2014

FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
the W. M. Keck Foundation

We have audited the accompanying financial statements of the W. M. Keck Foundation, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the W. M. Keck Foundation as of December 31, 2014 and 2013, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 14, 2015

STATEMENTS OF FINANCIAL POSITION

December 31 (in thousands)	2014	2013
ASSETS		
Cash and cash equivalents	$ 17,490	$ 34,027
Receivable from brokers	193	1,161
Interest and dividends receivable	866	1,246
Prepaid federal excise taxes	678	783
Investments	1,214,822	1,214,866
Other assets	363	2,457
Total assets	$ 1,234,432	$ 1,254,540
LIABILITIES AND NET ASSETS		
Payable to brokers	$ 169	$ 959
Accounts payable and accrued expenses	1,869	2,002
Grants payable, net (*Note 5*)	12,394	16,822
Deferred federal excise taxes payable	5,545	5,995
Total liabilities	19,977	25,778
Unrestricted net assets	1,214,455	1,228,762
Total liabilities and unrestricted net assets	$ 1,234,432	$ 1,254,540

See accompanying notes.

STATEMENTS OF ACTIVITIES

Year Ended December 31 (in thousands)	2014	2013
REVENUE		
Interest	$ 7,793	$ 6,387
Dividends	8,477	7,156
Other income	169	120
	16,439	13,663
Realized and unrealized gains and losses on investments:		
Net realized gains	57,404	33,238
Change in net unrealized gains	(22,429)	168,975
	$ 34,975	$ 202,213
Total revenues and net realized and unrealized gains on investments	51,414	215,876
EXPENSES		
Grants	$ 55,214	$ 54,992
Management and general services	5,770	5,985
Investment management fees	4,340	4,080
Federal excise tax provision	356	3,800
Tax withheld	41	142
Total expenses	$ 65,721	$ 68,999
Change in unrestricted net assets	(14,307)	146,811
Unrestricted net assets, beginning of year	1,228,762	1,081,885
Unrestricted net assets, end of year	$ 1,214,455	$ 1,228,762

See accompanying notes.

STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2014	2013
OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 146,877	$ 146,877
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	50	95
Net realized gains on investments	(57,404)	(33,238)
Change in net unrealized gain on investments	22,395	(169,205)
Changes in operating assets and liabilities:		
Receivable from brokers	968	691
Interest and dividends receivable	360	660
Other assets	2,076	(427)
Prepaid federal excise taxes	106	(828)
Payable to brokers	(790)	(2,882)
Accounts payable and accrued expenses	(97)	72
Deferred federal excise taxes payable	(450)	3,379
Grants payable	(4,428)	1,346
Net cash used in operating activities	(51,521)	(53,400)
INVESTING ACTIVITIES		
Purchases of investments	(326,977)	(370,964)
Proceeds on disposition of investments and return of capital	362,029	404,186
Acquisition of fixed assets	(68)	(4)
Net cash provided by investing activities	34,984	33,218
Net (decrease) increase in cash and cash equivalents	(16,537)	(20,182)
Cash and cash equivalents, beginning of year	34,027	54,209
Cash and cash equivalents, end of year	$ 17,490	$ 34,027
SUPPLEMENTAL DISCLOSURE		
Taxes paid during the year	$ 700	$ 1,250

See accompanying notes.

1. ORGANIZATION

Formation and Goals of the Foundation

W. M. Keck established the W. M. Keck Foundation (the Foundation) as a charitable trust in 1954. In 1959, Mr. Keck changed the trust entity to a corporate entity by forming the W. M. Keck Foundation as a Delaware corporation and by transferring the trust's assets, and eventually by bequeathing the residue of his estate, to the corporation. It is this Delaware corporation which exists today and continues to be known as the W. M. Keck Foundation. 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.

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 that are conditioned 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 time of 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. Fair value is established based on quoted prices from recognized securities exchanges.

Investments in private equity funds, commingled funds, and hedge funds are measured at fair value, using the net asset value as a practical expedient, which is based on net asset values reported by the fund managers. Pursuant to provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Assets Value per share (or its Equivalent)*, the Foundation believes that the net asset value of these investments as of December 2014 and 2013, approximates their fair value as of that date. 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.

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. 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.

