

Monterey Bay Aquarium Research Institute

E.I.N. # 770150580

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

December 31, 2017

Monterey Bay Aquarium Research Institute

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December 31, 2017

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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 statement of financial position as of December 31, 2017, and the related statements of activities and of cash flows for the year 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 audit. We conducted our audit 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, 2017, and the

changes in its net assets and its cash flows for the year 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 13, 2018 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, 2017. The purpose of that report is solely 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 the effectiveness of 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Institute has changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2017. Our opinion is not modified with respect to this matter.



San Francisco, California
June 21, 2018

Monterey Bay Aquarium Research Institute
Statement of Financial Position
December 31, 2017

(in thousands of dollars)

Assets

Cash and cash equivalents	\$	20,216
Receivables		
The David and Lucile Packard Foundation		43,412
Federal awards and other		1,706
Prepaid expenses and other assets		7,123
Deferred compensation plan investments		3,983
Property and equipment - net		<u>48,873</u>
Total assets	\$	<u>125,313</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$	1,392
Accrued expenses and other liabilities		5,204
Deferred compensation plan liabilities		3,983
Postretirement benefit liabilities		<u>38,829</u>
Total liabilities		<u>49,408</u>

Net assets

Without donor restrictions

Undesignated		10,031
Board designated		<u>12,462</u>
		<u>22,493</u>

With donor restrictions

Time restricted		43,412
Purpose restricted		<u>10,000</u>
		<u>53,412</u>

Total net assets		<u>75,905</u>
Total liabilities and net assets	\$	<u>125,313</u>

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

Monterey Bay Aquarium Research Institute
Statement of Activities
Year Ended December 31, 2017

(in thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions			
The David and Lucile Packard Foundation	\$ -	\$ 43,412	\$ 43,412
Individual gifts	59	-	59
Federal awards	6,114	-	6,114
Non-Federal awards	1,357	-	1,357
Other	1,106	-	1,106
Net assets released from restrictions	41,542	(41,542)	-
Total revenues	<u>50,178</u>	<u>1,870</u>	<u>52,048</u>
Expenses			
Research & development	37,671	-	37,671
Marine operations	3,768	-	3,768
Information and technology dissemination	2,128	-	2,128
Management and general	7,746	-	7,746
Total expenses	<u>51,313</u>	<u>-</u>	<u>51,313</u>
(Decrease) increase in net assets before change in net assets from retiree medical program non-operating costs	(1,135)	1,870	735
Retiree medical program interest expense	(1,351)	-	(1,351)
Retiree medical program actuarial gain/(loss)	(4,428)	-	(4,428)
Increase (decrease) in net assets	<u>(6,914)</u>	<u>1,870</u>	<u>(5,044)</u>
Net assets			
Beginning of year	<u>29,407</u>	<u>51,542</u>	<u>80,949</u>
End of year	<u>\$ 22,493</u>	<u>\$ 53,412</u>	<u>\$ 75,905</u>

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

Monterey Bay Aquarium Research Institute
Statement of Cash Flows
Year Ended December 31, 2017

(in thousands of dollars)

Cash flows from operating activities

Cash received from donors	\$	61,540
Cash received from grants		6,849
Cash received from other support		1,138
Cash received from interest		164
Cash paid for employees		(30,108)
Cash paid for program expenses		(12,904)
Cash paid for taxes		(3)
Cash paid from deferred compensation		(44)
		<hr/>
Net cash provided by operating activities		26,632

Cash flows from investing activities

Purchase of deferred compensation plan investments		(1,011)
Purchase of certificates of deposit		(4,990)
Proceeds from sale and maturity of deferred comp investments		841
Purchase of property and equipment using capital grant funding		(1,063)
Purchase of property and equipment		(5,457)
		<hr/>
Net cash used in investing activities		(11,680)

Cash and cash equivalents

Net increase (decrease) in cash and cash equivalents		14,952
Beginning of year		5,264
		<hr/>
End of year	\$	20,216

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

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2017

(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 2017 approximately 83% of the Institute's revenues came from the Foundation. 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") and with the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, which requires the Institute to classify its net assets into two categories according to donor imposed restrictions – net assets without donor imposed restrictions and net assets with donor imposed restrictions.

Net Assets without Donor Restriction

Net assets without donor restriction represent resources which do not have donor-imposed stipulations available to support the Institute's operations. Additionally, an operating reserve has been established for use on specific projects subject to the Board of Directors' approval.

Net Assets with Donor Restriction

Net assets with donor restriction 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, 2017 net assets with donor restriction consist entirely of gifts from the Foundation restricted to subsequent year's operations and depreciation expense incurred on capital projects. Net assets with donor restriction 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 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.

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.

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

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 (Note 3). The Institute closely monitors receivables and has not experienced significant credit losses to date.

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 a maturity date of three months or less.

