

The David and Lucile Packard Foundation

**Consolidating Financial Statements
December 31, 2009**

Report of Independent Auditors

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

In our opinion, the accompanying individual and consolidated statements of financial position and the related individual and consolidated statements of activities and changes in net assets and cash flows present fairly, in all material respects, the individual financial positions of the David and Lucile Packard Foundation and its affiliate, the Monterey Bay Aquarium Research Institute ("MBARI") (collectively, the "Foundation") and the consolidated financial position of the Foundation at December 31, 2009, and the individual and consolidated changes in the net assets and their individual and consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

July 16, 2010

The David and Lucile Packard Foundation
Consolidating Statement of Financial Position
December 31, 2009
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 887,726	\$ 7,926	\$ -	\$ 895,652
Interest and dividends receivable	5,768	-	-	5,768
Investments, at fair value	4,639,270	-	-	4,639,270
Contributions and other receivables	-	43,685	(41,800)	1,885
Program-related investments	136,485	-	-	136,485
Property and equipment, net	29,476	68,669	-	98,145
Other assets	506	2,594	-	3,100
Total assets	<u>\$ 5,699,231</u>	<u>\$ 122,874</u>	<u>\$ (41,800)</u>	<u>\$ 5,780,305</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	\$ 3,973	\$ 6,069	\$ -	\$ 10,042
Grants payable	149,133	-	(41,800)	107,333
Deferred federal excise tax liabilities	15,463	-	-	15,463
Postretirement benefit liabilities	5,921	10,600	-	16,521
Total liabilities	<u>174,490</u>	<u>16,669</u>	<u>(41,800)</u>	<u>149,359</u>
Net assets				
Unrestricted	5,524,741	70,905	35,300	5,630,946
Temporarily restricted	-	35,300	(35,300)	-
Total net assets	<u>5,524,741</u>	<u>106,205</u>	<u>-</u>	<u>5,630,946</u>
Total liabilities and net assets	<u>\$ 5,699,231</u>	<u>\$ 122,874</u>	<u>\$ (41,800)</u>	<u>\$ 5,780,305</u>

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

The David and Lucile Packard Foundation
Consolidating Statement of Activities and Changes in Net Assets
December 31, 2009
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Changes in unrestricted net assets				
Revenue and net investment income				
Dividends	\$ 46,021	\$ -	\$ -	\$ 46,021
Interest	21,466	35	-	21,501
Federal awards	-	7,200	-	7,200
Rental and other income	20	1,368	-	1,388
Contributions	-	206	-	206
Net realized and unrealized gains on investments	1,303,174	-	-	1,303,174
Investment related expenses	(10,195)	-	-	(10,195)
Net assets released from restrictions	-	37,300	(37,300)	-
Revenue and net investment income before federal excise tax expense	1,360,486	46,109	(37,300)	1,369,295
Federal excise tax expense	(20,753)	-	-	(20,753)
Revenue and net investment income	1,339,733	46,109	(37,300)	1,348,542
Expenses				
Grants awarded	266,365	-	(35,300)	231,065
Direct charitable expenses	5,550	41,209	-	46,759
Program operating expenses	20,052	8,980	-	29,032
Total expenses	291,967	50,189	(35,300)	306,856
Increase (decrease) in unrestricted net assets before change in unrestricted net assets from actuarial losses and amortization	1,047,766	(4,080)	(2,000)	1,041,686
Change in unrestricted net assets from actuarial losses and amortization	(20)	(1,486)	-	(1,506)
Increase (decrease) in unrestricted net assets	1,047,746	(5,566)	(2,000)	1,040,180
Changes in temporarily restricted net assets				
Contributions	-	35,300	(35,300)	-
Net assets released from restriction	-	(37,300)	37,300	-
Decrease in temporarily restricted net assets	-	(2,000)	2,000	-
Increase (decrease) in net assets	1,047,746	(7,566)	-	1,040,180
Net assets				
Beginning of year	4,476,995	113,771	-	4,590,766
End of year	\$ 5,524,741	\$ 106,205	\$ -	\$ 5,630,946

