

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
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, 2015 and 2014, 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

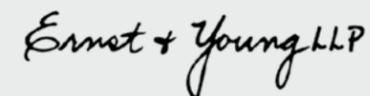
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, 2015 and 2014, and the results of its activities and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.



May 10, 2016

STATEMENTS OF FINANCIAL POSITION

December 31 (in thousands)	2015	2014
Assets		
Cash and cash equivalents	\$ 19,109	\$ 17,490
Receivable from brokers	106	193
Interest and dividends receivable	1,044	886
Prepaid federal excise taxes	1,633	678
Investments	1,100,394	1,214,822
Other assets	428	363
Total assets	\$ 1,122,714	\$ 1,234,432
Liabilities and net assets		
Payable to brokers	\$ 302	\$ 169
Accounts payable and accrued expenses	1,663	1,869
Grants payable	8,810	12,394
Deferred federal excise taxes payable	2,849	5,545
Total liabilities	13,624	19,977
Unrestricted net assets	1,109,090	1,214,455
Total liabilities and unrestricted net assets	\$ 1,122,714	\$ 1,234,432

See accompanying notes.

STATEMENTS OF ACTIVITIES

Year Ended December 31 (in thousands)	2015	2014
Revenue		
Interest	\$ 6,508	\$ 7,759
Dividends	8,220	8,477
Other income	318	169
	15,046	16,405
Realized and unrealized gains and losses on investments:		
Net realized gains	78,387	57,404
Unrealized losses	(134,702)	(22,395)
	\$ (56,315)	\$ 35,009
Total revenues and net realized gains and unrealized losses on investments	(41,269)	51,414
Expenses		
Grants	\$ 54,639	\$ 55,214
Management and general services	6,033	5,770
Investment management fees	4,103	4,340
Federal excise tax (benefit) provision	(761)	356
Tax withheld	82	41
Total expenses	\$ 64,096	\$ 65,721
Change in unrestricted net assets	(105,365)	(14,307)
Unrestricted net assets, beginning of year	1,214,455	1,228,762
Unrestricted net assets, end of year	\$ 1,109,090	\$ 1,214,455

See accompanying notes.

STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2015	2014
Operating activities		
Change in unrestricted net assets	\$ (105,365)	\$ (14,307)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	51	50
Net realized gains on investments	(78,387)	(57,404)
Change in net unrealized losses on investments	134,702	22,395
Changes in operating assets and liabilities:		
Receivable from brokers	87	968
Interest and dividends receivable	(158)	360
Other assets	(88)	2,076
Prepaid federal excise taxes	(955)	106
Payable to brokers	133	(790)
Accounts payable and accrued expenses	(206)	(97)
Deferred federal excise taxes payable	(2,696)	(450)
Grants payable	(3,584)	(4,428)
Net cash used in operating activities	(56,466)	(51,521)
Investing activities		
Purchases of investments	(467,246)	(326,977)
Proceeds on disposition of investments and return of capital	525,359	362,029
Acquisition of fixed assets	(28)	(68)
Net cash provided by investing activities	58,085	34,984
Net increase (decrease) in cash and cash equivalents	1,619	(16,537)
Cash and cash equivalents, beginning of year	17,490	34,027
Cash and cash equivalents, end of year	\$ 19,109	\$ 17,490
Supplemental disclosure		
Taxes paid during the year	\$ 2,872	\$ 700

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, pre-collegiate 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

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. 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

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 2015 and 2014 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 Foundation's established investment guidelines.

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 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 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 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.

NOTES TO FINANCIAL STATEMENTS (cont.)

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted 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, 2015, were as follows (in thousands):

	December 31, 2015		
	Level 1	Level 2	Level 3
Assets:			
Common and preferred stock	\$ 344,638	\$ —	\$ —
Corporate bonds	—	14,638	—
Municipal bonds	—	2,872	—
Government bonds	10,749	179	—
Foreign investments	70,554	10,170	—
Mortgage- and asset-backed securities	—	26,061	—
Mutual funds	325,336	—	—
Private equity funds	—	—	88,726
Commingled funds	—	20,311	—
Hedge funds	—	186,160	—
Total	\$ 751,277	\$ 260,391	\$ 88,726

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 has classified its mutual funds, equity securities, preferred stock, and certain of its government bonds and foreign investments that 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. The fair value of these assets is measured, 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 is 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, 2015 and 2014 (in thousands):

Year Ended December 31	2015	2014
Balance – beginning of year	\$ 99,080	\$ 98,882
Additions	\$ 27,373	\$ 14,876
Distributions	\$ (28,256)	\$ (14,965)
Change in fair value	\$ (9,471)	\$ 287
Balance – end of year	\$ 88,726	\$ 99,080

The cumulative unrealized (losses) gains in Level 3 assets held at December 31, 2015 and 2014, (as reported in the summary of changes in fair values above) were (\$6,946,000) and \$2,525,000, respectively.