Fair Value of Financial Instruments

The Foundation's statements of financial position include but are not limited to the following financial instruments: cash and cash equivalents, accounts payable, and accrued liabilities. The Foundation considers the carrying amounts of these assets and liabilities in the statements of financial position to approximate the fair value of these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents and investments. The investment portfolio is managed within the investment guidelines established by the Board of Directors.

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 for furniture and equipment are five years.

Fair Value Measurement

The Foundation applies the principles of the accounting standard Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, 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 modelbased 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 3 – 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, 2014, were as follows (in thousands):

		December 31, 2014	
	Level 1	Level 2	Level 3
Assets:			
Common and Preferred Stock	$ 408,284	$ –	$ –
Corporate Bonds	–	17,862	–
Municipal Bonds	–	3,014	–
Government Bonds	8,909	264	–
Foreign Investments	8,368	6,797	–
Mortgage and Asset-backed Securities	–	27,003	–
Mutual Funds	360,795	–	–
Private Equity Funds	–	–	99,080
Commingled Funds	–	77,144	–
Hedge Funds	–	197,302	–
Total	$ 786,356	$ 329,386	$ 99,080

The Foundation's assets measured at fair value on a recurring basis at December 31, 2013, were as follows (in thousands):

		December 31, 2013	
	Level 1	Level 2	Level 3
Assets:			
Common and Preferred Stock	$ 362,365	$ –	$ –
Corporate Bonds	–	18,850	–
Municipal Bonds	–	3,799	–
Government Bonds	5,452	580	–
Foreign Investments	9,937	6,904	–
Mortgage and Asset-backed Securities	–	25,517	–
Mutual Funds	327,228	–	–
Private Equity Funds	–	–	98,882
Commingled Funds	–	143,548	–
Hedge Funds	–	211,804	–
Total	$ 704,982	$ 411,002	$ 98,882

The Foundation has classified its mutual funds, equity securities, preferred stock, and certain of its government bonds and foreign investments which have quoted prices in active markets as Level 1 within the fair value hierarchy. These securities are valued under the market approach using inputs observable in active markets for identical securities. The Foundation has classified certain of its government bonds, corporate bonds, municipal bonds, foreign bonds, mortgage and asset-backed securities, bank loans, commingled funds and hedge funds as Level 2 investments. The fair value of these assets is valued under the market approach using inputs observable in active markets for similar assets. The Foundation has classified its private equity funds as Level 3 investments and measured these private equities at fair value, using the net asset value as a practical expedient, which is based on net asset values reported by the fund managers. The fair value of the underlying assets in private equity funds are valued under the income approach using discounted cash flows and other inputs not observable in active markets.

The table below sets forth a summary of changes in fair value of the Level 3 assets for the years ended December 31, 2014 and 2013 (in thousands):

Year Ended December 31	2014	2013
Balance – beginning of year	$ 98,882	$ 85,210
Additions	$ 14,876	$ 19,228
Distributions	$ (14,965)	$ (26,620)
Change in fair value	$ 287	$ 21,064
Balance – end of year	$ 99,080	$ 98,882

The cumulative unrealized gains in Level 3 assets held at December 31, 2014 and 2013 (as reported in the summary of changes in fair values above) were $2,525,000 and $2,238,000 respectively.

3. INVESTMENTS

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

	December 31, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Common and Preferred Stock	$ 270,367	$ 408,284	$ 224,782	$ 362,3651
Corporate Bonds	16,008	17,862	17,215	18,850
Municipal Bonds	2,391	3,014	3,269	3,799
Government Bonds	9,132	9,173	5,998	6,032
Foreign Investments	15,018	15,165	14,836	16,841
Mortgage and Asset-Backed Securities	26,469	27,003	25,031	25,517
Bank Loans	–	–	–	–
Mutual Funds	355,087	360,795	310,253	327,228
Private Equity Funds	96,449	99,080	96,538	98,882
Commingled Funds	55,412	77,144	111,026	143,548
Hedge Funds	91,182	197,302	106,182	211,804
	$ 937,515	$ 1,214,822	$ 915,130	$ 1,214,866

The change in net unrealized gains (losses) on investments is reflected in the statements of activities and is summarized as follows (in thousands):

