2009

FINANCIAL STATEMENTS

December 31 (in thousands)	2009	2008
ASSETS		
Cash and cash equivalents	$ 80,075	$ 46,795
Receivable from brokers	1,851	3,792
Interest and dividends receivable	2,212	2,352
Prepaid federal excise taxes	1,918	2,038
Investments at fair value	981,993	813,585
Other assets	967	1,395
Total assets	$ 1,069,016	$ 869,957
LIABILITIES AND NET ASSETS		
Payable to brokers	$ –	$ 3,074
Accounts payable and accrued expenses	1,720	1,499
Grants payable, net (*Note 5*)	29,677	34,649
Deferred federal excise taxes payable	1,593	–
Total liabilities	32,990	39,222
Unrestricted net assets	1,036,026	830,735
Total liabilities and unrestricted net assets	$ 1,069,016	$ 869,957

See accompanying notes.

STATEMENTS OF ACTIVITIES

Year Ended December 31 (in thousands)	2009	2008
REVENUE		
Interest	$ 10,383	$ 10,758
Dividends	6,187	12,284
Other income	3,132	2,384
	19,702	25,426
Realized and unrealized gains and losses on investments:		
Net realized losses	(93,095)	(8,093)
Change in net unrealized gains and (losses)	330,754	(603,435)
	$ 237,659	$ (611,528)
Total revenues and net realized and unrealized gains and (losses) on investments	257,361	(586,102)
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	823
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	$ 830,735

See accompanying notes.

STATEMENTS OF CASH FLOWS

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	436	367
Accretion of bond discounts	(615)	(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	(330,754)	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	(1,686)
Payable to brokers	(3,074)	(2,392)
Accounts payable and accrued expenses	221	(415)
Deferred federal excise taxes payable	1,593	(6,875)
Grants payable	(4,972)	(6,215)
Net cash used in operating activities	(36,582)	(51,923)
INVESTING ACTIVITIES		
Purchase of investments	(321,572)	(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	33,280	(11,635)
Cash and cash equivalents, beginning of year	46,795	58,430
Cash and cash equivalents, end of year	$ 80,075	$ 46,795
SUPPLEMENTAL DISCLOSURE		
Taxes paid during the year	–	1,880

See accompanying notes.

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 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 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, 2009, were as follows (in thousands):

	December 31, 2009 Level 1	Level 2	Level 3	Valuation Technique (a, b, c)
Assets:				
Marketable equity securities	$ 358,546	$ –	$ –	a
Mutual funds	78,647	–	–	a
Debt securities – U.S. Treasury	4,556	–	–	a
Debt securities – corporate, municipal and other	–	134,578	–	a
Total	$ 441,749	$ 134,578	$ –	

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

	December 31, 2008 Level 1	Level 2	Level 3	Valuation Technique (a, b, c)
Assets:				
Marketable equity securities	$ 341,088	$ –	$ –	a
Mutual funds	91,449	–	–	a
Debt securities – U.S. Treasury	4,682	–	–	a
Debt securities – corporate, municipal and other	–	121,561	–	a
Total	$ 437,219	$ 121,561	$ –	

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 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):

	December 31, 2009 Cost	Fair Value	December 31, 2008 Cost	Fair Value
Common stock	$ 266,597	$ 340,256	$ 377,479	$ 322,343
Corporate bonds	75,892	79,877	83,070	66,256
Municipal bonds	2,003	1,921	–	–
Government bonds	6,081	6,077	6,187	6,341
Foreign investments	21,727	26,455	34,470	23,917
Mortgage and asset-backed securities	41,770	43,094	48,225	48,474
Mutual funds	94,237	78,647	179,173	91,449
Alternative investments*	394,044	405,666	336,093	254,805
	$ 902,351	$ 981,993	$1,064,697	$ 813,585

*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):

Year Ended December 31	2009	2008
Net unrealized (losses) gains beginning of year	$ (251,112)	$ 352,323
Add net unrealized gains (losses) on investments for the year	330,754	(603,435)
Net unrealized gains (losses), end of year	$ 79,642	$ (251,112)

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.

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	2009	2008
Current	$ 120	$ 193
Deferred	1,593	(6,875)
	$ 1,713	$ (6,682)

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):

	Unconditional	Conditional
2010	$ 24,206	$ 800
2011–2014	5,615	36,030
2015 and thereafter	–	5,481
	29,821	$ 42,311
Less present value discount	(144)	
	$ 29,677	

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):

Grantee	Date of Original Commitment	Original Commitment	Amount Outstanding
University of Southern California	1999	$ 103,000	$ 11,000
National Academy of Sciences	2002	40,345	18,286
California Institute of Technology	2007	24,000	12,000
Other	Various	1,150	1,025
		$ 168,495	$ 42,311

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 $543,650. 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):

Year Ended December 31	
2010	$ 435,000
2011	435,000
2012	435,000
2013	435,000
2014	444,000
Thereafter	2,673,000
	$ 4,857,000

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 for the years ended 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.

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 (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.

Ernst & Young LLP

May 6, 2010