Monterey Bay Aquarium Research Institute

E.I.N. # 770150580

Reports on Financial Statements and Federal Award Programs in Accordance with the OMB Uniform Guidance

For the Year Ended December 31, 2016

Monterey Bay Aquarium Research Institute
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December 31, 2016 and 2015

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Report of Independent Auditors

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Monterey Bay Aquarium Research Institute as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*[1]

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2017 on our consideration of the Monterey Bay Aquarium Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Monterey Bay Aquarium Research Institute's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

San Francisco, California
June 5, 2017

Monterey Bay Aquarium Research Institute
Statements of Financial Position
December 31, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Assets		
Cash and cash equivalents	$ 5,264	$ 6,889
Receivables		
The David and Lucile Packard Foundation	61,481	49,497
Federal awards and other	1,479	1,179
Prepaid expenses and other assets	2,445	2,733
Deferred compensation plan investments	3,315	2,918
Property and equipment - net	49,681	50,698
Total assets	$ 123,665	$ 113,914
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,041	$ 896
Accrued expenses and other liabilities	5,920	5,540
Deferred compensation plan liabilities	3,315	2,918
Postretirement benefit liabilities	32,440	38,172
Total liabilities	42,716	47,526
Net assets		
Unrestricted	29,407	26,634
Temporarily restricted	51,542	39,754
Total net assets	80,949	66,388
Total liabilities and net assets	$ 123,665	$ 113,914

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

Monterey Bay Aquarium Research Institute
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	2016 Unrestricted	2016 Temporarily Restricted	2016 Total	2015 Unrestricted	2015 Temporarily Restricted	2015 Total
Revenues						
Contributions						
The David and Lucile Packard Foundation	$ -	$ 51,542	$ 51,542	$ -	$ 39,754	$ 39,754
Individual gifts	11	-	11	13	-	13
Federal awards	5,263	-	5,263	5,823	-	5,823
Non-Federal awards	1,084	-	1,084	1,444	-	1,444
Other	1,083	-	1,083	1,054	-	1,054
Net assets released from restrictions	39,754	(39,754)	-	38,974	(38,974)	-
Total revenues	47,195	11,788	58,983	47,308	780	48,088
Expenses						
Research	43,422	-	43,422	41,270	-	41,270
Management and general	10,851	-	10,851	10,591	-	10,591
Total expenses	54,273	-	54,273	51,861	-	51,861
(Decrease) increase in net assets before change in net assets from actuarial gains (losses) and amortization	(7,078)	11,788	4,710	(4,553)	780	(3,773)
Change in net assets from actuarial gains (losses) and amortization	9,851	-	9,851	(3,352)	-	(3,352)
Increase (decrease) in net assets	2,773	11,788	14,561	(7,905)	780	(7,125)
Net assets						
Beginning of year	26,634	39,754	66,388	34,539	38,974	73,513
End of year	$ 29,407	$ 51,542	$ 80,949	$ 26,634	$ 39,754	$ 66,388

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

Monterey Bay Aquarium Research Institute
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(in thousands of dollars)	**2016**	**2015**
Cash flows from operating activities		
Increase/(Decrease) in net assets	$ 14,561	$ (7,125)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Change in net assets from actuarial gains and amortization	(9,851)	3,352
Depreciation	7,158	6,464
(Gain)/loss on disposal of property and equipment	42	(309)
Changes in operating assets and liabilities		
Receivables	(12,284)	(884)
Prepaid expenses and other assets	288	(698)
Deferred compensation plan investments	(235)	5
Accounts payable	145	(402)
Accrued expenses and other liabilities	380	(723)
Deferred compensation plan liabilities	397	240
Postretirement benefit liabilities	4,119	3,174
Net cash provided by operating activities	4,720	3,094
Cash flows from investing activities		
Purchases of deferred compensation plan investments	(419)	(948)
Proceeds from sale and maturity of deferred compensation plan investments	257	703
Purchase of property and equipment	(6,183)	(4,804)
Proceeds from sale of property and equipment	-	-
Net cash used in investing activities	(6,345)	(5,049)
Net decrease in cash and cash equivalents	(1,625)	(1,955)
Cash and cash equivalents, beginning of year	6,889	8,844
Cash and cash equivalents, end of year	$ 5,264	$ 6,889
Supplemental disclosures		
Cash paid for federal excise taxes	$ 6	$ 5
Noncash acquisitions of capital equipment	30	320

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

(in thousands of dollars)

1. Organization and Summary of Significant Accounting Policies

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

Since 1994, The David and Lucile Packard Foundation (the “Foundation”) has been the Institute’s only member, with the power to elect the Board of Directors. In 2016 and 2015, approximately 87% and 83% of the Institute’s revenues came from the Foundation respectively. In addition, certain trustees and officers of the Foundation are also directors or officers of the Institute.

