At the W. M. Keck Foundation, we stand by our commitments to the communities we support. During the difficult economic situation we all find ourselves in, we have continued to seek new ways to help our grantees achieve their missions.

The Keck Foundation directors have a strong interest in our local community. In this past year, we have sought, through our Southern California grants program, to fund strategies that will help shore up organizations providing safety-net services. The survival of these organizations is vital so that people can continue to receive the basic services they need. In this report, we are privileged to share the stories of several families who benefited from services provided by these organizations. Here, we celebrate the commitment of organizations like these to the future of Los Angeles.

The business of the Foundation remains focused not only on our Southern California program, but also on scientific research and undergraduate education. I am pleased to report that in 2009, the Foundation paid out more than $42 million through all of its grant programs, including 37 new grants totaling over $17.55 million.

In order to make the best use of our funds, we completed the first of our program evaluations in 2009. A distinguished committee chaired by Dr. Harvey Fineberg, president of the Institute of Medicine, and consisting of Tom Cech, Elias Zerhouni and Huda Zoghbi, reviewed the grants made by the Medical Research program over the past 15 years. Their helpful findings included that some of the Foundation’s most impactful grants have been for the development of new technologies, instrumentation and methodologies. Based on the committee’s review, the Foundation will continue to seek out new ideas, questions and innovations in all fields. More results from this evaluation can be found in the letter to our grantees posted on our website.

This past year we welcomed our final class of Distinguished Young Scholars in Medical Research. Over more than a decade, this program provided research support for 54 remarkable young scientists, and we are certain we will continue to hear of their accomplishments in the coming years. We celebrate the success of this program, and our directors will look for new opportunities for funding in areas of need.

This past year has seen many ups and downs in the financial markets, so I am particularly pleased to report that in 2009, our endowment closed with net assets of $1.07 billion. The economy is recovering and corporate earnings are robust, which should allow the market to go up.

I am particularly proud to work with such a distinguished board of directors. Yet this past year we lost two valuable members. We mourn the loss of Dr. Lew Allen, former Air Force Chief of Staff and member of the National Academy of Engineering, and of Ms. Nancy Daly, a tireless and committed advocate for children, and in particular, the foster children of Los Angeles.

The board saw other changes. We welcome Mr. Stephen Keck to the Executive Committee and Mr. Joseph Deegan-Day to the Southern California Committee. We remain confident that the energy and creativity of this new generation of directors will greatly benefit our board.

We remain committed to our belief that strategically placed support allows our real capital, people, to accomplish the extraordinary everyday.

Sincerely,

ROBERT A. DAY
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
W. M. KECK FOUNDATION
MEETING BASIC NEEDS

MEND (MEET EACH NEED WITH DIGNITY)

Mari Amillategui’s car accident left her disabled and unemployed. With no means to feed and care for her four children, her situation was desperate.

Mari's 20 year old daughter helped care for her three younger siblings, but even together, they could not make ends meet. Then one morning, Mari noticed the colorful new MEND (Meet Each Need with Dignity) Center in their Pacoima neighborhood and decided to go inside. The family was welcomed by a volunteer who described what MEND could offer them. Mari and her children have received food, clothing and dental care, and are finding considerable hope in the help from MEND. “We cannot begin to express our gratitude for the way MEND has impacted our lives,” she says.

Located in the northeast San Fernando Valley, MEND’s services help relieve the effects of poverty and provide clients with a path to self-sufficiency. This volunteer-driven organization receives over 155,000 donated hours annually, and has mounted an aggressive response to the devastating effects of the economic crisis. The opening of MEND’s new facility in early 2007 was just in time to help meet the community’s nearly three-fold increase in demand for food and clothing. With additional partnerships, MEND now has the capacity to serve as many as 31,000 clients each month.

SHELTER PARTNERSHIP

Shelter Partnership funnels donated new clothing, hygiene products, and bedding free of charge to 200 homeless service agencies throughout Los Angeles County. “Shelter Partnership has saved us many thousands of dollars a year that we can then use to continue to provide housing and other services to homeless individuals and families,” comments John Maceri, Ocean Park Community Center’s executive director. “Shelter Partnership fulfills a very unique and vital function with efficiency and a generosity of spirit.”
At St. John’s, the Serrano children receive dental and well child care.

"We depend on Saint John’s Well Child and Family Center."

