The David and Lucile Packard Foundation

Consolidating Financial Statements
December 31, 2012

The David and Lucile Packard Foundation
Index
December 31, 2012

Report of Independent Auditors

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

We have audited the accompanying individual and consolidated financial statements of The David and Lucile Packard Foundation and its affiliate, The Monterey Bay Aquarium Research Institute ("MBARI") (collectively, the "Foundation") which comprise the individual and consolidated statements of financial position as of December 31, 2012, and the related individual and consolidated statements of activities and changes in net assets and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the individual and consolidated financial statements based on our audit. We conducted our audit 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 individual and consolidated financial statements are free from material misstatement.

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

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

that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual financial positions of the Packard Foundation and MBARI and the consolidated financial position of the Foundation at December 31, 2012, and the individual and consolidated changes in their net assets and their individual and consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Francisco, California
July 23, 2013

The David and Lucile Packard Foundation
Consolidating Statement of Financial Position
December 31, 2012

(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Assets				
Cash and cash equivalents	$ 28,887	$ 7,441	$ -	$ 36,328
Interest and dividends receivable	4,222	-	-	4,222
Investment sales receivable	363,568	-	-	363,568
Investments, at fair value	5,699,293	-	-	5,699,293
Contributions and other receivables	-	48,528	(47,187)	1,341
Program-related investments	115,579	-	-	115,579
Property and equipment, net	80,608	57,700	-	138,308
Other assets	7,796	3,670	-	11,466
Total assets	$ 6,299,953	$ 117,339	$ (47,187)	$ 6,370,105
Liabilities and Net Assets				
Liabilities				
Accounts payable and other liabilities	$ 8,353	$ 7,159	$ -	$ 15,512
Investment purchases payable	170,327	-	-	170,327
Grants payable	123,442	-	(47,187)	76,255
Deferred federal excise tax liabilities	28,722	-	-	28,722
Postretirement benefit liabilities	11,113	19,875	-	30,988
Total liabilities	341,957	27,034	(47,187)	321,804
Net assets				
Unrestricted	5,957,996	52,844	37,461	6,048,301
Temporarily restricted	-	37,461	(37,461)	-
Total net assets	5,957,996	90,305	-	6,048,301
Total liabilities and net assets	$ 6,299,953	$ 117,339	$ (47,187)	$ 6,370,105

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, 2012

(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Changes in unrestricted net assets				
Revenue and net investment income				
Dividends	$ 29,949	$ -	$ -	$ 29,949
Interest	28,305	12	-	28,317
Federal awards	-	6,973	-	6,973
Rental and other income	2,807	2,489	-	5,296
Contributions	-	38	-	38
Net realized and unrealized gain on investments	570,971	-	-	570,971
Investment related expenses	(11,229)	-	-	(11,229)
Net assets released from restrictions	-	36,726	(36,726)	-
Revenue and net investment income before federal excise tax expense	620,803	46,238	(36,726)	630,315
Federal excise tax expense	(15,324)	-	-	(15,324)
Revenue and net investment income (loss)	605,479	46,238	(36,726)	614,991
Expenses				
Grants awarded	252,664	-	(37,461)	215,203
Direct charitable expenses	6,526	41,835	-	48,361
Program operating expenses	22,379	10,719	-	33,098
Total expenses	281,569	52,554	(37,461)	296,662
Increase (decrease) in unrestricted net assets before change in unrestricted net assets from actuarial gains/losses and amortization	323,910	(6,316)	735	318,329
Change in unrestricted net assets from actuarial gains/losses and amortization	830	1,643	-	2,473
Increase (decrease) in unrestricted net assets	324,740	(4,673)	735	320,802
Changes in temporarily restricted net assets				
Contributions	-	37,461	(37,461)	-
Net assets released from restriction	-	(36,726)	36,726	-
Increase (decrease) in temporarily restricted net assets	-	735	(735)	-
Increase (decrease) in net assets	324,740	(3,938)	-	320,802
Net assets				
Beginning of year	5,633,256	94,243	-	5,727,499
End of year	$ 5,957,996	$ 90,305	$ -	$ 6,048,301