Basis of Presentation
The financial statements are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”).

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the accrual for postretirement benefit liabilities and the estimated useful life for property and equipment.

Unrestricted Net Assets
Unrestricted net assets represent unrestricted resources available to support the Institute’s operations.

Temporarily and Permanently 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 gifts. At December 31, 2016 and 2015, temporarily restricted net assets consist entirely of gifts from the Foundation restricted to subsequent year’s operations. Temporarily restricted net assets of $39,754 and $38,974 were released from restriction due to the expiration of time restrictions during the years ended December 31, 2016 and 2015, respectively. Permanently restricted net assets are those net assets whose uses are restricted in perpetuity, such as endowments. The Institute has no permanently restricted net assets.

Concentrations of Credit Risk
Financial instruments that potentially subject the Institute to credit risk consist primarily of cash and cash equivalents and receivables. Cash and cash equivalents are maintained by major financial institutions and include investments in money market funds. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. Receivables consist primarily of funds due from the Foundation (see Note 3). The Institute closely monitors receivables and has not experienced significant credit losses to date.

(in thousands of dollars)

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and in banks, money market funds and highly liquid investments purchased with an original maturity of three months or less.

Other Assets
The Institute's other assets include deferred compensation plan investments which are reported at fair value. Fair value is determined in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the amount that would be exchanged for an asset or to transfer a liability between market participants in an orderly transaction at the measurement date. The Institute determines fair value based upon the fair value hierarchy established under applicable accounting guidance which requires an entity to prioritize the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. Investments are categorized as Level 1 when the valuation is based upon quoted prices in active markets for identical assets or liabilities; Level 2 when the valuation is based upon inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 when the valuation is based upon unobservable inputs in which little or no market data exists, therefore requiring the Institute to develop assumptions to determine the best estimate of fair value.

The David and Lucile Packard Foundation receivables are categorized in level 3 of the fair value hierarchy. The carrying value of these receivables approximates fair value.

Investment transactions are recorded on a trade date basis. Realized gains and losses on dispositions of investments represent the difference between the original cost of the investment and the proceeds received from the sale.

Property and Equipment
Property and equipment are stated at cost or at the fair market value at the date of donation and are depreciated on the straight-line basis over the estimated useful lives of the assets (3 to 30 years). Capitalized costs for self-constructed assets include direct labor and benefits for employees specifically identified with the project. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Revenue Recognition
Contributions are recognized as revenues when they are 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 statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

Deferred Grant Revenue
Deferred grant revenue represents funds which have been received for programs which have not yet been completed or taken place, and therefore have not yet been earned.

(in thousands of dollars)

Income Taxes
The Institute is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes pursuant to Section 501(a) of the Code and Section 23701(d) of the California Tax Code. To the extent that the Institute carries out activities that are subject to unrelated business income tax, it is subject to income taxation.

The Institute is a private operating foundation within the meaning of Section 509(a) of the Code that makes its required charitable expenditures by sponsoring and managing its own programs. Pursuant to Section 4940(a) of the Code, the Institute's investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 2% of investment income. The Institute's status as an operating foundation is determined annually by satisfying the income test and certain other numerical tests. Generally, a private operating foundation must make qualifying distributions of 4.25% of the average fair value of the foundation's investment assets directly for the active conduct of the activities for which it is organized and operating. The Institute has met the requirements for private operating foundation status through December 31, 2016 and 2015.

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* 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 ASU is effective for the Institute in 2019. As a result of this change recognition of revenue from contributions, which makes up a majority of the Institute's support, will not be changed from prior years' treatment. Impact of the change on grant revenue is still being evaluated by the Institute.

In August 2014, the FASB issued ASU 2014-15, *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. This guidance is effective for fiscal years ending after December 15, 2016. The Institute has evaluated the impact of this guidance on the financial statements and concluded that no additional disclosure is necessary.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address 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 NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the 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 ASU is effective for the Institute in

(in thousands of dollars)

New accounting pronouncements (cont.)