PROMOTING HEALTHY LIVES

SAINT JOHN’S WELL CHILD AND FAMILY CENTER

For over five years, Cecilia Serrano and her six children have received their primary medical care from Saint John’s. When the Center launched a Healthy Homes, Healthy Kids program in 2009 to help families better manage their children’s asthma, Cecilia, whose children all suffer from asthma, was quick to enroll. A health promoter visited her home to identify asthma triggers, and found mold and evidence of lead paint. The Center is now working with the landlord to make changes. “Their programs are very complete. It saddens me to think that many people would probably get worse or even die if St. John’s were not around,” muses Cecilia.

St. John’s network of ten clinics in South Los Angeles is a beacon of hope for some of the poorest children and families in Los Angeles. Over 90% of its patients live below the poverty level, and this year, the need for services was greater than ever. Residents have few health care options, with job loss at an all time high, private doctors unwilling to accept patients with no or low-paying insurance, and the closure of Martin Luther King/Drew Medical Center in 2007. St. John’s helps fill the gap, and provides quality health care to over 33,000 patients annually.

EAST VALLEY COMMUNITY HEALTH CENTER

When Edward was sick with prolonged high fevers, his father turned to a family friend for help. Without hesitation, his friend recommended East Valley Community Health Center, a trusted resource serving the uninsured and working poor in the East San Gabriel Valley since 1970. Edward is one of over 6,700 children who come to the Center for health care, including well child check-ups. Says his father, “We are very grateful for the good medical treatment Edward receives.”
EDUCATING FOR SUCCESS

CAMINO NUEVO CHARTER ACADEMY

Making college a reality is what Camino Nuevo Charter Academy (CNCA) is all about. What sets CNCA apart is an educational program that incorporates project-based learning and leverages technology. Now a first-year mechanical engineering major at the University of Southern California, Gary Guillermo credits the "tight knit community" and support he received at CNCA for his successful transition to college. The high expectations, college-preparatory courses, and ongoing connections to faculty, mentors, and an alumni coordinator prepare CNCA graduates for the financial, cultural and academic challenges at colleges throughout the nation.

Founded in 2000, CNCA has grown from a single elementary school to a network of three campuses serving over 1,500 predominantly immigrant students from preschool through high school. For students living in the MacArthur Park community, CNCA has become a ladder out of poverty, outperforming schools with comparable demographics. Camino Nuevo High School ranked in the top 20 among all 121 Los Angeles Unified School District (LAUSD) high schools, including magnets and charter schools, based on the state’s 2009 academic performance index. The 95% graduation rates in the last two years exceeded both the LAUSD’s 72% 2008 graduation rate, and the 80% statewide graduation rate.

Gary Guillermo, a CNCA graduate now attending USC and his CNCA mentor, Charlie Seo, in the Academy’s quad.

YMCA OF GREATER LONG BEACH

“I have found my voice,” rejoices Lorielle Conway, a junior at Long Beach Polytechnic High School, about her participation in YMCA’s Youth Institute. She credits the caring staff for helping her overcome her shyness. “Now I know that my ideas are important and should be heard,” she says. This after-school youth development program builds skills in technology and media arts, fosters civic engagement, and provides employment through its social enterprise venture, Change Agent Productions.

“A tight-knit community”
Data from SCEC shows forecasts for future potential quake areas.

“There is nothing more interesting than earthquakes”

SHAKING UP THE WORLD OF EARTHQUAKE PREDICTION

SOUTHERN CALIFORNIA EARTHQUAKE CENTER

Earthquake prediction has traveled a rocky road since the first scientific approaches were developed over a century ago. Contention in the earthquake research community reached new heights in the early 1990s following the failure of several highly touted prediction experiments. Yet recent advances in computational speed and power, along with a deeper understanding of geophysics, have greatly increased the possibilities for accurate earthquake prediction.

In 2005, the Southern California Earthquake Center (SCEC), a consortium of international institutions based at the University of Southern California, created a new approach designed to give earthquake prediction new scientific rigor and respectability. Their Collaboratory for the Study of Earthquake Predictability (CSEP) set up testing centers in seismically active locations around the world. Each center’s platform combines hardware, software and human expertise to enable a variety of earthquake forecasting models to be tested using commonly agreed upon methods. Tom Jordan, SCEC director, explains that “rather than looking for silver bullets, we are building an understanding of earthquake predictability brick by brick through careful hypothesis testing and systematic model comparisons.” Though the CSEP is still an experiment in progress, the project has earned a level of international acceptance that has surprised even the most skeptical in the field.