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

The David and Lucile Packard Foundation
Consolidating Statement of Cash Flows
December 31, 2009
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Cash flows from operating activities				
Increase (decrease) in net assets	\$ 1,047,746	\$ (7,566)	\$ -	\$ 1,040,180
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:				
Net realized and unrealized gains on investments	(1,302,795)	-	-	(1,302,795)
Change in net assets from actuarial losses and amortization	20	1,486	-	1,506
Non cash interest	(762)	-	-	(762)
Depreciation and amortization	397	9,474	-	9,871
(Gain)/loss on disposal of property and equipment	57	(36)	-	21
Changes in operating assets and liabilities:				
Interest and dividends receivable	(135)	-	-	(135)
Contributions and other receivables	-	3,752	-	3,752
Other assets	4,597	(178)	-	4,419
Grants payable	(16,446)	-	-	(16,446)
Accounts payable and other liabilities	831	510	-	1,341
Postretirement benefit liabilities	758	2,605	-	3,363
Deferred federal excise taxes	15,463	-	-	15,463
Net cash (used in) provided by operating activities	(250,269)	10,047	-	(240,222)
Cash flows from investing activities				
Purchases of investments	(4,360,984)	-	-	(4,360,984)
Proceeds from sales and maturities of investments	5,063,773	-	-	5,063,773
Principal advances to program-related investment loan recipients	(51,062)	-	-	(51,062)
Principal repayments received from program-related investment loan recipients	25,147	-	-	25,147
Purchases of property and equipment	(836)	(5,064)	-	(5,900)
Proceeds from sale of property and equipment	-	45	-	45
Net cash provided by (used in) investing activities	676,038	(5,019)	-	671,019
Net increase in cash and cash equivalents	425,769	5,028	-	430,797
Cash and cash equivalents				
Beginning of year	461,957	2,898	-	464,855
End of year	<u>\$ 887,726</u>	<u>\$ 7,926</u>	<u>\$ -</u>	<u>\$ 895,652</u>
Supplemental disclosures of cash flow information				
Cash paid for federal excise and other taxes	\$ -	\$ -	\$ -	\$ -
Noncash acquisitions of capital equipment	-	180	-	180

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

The David and Lucile Packard Foundation

Notes to Consolidating Financial Statements

Year Ended December 31, 2009

(dollars in thousands)

1. Organization

The David and Lucile Packard Foundation (the "Packard Foundation") is a private foundation established by David and Lucile Packard. The Packard Foundation provides funding primarily to not-for-profit organizations operating predominantly in three program areas that are of particular interest to the Board of Trustees: conservation and science; population and reproductive health; and children, families and communities. The Packard Foundation's primary facilities are located in Los Altos, California.

The Monterey Bay Aquarium Research Institute ("MBARI") is a not-for-profit organization founded 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. MBARI's primary facilities are located in Moss Landing, California.

Certain trustees and officers of the Packard Foundation are also officers or directors of MBARI. Trustees of the Packard Foundation are not permitted to vote for grants to organizations for which they serve as trustees, officers or directors. The Packard Foundation is MBARI's only member, with the power to elect the Board of Directors.

2. Basis of Presentation and Significant Accounting Policies

Principles of Consolidation

The accompanying consolidating financial statements include the accounts of The Packard Foundation and its affiliate, MBARI (collectively, the "Foundation"). Since the Packard Foundation has both control and an economic interest in MBARI, the financial statements of MBARI have been included in the consolidating financial statements of the Foundation. All significant intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation

The accompanying consolidating financial statements are presented on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Revenues are reported as increases in unrestricted net assets, unless there are donor-imposed purposes and/or time restrictions on the gifted assets. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates

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

The David and Lucile Packard Foundation
Notes to Consolidating Financial Statements
Year Ended December 31, 2009
(dollars in thousands)

Unrestricted Net Assets

Unrestricted net assets represent unrestricted resources available to support the Foundation's operations and temporarily restricted resources that have become available for use by the Foundation in accordance with the intentions of donors.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent gifts that are limited in use by MBARI in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of MBARI according to the terms of the gift. At December 31, 2009, MBARI's temporarily restricted net assets consist entirely of gifts from the Packard Foundation restricted to the subsequent year's operations. Temporarily restricted net assets of \$37,300 were released from restriction due to the expiration of time restrictions during the year ended December 31, 2009.

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value and purchases and sales are recorded on a trade or contract date basis. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equities, marketable alternatives (including hedge funds), and real assets. The estimated fair value of alternative investments is based on the net asset value of the fund provided by the general partner. The Packard Foundation reviews and evaluates the net asset values provided by the general partner and assesses the valuation methods and assumptions used in determining the fair value of the alternative investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed and differences could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities and changes in net assets in the period that such fluctuations occur.

Fair Value of Financial Instruments

In accordance with Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

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Notes to Consolidating Financial Statements
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(dollars in thousands)

The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level I – Quoted prices in active markets for identical investments.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

See Note 3 for a summary of the inputs used as of December 31, 2009 in determining the fair value of the Packard Foundation's investments.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments and receivables. The Foundation maintains cash and cash equivalents primarily with major financial institutions. Cash equivalents include investments in money market funds. Such amounts may exceed Federal Deposit Insurance Corporation limits. The Foundation's readily marketable securities have been placed with major financial institutions. Receivables consist primarily of funds due to MBARI from the Packard Foundation.

