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The David and Lucile Packard Foundation

Consolidating Financial Statements
December 31, 2008

PRICEWATERHOUSECOOPERS

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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, 2008, and the individual and consolidated changes in their 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 17, 2009

The David and Lucile Packard Foundation
Consolidating Statement of Financial Position
December 31, 2008
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Assets				
Cash and cash equivalents	$ 461,957	$ 2,898	$ -	$ 464,855
Interest and dividends receivable	5,633	-	-	5,633
Investments, at fair value	4,038,122	-	-	4,038,122
Contributions and other receivables	-	47,437	(45,766)	1,671
Program-related investments	109,808	-	-	109,808
Property and equipment, net	30,236	72,958	-	103,194
Other assets	5,103	2,416	-	7,519
Total assets	$ 4,650,859	$ 125,709	$ (45,766)	$ 4,730,802
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	3,142	5,430	-	8,572
Grants payable	165,579	-	(45,766)	119,813
Postretirement benefit liabilities	5,143	6,508	-	11,651
Total liabilities	173,864	11,938	(45,766)	140,036
Net assets				
Unrestricted	4,476,995	76,471	37,300	4,590,766
Temporarily restricted	-	37,300	(37,300)	-
Total net assets	4,476,995	113,771	-	4,590,766
Total liabilities and net assets	$ 4,650,859	$ 125,709	$ (45,766)	$ 4,730,802

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
Year Ended December 31, 2008
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Changes in unrestricted net assets				
Revenue and net investment income				
Dividends	$ 31,126	$ -	$ -	$ 31,126
Interest	59,361	130	-	59,491
Federal awards	-	5,583	-	5,583
Rental and other income	298	1,840	-	2,138
Contributions	-	185	-	185
Net realized and unrealized losses on investments	(1,693,257)	-	-	(1,693,257)
Investment related expenses	(5,399)	-	-	(5,399)
Net assets released from restrictions	-	36,816	(36,816)	-
Revenue and net investment (loss) income before federal excise tax benefit	(1,607,871)	44,554	(36,816)	(1,600,133)
Federal excise tax benefit	32,318	-	-	32,318
Revenue and net investment (loss) income	(1,575,553)	44,554	(36,816)	(1,567,815)
Expenses				
Grants awarded	342,113	-	(37,300)	304,813
Direct charitable expenses	7,147	38,093	-	45,240
Program operating expenses	23,793	9,455	-	33,248
Total expenses	373,053	47,548	(37,300)	383,301
Decrease in unrestricted net assets before change in unrestricted net assets from actuarial (losses) gains and amortization	(1,948,606)	(2,994)	484	(1,951,116)
Change in unrestricted net assets from actuarial (losses) gains and amortization	(493)	12,419	-	11,926
(Decrease) increase in unrestricted net assets	(1,949,099)	9,425	484	(1,939,190)
Changes in temporarily restricted net assets				
Contributions	-	37,300	(37,300)	-
Net assets released from restriction	-	(36,816)	36,816	-
Increase in temporarily restricted net assets	-	484	(484)	-
(Decrease) increase in net assets	(1,949,099)	9,909	-	(1,939,190)
Net assets				
Beginning of year	6,426,094	103,862	-	6,529,956
End of year	$ 4,476,995	$ 113,771	$ -	$ 4,590,766