2019. The Institute is currently evaluating the impact of the new guidance on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for the Institute in 2020. The Institute is evaluating the impact of the new guidance on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The ASU is effective for the Institute in 2018. The Institute is evaluating the impact of the new guidance on the financial statements.

In May 2017, the FASB issued ASU 2017-07, *Presentation of Net Periodic Pension and Postretirement Benefit Cost*, which is intended to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The ASU is effective for the Institute in 2019. The Institute is evaluating the impact of the new guidance on the financial statements.

Statement of Cash Flow Revision

In the statement of cash flows, the operating activities section includes “Deferred compensation plan investments” and “Deferred compensation plan liabilities,” and the investing activities section includes “Purchases of deferred compensation plan investments” and “Proceeds from sales and maturities of deferred compensation plan investments.” The statement of cash flows in the previously issued 2015 financial statements did not include these amounts which reflect the investing activity of the Institute’s deferred compensation plans. The Institute has corrected the 2015 presentation in the accompanying statement of cash flows in order to conform to the appropriate presentation. The Institute does not believe this revision to be material to the 2015 financial statements.

Reclassification of Prior Year Presentation

Certain prior year amounts on the statement of financial position have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the total assets or liabilities.

(in thousands of dollars)

2. Property and Equipment

Property and equipment at December 31, 2016 and 2015 consist of the following:

	2016	2015
Land	$ 4,236	$ 4,236
Buildings	50,538	50,405
Research vessels	44,153	42,845
Remotely operated vehicles	20,060	20,350
Ocean deployed equipment	26,894	26,232
General equipment, furniture, and fixtures	19,621	18,626
Capital projects in progress	5,481	4,311
Total	170,983	167,005
Less accumulated depreciation	(121,302)	(116,307)
Property and equipment, net	$ 49,681	$ 50,698

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

Land	$ 165
Buildings	1,397
Less accumulated depreciation	(786)
Lease property, net	$ 776

3. Related-Party Transactions

In December of each year, the Institute receives a grant from the Foundation to support the subsequent year's operations. In 2016, the Institute received a grant of $51,542 to be used for operations, research projects and ordinary capital expenses in 2017, with the exception of approximately $10,000 which is restricted for new construction and facilities upgrades. In 2015, the Institute received a grant of $39,754 to be used for 2016 of which $9,939 was paid to the Institute in early 2017. The receivable from the Foundation was $61,481 and $49,497 as of December 31, 2016 and 2015, respectively.

(in thousands of dollars)

4. Commitments and Contingencies

The Institute leases certain land and facilities under noncancelable operating leases. 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 as of December 31, 2016, are approximately as follows:

Year Ending December 31		
2017	$	135
2018		28
2019		29
2020		30
2021		31
Thereafter		688
Total	$	941

Rent expense was $167 and $163 for the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, 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 prepaid expenses and other assets in the 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.

5. 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%.

(in thousands of dollars)

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:

Year Ending December 31		
2017	$	112
2018		34
2019		36
2020		37
2021		38
Beyond		127
Total	$	384

6. 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 expenses related to such plans were $2,167 and $2,190 in 2016 and 2015, respectively. 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 "Salary Deferral Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Salary Deferral Plan enables participants to defer income on a pre-tax basis. At December 31, 2016 and 2015, the Institute held plan investments of $3,295 and $2,904, respectively, that are included in deferred compensation plan investments. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of $3,295 and $2,904, respectively, as of December 31, 2016 and 2015. These liabilities are included in deferred compensation plan liabilities.

The Institute also sponsors a Nonqualified Deferred Compensation Restoration Plan (the "Compensation Restoration Plan") primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The Compensation Restoration Plan provides for the Institute to make contributions to a participant's account equal to the amount in excess of IRC limits which the participant would otherwise have been eligible for in accordance with the Institute's 401(a) plan. At December 31, 2016 and 2015, the Institute held plan investments of $20 and $14, respectively, that are included in deferred compensation plan investments, which are designated by the Institute to pay future Deferred Compensation Restoration Plan liabilities of $20 and $14 as of December 31, 2016 and 2015. These liabilities are included in deferred compensation plan liabilities.