Program-Related Investments

Program-related investments at December 31, 2009, include \$132,264 of loans made to organizations, \$3,221 of collateral deposits that serve to guarantee loans made by third-party lenders to organizations as a means of assisting them in achieving charitable objectives and a \$1,000 equity investment in a sustainable forest management company. Interest rates on loans receivable range from 0% to 5% as of December 31, 2009, and are generally repayable over five to ten years. Management has reviewed the collectability of all program-related investments and has determined no allowance is necessary as of December 31, 2009.

Property and Equipment

Property and equipment is stated at cost when purchased or fair value at the date of donation and is depreciated using the straight-line method over estimated useful lives of 3 to 30 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the lease term. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Grants

Grants are recognized when the unconditional promise to give is approved. Conditional promises to give are recognized as grant expense in the period in which the recipient meets the terms of the condition. There were no conditional promises to give at December 31, 2009.

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Notes to Consolidating Financial Statements
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(dollars in thousands)

Revenue Recognition

Contributions are recognized as revenues when they are received or unconditionally pledged. MBARI 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 consolidating statement of activities and changes in net assets as net assets released from restriction. Temporarily restricted contributions are reported as unrestricted support when the restriction is met in the same period as the contribution is received.

Functional Expense Allocations

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

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

MBARI's direct charitable expenses pertain to the general purpose of conducting scientific research in marine biology, oceanography, underwater geology, and other kinds of marine research in and around the Monterey Bay. Program operating expenses include costs related to managing MBARI.

Tax-Exempt Status

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

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC and the hierarchy of Generally Accepted Accounting Principles ("GAAP") which became the single source of authoritative, nongovernmental U.S. GAAP, except for rules and interpretations of the U.S. Securities and Exchange Commission ("SEC") which are additional sources for SEC registrants. The Codification was not intended to change U.S. GAAP but introduced a new indexing structure for U.S. GAAP literature that is organized by topic. Adoption of this Codification did not have a material impact on Foundation's consolidating financial statements.

ASC 820-10, *Fair Value Measurement and Disclosures*, established new accounting guidance regarding the fair value of non-financial assets and liabilities. This new guidance was effective for the Foundation at the beginning of 2009. The adoption of this guidance did not have a material impact on the Foundation's consolidating financial statements.

ASU 2009-12, *Investment in Certain Entities That Calculate Net Asset Value Per Share*, amends FAS 157. This amendment was effective for the Foundation at the beginning of its fiscal year 2009. The amendment adds disclosures and provides guidance for estimating the fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient of fair value for those investment companies that follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The adoption of this guidance did not have a material impact on the Foundation's consolidating financial statements.

The David and Lucile Packard Foundation

Notes to Consolidating Financial Statements

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(dollars in thousands)

ASC 855-10, *Subsequent Events*, includes guidance for recognition, measurement and disclosure of subsequent events. The purpose of this guidance was to establish standards in the accounting literature on the treatment of subsequent events and require disclosure as to the date such events were assessed. The adoption of this guidance did not have a material impact on the Foundation's consolidating financial statements.

ASC 815-10, *Disclosures about Derivative Instruments and Hedging Activities*, requires disclosures to provide additional information on how and why derivative instruments are being used. This guidance was effective for the Foundation at the beginning 2009. The adoption of this pronouncement did not have a material impact on the Foundation's consolidating financial statements.

3. Investments

The investment goal of the Packard Foundation is to maintain or grow its spending power in real, inflation adjusted, terms with risk at a level appropriate to the Packard Foundation's programmatic spending and objectives. To accomplish this investment goal, the Packard Foundation diversifies its investments (directly and indirectly) across various financial instruments and asset categories, and implements multiple investment strategies. The Packard Foundation's financial assets, with the exception of Hewlett Packard and Agilent, are managed by a select group of external investment management firms and held in custody by major banks. Investments allocated to partnerships, LLCs and commingled funds, have separate arrangements appropriate to their legal structure.

The Packard Foundation's investments (directly or indirectly) in developed market securities and emerging market securities consist of exchange traded public equities, treasury and corporate bonds. The Packard Foundation's investments in marketable alternatives consist of long/short, opportunistic and special situation investment management firms, trading public securities and over-the-counter securities. The Packard Foundation's investments in limited partnerships, private equity and real assets, are in securities and companies that cannot be immediately liquidated, such as buyout and venture capital firms, real estate and natural resource firms. The Packard Foundation's investments (directly or indirectly) in fixed income securities consist primarily of investment grade instruments issued by the U.S. government and its agencies and by U.S. corporations, U.S. Treasury securities and mortgage-backed securities.