Maria Liukis, Tom Jordan and Danijel Schorlemmer discuss results from a testing center.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

The human immune system operates like an elaborate game of chess. James Economou believes we could help it check cancer if we only knew the rules. With seed funding from Keck, an interdisciplinary team led by Economou is trying to learn cancer’s game. They are designing new tumor immunotherapies by engineering melanoma-specific T-cells that they hope will evade the cancer cells’ protective mechanisms and allow the immune system to defeat cancer as well as it fights infectious diseases.
California’s Central Valley is one of the world’s most productive agricultural regions, and over the past century has attracted immigrants from around the globe. CSU Stanislaus recognized the combined need and opportunity represented by the many languages spoken in the local communities and designed a new high-tech language lab offering personalized immersion in language study. “I love the Language Lab. It has helped me improve my language skills,” is a common student comment.

Studying RNA from samples collected in the wetlands.

“An emphasis on a well-rounded education.”

LOYOLA MARYMOUNT UNIVERSITY

Undergraduate education’s mantra for the new millennium is articulated many ways — hands-on, minds-on, real-world, team-based — all of which mean engaging the students in their own learning. Yet even with widespread agreement about the role of engagement, making it happen is a perpetual challenge. Doing so effectively requires commitment from administrators and faculty to work out the daunting demands for quality equipment, coordinated curricula and the key resource of time. It takes time to connect one-on-one with students, train them in the proper use of equipment, and especially to mentor them to engage with the scientific process. As LMU Associate Professor Gary Kuleck describes it, they are “training students to think like scientists.”

Loyola Marymount University’s Molecular Analysis and Imaging Laboratory facilitates such active learning. Faculty and students use sophisticated imaging and molecular analysis instruments for interdisciplinary approaches to biological problems in both lab and field-based studies. LMU’s first Undergraduate Research Symposium provided an opportunity for students to present what they learned through research experiences and creative activity to a large audience. Recounts student Kristen Buckmelter, “My experience using cutting-edge technology as an undergraduate prepared me to perform research after I graduate.”

+ Biology Professor Martin Ramirez and students Cascandra Vaniotis and Kelsey Murray gathering plant specimens in the Ballona Wetlands.
**2009 GRANTS**

**SCIENCE AND ENGINEERING RESEARCH**

- **Beardie University**
  - Waltham, MA
  - Dr. Seth Fraden
  - $1,000,000
  - To develop experimental model systems of microtubule-motor protein complexes for elucidating the fundamental behaviors of active matter.

- **University of Chicago**
  - Chicago, IL
  - Dr. Aaron Dinner
  - $1,000,000
  - To develop a technology combining new experimental tools with modeling based on non-equilibrium statistical mechanics in order to understand biological regulatory dynamics.

- **University of Redlands**
  - Redlands, CA
  - Dr. Diana Stuart Sinton
  - $250,000
  - To infuse spatial and geographical literacy across the liberal arts curriculum.

**UNDERGRADUATE EDUCATION**

- **California Polytechnic State University**
  - San Luis Obispo, CA
  - Dr. Raul Cano
  - $250,000
  - To equip a laboratory and conduct attosecond-scale experiments on the formation of excitons, oscillations of plasmon and dispersion properties of electronically excited materials.

- **Mount St. Mary’s College**
  - Los Angeles, CA
  - Dr. Pam Haldeman
  - $250,000
  - To integrate the use of film making as a pedagogical tool across the liberal arts curriculum while expanding the film and social justice program.

- **Whittier College**
  - Whittier, CA
  - Dr. Charlotte Becht
  - $250,000
  - To support collaborative teaching and research through two new centers for the arts and sciences.

- **Lewis and Clark College**
  - Portland, OR
  - Dr. Julio de Paula
  - $250,000
  - To develop an interdisciplinary program in nanoscience.

- **Linfield College**
  - McMinnville, OR
  - Dr. Jeff Peterson
  - $50,000
  - To support planning for a regional collaborative research program.