(in thousands of dollars)

At December 31, 2016 and 2015 all of the Institute's deferred compensation plan investments were classified as Level 1 and consisted of the following:

	2016	2015
Equity mutual funds	$ 1,388	$ 1,268
U.S. Government securities mutual funds	143	58
Bond mutual funds	61	5
Equity and bond mutual funds	1,600	1,475
Real estate mutual funds	123	112
Total fair value of investments	$ 3,315	$ 2,918

The Institute has a contributory retiree health insurance program (the "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 Plan's unfunded status and the amounts recognized in the statements of financial position as of December 31, 2016 and 2015, based on a measurement date of December 31:

	2016	2015
Benefit obligation	$ (32,440)	$ (38,172)
Fair value of plan assets	-	-
Unfunded status	$ (32,440)	$ (38,172)
Amount recognized in the statements of financial position as postretirement benefit liabilities	$ (32,440)	$ (38,172)

Amounts recognized in unrestricted net assets at December 31, 2016 and 2015 were as follows:

	2016	2015
Prior year service cost	$ -	$ -
Net loss	3,032	12,883
Total	$ 3,032	$ 12,883

(in thousands of dollars)

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

	2016	2015
Net loss (gain)	$ (8,574)	$ 4,257
Prior service cost (credit)	-	-
Amortization of net loss	(1,277)	(881)
Amortization of prior service costs	-	(24)
Total recognized in unrestricted net assets	(9,851)	3,352
Net periodic postretirement benefit cost	4,229	3,230
Total recognized in net periodic benefit cost and unrestricted net assets	$ (5,622)	$ 6,582

Total contributions paid by the Institute to the Plan for the years ended December 31, 2016 and 2015 were $110 and $56, respectively. Total benefit payments made from the Plan for the years ended December 31, 2016 and 2015 were $110 and $56, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit liabilities was 4.19% and 4.39% as of December 31, 2016 and 2015, respectively, and in determining the net periodic postretirement benefit cost was 4.39% and 4.00% for the years ended December 31, 2016 and 2015, respectively.

The Plan is fully insured, and is funded on a pay-as-you-go basis. The estimated minimum benefit payments by year that reflect expected future service to be paid by the Institute are as follows:

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, 9.0% in 2018 and declining by 0.5% per year until the ultimate trend rate of 5.0% is reached by 2026. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit liabilities by $7,613 and $(5,898), respectively, and increase or decrease the service cost plus interest cost component of the net periodic postretirement benefit cost by $737 and $(557), respectively, for the year ended December 31, 2016

(in thousands of dollars)

7. Research Expenses

The Institute's research expenses are classified within the following divisions:

Division of Marine Operations
Division of Marine Operations is responsible for operating and maintaining the research vessels and remotely operative vehicles.

Research and Development
Research and Development encompasses scientists and engineers who develop and manage oceanographic research programs.

Information and Technology Dissemination
Information and Technology Dissemination is responsible for internal and external communication efforts.

Research expenses, by division, for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Division of Marine Operations	$ 4,453	$ 4,228
Research and Development	36,826	35,266
Information and Technology Dissemination	2,143	1,776
Total	$ 43,422	$ 41,270

8. Subsequent Events

Management has evaluated subsequent events through June 5, 2017, which is the date the financial statements were available to be issued.

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass-through Number	Federal Expenditures	Pass-Through to Subrecipients
Research and Development - Cluster					
National Science Foundation					
Direct Programs					
Geosciences	47.050	OCE-0962032		$ 122,278	$ -
Geosciences	47.050	OCE-1337601		351,137	109,933
Geosciences	47.050	OCE-0962391		(982)	
Polar Programs	47.078	ARC-1022773		40,633	
Geosciences	47.050	OCE-1357042		121,049	
Geosciences	47.050	OCE-1342734		57,076	
Geosciences	47.050	OCE-1416877		191,300	
Geosciences	47.050	OCE-1514756		294,131	
Biological Sciences	47.074	BIO-1455501		14,781	
Biological Sciences	47.074	DEB-1542679		29,882	
Geosciences	47.050	PLR-1602946		65	
Biological Sciences	47.074	DEB-1639033		4,557	
Polar Programs	47.078	ANT-0636813		(379)	
Geosciences	47.050	OCE-1260295		31,268	
Office of Cyberinfrastructure	47.080	OCI-1148213		68,974	
Subtotal Direct Awards - National Science Foundation				1,325,770	109,933
Pass-Through from WHOI - Engineering Grants	47.041	IIP-1534054	A101277	56,328	-
Pass-Through from WHOI - Geosciences	47.050	ICER-1541008	A101276	69,811	
Pass-through from Princeton University - Geosciences	47.050	PLR-1425989	SUB0000010	726,510	
Pass-through from UC San Diego - Biological Sciences	47.074	DBI- 1458145	70365181	8,845	
Pass-through from University of Hawaii - Biological Sciences	47.074	EF-0424599	Z793036	22,166	
Total National Science Foundation				2,209,430	109,933
U.S. Geological Survey					
Direct Programs					
U.S. Geological Survey Research and Data Collection	15.808	GA15AC00093		61,011	-
Total U.S. Geological Survey				61,011	-

The accompanying notes are an integral part of this schedule.