At December 31, 2009, developed market equities include 2,455,500 shares of Hewlett-Packard Company common stock and 4,285,000 shares of Agilent Technologies, Inc. common stock with values of \$126,483 and \$133,135, respectively.

All of the Packard Foundation's real estate investments are located in Los Altos, California and are valued based upon recent appraisals.

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Packard Foundation's investments and total net assets balance could fluctuate materially.

Legal, tax and regulatory changes could occur during the term of the Packard Foundation's private partnerships. The regulatory environment for private partnerships is evolving, and changes in the regulation of these partnerships may adversely affect the value of investments held by the Packard Foundation. The Packard Foundation believes that the effect of any future regulatory change on the Packard Foundation's assets would not be material.

The David and Lucile Packard Foundation
Notes to Consolidating Financial Statements
Year Ended December 31, 2009
(dollars in thousands)

The following table summarizes the valuation of the Packard Foundation's investments per the ASC 820 fair value hierarchy levels as of December 31, 2009:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Netting Adjustments</u>	<u>Ending Balance at December 31, 2009</u>
Developed market equities	\$ 1,530,753	\$ -	\$ 389,822	\$ -	\$ 1,920,575
Emerging market equities	473,600	-	95,356	-	568,956
Private equities	45,080	-	78,163	-	123,243
Marketable alternatives	-	-	1,723,143	-	1,723,143
Real assets	-	-	48,961	-	48,961
Fixed income securities	22,551	219,253	-	-	241,804
Los Altos real estate and other	763	-	12,429	-	13,192
Derivative - Assets	<u>100,985</u>	<u>1,204</u>	<u>-</u>	<u>(102,065)</u>	<u>124</u>
Assets	<u>2,173,732</u>	<u>220,457</u>	<u>2,347,875</u>	<u>(102,065)</u>	<u>4,639,999</u>
Derivative - Liabilities	<u>-</u>	<u>(4,599)</u>	<u>-</u>	<u>3,870</u>	<u>(729)</u>
Total Investments	<u>\$ 2,173,732</u>	<u>\$ 215,858</u>	<u>\$ 2,347,875</u>	<u>\$ (98,195)</u>	<u>\$ 4,639,270</u>
Total Cash Equivalents	<u>\$ 887,670</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 887,670</u>

The following table summarizes the Packard Foundation's Level III reconciliation per ASC 820 as of December 31, 2009:

	<u>Beginning Balance at December 31, 2008</u>	<u>Realized Gains (Losses)</u>	<u>Change in Unrealized Gains (Losses)</u>	<u>Net Purchases (Sales and Settlements)</u>	<u>Ending Balance at December 31, 2009</u>
<u>Level III Assets</u>					
Developed market equities	\$ 296,962	\$ -	\$ 114,611	\$ (21,751)	\$ 389,822
Emerging market equities	48,430	3,755	43,296	(124)	95,356
Private equities	28,412	8,711	6,995	34,045	78,163
Marketable alternatives	1,094,727	164	382,093	246,159	1,723,143
Real assets	7,049	361	3,097	38,455	48,961
Fixed income securities	-	-	-	-	-
Los Altos real estate and other	<u>12,977</u>	<u>-</u>	<u>(548)</u>	<u>-</u>	<u>12,429</u>
Total	<u>\$ 1,488,557</u>	<u>\$ 12,991</u>	<u>\$ 549,543</u>	<u>\$ 296,784</u>	<u>\$ 2,347,875</u>

All net realized and change in unrealized gains (losses) in the table above are reflected in the consolidating statement of activities and changes in net assets. The change in net unrealized gains relates to those financial instruments held by the Packard Foundation at December 31, 2009.

Unfunded purchase commitments related to limited partnerships as of December 31, 2009 are \$737,849.

The David and Lucile Packard Foundation
Notes to Consolidating Financial Statements
Year Ended December 31, 2009
(dollars in thousands)

The net gain on the Packard Foundation's investment portfolio for the year ended December 31, 2009 consists of the following:

	Packard Foundation
Net realized gain	\$ 330,226
Net unrealized gain	<u>972,948</u>
Total	<u>\$ 1,303,174</u>

The David and Lucile Packard Foundation
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(dollars in thousands)