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, 2012

(dollars in thousands)

	Packard Foundation	MBARI	Eliminations	Total
Cash flows from operating activities				
Increase (decrease) in net assets	$ 324,740	$ (3,938)	$ -	$ 320,802
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities				
Net realized and unrealized gains on investments	(570,971)	-	-	(570,971)
Change in net assets from actuarial gains/losses and amortization	(830)	(1,643)	-	(2,473)
Reinvested dividends and non cash interest	(58)	-	-	(58)
Depreciation and amortization	2,544	9,027	-	11,571
Gain on disposal of property and equipment	(2,702)	(153)	-	(2,855)
Changes in operating assets and liabilities				
Interest and dividends receivable	(1,069)	-	-	(1,069)
Contributions and other receivables	300	(1,274)	-	(974)
Other assets	(1,836)	(413)	-	(2,249)
Grants payable	(1,260)	-	-	(1,260)
Accounts payable and other liabilities	815	380	-	1,195
Postretirement benefit liabilities	1,558	4,234	-	5,792
Deferred federal excise taxes	9,275	-	-	9,275
Net cash (used in) provided by operating activities	(239,494)	6,220	-	(233,274)
Cash flows from investing activities				
Purchases of investments	(2,764,725)	-	-	(2,764,725)
Proceeds from sales and maturities of investments	2,953,383	-	-	2,953,383
Principal advances to program-related investment loan recipients	(35,994)	-	-	(35,994)
Principal repayments received from program-related investment loan recipients	29,823	-	-	29,823
Purchases of property and equipment	(23,511)	(5,339)	-	(28,850)
Proceeds from sale of property and equipment	11,173	240	-	11,413
Net cash provided by (used in) investing activities	170,149	(5,099)	-	165,050
Net (decrease) increase in cash and cash equivalents	(69,345)	1,121	-	(68,224)
Cash and cash equivalents				
Beginning of year	98,232	6,320	-	104,552
End of year	$ 28,887	$ 7,441	$ -	$ 36,328
Supplemental disclosures of cash flow information				
Cash paid for federal excise and other taxes	$ 7,500	$ -	$ -	$ 7,500
Noncash capital expenditures	386	-	-	386

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

(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 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.

(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, 2012, 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 $36,726 were released from restriction due to the expiration of time restrictions during the year ended December 31, 2012.

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 readily available 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 consolidating statement of activities and changes in net assets in the period that such fluctuations occur.

Investment Sales Receivable and Investment Purchases Payable
Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. The Packard Foundation is subject to credit risk should a broker be unable to meet its obligations to the Packard Foundation.

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

(dollars in thousands)

reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best available information.

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

Level I Quoted prices in active markets for identical assets and liabilities.

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

Level III Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. 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, 2012 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 unsettled investment trades. 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. Contributions and other receivables consist primarily of funds due to MBARI from the Packard Foundation.

Program-Related Investments
Program-related investments at December 31, 2012, include $112,164 of loans made to organizations, $2,437 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 $978 equity investments in sustainable forest management and carbon offset project companies. Interest rates on loans receivable range from 0% to 5% as of December 31, 2012, 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 of as of December 31, 2012.

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. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(dollars in thousands)

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, 2012.

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 Packard 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.

Recent Accounting Pronouncements
In December 2011, the FASB issued Accounting Standards Update ("ASU") 2011-11, *Disclosures about Offsetting Assets and Liabilities*. These disclosures will provide additional information about offsetting arrangements of an entity's financial assets and liabilities. The guidance will be effective for the Foundation beginning January 1, 2013. The Foundation is currently assessing the impact of this guidance on its financial statements.

(dollars in thousands)

3. Investments

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

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

At December 31, 2012, developed market equities include 5,379 shares of Hewlett-Packard Company common stock and 1,744 shares of Agilent Technologies, Inc. common stock with values of $76,645 and $71,404, respectively.

The Packard Foundation's real estate investment is located in Los Altos, California and is valued based upon recent appraisals.

