2018 FINANCIAL STATEMENTS

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, 2018 and 2017, 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, 2018 and 2017, 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 10, 2019

STATEMENTS OF FINANCIAL POSITION

December 31 *(In Thousands)*		2018		2017
Assets				
Cash and cash equivalents	$	19,521	$	23,032
Interest and dividends receivable		1,649		1,492
Prepaid federal excise taxes		423		432
Investments		1,133,884		1,236,616
Unsettled trades		12,771		12,739
Other assets		402		399
Total assets	$	1,168,650	$	1,274,710
Liabilities and net assets				
Payable to brokers	$	138	$	925
Accounts payable and accrued expenses		1,389		1,606
Grants payable		24,355		13,800
Deferred federal excise taxes payable		2,938		5,082
Total liabilities		28,820		21,413
Net assets without donor restrictions		1,139,830		1,253,297
Total liabilities and net assets	$	1,168,650	$	1,274,710

See accompanying notes

STATEMENTS OF ACTIVITIES

Year Ended December 31 *(In Thousands)*	2018	2017
Revenues, income and (losses) gains		
Net investment income and (losses) gains:		
Interest	$ 7,495	$ 5,813
Dividends	9,419	9,859
Net realized gains on investments	52,141	70,381
Change in net unrealized (losses) gains	(107,235)	132,411
Investment management expenses	(6,163)	(6,438)
Taxes withheld	(261)	(304)
Total net investment income and (losses) gains	(44,604)	211,722
Other income	110	321
Total revenues, income and (losses) gains	(44,494)	212,043
Expenses		
Grants	64,320	64,655
Salaries, employee benefits and payroll taxes	3,390	3,400
Professional services, contract services and other management and general services	2,048	1,914
Federal excise tax (benefit) provision	(785)	3,309
Total expenses	68,973	73,278
Change in net assets without donor restrictions	(113,467)	138,765
Net assets without donor restrictions, beginning of year	1,253,297	1,114,532
Net assets without donor restrictions, end of year	$ 1,139,830	$ 1,253,297

See accompanying notes

STATEMENTS OF CASH FLOWS

Year Ended December 31 *(In Thousands)*		2018		2017
Operating activities				
Change in net assets without donor restrictions	$	(113,467)	$	138,765
Adjustments to reconcile change in net assets without donor restrictions to net cash used in operating activities:				
Depreciation and amortization		42		44
Net realized gains on investments		(52,141)		(70,381)
Net unrealized losses (gains) on investments		107,235		(132,411)
Changes in operating assets and liabilities:				
Interest and dividends receivable		(157)		(268)
Other assets		(11)		(5)
Prepaid federal excise taxes		9		(139)
Payable to brokers		(787)		484
Accounts payable and accrued expenses		(217)		(126)
Deferred federal excise taxes payable		(2,144)		2,648
Grants payable		10,555		9,325
Net cash used in operating activities		(51,083)		(52,064)
Investing activities				
Purchases of investments		(483,263)		(357,083)
Proceeds on disposition of investments and return of capital		530,869		405,412
Acquisition of fixed assets		(34)		(23)
Net cash provided by investing activities		47,572		48,306
Net decrease in cash and cash equivalents		(3,511)		(3,758)
Cash and cash equivalents, beginning of year		23,032		26,790
Cash and cash equivalents, end of year	$	19,521	$	23,032
Supplemental disclosures				
Unsettled trade at year end	$	12,771	$	12,739
Taxes paid during the year	$	850	$	800

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 transferring the trust's assets, and eventually by bequeathing the residue of his estate, to the corporation. It is this Delaware corporation that 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, 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.

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 and hedge funds are measured at fair value, using the net asset value (NAV) 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, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, the Foundation believes that the net asset value of these investments as of December 2018 and 2017 approximates their fair value as of that date. However, because of the inherent uncertainty of valuation, the estimated fair values for these 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 on the statements of activities and represent the net change in fair value for investments held at the end of the year.

2. Summary of Significant Accounting Policies (continued)

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 on 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 on 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, for furniture and equipment five years, and for software three years.

Recent Accounting Pronouncements

Effective January 1, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective method of transition. This ASU converged and replaced existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services. The adoption of this ASU did not materially impact the Foundation's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. The Foundation is evaluating the impact of this guidance, which will be effective in 2019.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements for Not-For-Profit Entities*, which require not-for-profit entities to revise financial presentation to include net asset classification, quantitative and qualitative information as to available resources and management of liquidity and liquidity risk, information on investment expenses and returns, and the presentation of operating cash flows. The standard aims to help the reader of the financial statements to better understand the financial position of the organization and enhance consistency among similar organizations. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In February 2016, FASB issued ASU 2016-02, *Leases*. This standard introduces the new leases standard that applies a right-of-use (ROU) model and requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. For leases with a term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Foundation is currently evaluating the future impact of the new standard on the financial statements.