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

Asset Class	Strategy	NAV in Funds	# of Funds	Remaining Life (yrs)	Amount of Unfunded Commitments	Timing to Draw Down Commitments (yrs)	Redemption Terms	Redemption Restrictions	Additional Redemption Restrictions In Place at Year End
Marketable alternatives	Contains global long/short equity, opportunistic, and special situations	\$ 1,723,143	16	1 to 9	\$ 81,998	1 to 3	Ranges between monthly redemption with 30 days notice, to an annual redemption with 180 days notice	Lock up provisions of up to 4 years	None
Private equity	Contains growth, international, leveraged buyouts and venture capital	78,163	12	9 to 12	161,091	4 to 11	N/A*	N/A	N/A
Public equity	Contains developed and emerging equity	485,178	5	1 to 4	139,261	N/A	Ranges between quarterly redemption with 30 days notice to semi-annual with 60 days notice	Lock up provisions of up to 4 years	None
Real assets	Contains natural resources and real estate	48,961	17	7 to 14	355,498	3 to 8	N/A**	N/A	N/A
Total		<u>\$ 2,335,446</u>	<u>50</u>		<u>\$ 737,849</u>				

*These are private equity funds with no ability to redeem.

**These are real asset funds with no ability to redeem.

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Derivative Instruments

The Packard Foundation's separately managed accounts transact in a variety of derivative instruments including futures, options, interest rate swaps and credit default swaps primarily for trading purposes with each instrument's related risk exposure being interest rate, credit, and equity. The fair value of these derivative instruments, held in the Packard Foundation's separately managed accounts, is included in the Investments line item in the consolidating statement of financial position with changes in fair value reflected in net realized and unrealized gains (losses) on investments within the consolidating statement of activities and changes in net assets.

The following table lists the fair value derivatives held in separately managed accounts by contract type as included in the consolidating statement of financial position at December 31, 2009:

	Notional/ Contractual Amount	Gross Derivative Assets	Gross Derivative Liabilities
Interest rate contracts	\$ 153,000	\$ -	\$ (4,012)
Equity contracts	1,012	100,985	-
Credit contracts	59,785	<u>1,204</u>	<u>(587)</u>
Total		102,189	(4,599)
Netting (see below note)*		(102,065)	3,870
Carrying value of derivatives included in investments		<u>\$ 124</u>	<u>\$ (729)</u>

*Note: GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when legally enforceable master netting exists between the partnership and derivative counterparties.

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The following table indicates the Packard Foundation's gains and losses on the derivatives held in its separately managed accounts, by type, as included in the statement of activities and changes in net assets for the year ended December 31, 2009:

	Amount of Gain or (Loss) Recognized as Income on Derivatives
Interest rate contracts	\$ 3,277
Equity contracts	3,073
Credit contracts	(80)
Other derivatives	312
Total	<u>\$ 6,582</u>

Swaps

Swap contracts involve two parties that agree to exchange the returns earned or realized on specific investments, instruments, or indices/equities. The gross returns to be exchanged between the parties are calculated with respect to a notional amount for a set period of time. The Packard Foundation's separately managed accounts entered into various swap agreements: credit default swaps and interest rate swaps. The Packard Foundation's separately managed accounts will enter into these swap agreements to reduce risk and enhance the overall portfolio structure. Credit default swaps require the protection buyer to make scheduled payments to the counterparty, in exchange for a contingent payment by the protection seller. In the event of a credit event, the protection seller will make a payment equal to the notional amount of the underlying index or security (physical delivery or cash settlement). Credit default swaps can be on single name equity, sovereign debt or an index.

Interest rate swaps will involve the agreement by the Packard Foundation's separately managed accounts to pay a counterparty a fixed or floating interest rate on a fixed notional amount and to receive a fixed or floating rate on the fixed notional amount. Scheduled payments will be made during the life of the swap agreement and also at either termination or maturity of the swap, in accordance with the master agreement.

The Packard Foundation's separately managed accounts establishes these swap agreements, International Swaps and Derivatives Agreements (ISDA), with the proper counterparties. The terms in the master agreements govern the details for the over-the-counter products and their specific structures.

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The table below summarizes certain information regarding protection sold through credit default swaps in separately managed accounts as of December 31, 2009:

Maximum Potential Payout/Notional Amount by Years to Maturity for Protection Sold

<u>Credit ratings of the Reference Obligation (1)</u>	<u>Less Than 1</u>	<u>1 to 3</u>	<u>3 to 5</u>	<u>Over 5</u>	<u>Total</u>	<u>Fair Value Asset/(Liability)</u>
Single name credit default swaps:						
AA+	\$ -	\$ (3,000)	\$ (1,000)	\$ -	\$ (4,000)	\$ 407
AA-	(1,500)	-	(1,000)	-	(2,500)	17
A	(700)	-	(1,800)	-	(2,500)	273
A-	-	-	(2,000)	-	(2,000)	(52)
BAA-	-	(2,000)	-	-	(2,000)	31
Total single name credit default swaps	<u>(2,200)</u>	<u>(5,000)</u>	<u>(5,800)</u>	<u>-</u>	<u>(13,000)</u>	<u>676</u>
Sovereign credit default swaps:						
A+	-	-	(1,900)	-	(1,900)	12
A	-	-	(2,000)	-	(2,000)	13
BAA+	(2,900)	-	-	-	(2,900)	11
BAA-	-	(1,900)	-	-	(1,900)	9
Total sovereign credit default swaps	<u>(2,900)</u>	<u>(1,900)</u>	<u>(3,900)</u>	<u>-</u>	<u>(8,700)</u>	<u>45</u>
Total credit default swaps sold	<u>\$ (5,100)</u>	<u>\$ (6,900)</u>	<u>\$ (9,700)</u>	<u>\$ -</u>	<u>\$ (21,700)</u>	<u>\$ 721</u>