- **University of California, Berkeley**
  - Berkeley, CA
  - Dr. Stephen Leone
  - $1,000,000
  - To study an energy conversion process known as “multiple exciton generation” in nanostructured materials and demonstrate its applicability for improved solar energy devices.

- **Stanford University**
  - Stanford, CA
  - Dr. Shoucheng Zhang
  - $1,000,000
  - To study the quantum spin Hall state as it is theoretically predicted to occur in three-dimensional and two-dimensional layered nanoribbons.

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**SOUTHERN CALIFORNIA ARTS AND CULTURE**

- **Gabriella Kanblad Education Foundation**
  - Los Angeles, CA
  - $150,000
  - To address increased demand for food and clothing assistance.

- **P. E. Bresee Foundation**
  - Los Angeles, CA
  - $150,000
  - To support education and career development programs for inner-city youth.

- **American Red Cross of Greater Los Angeles**
  - Los Angeles, CA
  - $150,000
  - To support planning for the implementation of an undergraduate major in public health.

**CIVIC AND COMMUNITY**

- **Children’s Dental Health Clinic**
  - Long Beach, CA
  - $150,000
  - To address increased demand for pediatric dental services.

- **JWCH Institute, Inc.**
  - Los Angeles, CA
  - $225,000
  - To support the launch of a comprehensive health center for homeless individuals living on skid row.

**PRECOLLEGIATE EDUCATION**

- ** Alliance for College-Ready Public Schools**
  - Los Angeles, CA
  - $250,000
  - To create a charter school campus for middle and high school students in South Los Angeles.
MEDICAL RESEARCH
Princeton University
Princeton, NJ
Dr. William Bialek
$1,000,000
To use theoretical physics to generate predictive theories that underlie various biological systems and processes and to test them through experimental collaborations with biologists.

University of California, Berkeley
Berkeley, CA
Dr. Lydia Sohn
$1,000,000
To develop novel technologies that allow screening, sorting and selection of single target cells from minute populations, and to couple this with single-cell proteomics and functional characterization during embryonic development.

University of California, San Diego
La Jolla, CA
Dr. Ralph J. Greenspan
$1,000,000
To identify universal principles underlying the relationship and function of biological networks through genetic perturbation of simple model organisms, in combination with theoretical and computational modeling.

University of California, San Francisco
San Francisco, CA
Dr. Joseph deRisi
$1,000,000
To develop a novel high-throughput technology that could generate profiles of the immune system’s response to infection, in order to enable a new approach to vaccine development.

Northwestern University
Evanston, IL
To support Dr. Jason Bruckner’s work to define the molecular mechanisms that control the spatial organization of the genome and determine the role of such organization in regulating gene expression. This will help explain how gene expression is regulated, and how it might be reprogrammed to intervene in genetic and complex disease.

University of California, San Francisco
San Francisco, CA
Dr. Nevan Krogan
$1,000,000
To support Dr. Krogan’s exploration of a global systems approach to studying host-pathogen interactions. Dr. Krogan will employ unbiased, systematic genetic and biochemical approaches to study how the pathogenic organisms HIV and tuberculosis hijack human cellular pathways.

University of Texas Southwestern Medical Center
Dallas, TX
Dr. Benjamin Peng-Chu Tu
Identification of sensors of intracellular metabolic and redox state

Yale University
New Haven, CT
Dr. Sreeganga Chandra
Mechanisms of neuronal synapse maintenance

DISTINGUISHED YOUNG SCHOLARS IN MEDICAL RESEARCH
$1,000,000 per award

Fred Hutchinson Cancer Research Center
Seattle, WA
To support Dr. Wenyong Shen’s studies on an engineered cooperative system of single-celled organisms to determine how such a system evolves to resist “cheaters” using both qualitative and quantitative analysis and game theory. This will provide insight into how human health can be compromised by cheats such as cancer cells and infecting pathogens.

Massachusetts Institute of Technology
Cambridge, MA
To support Dr. J. Christopher Little’s research on how the human immune system responds initially to HIV using microtechnologies that allow study at the single-cell level. This work may lead to novel therapeutics for diseases including autoimmune disorders and cancer.

