periodic postretirement benefit cost in 2018 are as follows:

		Institute
Amortization of net loss	$	(497)
Amortization of prior service cost		-
	$	(497)

The Institute Plan's net periodic postretirement benefit cost reflected in the consolidated and individual statements of activities for the year ended December 31, 2017 was $2,143.

(dollars in thousands)

8. Commitments and Contingencies

The Institute leases certain land and facilities under non-cancelable operating leases. The terms of these leases expire in 2020 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under non-cancelable operating leases as of December 31, 2017 are as follows:

	Institute
Years Ending December 31,	
2018	$ 221
2019	223
2020	178
2021	31
2022	32
Thereafter	656
	$ 1,341

Rent expense for the Institute for the year ended December 31, 2017 was $189.

As of December 31, 2017, 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. 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 non-cancelable leases with lease terms expiring in 2018 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 non-cancelable lease terms in excess of one year as of December 31, 2017 are approximately as follows:

	Institute
Years Ending December 31,	
2018	$ 112
2019	35
2020	36
2021	37
2022	38
Thereafter	127
	$ 385

10. Credit Facilities

The Packard Foundation has an uncommitted line of credit (“LOC”) of $100,000 with The Northern Trust Company. As of December 31, 2017, the outstanding principal balance on the line of credit was $0. The Packard Foundation has the option of choosing the interest rate on the line of credit based upon the Prime-Based Rate, London Interbank Offered Rate (“Libor”) or Bank Offered Rate. The line of credit remains in force until otherwise elected by either of the parties.

(dollars in thousands)

11. Analysis of Expenses

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

The Packard Foundation's functional expenses, displayed by natural expense classification, for the year ended December 31, 2017 were as follows:

	Packard Foundation			
	Direct Charitable	Grantmaking	Operational Support	Total Expenses
Grants awarded	$ 15,657	$ 276,160	$ -	$ 291,817
Salary, benefits, and payroll taxes	484	14,598	3,826	18,908
Legal fees	-	514	163	677
Accounting fees	-	-	308	308
Other professional fees	205	7,973	576	8,754
Depreciation	238	2,299	727	3,264
Occupancy	463	634	462	1,559
Travel, conferences, and meetings	281	2,570	416	3,267
Printing and publications	-	49	122	171
Other expenses	393	2,413	1,078	3,884
Postretirement benefit costs - interest and amortization	(26)	(541)	(244)	(811)
	$ 17,695	$ 306,669	$ 7,434	$ 331,798

(dollars in thousands)

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

The Institute's functional expenses, displayed by natural expense classification, for the year ended December 31, 2017 were as follows:

	Institute					
	Direct Charitable				Operational Support	Total Expenses
	Research and Development	Marine Operations	Information Dissemination	Total Direct Charitable		
Salary, benefits, and payroll taxes	$ 19,471	$ 5,778	$ 1,220	$ 26,469	$ 4,237	$ 30,706
Legal fees	-	1	-	1	94	95
Accounting fees	-	-	-	-	217	217
Depreciation	2,974	2,124	25	5,123	2,035	7,158
Occupancy	2,753	489	153	3,395	(2,168)	1,227
Travel, conferences, and meetings	430	200	58	688	138	826
Printing and publications	58	6	112	176	19	195
Other expenses	11,985	(4,830)	560	7,715	3,174	10,889
Postretirement benefit costs - interest and amortization	820	243	52	1,115	236	1,351
	$ 38,491	$ 4,011	$ 2,180	$ 44,682	$ 7,982	$ 52,664

(dollars in thousands)

12. Liquidity

The Packard Foundation's financial assets available within one year of December 31, 2017 to meet general expenditures include:

	Packard Foundation
Cash and cash equivalents	$ 108,406
Interest and dividends receivable	4,258
Investment sales receivable	199,776
Public market equities	269,322
Fixed income securities	513,292
Available financial assets	$ 1,095,054

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

The Institute's financial assets available within one year of December 31, 2017 to meet general expenditures include:

	Institute
Cash and cash equivalents	$ 20,216
Certificates of deposits	4,990
Contributions receivable from Packard Foundation	43,412
Other receivables	1,706
Available financial assets	70,324
Less financial assets unavailable for general expenditures due to designations:	
Board designations	
Operating reserve	12,462
Donor designations	
Packard Foundation capital grant	10,000
Packard Foundation capital grant spent, not yet in service	(1,063)
Financial assets unavailable for general expenditures	21,399
Net available financial assets	$ 48,925

The Institute has a board designated operating reserve of $12,462 as of December 31, 2017. This is a governing board designated reserve with the object of setting aside funds to be used on specifically approved projects. The Institute maintains the reserve at no less than $6,000 which

(dollars in thousands)

was determined by management as the minimum needed to meet capital fluctuations during a given year. The operating reserve consists of unused funds that result from support in excess of actual expenditures. Over the course of a given year, the Institute may realize surpluses or deficits relative to its proposed revenue and expenditures; these fluctuations are added to or are deducted from the operating reserve at the end of each calendar year. The operating reserve funds are held in money market accounts and certificates of deposit. Although the Institute does not intend to spend from its board designated funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the operating reserve could be made available by the Board of Directors as necessary.

13. Subsequent Events

The Foundation has evaluated subsequent events for the period December 31, 2017 through July 26, 2018, the date the financial statements were available to be issued. During the Institute's March 7, 2018 board meeting, a revision was approved for the Institute's contributory retiree health insurance program, effective for 2018. The Institute is still determining the financial impact of this change.