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

The David and Lucile Packard Foundation
Consolidating Statement of Cash Flows
Year Ended December 31, 2008
(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Cash flows from operating activities				
(Decrease) increase in net assets	$ (1,949,099)	$ 9,909	$ -	$ (1,939,190)
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:				
Net realized and unrealized losses on investments	1,690,998	-	-	1,690,998
Change in net assets from actuarial losses (gains) and amortization	493	(12,419)	-	(11,926)
Non cash interest	2,259	-	-	2,259
Depreciation and amortization	(5,780)	8,336	-	2,556
Loss on disposal of property and equipment	3	231	-	234
Changes in operating assets and liabilities:				
Interest and dividends receivable	36,820	-	-	36,820
Contributions and other receivables	-	(3,406)	2,538	(868)
Other assets	(4,601)	(190)	-	(4,791)
Grants payable	40,135	-	(2,538)	37,597
Accounts payable and other liabilities	1,061	140	-	1,201
Postretirement benefit liabilities	682	1,875	-	2,557
Deferred federal excise taxes	(36,860)	-	-	(36,860)
Net cash (used in) provided by operating activities	(223,889)	4,476	-	(219,413)
Cash flows from investing activities				
Purchases of investments	(3,585,872)	-	-	(3,585,872)
Proceeds from sales and maturities of investments	2,568,023	-	-	2,568,023
Principal advances to program-related investment loan recipients	(19,736)	-	-	(19,736)
Principal repayments received from program-related investment loan recipients	13,673	-	-	13,673
Purchases of property and equipment	(834)	(8,645)	-	(9,479)
Proceeds from sale of property and equipment	-	20	-	20
Net cash used in investing activities	(1,024,746)	(8,625)	-	(1,033,371)
Net decrease in cash and cash equivalents	(1,248,635)	(4,149)	-	(1,252,784)
Cash and cash equivalents				
Beginning of year	1,710,592	7,047	-	1,717,639
End of year	$ 461,957	$ 2,898	$ -	$ 464,855
Supplemental disclosures of cash flow information				
Cash paid for federal excise and other taxes	$ 9,025	$ 9	$ -	$ 9,034
Noncash acquisitions of capital equipment	-	51	-	51

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

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 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. 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.

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 temporary 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, 2008, MBARI's temporarily restricted net assets consist entirely of gifts from the Packard Foundation restricted to the subsequent year's operations. Net assets of $36,816 were released from restriction due to the expiration of time restrictions during the year ended December 31, 2008.

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 (inflation sensitive assets). The estimated fair value of alternative investments is based on valuations provided by the general partner. The Packard Foundation reviews and evaluates the 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. Such difference 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
The Foundation adopted Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, 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. FAS 157 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.

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, 2008 in determining the fair value of the Packard Foundation's investments. The adoption of FAS 157 by MBARI did not have a material impact on its financial statements.

Concentrations of Credit Risk
Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments, program-related 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. The Foundation's program-related investments are made to a wide variety of grantees and other organizations in which the Foundation's programs are focused. The Foundation closely monitors these program-related investments and has not experienced significant credit losses. Receivables consist primarily of funds due to MBARI from the Packard Foundation.

Program-Related Investments
Program-related investments at December 31, 2008, include $106,350 of loans made to organizations and $3,458 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. Interest rates on loans receivable range from 0% to 5% as of December 31, 2008, and are generally repayable over five to ten years. Management has reviewed the collectibility of all program-related investments and has determined no allowance is necessary as of December 31, 2008.

Property and Equipment
Property and equipment is stated at cost 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, 2008.

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 activities that are subject to the unrelated business income tax, it is subject to income taxation.

New Accounting Pronouncements
In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS 109* ("FIN 48"). FIN 48 provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires evaluation of tax positions taken in the course of preparing the Foundation's tax returns to determine whether tax positions are "more-likely-than-not" of having been sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year based on the guidance. The Foundation adopted FIN 48 effective January 1, 2008. The Foundation believes that it has appropriate support for the excise tax positions taken and, as such, does not have any uncertain tax positions that impact the Foundation's financial position or statement of activities and changes in net assets.

(dollars in thousands)

3. Investments

The estimated fair value of investments as of December 31, 2008, is as follows:

	Packard Foundation
Developed market equities	$ 1,697,747
Emerging market equities	444,751
Private equities	70,012
Marketable alternatives	1,094,727
Real assets	313,732
Fixed income securities	401,868
Los Altos real estate and other	15,285
Total	$ 4,038,122

Unfunded purchase commitments related to limited partnerships as of December 31, 2008 are $467,515.

At December 31, 2008, developed market equities include 5,510,000 shares of Hewlett-Packard Company common stock and 9,620,000 shares of Agilent Technologies, Inc. common stock with values of $199,958 and $150,361, respectively.

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.

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.