University of California, San Diego
La Jolla, CA
Dr. Lore Weinberger
Exploiting noise and gene expression circuitry for therapy

RESEARCH EXCELLENCE AWARDS
$25,000 per award

Baylor College of Medicine
Houston, TX
Dr. Thomas Westbrook
A functional genomics approach to identifying genotype-selective cancer therapies

Salk Institute for Biological Studies
San Diego, CA
Dr. Tatsuya Sharpee
Using natural stimuli to understand how the brain performs object recognition

University of California, San Francisco
San Francisco, CA
Dr. Chang-Zheng Chen
Identification of sensors of intracellular metabolic and redox state

University of Texas Southwestern Medical Center
Dallas, TX
Dr. Benjamin Peng-Chu Tu
Identification of sensors of intracellular metabolic and redox state

Yale University
New Haven, CT
Dr. Sreeganga Chandra
Mechanisms of neuronal synapse maintenance
## Statements of Financial Position

### ASSETS

<table>
<thead>
<tr>
<th>December 31 (in thousands)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$80,075</td>
<td>$46,795</td>
</tr>
<tr>
<td>Receivable from brokers</td>
<td>1,851</td>
<td>3,792</td>
</tr>
<tr>
<td>Interest and dividends receivable</td>
<td>2,212</td>
<td>2,312</td>
</tr>
<tr>
<td>Prepaid federal excise taxes</td>
<td>1,948</td>
<td>2,038</td>
</tr>
<tr>
<td>Investments at fair value</td>
<td>981,993</td>
<td>813,385</td>
</tr>
<tr>
<td>Other assets</td>
<td>967</td>
<td>1,395</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$1,069,016</strong></td>
<td><strong>$869,957</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>December 31 (in thousands)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable to brokers</td>
<td>$   –</td>
<td>$3,074</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>1,720</td>
<td>1,499</td>
</tr>
<tr>
<td>Grants payable, net (Note 5)</td>
<td>29,677</td>
<td>34,649</td>
</tr>
<tr>
<td>Deferred federal excise taxes payable</td>
<td>1,593</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>31,910</strong></td>
<td><strong>39,222</strong></td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>1,036,016</td>
<td>810,735</td>
</tr>
<tr>
<td><strong>Total liabilities and unrestricted net assets</strong></td>
<td><strong>$1,069,016</strong></td>
<td><strong>$869,957</strong></td>
</tr>
</tbody>
</table>

See accompanying notes.
### Year Ended December 31 (in thousands)

#### 2009 | 2008
--- | ---
**Revenue** |  |  
Interest | $10,383 | $10,758  
Dividends | 6,187 | 12,284  
Other income | 3,132 | 2,184  
Total | 19,702 | 25,426  
Realized and unrealized gains and losses on investments: |  |  
Net realized losses | (93,091) | (8,093)  
Change in net unrealized gains and (losses) | 310,714 | (603,435)  
Total | 217,623 | (561,128)  
**Expenses** |  |  
Grants | 40,911 | 53,116  
Management and general services | 5,923 | 6,743  
Investment management fees | 3,509 | 5,811  
Federal excise tax provision (benefit) | 1,713 | (6,682)  
Foreign tax withheld | 14 | 813  
Total expenses | 52,070 | 59,811  
Change in unrestricted net assets | 205,291 | (645,913)  
Unrestricted net assets, beginning of year | $830,735 | 1,476,648  
Unrestricted net assets, end of year | $1,036,026 | $850,735  
See accompanying notes.

### Year Ended December 31 (in thousands)

#### 2009 | 2008
--- | ---
**Operating Activities** |  |  
Change in unrestricted net assets | $205,291 | (645,913)  
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities: |  |  
Depreciation and amortization | 416 | 367  
Accretion of bond discounts | (613) | (252)  
Other income from stock received for class action settlements | – | (109)  
Net realized losses on investments | 93,095 | 8,093  
Change in net unrealized (gains) and losses on investments | (310,714) | 603,435  
Changes in operating assets and liabilities: |  |  
Receivable from brokers | 1,941 | (857)  
Interest and dividends receivable | 140 | 896  
Other assets | (4) | –  
Prepaid federal excise taxes | 120 | (6,680)  
Payable to brokers | (3,074) | (2,392)  
Accounts payable and accrued expenses | 231 | (431)  
Deferred federal excise taxes payable | 1,193 | (6,875)  
Grants payable | (4,972) | (6,215)  
Net cash used in operating activities | (36,582) | (51,923)  
**Investing Activities** |  |  
Purchase of investments | (311,572) | (774,221)  
Proceeds on disposition of investments and return of capital | 391,438 | 814,980  
Acquisition of fixed assets | (4) | (471)  
Net cash provided by investing activities | 69,862 | 40,288  
Net increase (decrease) in cash and cash equivalents | 32,180 | (11,853)  
Cash and cash equivalents, beginning of year | 46,795 | 55,430  
Cash and cash equivalents, end of year | $80,075 | $46,795  
See accompanying notes.

