

FINANCIAL STATEMENTS

W. M. Keck Foundation

Years Ended December 31, 2006 and 2005

W. M. Keck Foundation

Financial Statements

Years Ended December 31, 2006 and 2005

Contents

Report of Independent Auditors.....	1
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5

Report of Independent Auditors

The Board of Directors
W. M. Keck Foundation

We have audited the accompanying statements of financial position of W. M. Keck Foundation as of December 31, 2006 and 2005, 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, 2006 and 2005, 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.

Ernst + Young LLP

May 22, 2007

W. M. Keck Foundation

Statements of Financial Position

(In thousands)

	December 31	
	2006	2005
Assets		
Cash and cash equivalents	\$ 48,255	\$ 65,178
Receivable from brokers	1,342	11,050
Interest receivable	2,157	2,001
Dividends receivable	665	877
Prepaid federal excise taxes	38	1,941
Prepaid expenses	215	47
Deposits	—	40
Investments at fair value	1,356,518	1,250,852
Fixed assets, net	1,071	1,266
Total assets	<u>\$ 1,410,261</u>	<u>\$ 1,333,252</u>
Liabilities and net assets		
Grants payable, net	\$ 39,989	\$ 22,404
Payable to brokers	4,669	8,267
Accounts payable and accrued expenses	2,438	2,555
Deferred federal excise taxes payable	6,134	6,400
Total liabilities	<u>53,230</u>	<u>39,626</u>
Unrestricted net assets	<u>1,357,031</u>	<u>1,293,626</u>
Total liabilities and unrestricted net assets	<u>\$ 1,410,261</u>	<u>\$ 1,333,252</u>

See accompanying notes.

W. M. Keck Foundation

Statements of Activities

(In thousands)

	Years Ended December 31	
	2006	2006
Revenue:		
Interest	\$ 11,787	\$ 11,957
Dividends	10,490	10,958
Other income	524	270
	<u>22,801</u>	<u>23,185</u>
Realized and unrealized gains and losses on investments:		
Net realized gains	137,672	122,022
Change in net unrealized gains and losses	(13,064)	(53,961)
	<u>124,608</u>	<u>68,061</u>
Total revenues and net realized and unrealized gains and losses on investments	147,409	91,246
Expenses:		
Grants	67,475	64,748
Management and general services	6,320	5,939
Investment management fees	7,286	7,042
Federal excise tax provision	2,786	287
Foreign tax withheld	137	-
Total expenses	<u>84,004</u>	<u>78,016</u>
Change in unrestricted net assets	63,405	13,230
Unrestricted net assets, beginning of year	1,293,626	1,280,396
Unrestricted net assets, end of year	<u>\$ 1,357,031</u>	<u>\$ 1,293,626</u>

See accompanying notes.

W. M. Keck Foundation
Statements of Cash Flows

(In thousands)

	Years Ended December 31	
	2006	2005
Operating activities		
Change in unrestricted net assets	\$ 63,405	\$ 13,230
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
Depreciation and amortization	324	290
Accretion of bond discounts	(119)	(108)
Net realized gain on investments	(137,672)	(122,022)
Change in unrealized gains and losses on investments	13,064	53,961
Changes in operating assets and liabilities:		
Receivable from brokers	9,708	(440)
Interest receivable	(156)	(218)
Dividends receivable	212	(22)
Prepaid expenses	(168)	126
Deposits	40	(40)
Prepaid federal excise taxes	1,903	(1,827)
Payable to brokers	(3,598)	7,237
Accounts payable and accrued expenses	(117)	(74)
Deferred federal excise taxes payable	(266)	(1,086)
Grants payable	17,585	6,398
Net cash used in operating activities	(35,855)	(44,595)
Investing activities		
Purchase of investments	(918,365)	(749,380)
Proceeds on disposition of investments and return of capital	937,426	816,392
Acquisition of fixed assets, net	(129)	(165)
Net cash provided by investing activities	18,932	66,847
Net (decrease) increase in cash and cash equivalents	(16,923)	22,252
Cash and cash equivalents, beginning of year	65,178	42,926
Cash and cash equivalents, end of year	\$ 48,255	\$ 65,178
Supplemental disclosure		
Taxes paid during the year	\$ 1,150	\$ 3,200

See accompanying notes.

W. M. Keck Foundation

Notes to Financial Statements

December 31, 2006

1. Organization

Formation 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 earnings on its investment portfolio.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the 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 Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, 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 substantially 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 original maturities of three months or less.

W. M. Keck Foundation

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investments

SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*, requires that investments in equity securities with readily determinable fair values and all investments in debt securities shall be measured at fair value. The Foundation has adopted this policy, and thus, records all investments at fair value. Fair value is determined based on quoted market prices for those securities that trade on the open market.