(dollars in thousands)

The loss on the Packard Foundation's investment portfolio for the year ended December 31, 2008 consists of the following:

	Packard Foundation
Net realized gain	$ 362,833
Net unrealized (loss)	(2,056,090)
Total	$ (1,693,257)

The following table summarizes the valuation of the Packard Foundation's investments per the FAS 157 fair value hierarchy levels as of December 31, 2008:

	Level I	Level II	Level III	December 31, 2008
Developed market equities	$ 1,400,785	$ -	$ 296,962	$ 1,697,747
Emerging market equities	396,321	-	48,430	444,751
Private equities	41,600	-	28,412	70,012
Marketable alternatives	-	-	1,094,727	1,094,727
Real assets	306,683	-	7,049	313,732
Fixed income securities	401,868	-	-	401,868
Los Altos real estate and other	2,309	-	12,976	15,285
Total	$ 2,549,566	$ -	$ 1,488,556	$ 4,038,122

The following table summarizes the Packard Foundation's Level III reconciliation per FAS 157 as of December 31, 2008:

Fair Value Measurements Using Level III Inputs

Balance at January 1, 2008	$ 20,776
Net realized gain included in net income	56
Net unrealized loss included in net income	(176,652)
Purchases of portfolio investments	1,649,060
Proceeds from sales, redemptions, and distributions	(4,684)
Balance at December 31, 2008	$ 1,488,556

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying statement of activities and changes in net assets. Net unrealized losses relate to those financial instruments held by the Packard Foundation at December 31, 2008.

(dollars in thousands)

4. Property and Equipment

Property and equipment at December 31, 2008, consisted of the following:

	Packard Foundation	MBARI	Total
Land	$ 16,331	$ 4,246	$ 20,577
Buildings	22,127	49,963	72,090
Research vessels and facilities	-	56,532	56,532
Remotely operated vehicles	-	13,428	13,428
Office furniture and equipment	6,628	24,707	31,335
Capital projects in progress	-	3,314	3,314
Total	45,086	152,190	197,276
Accumulated depreciation	(14,850)	(79,232)	(94,082)
Property and equipment, net	$ 30,236	$ 72,958	$ 103,194

Depreciation expense for the year ended December 31, 2008 was $1,523 and $8,336 for the Packard Foundation and MBARI, respectively.

5. Grants

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, 2008, as follows:

	Packard Foundation
Less than 1 year	$ 114,873
1 to 5 years	50,706
Total	$ 165,579

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, 2008. 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. At December 31, 2008, the Packard Foundation held a deferred excise tax asset resulting from net unrealized losses on investments. Due to the uncertainty that the Packard

(dollars in thousands)

Foundation will be able to benefit from the deferred tax asset at December 31, 2008, a full valuation allowance has been recorded against the asset.

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

The benefit from current and deferred federal excise taxes for the year ended December 31, 2008, was as follows:

	Packard Foundation
Current	$ (4,541)
Deferred	36,859
Total	$ 32,318

Other taxes of $25 were paid for the year ended December 31, 2008, primarily on unrelated business income generated as a result of the Packard Foundation's investments.

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, 2008.

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, 2008.

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 $1,423 during 2008. As of December 31, 2008, $42 was accrued related to the plans.

(dollars in thousands)

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, 2008, $259 was been 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 $140 during 2008.

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, 2008, based on a measurement date of December 31, 2008:

	Packard Foundation
Benefit obligation	$ (5,143)
Fair value of plan assets	-
Unfunded status	(5,143)
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	$ (5,143)

Amounts recognized in unrestricted net assets at December 31, 2008, were as follows:

	Packard Foundation
Prior service cost	$ 2,291
Net gain	(681)
Total	$ 1,610

(dollars in thousands)

Changes in unrestricted net assets as a result of actuarial losses and amounts amortized for the year ended December 31, 2008 were as follows:

	Packard Foundation
Net loss	$ 556
Amortization of net gain	121
Amortization of prior service cost	(184)
Total loss recognized in unrestricted net assets	$ 493

The Packard Foundation's contributions to the Plan and benefit payments made from the Plan for the year ended December 31, 2008, were $39 and $39, respectively. Participants' contributions totaled $22 for the year ended December 31, 2008.

The net periodic postretirement benefit cost reflected in the consolidating statement of activities and changes in net assets for the year ended December 31, 2008 was $721.

A weighted-average discount rate of 6% was used in determining the accumulated postretirement benefit obligation as of December 31, 2008 and a weighted-average discount rate of 6.75% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2008.

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

Years Ending December 31	Packard Foundation
2009	$ 130
2010	147
2011	173
2012	196
2013	222
2014 - 2018	1,489

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 2008, declining by 1% per year through 2010, then declining 0.5% per year through 2016 and then remaining at 5% thereafter. A 1% point increase in this rate would increase the accumulated postretirement benefit obligation by $908 and the service cost plus interest cost components of net periodic postretirement benefit cost by $126. A 1% point decrease in this rate would decrease the accumulated postretirement benefit obligation by $734 and the service cost plus interest cost components of net periodic postretirement benefit cost by $100.