### Supplemental Disclosure

Taxes paid during the year | – | 1,880  
See accompanying notes.
1. ORGANIZATION

Foundation and Goals of the Foundation

The W. M. Keck Foundation (the Foundation) was incorporated in the state of Delaware on January 20, 1959, as a not-for-profit charitable corporation. The Foundation’s goals are principally to identify and support university and college research and education programs in the areas of science, engineering and medicine. In addition, the Foundation gives some consideration to promoting liberal arts education and, in Southern California only, to supporting community services, health care, precollegiate education and the arts. Operations are funded by the Foundation’s returns on its investment portfolio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that 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.

Contributions Received and Grant Payments Made

In accordance with accounting standards for not-for-profit entities, unconditional grant payments are recognized as an expense in the period in which they are approved. If these grants are to be paid over a period exceeding one year, they are recorded at the net present value of the future cash payments, using an applicable Treasury Bill rate. Grants, which are conditional upon a future and uncertain event, are expensed when these conditions are met or expected to be met in the subsequent year. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Cash and Cash Equivalents

Cash and cash equivalents are defined as liquid investments with remaining maturities of three months or less at purchase.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Purchases and sales of securities are recorded on the trade date. Dividend income is recorded based upon the ex-dividend date. Interest income is recorded as earned on an accrual basis. Realized gains and losses are recorded upon disposition of securities based on the specific identification method. The allocation of cost to a sale, where part of a holding is disposed of, assumes that the highest-priced items are sold first. Unrealized gains and losses are included in the statements of activities and represent the net change in fair value for investments held at the end of the year.

Alternative investments primarily include limited partnerships which are accounted for under the equity method. Their recorded value is based on net asset values reported by the fund managers, which approximates the estimated fair value of the underlying investment holdings. In the absence of market price quotations, the fair value of the investments is determined by the general partner. Investments for which exchange quotations are not readily available are valued at the latest bid price obtained from one or more dealers making a market for such securities or at estimated fair values as determined in good faith by the general partner. Investments for which exchange quotations are not readily available may include specific classes or series of an issuer’s equity or debt securities. The methods and procedures to value these investments may include, but are not limited to: (1) performing comparisons with prices of comparable or similar securities, (2) obtaining valuation-related information from issuers, and/or (3) other analytical data relating to the investment and using other available indications of value. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation and are included in other assets in the statements of financial position. Depreciation is computed on the straight-line method over the estimated useful life of each type of asset or the term of the related lease, whichever is shorter. The depreciable lives for leasehold improvements are ten years and the lives for furniture and equipment are five years.

Fair Value Measurement

The Foundation applies the principals of the accounting standard, Fair Value Measurements and Disclosures, for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This standard defines fair value, establishes a consistent framework for measuring fair value, and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The Standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Foundation establishes a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Assets that have readily observable prices (quoted prices in active markets accessible at the measurement date for assets). The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Assets that are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds, forward contracts, future contracts, interest and credit swap agreements, options and interest rate swaps.
Level 1 – Assets whose fair value cannot be determined by using observable measures, and can only be calculated using estimates or risk-adjusted value ranges, when little or no market data is available. The inputs into the determination of fair value require management’s judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. The fair value hierarchy gives lowest priority to Level 3 inputs.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below:

(a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

(b) Cost approach. Amount that would be required to replace the service capacity of an asset (replacement cost).

(c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models).