The Foundation's interests in partnerships are carried at estimated fair value based on the Foundation's proportionate interest. 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.

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. 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 difference between the cost and current market quotations of investments held at the end of the year.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. 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 between ten and 15 years and the lives for furniture and equipment are five years.

W. M. Keck Foundation

Notes to Financial Statements (continued)

3. Investments

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

	December 31, 2006		December 31, 2005	
	Cost	Fair Value	Cost	Fair Value
Common stock	\$ 613,255	\$ 875,590	\$ 666,992	\$ 971,023
Corporate bonds	73,819	74,470	68,887	68,509
Government bonds	65,299	64,607	63,456	62,613
Foreign investments	159,403	189,616	54,120	70,624
Partnership interests	137,791	152,235	77,382	78,083
	\$ 1,049,567	\$ 1,356,518	\$ 930,837	\$ 1,250,852

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

	Years Ended December 31	
	2006	2005
Net unrealized gain, beginning of year	\$ 320,015	\$ 373,976
Add net unrealized gain (loss) on investments for the year	(13,064)	(53,961)
Net unrealized gain, end of year	\$ 306,951	\$ 320,015

Partnership Interests

As of December 31, 2006, the Foundation has made total capital contributions (net of distributions) of \$137,791,078 to six partnerships. The Foundation has a total future capital commitment related to three of these partnerships of \$66,564,469.

W. M. Keck Foundation

Notes to Financial Statements (continued)

4. Fixed Assets

Fixed assets consist of the following (in thousands):

	Estimated Life	December 31	
		2006	2005
Leasehold improvements	10-15 years	\$ 2,503	\$ 2,503
Furniture and equipment	5 years	1,266	1,137
Less accumulated depreciation		(2,698)	(2,374)
Total fixed assets, net		<u>\$ 1,071</u>	<u>\$ 1,266</u>

The amount of depreciation included in management and general services was approximately \$324,000 and \$290,000 in 2006 and 2005, respectively.

5. 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 as a private foundation and, as such, is subject to a federal excise tax.

During 2006, the Foundation has accrued a 2% excise tax on net investment income (1% in 2005). 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 2006 and 2005. Although the Foundation does have cumulative undistributed income at December 31, 2006, based on the Foundation's distribution history, the Foundation will be able to distribute the cumulative undistributed income from December 31, 2006, in 2007. Accordingly, the Foundation has not accrued for the penalty on undistributed income.

W. M. Keck Foundation

Notes to Financial Statements (continued)

5. Federal Excise Tax (continued)

The Foundation uses the liability method required by Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*, for accounting for excise taxes. The federal excise tax provision consists of the following (in thousands):

	Years Ended December 31	
	2006	2005
Current	\$ 3,053	\$ 1,373
Deferred	(267)	(1,086)
	<u>\$ 2,786</u>	<u>\$ 287</u>

Deferred federal excise taxes have been recorded on the unrealized appreciation in fair value of investments at a tax rate of 2% in 2006 and in 2005.

6. Grants Payable

Grants payable as of December 31, 2006, are as follows (in thousands):

Amounts payable in:	
Less than one year	\$ 32,372
One to five years	8,117
	<u>40,489</u>
Less present value discount	(500)
	<u>\$ 39,989</u>

7. Commitments

Conditional Grants Commitments

As of December 31, 2006, the Foundation had approved conditional grants outstanding totaling \$86 million. These grants are conditioned upon other donors matching the amounts contributed by the Foundation and compliance with budget and timetable requirements. Conditional grants outstanding as of December 31, 2006, consist of the following (in millions):

W. M. Keck Foundation

Notes to Financial Statements (continued)

7. Commitments (continued)

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding as of December 31 2006
University of Southern California	1999	\$ 103	\$ 44
Saint John's Health Center	1999	20	-
National Academy of Sciences	2002	40	27
Keck Graduate Institute of Life Sciences	2004	20	8
Other	Various	9	7
		\$ 192	\$ 86

Conditional grants are recorded as an expense in the period when the conditions to the grant are substantially met.

Lease Commitments

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. Rent expense is recognized on a straight-line basis over the lease term. As of December 31, 2006, the approximate future minimum lease obligation for the lease is as follows:

Year ending December 31:	
2007	\$ 391,000
2008	391,000
2009	400,000
2010	500,000
2011	500,000
Thereafter	1,459,000
	\$ 3,641,000

Total base rental expense for each of the years ended December 31, 2006 and 2005, was approximately \$360,000. Deferred rent was approximately \$790,000 and \$821,000 at December 31, 2006 and 2005, respectively.

W. M. Keck Foundation

Notes to Financial Statements (continued)

8. Employee Pension 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 were approximately \$152,000 and \$120,000 for the years ended December 31, 2006 and 2005, respectively.