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 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 $1,912 during 2008.

(dollars in thousands)

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 and is not funded. At December 31, 2008, MBARI held other assets of $535 that are included in other assets, which are designated by MBARI to pay future Salary Deferral Plan and Compensation Restoration Plan liabilities of $535, that are 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 that the participant would otherwise have been eligible for in accordance with MBARI's 401(a) plan. The Compensation Restoration Plan is intended to be an unfunded plan. At December 31, 2008, MBARI held other assets of $21 that are included in other assets, which are designated by MBARI to pay future Deferred Compensation Restoration Plan liabilities of $21, that 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 the combination of years of service and age equal to 65 or greater. The MBARI Plan can be amended at any time upon Board approval.

The following information presents the MBARI Plan's unfunded status and amount recognized in the consolidating statement of financial position as of December 31, 2008, based on a measurement date of December 31, 2008:

	MBARI
Benefit obligation	$ (6,508)
Fair value of plan assets	-
Unfunded status	(6,508)
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	$ (6,508)

Amounts recognized in unrestricted net assets at December 31, 2008, were as follows:

	MBARI
Prior service cost	$ 11,542
Net gain	(9,460)
Total	$ 2,082

Effective January 1, 2008 the benefit obligation was re-measured to better reflect the impact of Medicare payments after retirees reach age 65. The effect of the re-measurement was to decrease the benefit obligation by $11,682, which will be amortized in 2008 and subsequent years. As a result, MBARI recorded actuarial gains of $11,258 in 2008.

(dollars in thousands)

Changes in unrestricted net assets as a result of actuarial gains and amounts amortized for the year ended December 31, 2008 were as follows:

		MBARI
Net gain	$	(11,258)
Prior service cost		-
Amortization of net gain		1,798
Amortization of prior service cost		(2,959)
Total gain recognized in unrestricted net assets	$	(12,419)

MBARI made no contributions to, nor were any benefit payments made from, the MBARI Plan for the year ended December 31, 2008.

The periodic postretirement benefit cost reflected in the consolidating statement of activities and changes in net assets for the year ended December 31, 2008, was $1,876.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.12% as of December 31, 2008, and in determining the net periodic postretirement benefit cost was 5.75% for the year ended December 31, 2008.

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

Years Ending December 31		MBARI
2009	$	55
2010		98
2011		187
2012		272
2013		352
2014 - 2018		2,757

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 2008, 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 $1,016 and $(841), respectively, and the service cost plus interest cost components of net periodic postretirement benefit cost by $126 and $(103), respectively, for the year ended December 31, 2008.

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 2009 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, 2008, are as follows:

(dollars in thousands)

Years Ending December 31	Packard Foundation	MBARI	Total
2009	$ 20	$ 159	$ 179
2010	13	48	61
2011	5	47	52
2012	-	24	24
2013	-	24	24
Thereafter	-	620	620
Total	$ 38	$ 922	$ 960

Rent expense for the year ended December 31, 2008, was $157.

Prior to December 31, 2002, the Packard Foundation guaranteed bonds that, at original issuance, amounted to approximately $9,429. The Packard Foundation would be required to perform under these guarantees should the beneficiaries be unable to meet their obligations. These guarantees have amortized to a total outstanding obligation of approximately $5,089 as of December 31, 2008, and the guarantees will be further reduced by scheduled payments. These guarantees expire between July 2009 and 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, 2008, 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 the MARS Project. Such 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 results of activities 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 its financial position.

9. Minimum Future Rental Revenues

MBARI leases land and facilities to others under non-cancelable leases with lease terms expiring in 2009 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 non-cancelable lease terms in excess of one year are approximately as follows:

(dollars in thousands)

Years Ending December 31	MBARI
2009	$ 129
2010	59
Thereafter	16
	$ 204

10. Subsequent Events

On March 1, 2009, MBARI adopted a change to its contributory retiree health insurance program which requires all Medicare enrolled participants to terminate the group health plan and enroll in a Health Reimbursement Arrangement ("H.R.A."). MBARI will contribute to the participant's H.R.A. at the same level as the group health plan. It is expected that this change will substantially increase MBARI's benefit obligation beginning in 2009.