Fair Value Measurement

The Foundation applies the principles of Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, 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 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, 2018 were as follows (in thousands):

	Level 1	Level 2	Investments at NAV	Total
Assets:				
Common and preferred stock	$ 384,658	$ –	$ –	$ 384,658
Corporate bonds	–	31,935	–	31,935
Municipal bonds	–	3,883	–	3,883
Government bonds	25,622	65	–	25,687
Foreign investments	64,108	24,937	–	89,045
Mortgage- and asset-backed securities	–	66,395	–	66,395
Mutual funds	244,153	–	–	244,153
Private equity funds	–	–	234,454	234,454
Hedge funds	–	–	53,674	53,674
Total	$ 718,541	$ 127,215	$ 288,128	$ 1,133,884

2. Summary of Significant Accounting Policies (continued)

The Foundation's assets measured at fair value on a recurring basis at December 31, 2017 were as follows (in thousands):

	Level 1	Level 2	Investments at NAV	Total
Assets:				
Common and preferred stock	$ 421,401	$ –	$ –	$ 421,401
Corporate bonds	–	17,677	–	17,677
Municipal bonds	–	2,901	–	2,901
Government bonds	22,837	91	–	22,928
Foreign investments	84,649	14,060	–	98,709
Mortgage- and asset-backed securities	–	35,743	–	35,743
Mutual funds	412,805	–	–	412,805
Private equity funds	–	–	145,748	145,748
Hedge funds	–	–	78,704	78,704
Total	$ 941,692	$ 70,472	$ 224,452	$ 1,236,616

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, and mortgage- and asset-backed securities 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 measured its investments in hedge funds and private equity funds at fair value using the net asset value as a practical expedient, which is based on net asset values reported by the fund managers. These investments that use net asset value as a practical expedient are not classified in the fair value hierarchy. 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 hedge funds in which the Foundation is invested hold a mix of Level 1, 2 and 3 instruments.

3. Liquidity and Availability of Resources

The Foundation's financial assets available within one year of the statements of financial position date for general expenditure are as follows (in thousands):

Year Ended December 31	2018	2017
Cash and cash equivalents	$ 19,521	$ 23,032
Interest and dividends receivable	1,649	1,492
Liquid investments (excludes private equity)	899,430	1,090,868
Unsettled trades	12,771	12,739
Total financial assets available to management for general expenditure within one year	$ 933,371	$ 1,128,131
Supplemental disclosure		
Grant commitments due within one year	$ (11,700)	$ (13,800)

Liquidity Management

The Foundation has $933,371,000 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure. None of the financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the statements of financial position date. The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments.

4. Investments

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

	Year Ended December 31, 2018		Year Ended December 31, 2017	
	Cost	Fair Value	Cost	Fair Value
Common and preferred stock	$ 280,516	$ 384,658	$ 273,135	$ 421,401
Corporate bonds	32,107	31,935	16,333	17,677
Municipal bonds	3,481	3,883	2,279	2,901
Government bonds	25,424	25,687	23,160	22,928
Foreign investments	78,032	89,045	73,385	98,709
Mortgage- and asset-backed securities	67,351	66,395	36,001	35,743
Mutual funds	248,965	244,153	360,665	412,805
Private equity funds	204,143	234,454	131,558	145,748
Hedge funds	47,000	53,674	66,000	78,704
Total	$ 987,019	$ 1,133,884	$ 982,516	$ 1,236,616

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

Year Ended December 31	2018	2017
Net unrealized gains, beginning of year	$ 254,100	$ 121,689
Net unrealized (losses) gains on investments for the year	(107,235)	132,411
Net unrealized gains, end of year	$ 146,865	$ 254,100

The Foundation has made total capital contributions (net of distributions/return of capital) of $251,143,000 to private equity funds and hedge funds it held as of December 31, 2018. The hedge funds can be redeemed on a quarterly basis and are invested in Level 1, Level 2 and Level 3 investments. One hedge fund was partially redeemed in 2018, and is expected to be fully redeemed in 2019. Proceeds from this partial redemption totaling $11,155,000 were not received until the first quarter of 2019, and are separately reported as an unsettled trade in the 2018 statement of financial position. The private equity funds are primarily invested in assets valued using Level 3 inputs and, as of December 31, 2018, are subject to lock-up provisions up to 11 years subject to certain further extension adjustments. The Foundation had total future capital commitments related to private equity funds of $91,068,000 as of December 31, 2018.

5. 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 2018, the Foundation accrued a 2% 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.

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	2018	2017
Current	$ 1,359	$ 661
Deferred	(2,144)	2,648
	$ (785)	$ 3,309

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 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 2014 through 2018 remain open and subject to selection for such routine audits).

6. Functional Classification of Expenses

Functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of that functional area. Indirect or shared costs are allocated between Program Services and Management and General Services based on the proportion of full-time employee equivalents of a program or other supporting service versus the total organizational full-time employee equivalents.

The following is a functional classification of the Foundation's expenses:

Year Ended December 31, 2018 *(In Thousands)*	Program Services	Management and General	Total
Grants	$ 64,320	$ –	$ 64,320
Salaries, employee benefits and payroll taxes	3,116	274	3,390
Professional services, contract services and other management and general services	1,833	215	2,048
Total functional expenses	$ 69,269	$ 489	$ 69,758

Year Ended December 31, 2017 *(In Thousands)*	Program Services	Management and General	Total
Grants	$ 64,655	$ –	$ 64,655
Salaries, employee benefits and payroll taxes	3,135	265	3,400
Professional services, contract services and other management and general services	1,731	183	1,914
Total functional expenses	$ 69,521	$ 448	$ 69,969

7. Grants Payable and Conditional Grant Commitments

Grants payable and conditional grant commitments as of December 31, 2018, are as follows (in thousands):

	Unconditional	Conditional
2019	$ 11,700	$ 6,100
2020	2,000	16,500
2021	2,000	16,500
2022 and thereafter	10,000	118,000
	25,700	157,100
Less present value discount	(1,345)	–
	$ 24,355	$ 157,100

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 agreement requirements.

8. 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, 2018, the approximate future minimum scheduled lease obligation for the lease is $498,000.

Total rental expense for each of the years ended December 31, 2018 and 2017, was approximately $413,500. Deferred rent was approximately $119,000 and $249,000 at December 31, 2018 and 2017, respectively.

9. 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 $285,000 and $292,000 for the years ended December 31, 2018 and 2017, respectively.

10. Subsequent Events

The Foundation's management has evaluated subsequent events through May 10, 2019, 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.