(1) The reference obligation is the underlying single name or sovereign debt instrument. The credit rating is according to Standard & Poor's and represents the year end performance risk of the reference obligation.

Counterparty Credit Risk

The use of derivative instruments by the Packard Foundation's investment managers exposes the Packard Foundation to counterparty credit risk. This is the risk related to derivative counterparties not performing in accordance with the contractual provisions offset by the value of any collateral received. The Packard Foundation's exposure to credit risk associated with the counterparty non-performance is limited to the related unrealized gains inherent in such transactions that are recognized in the consolidating statement of financial position. On a daily basis, the Packard Foundation's investment managers and their counterparties, mark all positions to market and exchange collateral (subject to minimum transfer amounts) on a bilateral basis. The Packard Foundation's investment managers will also utilize various measures to mitigate exposure to counterparty credit risk, some of which are: credit monitoring procedures, counterparty limits, master netting agreements, managing margin and tri-party collateral accounts.

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4. Property and Equipment

Property and equipment at December 31, 2009, consisted of the following:

	Packard Foundation	MBARI	Total
Land	\$ 16,331	\$ 4,246	\$ 20,577
Buildings	22,153	50,062	72,215
Research vessels and facilities	-	57,999	57,999
Remotely operated vehicles	-	15,396	15,396
Office furniture and equipment	7,036	23,851	30,887
Capital projects in progress	-	4,189	4,189
Total	<u>45,520</u>	<u>155,743</u>	<u>201,263</u>
Accumulated depreciation	<u>(16,044)</u>	<u>(87,074)</u>	<u>(103,118)</u>
Property and equipment, net	<u>\$ 29,476</u>	<u>\$ 68,669</u>	<u>\$ 98,145</u>

Depreciation expense for the year ended December 31, 2009 was \$1,539 and \$9,474 for the Packard Foundation and MBARI, respectively.

5. Grants Payable

The Packard Foundation ordinarily makes grants to organizations that qualify as public charities under the Internal Revenue Code ("IRC"). When distributions are made to non-qualifying organizations, the Packard Foundation assumes the responsibility for the ultimate charitable use.

Grants awarded but unpaid are payable at December 31, 2009, as follows:

	Packard Foundation
Less than 1 year	\$ 106,473
1 to 5 years	<u>42,660</u>
Total	<u>\$ 149,133</u>

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6. Federal Excise Taxes and Other Taxes

In accordance with the applicable provisions of the IRC, the Packard Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the IRC are met) on net investment income, excluding unrealized gains, as defined. The Packard Foundation was subject to the 1% rate for the year ended December 31, 2009. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated at the effective rate expected to be paid by the Packard Foundation.

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

The provision for current and deferred federal excise taxes for the year ended December 31, 2009, was as follows:

	Packard Foundation
Current	\$ 5,290
Deferred	15,463
Total	<u>\$ 20,753</u>

Distribution Requirements

The Packard Foundation is subject to the distribution requirements of the IRC. Accordingly, it must distribute within one year after the end of each fiscal year, 5% of the fair value of its investment assets, as defined. The investments that can be included for the 5% distribution requirement are based on average monthly balances and are exclusive of those investments deemed to be held for charitable activities or program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Packard Foundation has complied with the distribution requirements through December 31, 2009.

MBARI is a private operating foundation within the meaning of Section 509(a) of the IRC that makes its required charitable expenditures by sponsoring and managing its own programs. Pursuant to Section 4940(a) of the IRC, MBARI's investment income, reduced by certain allowable expenses, is subject to excise tax at a rate of 2% of investment income. MBARI'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. MBARI has met the requirements for private operating foundation status through December 31, 2009.

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7. Retirement Plans

The Packard Foundation Retirement Plans are as follows:

The Packard Foundation 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 Packard Foundation at 15% of annual employee salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expense related to such plans was \$1,593 during 2009. As of December 31, 2009, \$45 was accrued related to the plans.