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

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

(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, 2012:

	Level I	Level II	Level III	Netting Adjustments	Ending Balance at December 31, 2012
Developed market equities	$ 674,935	$ -	$ 998,742	$ -	$ 1,673,677
Emerging market equities	361,074	-	436,456	-	797,530
Private equities	-	-	337,072	-	337,072
Marketable alternatives	-	-	1,769,433	-	1,769,433
Real assets	-	-	574,482	-	574,482
Fixed income securities	170,000	375,447	-	-	545,447
Los Altos real estate and other	-	-	1,652	-	1,652
Derivative assets	355	-	-	(355)	-
Total investments	$ 1,206,364	$ 375,447	$ 4,117,837	$ (355)	$ 5,699,293
Total cash and cash equivalents	$ 28,887	$ -	$ -	$ -	$ 28,887

There were no transfers between each level of the fair value hierarchy during the year ended December 31, 2012.

(dollars in thousands)

The following table summarizes the Packard Foundation's Level III reconciliation per ASC 820 as of December 31, 2012:

	Beginning Balance at December 31, 2011	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales and Settlements	Ending Balance at December 31, 2012	Change in Unrealized Gains (Losses) for Open Positions Held December 31, 2012
Level III Assets							
Developed market equities	$ 1,080,208	$ (8,949)	$ 196,532	$ 89,468	$ (358,517)	$ 998,742	$ 188,225
Emerging market equities	222,300	659	79,703	138,878	(5,084)	436,456	79,703
Private equities	183,810	12,160	1,783	175,557	(36,238)	337,072	1,783
Marketable alternatives	1,795,325	25,714	158,703	184,801	(395,110)	1,769,433	158,703
Real assets	427,484	4,838	7,947	228,916	(94,703)	574,482	7,947
Los Altos real estate and other	1,723	-	-	-	(71)	1,652	-
	$ 3,710,850	$ 34,422	$ 444,668	$ 817,620	$ (889,723)	$ 4,117,837	$ 436,361

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 net gain on the Packard Foundation's investment portfolio for the year ended December 31, 2012 consists of the following:

	Packard Foundation
Net realized gain	$ 108,883
Net unrealized gain	462,088
	$ 570,971

(dollars in thousands)

The Foundation's Level III assets are valued using unobservable but nonquantitative inputs. These assets include financial instruments for which the determination of fair value is based on prices from prior transactions or third party pricing information without adjustment from management and financial instruments for which fair value is determined using NAV as a practical expedient. 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
Public equity	Contains developed and emerging equity	$ 1,435,198	13	N.A.	$ 47,198	1 to 4	Ranges between quarterly redemption with 30 days notice to Annual with 90 days' notice.	Lock up provisions of up to 5 years.
Private equity	Contains growth, international, leveraged buyouts and venture capital	337,072	31	6 to 13	416,929	1 to 6	Not eligible for redemption	Not Redeemable
Marketable alternatives	Contains global long/short equity, opportunistic, and special situations	1,769,432	16	N.A.	10,627	N.A.	Ranges between monthly redemption with 45 days' notice, to an annual redemption with 180 days' notice.	Lock up provisions of up to 4 years.
Real assets	Contains natural resources and real estate	574,482	36	1 to 13	524,692	1 to 5	Not eligible for redemption	Not Redeemable
		$ 4,116,184	96		$ 999,446			

(dollars in thousands)

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 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.

At December 31, 2012, the fair value of derivatives held in separately managed accounts consisted of 250 contracts of listed futures at $355 as included in the statement of financial position. GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when legally enforceable master netting agreements exist between the Foundation and derivative counterparties. The carrying value of derivatives was equally offset by $355 netting.

The Packard Foundation's gains on derivatives held in its separately managed accounts were $38. This amount is included in the consolidating statement of activities and changes in net assets for the year ended December 31, 2012.