Other Assets

The Institute's other assets include deferred compensation plan investments and certificates of deposits with maturity dates greater than 90 days which are reported at fair value. Certificates of deposit totaled \$5,489 as of December 31, 2017. 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.

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

Revenue Recognition

Contributions are recognized as revenues when they are unconditionally pledged or received. 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 restriction are reclassified to net assets without donor restriction and reported in the accompanying Statement of activities as net assets released from restrictions. Contributions with donor restrictions 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.

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 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 through December 31, 2017.

On December 22, 2017, the United States enacted major tax reform legislation, Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) repealing the Alternative Minimum Tax; (3) requiring tax exempt organization with more than one unrelated trade or business to compute Unrelated Business Income Tax (UBIT) separately with respect to each trade or business; (4) subjecting exempt organizations to UBIT on the amount of certain fringe benefits for which a deduction is disallowed; and (5) creating a new excise tax, equal to the corporate tax rate of 21%, on an employer with respect to compensation paid by most nonprofits (and related organizations) to certain individuals in excess of \$1 million. These provisions of the law are not effective until January 1, 2018.

Monterey Bay Aquarium Research Institute

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

The Institute is currently analyzing the Tax Act, and in certain areas, has made reasonable estimates of the effects on the financial statements and tax disclosures. Many of the provisions of the Act will require guidance through the issuance of Treasury regulations in order to fully assess their effect. There may be a substantial delay before such regulations are promulgated, increasing the uncertainty as to the ultimate effect of the statutory amendments. It is also likely that there will be technical corrections legislation proposed with respect to the Tax Act in 2018, the effect of which cannot be predicted. The Institute expects to complete its analysis within the next reporting period.

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 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 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.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2017

(in thousands of dollars)

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statement 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 has evaluated the impact of the standard and elected for early adoption in the current year. Implementation of this standard resulted in a change in presentation of net assets, additional disclosures around natural and functional expense classifications (Note 7), disclosure around board designated net assets (Note 8), and liquidity of the Institute's financial assets (Note 8). Further, the Institute has changed its method for reporting statement of cash flows from the indirect method to the direct method.

In March 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 elected to early adopt the standard in the current year resulting in actuarial gains and losses and interest expense being reported in other increases/(decreases) of net assets on the statement of activity. This change causes only current year service expense to be recognized in operating expenditures.

2. Property and Equipment

Property and equipment at December 31, 2017 consist of the following:

Land	\$	4,236
Buildings		50,562
Research vessels		45,442
Remotely operated vehicles		20,332
Ocean deployed equipment		25,642
General equipment, furniture, and fixtures		18,880
Capital projects in progress		6,783
		<u>171,877</u>
Less: Accumulated depreciation		<u>(123,004)</u>
Property and equipment, net	\$	<u>48,873</u>

Depreciation expense for the year ended December 31, 2017 was \$7,158. As of December 31, 2017, the carrying value of the leased property for which MBARI is the lessor is as follows:

Land	\$	165
Buildings		1,397
Less: Accumulated depreciation		<u>(833)</u>
Lease property, net	\$	<u>729</u>

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2017

(in thousands of dollars)

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 2017, the Institute received a grant of \$43,412 to be used for operations, research projects and ordinary capital expenses in 2018. The receivable from the Foundation was \$43,412 as of December 31, 2017 and is included in net assets with donor restrictions.

4. Commitments and Contingencies

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

Year Ending December 31	
2018	\$ 221
2019	223
2020	178
2021	31
2022	32
Thereafter	656
	<u>\$ 1,341</u>

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

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 prepaid expenses and other assets in the statement 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.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2017

(in thousands of dollars)

5. Minimum Future Rental Revenues

The Institute leases land and facilities to others under noncancelable 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 noncancelable lease terms in excess of one year as of December 31, 2017, are approximately as follows:

Year Ending December 31		
2018	\$	112
2019		35
2020		36
2021		37
2022		38
Beyond		127
	\$	<u>385</u>

6. Retirement Plans

The Institute sponsors a defined contribution plan under IRC 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 expenses related to such plans were \$2,211 in 2017.

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, 2017 the Institute held plan investments of \$3,953, that are included in deferred compensation plan investments. These assets are designated by the Institute to pay future Salary Deferral Plan liabilities of \$3,953, as of December 31, 2017. 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 403(b) plan. At December 31, 2017 the Institute held plan investments of \$30, that are included in deferred compensation plan investments, which are designated by the Institute to pay future Deferred Compensation Restoration Plan liabilities of \$30 as of December 31, 2017. These liabilities are included in deferred compensation plan liabilities.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2017

(in thousands of dollars)

At December 31, 2017 all of the Institute's deferred compensation plan investments were classified as Level 1 and consisted of the following:

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
		<hr/>
Total fair value of investments	\$	<u>3,983</u>