The Foundation’s assets measured at fair value on a recurring basis at December 31, 2009, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Valuation Technique</th>
<th>December 31, 2009</th>
<th>December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>358,546</td>
<td>–</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>78,647</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities – U.S. Treasury</td>
<td>4,556</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities – corporate, municipal and other</td>
<td>–</td>
<td>134,278</td>
</tr>
<tr>
<td>Total</td>
<td>443,749</td>
<td>340,256</td>
</tr>
</tbody>
</table>

The Foundation’s assets measured at fair value on a recurring basis at December 31, 2008, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Valuation Technique</th>
<th>December 31, 2008</th>
<th>December 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>340,088</td>
<td>–</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>91,449</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities – U.S. Treasury</td>
<td>4,822</td>
<td>–</td>
</tr>
<tr>
<td>Debt securities – corporate, municipal and other</td>
<td>–</td>
<td>121,261</td>
</tr>
<tr>
<td>Total</td>
<td>437,219</td>
<td>300,000</td>
</tr>
</tbody>
</table>

New Accounting Standards
Effective July 1, 2009, the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) became the authoritative source of GAAP. All existing FASB accounting standards and guidance were superseded by the ASC. Instead of issuing new accounting standards in the form of statements, staff positions and Emerging Issues Task Force abstracts, the FASB now issues Accounting Standard Updates that update the Codification. The Codification does not result in any change in the Foundation’s accounting policies.

In 2009, the Foundation adopted a new accounting standard which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Foundation evaluated subsequent events through May 6, 2010, which is the date these financial statements were available to be issued. The adoption of this new accounting standard did not have a material effect on the financial statements of the Foundation.

On January 1, 2009, the Foundation adopted a new accounting standard regarding the accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes recognized in the financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. The adoption of this new accounting standard did not have a material effect on the financial statements of the Foundation.

3. INVESTMENTS
The cost and fair value of investments are as follows (in thousands):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th>December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Common stock</td>
<td>266,997</td>
<td>340,256</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>75,892</td>
<td>83,070</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>2,003</td>
<td>2,311</td>
</tr>
<tr>
<td>Government bonds</td>
<td>6,077</td>
<td>6,227</td>
</tr>
<tr>
<td>Foreign investments</td>
<td>21,727</td>
<td>29,476</td>
</tr>
<tr>
<td>Mortgage and asset-backed securities</td>
<td>41,779</td>
<td>48,245</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>94,237</td>
<td>93,077</td>
</tr>
<tr>
<td>Alternative investments*</td>
<td>394,044</td>
<td>405,666</td>
</tr>
<tr>
<td>Total</td>
<td>902,351</td>
<td>981,993</td>
</tr>
</tbody>
</table>

*Alternative investments are accounted for on the equity method; however, the carrying amount approximates the fair value of these investments.
The change in net unrealized gains (losses) on investments is reflected in the statements of activities and is summarized as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized (losses) gains beginning of year</td>
<td>$ (251,112)</td>
<td>$ 352,323</td>
</tr>
<tr>
<td>Add net unrealized gains (losses) on investments for the year</td>
<td>330,754</td>
<td>(462,435)</td>
</tr>
<tr>
<td>Net unrealized gains (losses), end of year</td>
<td>$ 79,642</td>
<td>$(131,112)</td>
</tr>
</tbody>
</table>

**Alternative Investments**

As of December 31, 2009, the Foundation has made total capital contributions (net of distributions) of $394,075,000 to nine partnerships and four foreign corporations. The Foundation has a total future capital commitment related to five of these partnerships of $68,332,000.

**4. FEDERAL EXCISE TAX**

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is classified under the Internal Revenue Code (IRC) as a private foundation and, as such, is subject to a federal excise tax.

During 2009, the Foundation accrued a 1% excise tax on net investment income. Private foundations are required to distribute annually, in qualifying charitable distributions, an amount equal to approximately 5% of the average fair market value of the Foundation’s assets (the minimum distribution). If the Foundation does not distribute the required minimum distribution, a one-year grace period is granted to distribute the undistributed income. If undistributed income is not distributed by the close of the following tax year, a minimum 30% penalty under IRC §4942(a) will apply. The Foundation’s annual distributions were in excess of the required minimum for 2009 and 2008 to avoid the 30% penalty. Although the Foundation does have cumulative undistributed income at December 31, 2009, based on the Foundation’s distribution history, the Foundation will be able to distribute the cumulative undistributed income from December 31, 2009, in 2010. Accordingly, the Foundation has not accrued for the penalty on undistributed income.

Deferred federal excise taxes have been recorded on the unrealized appreciation in fair value of investments at a tax rate of 2% in 2009 and in 2008.