Year Ended December 31	2014	2013
Net unrealized gains, beginning of year	$ 299,736	$ 130,761
Add net unrealized gains (losses) on investments for the year	$ (22,429)	$ 168,975
Net unrealized gains, end of year	$ 277,307	$ 299,736

The Foundation has made total capital contributions (net of distributions/return of capital) of $243,149,000 to seven private equity funds, two commingled funds and two hedge funds it holds as of December 31, 2014. The commingled funds can be redeemed on a monthly basis and are primarily invested in Level 1 equity securities in the international and emerging markets. The hedge funds can be redeemed on an annual basis and are primarily invested in Level 1 equity securities (U.S. and international) and some corporate bonds and various other Level 2 investments. The private equity funds are primarily invested in life sciences, biotechnology, energy, financial services, media, healthcare and industrial companies, as well as buyouts and family-owned and entrepreneurial business. These funds are valued using Level 3 inputs and are subject to lock up provisions ranging from 0 to 14 years subject to certain further extension adjustments. The Foundation has a total future capital commitment related to seven private equity funds of $128,407,000 as of December 31, 2014.

4. TAXES

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 2014, 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. Under IRC §4942(a), if undistributed income is not distributed by the close of the following year, a minimum penalty of 30% of such undistributed income will apply. The Foundation's annual distributions were in excess of the required minimum for 2014 and 2013, to avoid the 30% penalty. Although the Foundation does have cumulative undistributed income at December 31, 2014, based on the Foundation's distribution history, the Foundation will be able to and intends to distribute the cumulative undistributed income from December 31, 2014, in 2015. Accordingly, the Foundation has not accrued a liability for the penalty on undistributed income.

The Foundation uses the liability method for accounting for excise taxes. The federal excise tax provision (benefit) consists of the following (in thousands):

Year Ended December 31	2014	2013
Current	$ 806	$ 421
Deferred	$ (450)	$ 3,379
	$ 356	$ 3,800

Deferred federal excise taxes have been recorded at a tax rate of 2% of the unrealized appreciation in the fair value of investments in 2014 and 2013.

The Foundation completed an analysis of its tax positions, in accordance with Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*, and determined that there are no uncertain tax positions taken or expected to be taken. The Foundation has recognized no interest or penalties related to uncertain tax positions. The Foundation is subject to routine audits by the taxing jurisdictions; however, there are currently no audits in progress for any tax periods (tax years 2011 through 2014, remain open and subject to selection for such routine audits).

5. GRANTS PAYABLE AND CONDITIONAL GRANT COMMITMENTS

Grants payable and conditional grant commitments as of December 31, 2014, are as follows (in thousands):

	Unconditional	Conditional
2015	$ 12,394	$ –
2016–2019	–	32,437
2020 and thereafter	–	90,000
	12,394	$ 122,437

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, 2014, consist of the following (in thousands):

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding*
National Academy of Sciences	2002	$ 40,345	$ 1,937
University of Southern California	2011	150,000	120,000
Other	2014	1,000	500
		$ 190,845	$ 122,437

* *Only reflects the portion of the grant that remains conditional.*

6. LEASE COMMITMENTS

The Foundation leases its main office space. Annual base rent is $544,000, which is payable through November 30, 2019, the end of the lease term. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2014, the approximate future minimum scheduled lease obligation for the lease is as follows (in thousands):

Year Ended December 31	
2015	$ 544
2016	544
2017	544
2018	544
2019	498
	$ 2,674

Total straight-line rental expense for each of the years ended December 31, 2014 and 2013, was approximately $413,500 and $413,500, respectively. Deferred rent was approximately $640,000 and $670,000 at December 31, 2014 and 2013, 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 $242,000 and $252,000 for the years ended December 31, 2014 and 2013, respectively.

8. RELATED-PARTY TRANSACTIONS

A director of the Foundation is a partner of a law firm that provided legal services to the Foundation. The Foundation incurred legal fees for services provided by the law firm totaling $219,000 and $239,000 for the years ended December 31, 2014 and 2013, respectively.

9. SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events through May 14, 2015, which is the date these financial statements were available to be issued. Management has determined that no material subsequent events have occurred during that period that would require the Foundation to either recognize the financial impact of such events in the accompanying financial statements or disclose any such events to ensure the financial statements are not misleading.