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass-through Number	Federal Expenditures	Pass-Through to Subrecipients
(Continued from previous page)					
U.S. Department of Defense - Office of Naval Research					
Direct Programs					
Basic & Applied Scientific Research	12.300	N00014-14-1-0199		278,666	167,108
Total Office of Naval Research				278,666	167,108
U.S. Department of Defense - Defense Advanced Research Projects Agency					
Pass-Through from University of Washington - Strategic Technical Office	12.U01	N66001-15-C-4009	UWSC8308	46,359	
Total Defense Advanced Research Projects Agency				46,359	-
National Aeronautics and Space Administration					
Pass-Through from University of South Florida - Science	43.001	NNX14AP62A	2500-1616-00-A	249,294	-
Pass-through from Stanford University - Science	43.001	NNX11AR62G	28679320-50404-A	75,794	
Pass-through from UC Santa Cruz - Science	43.001	NNX14AC42G	S0184246	9,604	
Total National Aeronautics and Space Administration				334,692	-
National Oceanic and Atmospheric Administration					
Direct Programs					
Integrated Ocean Observing System (IOOS)	11.012	NA11NOS0120032		1,784,899	1,248,097
Integrated Ocean Observing System (IOOS)	11.012	NA16NOS0120021		406,768	275,674
Center for Sponsored Coastal Ocean Research/ Coastal Ocean Program	11.478	NA11NOS4780055		63,819	-
Subtotal Direct Awards - National Oceanic and Atmospheric Administration				2,255,486	1,523,771
Pass-Through from University of Washington - IOOS	11.012	NA14NOS0120149	UWSC7901	74,534	-
Pass-Through from University of Washington - IOOS	11.012	NA14NOS0120151	UWSC8423	2,417	
Pass-Through from University of Miami - NOAA Cooperative Institutes	11.432	NA15OAR4320064	S17-01	671	
Total National Oceanic and Atmospheric Administration				2,333,108	1,523,771
Total Research and Development - Cluster				5,263,266	1,800,812
Total Expenditures of Federal Awards				**$ 5,263,266**	**$ 1,800,812**

The accompanying notes are an integral part of this schedule.

1. Basis of Presentation

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from the presentation of the amounts in the financial statements. All federal awards passed through from other governmental agencies are included in the schedule of expenditures of federal awards. During the year ended December 31, 2016, no noncash awards were received by the Institute. Full CFDA numbers and pass-through numbers are included when available. The accompanying schedule of expenditures of federal awards presents the federal grant activity of the Institute and is presented on the accrual basis of accounting. The Institute has elected to adopt the two year grace period granted by the OMB for the new Uniform Guidance procurement standard.

2. Facilities and Administrative Costs

The Institute uses its negotiated indirect cost rates rather than the 10% deminimis rate allowed by Uniform Guidance.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Monterey Bay Aquarium Research Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

San Francisco, California
June 5, 2017

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the OMB Uniform Guidance

To the Board of Directors of the
Monterey Bay Aquarium Research Institute

Report on Compliance for Each Major Federal Program

We have audited the Monterey Bay Aquarium Research Institute's ("the Institute") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2016. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Monterey Bay Aquarium Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111-4004
T: (415) 498 5000, F: (415) 498 7100, www.pwc.com/us

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

San Francisco, California
June 5, 2017

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016

I. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financing reporting:	
• Material weakness (es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness (es)?	None Reported
Noncompliance material to financial statements noted?	No

2. Federal Awards

Internal control over major programs:	
• Material weakness (es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness (es)?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

3. Identification of Major Programs

CFDA Numbers	**Name of Federal Program or Cluster**
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

None to report

III. Federal Award Findings and Questioned Costs

None to report

Monterey Bay Aquarium Research Institute
Summary of Status of Prior Audit Findings
For the Year Ended December 31, 2016

There were no prior year findings which require an update in this report.