**5. GRANTS PAYABLE AND CONDITIONAL GRANT COMMITMENTS**

Grants payable and conditional grant commitments as of December 31, 2009, are as follows (in thousands):

<table>
<thead>
<tr>
<th>Grantee</th>
<th>Date of Original Commitment</th>
<th>Original Commitment</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Southern California</td>
<td>1999</td>
<td>$103,000</td>
<td>$11,000</td>
</tr>
<tr>
<td>National Academy of Sciences</td>
<td>2002</td>
<td>40,145</td>
<td>18,186</td>
</tr>
<tr>
<td>California Institute of Technology</td>
<td>2007</td>
<td>24,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Other</td>
<td>Various</td>
<td>1,160</td>
<td>1,021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$168,495</td>
<td>$41,111</td>
</tr>
</tbody>
</table>

Projected timetable and payment amounts shown above for conditional grants are estimated. Conditional grants will be recorded as an expense in the period when the conditions to the grant are met. These grants are conditioned upon other donors matching the amounts contributed by the Foundation, receipt of building permits and other regulations, and compliance with budget, timetable, and grant agreements’ requirements.

Conditional grants outstanding as of December 31, 2009, consist of the following (in thousands):

<table>
<thead>
<tr>
<th>Grants</th>
<th>Date of Original Commitment</th>
<th>Original Commitment</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Southern California</td>
<td>1999</td>
<td>$103,000</td>
<td>$11,000</td>
</tr>
<tr>
<td>National Academy of Sciences</td>
<td>2002</td>
<td>40,145</td>
<td>18,186</td>
</tr>
<tr>
<td>California Institute of Technology</td>
<td>2007</td>
<td>24,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Other</td>
<td>Various</td>
<td>1,160</td>
<td>1,021</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$168,495</td>
<td>$41,111</td>
</tr>
</tbody>
</table>
6. LEASE COMMITMENTS
Under the original lease agreement, the Foundation leases its main office space under a 15-year noncancelable operating lease. The lease agreement includes free rent for the first two years and rent escalation terms thereafter. On October 15, 2008, the Foundation amended its lease agreement to adjust the annual base rent for the December 1, 2009 to November 30, 2014 period from $500,000 to $435,000 and extend the term of the lease by five years. The annual base rent for the extended period, December 1, 2014 to November 30, 2019, is $435,610. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2009, the approximate future minimum lease obligation for the lease is as follows (in thousands):

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>Base Rent (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>435,000</td>
</tr>
<tr>
<td>2011</td>
<td>435,000</td>
</tr>
<tr>
<td>2012</td>
<td>435,000</td>
</tr>
<tr>
<td>2013</td>
<td>435,000</td>
</tr>
<tr>
<td>2014</td>
<td>444,000</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,673,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,857,000</strong></td>
</tr>
</tbody>
</table>

Total rental expense for each of the years ended December 31, 2009 and 2008, was approximately $413,500 and $371,000, respectively. Deferred rent was approximately $756,000 and $737,500 at December 31, 2009 and 2008, respectively.

7. EMPLOYEE RETIREMENT PLAN
The Foundation maintains a qualified 401(k) Profit Sharing Plan (the Plan) for eligible employees. Employees can contribute a percentage of their pretax compensation subject to IRS limitations. The Foundation matches 200% of the employee’s deferral, but not more than 6% of the employee’s compensation in total. The Foundation’s matching contributions to the Plan were approximately $210,000 and $183,700 at December 31, 2009 and 2008, respectively.

8. RELATED-PARTY TRANSACTIONS
A director and an officer of the Foundation are partners of a law firm that provided legal services to the Foundation. The Foundation incurred legal fees for services provided by the law firm totaling $450,000 and $500,000 for the years ended December 31, 2009 and 2008, respectively.

The Board of Directors
W. M. Keck Foundation

We have audited the accompanying statements of financial position of W. M. Keck Foundation (the Foundation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of W. M. Keck Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W. M. Keck Foundation at December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

May 6, 2010

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Dr. Simon Ramo

SOUTHERN CALIFORNIA AND
LIBERAL ARTS
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Chairman

LEGAL COUNSEL
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Los Angeles, California

INDEPENDENT PUBLIC
ACCOUNTANTS
ernst & Young
Los Angeles, California

LEGAL COUNSEL
Hanna and Morton LLP
Los Angeles, California

SOUTHERN CALIFORNIA AND
LIBERAL ARTS
James R. Ukropina
Chairman

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