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 Statement of financial position as of December 31, 2017 based on a measurement date of December 31:

Benefit obligation	\$	38,829
Fair value of plan assets		<hr/> -
Unfunded status	\$	<u>38,829</u>
Amount recognized in the statement of financial position as postretirement benefit liabilities	\$	<u>38,829</u>

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

Prior year service cost	\$	-
Net loss		<hr/> 7,460
	\$	<u>7,460</u>

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
December 31, 2017

(in thousands of dollars)

Changes in postretirement benefit liabilities recognized in the change in net assets without donor restrictions were as follows:

Net loss (gain)	\$	4,428
Amortization of prior service costs		-
Amortization of net loss (gain)		-
Total recognized in unrestricted net assets		4,428
Net periodic postretirement benefit cost		2,143
Total recognized in net periodic benefit cost and unrestricted net assets		6,571

Total contributions paid by the Institute to the Plan for the year ended December 31, 2017 were \$182. Total benefit payments made from the Plan for the year ended December 31, 2017 were \$182.

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

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:

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

The annual rate of increase in the per capita cost of medical benefits (i.e. health care cost trend rate) was assumed to be 9.0% in 2018, 8.5% in 2019 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 \$9,116 and \$(7,051), respectively, and increase or decrease the service cost plus interest cost component of the net periodic postretirement benefit cost by \$594 and \$(446), respectively, for the year ended December 31, 2017.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
Year Ended December 31, 2017

(in thousands of dollars)

7. Analysis of Expenses

	Program Services			Program Subtotal	Supporting Activities		Total Expenses
	Research & Development	Marine Operations	Information Dissemination		Management & General		
Salary, benefits and payroll taxes	20,291	6,021	1,272	27,584	4,473		32,057
Other expenses and allocations	11,985	(4,830)	560	7,715	3,174		10,889
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
Accounting fees	-	-	-	-	217		217
Printing and publications	58	6	112	176	19		195
Legal fees	-	1	-	1	94		95
Total expenses	38,491	4,011	2,180	44,682	7,982		52,664

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

Research and Development

Develop and adapt innovative technologies for advancing our understanding of the ocean.

Division of Marine Operations

The Division of Marine Operations serves a role in the support of the Institute's research and development by operating and maintaining the Institute's research vessels and remotely operated vehicles. The support provided by the Division of Marine Operations facilitates the work of developing, adapting and utilizing innovative technology.

Information and Technology Dissemination

Information and technology dissemination serves as a gateway for the transfer of knowledge gained, solutions devised and technologies developed to communities outside of the Institute. These communities include researchers, educators, policy makers, resource managers, industry and the general public.

Monterey Bay Aquarium Research Institute
Notes to Financial Statements
Year Ended December 31, 2017

(in thousands of dollars)

8. Available resources and liquidity

The Institute has a board designated operating reserve of \$12,462 at 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 was determined by management as the minimum needed to meet capital fluctuations during a given year. The operating reserve consists of unused funds that result from support in excess of actual expenditures. Over the course of a given year, the Institute may realize surpluses or deficits relative to its proposed revenue and expenditures; these fluctuations are added to or are deducted from the operating reserve at the end of each calendar year. The operating reserve funds are held in money market accounts and certificates of deposit. Although the Institute does not intend to spend from its board designated funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the operating reserve could be made available by the Board of Directors if necessary.

The following represents the Institute's financial assets as of December 31, 2017.

Cash and cash equivalents	\$	20,216
Investments		4,990
2018 David and Lucile Packard Foundation receivables		43,412
Federal awards and other receivables		1,706
		<hr/>
Total Financial Assets		70,324
Less those unavailable for general expenditures due to designations		
Board designations:		
Operating reserve		12,462
Donor designations:		
Packard Capital Grant		10,000
Capital grant spent not yet in service		(1,063)
		<hr/>
Total amounts unavailable for general expenditures		21,399
Financial assets available to meet cash needs for operating expenditures for one year		
	<u>\$</u>	<u>48,925</u>

9. Subsequent Events

Management has evaluated subsequent events through June 21, 2018, which is the date the financial statements were available to be issued. During the 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.