3. INVESTMENTS

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

	Year Ended December 31, 2015		Year Ended December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Common and preferred stock	\$ 262,316	\$ 344,638	\$ 270,367	\$ 408,284
Corporate bonds	13,838	14,638	15,974	17,862
Municipal bonds	2,391	2,872	2,391	3,014
Government bonds	10,944	10,928	9,132	9,173
Foreign investments	77,889	80,724	15,018	15,165
Mortgage- and asset-backed securities	25,789	26,061	26,469	27,003
Mutual funds	338,082	325,336	355,087	360,795
Private Equity funds	95,672	88,726	96,449	99,080
Commingled funds	12,300	20,311	55,412	77,144
Hedge funds	118,640	186,160	91,182	197,302
	\$ 957,861	\$ 1,100,394	\$ 937,481	\$ 1,214,822

NOTES TO FINANCIAL STATEMENTS (cont.)

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

Year Ended December 31	2015	2014
Net unrealized gains, beginning of year	\$ 277,341	\$ 299,736
Net unrealized (losses) gains on investments for the year	\$ (134,702)	\$ (22,395)
Other cost basis adjustment	\$ (106)	\$ —
Net unrealized gains, end of year	\$ 142,533	\$ 277,341

The Foundation has made total capital contributions (net of distributions/return of capital) of \$226,612,000 to private equity funds, one commingled fund, and hedge funds it held as of December 31, 2015. The commingled fund can be redeemed on a monthly basis and is primarily invested in Level 1 equity securities in the international markets. The hedge funds can be redeemed on a quarterly or an annual basis (in one case, subject to a two year lock-up period ending September 2017) 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 valued using Level 3 inputs and, as of December 31, 2015, are subject to lock-up provisions up to 13 years subject to certain further extension adjustments. The Foundation had total future capital commitments related to private equity funds of \$107,352,000 as of December 31, 2015.

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 2% (1% if certain criteria is met) federal excise tax on net investment income.

During 2015, 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 Section 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 2015 and 2014, and, therefore, not subject to the 30% penalty. The Foundation has not accrued a liability for the penalty on undistributed income because there is an excess distribution for the year ended December 31, 2015.

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

Year Ended December 31	2015	2014
Current	\$ 1,935	\$ 806
Deferred	\$ (2,696)	\$ (450)
	\$ (761)	\$ 356

Deferred federal excise taxes arise primarily from the net unrealized appreciation in the fair value of investments and the Foundation uses the maximum federal excise tax rate of 2% for the years presented.

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 2015 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, 2015, are as follows (in thousands):

	Unconditional	Conditional
2016	\$ 8,562	\$ 1,300
2017–2018	248	15,000
2019 and thereafter	—	97,500
	8,810	\$ 113,800

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, 2015, consist of the following (in thousands):

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding*
University of Southern California	2011	150,000	112,500
Other	2015	1,300	1,300
		\$ 151,300	\$ 113,800

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

In addition to the conditional grants detailed above, in December 2015 the Board approved the following two initiatives, indicating the Foundation's intention to make future conditional grants:

- \$35 million remaining planned funding of a Los Angeles public school reform initiative being coordinated by Great Public Schools Now expected to be paid over a 7-year period (payments of \$5 million were made and expensed in 2015).
- \$450,000 remaining planned funding of an emergency room excellence program (payments of \$50,000 were made and expensed in 2015).

In each case, additional diligence will be required to determine specific projects and recipient organizations as well as to define and document grant terms, conditions, and benchmarks.

NOTES TO FINANCIAL STATEMENTS (cont.)

6. Lease Commitments

The Foundation leases its main office space. Annual base rent is \$544,000, which is payable through the end of the lease term in 2019. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2015, the approximate future minimum scheduled lease obligation for the lease is as follows (in thousands):

Year Ended December 31	
2016	544
2017	544
2018	544
2019	498
	\$ 2,130

Total straight-line rental expense for each of the years ended December 31, 2015 and 2014, was approximately \$413,500. Deferred rent was approximately \$510,000 and \$640,000 at December 31, 2015 and 2014, 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 Internal Revenue Service (IRS) limitations. The Foundation matches 200% of the employee's deferral, but not more than 6% of the employee's compensation in total until IRS compensation limits are reached. The Foundation's matching contributions to the Plan were approximately \$236,000 and \$242,000 for the years ended December 31, 2015 and 2014, respectively.

8. Related-Party Transactions

A director of the Foundation was 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 \$136,000 and \$219,000 for the years ended December 31, 2015 and 2014, respectively.

9. Subsequent Events

The Foundation's management has evaluated subsequent events through May 10, 2016, 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.

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Los Angeles County Arts Commission
New Teacher Center
Los Angeles Trust for Children's Health
UMMA Community Clinic
Green Dot Public Schools California
Building Excellent Schools
Children, Youth & Family Collaborative
SPARK Los Angeles
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