The Packard Foundation also has a voluntary salary deferral plan for highly compensated employees under IRC Section 457(b). Employees with a base salary of \$175 and above are eligible to participate in the plan. As of December 31, 2009, \$359 was deferred based on elections made by the participants.

The Packard Foundation has a Nonqualified Benefits Restoration Plan (the "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 Restoration Plan allows the Packard Foundation to make contributions to a participant's account equal to the amount in excess of IRC limits that the participant would otherwise have been eligible for in accordance with the Packard Foundation's 401(a) plan. The Restoration Plan is intended to be an unfunded plan although voluntary contributions are made to a grantor trust. Total expenses related to the Restoration Plan were \$170 during 2009.

The Packard Foundation has a contributory retiree medical program (the "Plan") that will cover substantially all employees who meet eligibility requirements. The Packard Foundation will pay from 55% to 75% of the insurance premium for eligible retired employees with a minimum age of 55 and the combination of years of service and age equal to 65 or greater. This Plan can be amended at any time upon Board approval.

The following information presents the Plan's unfunded status and amounts recognized in the consolidating statement of financial position as of December 31, 2009, based on a measurement date of December 31, 2009:

	Packard Foundation
Benefit obligation	\$ (5,921)
Fair value of plan assets	<u>-</u>
Unfunded status	<u>(5,921)</u>
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	<u>\$ (5,921)</u>

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Amounts recognized in unrestricted net assets at December 31, 2009, were as follows:

	Packard Foundation
Prior service cost	\$ 2,107
Net gain	<u>(477)</u>
Total	<u>\$ 1,630</u>

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation and net periodic postretirement benefit cost was 6% as of December 31, 2009.

The estimated prior service cost and net gain for the Plan that will be amortized from unrestricted net assets into periodic postretirement benefit cost in 2010 is as follows:

	Packard Foundation
Amortization of prior service cost	\$ 184
Amortization of net gain	<u>-</u>
Total	<u>\$ 184</u>

Changes in unrestricted net assets as a result of actuarial losses and amounts amortized for the year ended December 31, 2009 were as follows:

	Packard Foundation
Net loss	\$ 135
Amortization of net gain	69
Amortization of prior service cost	<u>(184)</u>
Total recognized in unrestricted net assets	<u>\$ 20</u>

The Packard Foundation's contributions to the Plan and benefit payments made from the Plan for the year ended December 31, 2009, were \$52 and \$52, respectively. Participants' contributions totaled \$26 for the year ended December 31, 2009.

The net periodic postretirement benefit cost reflected in the consolidating statement of activities and changes in net assets for the year ended December 31, 2009 was \$810.

A weighted-average discount rate of 6% was used in determining the accumulated postretirement benefit obligation as of December 31, 2009 and a weighted-average discount rate of 6% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2009.

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

Years Ending December 31	Packard Foundation
2010	\$ 97
2011	140
2012	167
2013	203
2014	231
2015 - 2019	1,826

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 11% in 2009, declining by 1% per year through 2015 and then remaining at 5% thereafter. A 1% point increase in this rate would increase the accumulated postretirement benefit obligation by \$1,040 and the service cost plus interest cost components of the net periodic postretirement benefit cost by \$147. A 1% point decrease in this rate would decrease the accumulated postretirement benefit obligation by \$839 and the service cost plus interest cost components of net periodic postretirement benefit cost by \$116.

MBARI Retirement Plans are as follows:

MBARI 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 MBARI at 10% of an employee's annual salary. Under the 403(b) plan and subject to statutory limits, employees make voluntary deferred salary contributions to the plan. Total expense related to such plans was \$1,900 during 2009.

MBARI 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, 2009, MBARI held other assets of \$904 that are included in other assets. These assets are designated by MBARI to pay future Salary Deferral Plan liabilities of \$904 as of December 31, 2009. This liability is included in accounts payable and other liabilities.

MBARI 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 MBARI 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 MBARI's 401(a) plan. At December 31, 2009, MBARI held other assets of \$31 that are included in other assets, which are designated by MBARI to pay future Deferred Compensation Restoration Plan liabilities of \$31 as of December 31, 2009. These liabilities are included in accounts payable and other liabilities.

Effective July 1, 2007, MBARI adopted a contributory retiree health insurance program (the "MBARI Plan") which covers substantially all employees who meet the eligibility requirements. MBARI will pay 50% of the insurance premium for eligible retired employees with a minimum age of 55 and a

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combination of years of service and age equal to 65 or greater. The MBARI Plan can be amended at any time upon Board approval.