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass Through Number	Federal Expenditures	Pass Through to Subrecipient
Research and Development - Cluster					
National Science Foundation					
Direct Programs					
Geosciences	47.050	OCE-0962032		\$ 41,148	\$ -
Polar Programs	47.078	ARC-1022773		94,574	
Geosciences	47.050	OCE-1337601		219,612	44,719
Geosciences	47.050	OCE-1357042		40,379	
Geosciences	47.050	OCE-1416877		120,187	
Geosciences	47.050	OCE-1440346		39,997	
Geosciences	47.050	OCE-1514756		337,640	
Biological Sciences	47.074	BIO-1455501		6,247	
Biological Sciences	47.074	DEB-1542679		104,447	
Geosciences	47.050	PLR-1602946		2,873	
Biological Sciences	47.074	DEB-1639033		178,149	
Geosciences	47.050	OCE-1636527		87,978	
Geosciences	47.050	OCE-1260295		117,226	
Subtotal Direct Awards - National Science Foundation (NSF)				<u>1,390,457</u>	<u>44,719</u>
Pass-Through from WHOI - Engineering Grants	47.041	IIP-1534054	A101277	33,663	-
Pass-Through from WHOI - Geosciences	47.050	ICER-1541008	A101276	37,892	
Pass-through from Princeton University - Geosciences	47.050	PLR-1425989	SUB0000010	949,985	
Pass-through from UC San Diego - Biological Sciences	47.074	DBI-1458145	70365181	4,664	
Pass-through from University of Hawaii - Biological Sciences	47.074	EF-0424599	Z793036	56,326	
Total National Science Foundation				<u>2,472,987</u>	<u>-</u>
US Geological Survey					
Direct Programs					
Research and Data Collection	15.808	G17AC00399		16,444	-
Total US Geological Survey				<u>16,444</u>	<u>-</u>
U.S. Department of Defense - Office of Naval Research					
Direct Programs					
Basic & Applied Scientific Research	12.300	N00014-14-1-0199		165,196	140,195
Total Office of Naval Research				<u>165,196</u>	<u>140,195.00</u>
U.S. Department of Homeland Security					
Pass-Through from University of Alaska- Centers for Homeland Security	97.061	2014-ST-061-ML-0002	P0516972	59,534	-
Total Department of Home Land Security				<u>59,534</u>	<u>-</u>

Monterey Bay Aquarium Research Institute
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA #	Award Number	Pass Through Number	Federal Expenditures	Pass Through to Subrecipient
National Aeronautics and Space Administration					
Direct Programs					
Science	43.001	80NSSC17K0574		36,052	14,273
Subtotal Direct Awards - National Aeronautics and Space Administration				<u>36,052</u>	<u>14,273</u>
Pass-Through from Stanford - Science	43.001	NNX11AR62G	28679320-50404-A	585,735	-
Pass-Through from University of South Florida - Science	43.001	NNX14AP62A	2500-1616-00-A	120,638	
Pass-Through from UC San Diego - Science	43.001	80NSSC17K0049	94607843	5,050	
Total National Aeronautics and Space Administration				<u>747,475</u>	<u>-</u>
National Oceanic and Atmospheric Administration					
Direct Programs					
Integrated Ocean Observing System (IOOS)	11.012	NA11NOS0120032		243,767	200,078
Integrated Ocean Observing System (IOOS)	11.012	NA16NOS0120021		2,161,839	1,683,201
Coastal Ocean Program in the Center for Sponsored Coastal Ocean Research	11.478	NA11NOS4780055		13,118	
Subtotal Direct Awards - National Oceanic and Atmospheric Administration (NOAA)				<u>2,418,724</u>	<u>1,883,279</u>
Pass-Through from University of Washington - IOOS	11.012	NA14NOS0120149	UWSC7901	85,000	-
Pass-Through from University of Washington - IOOS	11.012	NA14NOS0120151	UWSC8423	21,197	
Pass-Through from University of Miami - OAR Cooperative Institutes	11.432	NA15OAR4320064	SPC-000364	125,561	
Pass-Through from University of Michigan - OAR Cooperative Institutes	11.432	NA17OAR4320152	3004716165	1,484	
Total National Oceanic and Atmospheric Administration				<u>2,651,966</u>	<u>-</u>
Total Research and Development - Cluster				<u>6,113,602</u>	<u>2,082,466</u>
Total Expenditures of Federal Awards				<u>\$ 6,113,602</u>	<u>\$ 2,082,466</u>

Monterey Bay Aquarium Research Institute
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule"), presents the federal grant activity of the Institute and is presented on the accrual basis of accounting. The information in the 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 the 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. During the year ended December 31, 2017, no noncash awards were received by the Institute.

2. Facilities and Administrative Costs

The Institute uses its negotiated indirect cost rates rather than the 10% de minimis 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 statement of financial position as of December 31, 2017, and the related statements of activities and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2018.

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.

A handwritten signature in black ink, appearing to read "Picard & Coopers LLP". The signature is written in a cursive, flowing style.

San Francisco, California
June 21, 2018



**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 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, 2017. The Institute's major federal programs are identified in the summary of auditor's 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, 2017.

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.



San Francisco, California
June 21, 2018

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

I. Summary of Auditor's Results

1. Financial Statements

Type of auditor's 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 auditor's 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

Monterey Bay Aquarium Research Institute
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

II. Financial Statement Findings

None to report

III. Federal Award Findings and Questioned Costs

None to report

Monterey Bay Aquarium Research Institute
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

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