Futures
A futures contract is an agreement between the Foundation and a counterparty to buy or sell an asset for a specified price on a future date. Required initial margin deposits of cash or securities are pledged by the Foundation. Subsequent payments, known as variation margin, are made or received by the Foundation, depending on fluctuations in the value of the underlying security. Such variation margin is accounted for as unrealized appreciation or depreciation until the contract is closed, at which time the gains or losses are realized.

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 nonperformance 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.

(dollars in thousands)

4. Property and Equipment

Property and equipment at December 31, 2012, consisted of the following:

	Packard Foundation	MBARI	Total
Land	$ 26,648	$ 4,246	$ 30,894
Buildings	52,169	50,213	102,382
Research vessels and facilities	-	67,868	67,868
Remotely operated vehicles	-	18,415	18,415
Office furniture and equipment	16,777	22,436	39,213
Capital projects in progress	284	1,724	2,008
	95,878	164,902	260,780
Accumulated depreciation	(15,270)	(107,202)	(122,472)
Property and equipment, net	$ 80,608	$ 57,700	$ 138,308

Depreciation expense for the year ended December 31, 2012 was $2,544 and $9,027 for the Packard Foundation and MBARI, respectively.

The Packard Foundation completed the construction of a new building for operations and placed the building in service in 2012. The building is located in Los Altos, California.

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 nonqualifying organizations, the Packard Foundation assumes the responsibility for the ultimate charitable use.

Grants awarded but unpaid are payable at December 31, 2012, as follows:

	Packard Foundation
Less than 1 year	$ 85,824
1 to 5 years	37,618
	$ 123,442

(dollars in thousands)

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 2% rate for the year ended December 31, 2012. 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, 2012, was as follows:

	Packard Foundation
Current	$ 6,047
Deferred	9,276
	$ 15,323

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, 2012.

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, 2012.

(dollars in thousands)

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 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 $1,719 during 2012. As of December 31, 2012, $86 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, 2012, $666 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 $133 during 2012.

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, 2012, based on a measurement date of December 31, 2012:

	Packard Foundation
Benefit obligation	$ (11,113)
Fair value of plan assets	-
Unfunded status	(11,113)
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	$ (11,113)

(dollars in thousands)

Amounts recognized in unrestricted net assets at December 31, 2012, were as follows:

	Packard Foundation
Prior service cost	$ 1,555
Net loss	1,692
	$ 3,247

The estimated prior service cost and net loss for the Plan that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2013 is as follows:

	Packard Foundation
Amortization of prior service cost	$ 184
Amortization of net loss	71
	$ 255

Changes in unrestricted net assets as a result of actuarial gains/losses and amounts amortized for the year ended December 31, 2012 were as follows:

	Packard Foundation
Net actuarial gains and losses	$ (506)
Amortization of net gain or (loss)	(140)
Amortization of prior service cost	(184)
Total recognized in unrestricted net assets	$ (830)

The Packard Foundation's contributions to the Plan and benefit payments made from the Plan for the year ended December 31, 2012, was $101. Participants' contributions totaled $58 for the year ended December 31, 2012.

The net periodic postretirement benefit cost reflected in the consolidating statement of activities and changes in net assets related to the Plan for the year ended December 31, 2012 was $1,659.

A weighted-average discount rate of 4.03% was used in determining the accumulated postretirement benefit obligation as of December 31, 2012 and a weighted-average discount rate of 4.4% was used in determining the net periodic postretirement benefit cost for the year ended December 31, 2012.

(dollars in thousands)

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:

	Packard Foundation
Years Ending December 31,	
2013	$ 158
2014	200
2015	246
2016	293
2017	342
2018-2022	2,697

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) are assumed to be 17.6% in 2014, declining by 9.6% in 2015 and 1% per year through 2018 and then remaining at 5% thereafter. A 1% point increase in this rate would increase the accumulated postretirement benefit obligation by $2,327 and the service cost plus interest cost components of the net periodic postretirement benefit cost by $315. A 1% point decrease in this rate would decrease the accumulated postretirement benefit obligation by $1,821 and the service cost plus interest cost components of net periodic postretirement benefit cost by $242.

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 $1,874 during 2012.