Effective March 1, 2009, the plan was amended. Henceforth, retired employees will no longer be eligible to participate in MBARI's insured medical plan. Instead, each August 1st, MBARI will make a contribution on behalf of each retired employee to a healthcare savings account (HSA). The amount of the contribution will be 50% of the annual premium that is charged by MBARI'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 HSA on any medical expenses that are tax-deductible, including premiums for health insurance. However, the retiree cannot participate in MBARI's insured plan.

As a result of the plan amendment, the accumulated plan benefit obligation was re-measured on March 1, 2009. On that date, the discount rate was set as 6.68%. The accumulated plan benefit obligation on March 1, 2009 was \$7,051 before the plan amendment and \$7,635 after the plan amendment. The difference of \$584 was added to the unrecognized prior service cost and is being amortized in periods after March 1, 2009.

The following information presents the MBARI Plan's unfunded status and amount recognized in the consolidating statement of financial position as of December 31, 2009, based on a measurement date of December 31, 2009:

	MBARI
Benefit obligation	\$ (10,600)
Fair value of plan assets	<u>-</u>
Unfunded status	<u>(10,600)</u>
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	<u>\$ (10,600)</u>

Amounts recognized in unrestricted net assets at December 31, 2009, were as follows:

	MBARI
Prior service cost	\$ 9,087
Net gain	<u>(5,519)</u>
Total	<u>\$ 3,568</u>

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

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	MBARI
Net loss	\$ 2,602
Prior service cost	584
Amortization of net gain	1,339
Amortization of prior service cost	<u>(3,039)</u>
Total recognized in unrestricted net assets	1,486
Net periodic postretirement benefit cost	<u>2,636</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 4,122</u>

Total contributions paid and benefit payments made from the MBARI Plan for the year ended December 31, 2009 were \$31 and \$31, respectively.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.04% as of December 31, 2009, and in determining the net periodic postretirement benefit cost was 6.12% for the year ended December 31, 2009.

The estimated prior service cost and net gain for the Plan that will be amortized from unrestricted net assets into periodic postretirement benefit cost in 2010 is as follows:

	MBARI
Amortization of prior service cost	\$ 3,055
Amortization of net gain	<u>(731)</u>
Total	<u>\$ 2,324</u>

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

Years Ending December 31	MBARI
2010	\$ 71
2011	130
2012	191
2013	263
2014	339
2015 - 2019	2,952

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 10% in 2009, declining by 1% per year through 2014, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase or decrease the accumulated postretirement benefit obligation by \$2,157 and \$(1,720), respectively, and increase or decrease the service cost plus interest cost components of the net periodic postretirement benefit cost by \$198 and \$(157), respectively, for the year ended December 31, 2009.

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8. Commitments and Contingent Liabilities

The Foundation has non-cancelable operating leases for certain land, facilities, furniture and equipment. The terms of these leases expire in 2010 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under non-cancelable operating leases at December 31, 2009, are as follows:

Years Ending December 31	Packard Foundation	MBARI	Total
2010	\$ 22	\$ 120	\$ 142
2011	14	24	38
2012	-	25	25
2013	-	26	26
2014	-	26	26
Thereafter	-	937	937
Total	<u>\$ 36</u>	<u>\$ 1,158</u>	<u>\$ 1,194</u>

Rent expense for the year ended December 31, 2009, was \$168.

Prior to December 31, 2002, the Packard Foundation guaranteed bonds that, at original issuance, amounted to approximately \$4,429. The Packard Foundation would be required to perform under the guarantee should the beneficiary be unable to meet its obligation. The guarantee has amortized to a total outstanding obligation of approximately \$1,119 as of December 31, 2009, and the guarantee will be further reduced by scheduled payments. The guarantee will expire in July 2012. The Packard Foundation has not recorded any liability for its obligations under the guarantees because it believes that the likelihood of making any payments is not probable.

As of December 31, 2009, MBARI has \$500 on deposit as collateral to guarantee that MBARI 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 construction of one of MBARI's projects, the MARS Project. This amount is included in other assets in the consolidating statement of financial position.

MBARI derives a portion of its revenues from various federally funded programs that are subject to review and audit by governmental oversight agencies. MBARI management believes that MBARI 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 or changes in net assets of MBARI.

Claims

Claims are filed from time to time against MBARI in the ordinary course of business. MBARI is not aware of any such matters that would have a material adverse effect on MBARI's financial position.

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9. Minimum Future Rental Revenues

MBARI leases land and facilities to others under non-cancelable leases with lease terms expiring in 2010 through 2011, 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, 2009 are approximately as follows:

Years Ending December 31	MBARI
2010	\$ 59
2011	<u>16</u>
	<u>\$ 75</u>

10. Subsequent Events

The Foundation did not have any subsequent events for the period December 31, 2009 through July 16, 2010, the date the financial statements were available to be issued.