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, 2012, MBARI held other assets of $1,717 that are included in other assets. These assets are designated by MBARI to pay future Salary Deferral Plan liabilities of $1,717 as of December 31, 2012. 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.

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

(dollars in thousands)

Effective March 1, 2009, the plan was amended such that retired employees are no longer eligible to participate in MBARI's insured medical plan. Instead, each August 1st, MBARI makes a contribution on behalf of each retired employee to a healthcare savings account (HSA). The amount of the contribution is 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.

The following information presents the MBARI Plan's unfunded status and amount recognized in the consolidating statement of financial position as of December 31, 2012, based on a measurement date of December 31, 2012:

	MBARI
Benefit obligation	$ (19,875)
Fair value of plan assets	-
Unfunded status	(19,875)
Amount recognized in the consolidating statement of financial position as postretirement benefit liabilities	$ (19,875)

Amounts recognized in unrestricted net assets at December 31, 2012, were as follows:

	MBARI
Prior service cost	$ 216
Net gain	1,052
	$ 1,268

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

	MBARI
Net loss	$ 1,118
Prior service cost	-
Amortization of net gain	-
Amortization of prior service cost	(2,761)
Total recognized in unrestricted net assets	(1,643)
Net periodic postretirement benefit cost	4,260
Total recognized in net periodic benefit cost and unrestricted net assets	$ 2,617

Total contributions paid and benefit payments made from the MBARI Plan for the year ended December 31, 2012 were $26.

(dollars in thousands)

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 4.14% as of December 31, 2012, and in determining the net periodic postretirement benefit cost was 4.42% for the year ended December 31, 2012.

The estimated prior service cost and net gain for the Plan that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2013 is as follows:

	MBARI
Amortization of prior service cost	$ 96
Amortization of net loss (gain)	-
	$ 96

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:

	MBARI
Years Ending December 31,	
2013	$ 99
2014	165
2015	227
2016	306
2017	381
2018-2022	3,131

The annual rate of increase in the per capita cost of medical benefits (i.e., health care cost trend rate) was assumed to be 8% in 2013, declining by 1% per year through 2016, and then remaining at 5% thereafter. A 1% point increase or decrease in this rate would increase the accumulated postretirement benefit obligation by $4,936 and ($3,781), respectively, and increase or decrease the service cost plus interest cost components of the net periodic postretirement benefit cost by $369 and ($284), respectively, for the year ended December 31, 2012.

(dollars in thousands)

8. Commitments and Contingent Liabilities

The Foundation has noncancelable operating leases for certain land, facilities, furniture and equipment. The terms of these leases expire in 2012 through 2039, with certain options to renew. Certain rental rates are subject to adjustment based on increases in the consumer price index. Future minimum lease payments under noncancelable operating leases at December 31, 2012, are as follows:

	Packard Foundation	MBARI	Total
Years Ending December 31,			
2013	$ 23	$ 122	$ 145
2014	8	26	34
2015	-	26	26
2016	-	27	27
2017	-	28	28
Thereafter	-	826	826
	$ 31	$ 1,055	$ 1,086

Rent expense for the year ended December 31, 2012, was $413.

As of December 31, 2012, 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.

(dollars in thousands)

9. Minimum Future Rental Revenues

MBARI leases land and facilities to others under noncancelable leases with lease terms expiring in 2015, 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, 2012 are approximately as follows:

		MBARI
Years Ending December 31,		
2013	$	155
2014		150
2015		35
	$	340

10. Credit Facilities

The Foundation has an uncommitted line of credit ("LOC") of $50,000 with The Northern Trust Company. This LOC note is annually renewable. At December 31, 2012, the outstanding principal balance on the line of credit was $0. The Foundation has the option of choosing the interest rate on the LOC based upon the Prime-Based Rate, London Interbank Offered Rate ("Libor") or Bank Offered Rate.

11. Subsequent Events

The Foundation has evaluated subsequent events for the period December 31, 2012 through July 23, 2013, the date the financial statements were available to be issued and believes no additional disclosures are required.