2020 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, 2020 and 2019, 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, 2020 and 2019, 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 19, 2021

STATEMENTS OF FINANCIAL POSITION

December 31 (in thousands)	2020	2019
Assets		
Cash and cash equivalents	$ 51,026	$ 36,026
Interest and dividends receivable	1,606	1,707
Prepaid federal excise taxes	165	666
Investments	1,567,906	1,310,508
Receivable from brokers	12,360	–
Unsettled trades	–	617
Right-of-use asset	3,981	4,357
Other assets	1,094	1,229
Total assets	$ 1,638,138	$ 1,355,110
Liabilities and net assets		
Payable to brokers	$ 24,801	$ 134
Accounts payable and accrued expenses	1,833	2,067
Lease liabilities	4,029	4,313
Grants payable	26,493	34,043
Deferred federal excise taxes payable	8,373	4,678
Total liabilities	65,529	45,235
Net assets	1,572,609	1,309,875
Total liabilities and net assets	$ 1,638,138	$ 1,355,110

See accompanying notes.

STATEMENTS OF ACTIVITIES

Year Ended December 31 (in thousands)	2020	2019
Revenues, income and gains (losses):		
Net investment income and (losses) gains:		
Interest	$ 6,598	$ 8,461
Dividends	6,507	8,381
Net realized gains on investments	56,718	44,442
Change in net unrealized gains	265,826	189,633
Investment management expenses	(7,799)	(6,696)
Taxes withheld	(85)	(121)
Total net investment income and gains	327,765	244,100
Other Income	30	183
Total revenues, income and gains	$ 327,795	$ 244,283
Expenses:		
Grants	$ 54,280	$ 66,066
Salaries, employee benefits and payroll taxes	3,777	3,433
Professional services, contract services and other management and general services	2,157	2,343
Federal excise tax provision	4,847	2,396
Total expenses	$ 65,061	$ 74,238
Change in net assets	262,734	170,045
Net assets, beginning of year	1,309,875	1,139,830
Net assets, end of year	$ 1,572,609	$ 1,309,875

See accompanying notes.

STATEMENTS OF CASH FLOWS

Year Ended December 31 (in thousands)	2020	2019
Operating activities		
Change in net assets	$ 262,734	$ 170,045
Adjustments to reconcile change in net assets restrictions to net cash used in operating activities:		
Depreciation and amortization	559	335
Net realized gains on investments	(56,718)	(44,442)
Net unrealized gains on investments	(265,826)	(189,633)
Changes in operating assets and liabilities:		
Interest and dividends receivable	101	(58)
Prepaid federal excise taxes	502	(244)
Other assets	90	(333)
Receivable from brokers	(12,360)	–
Payable to brokers	24,667	(4)
Accounts payable and accrued expenses	(149)	574
Lease liabilities	(284)	(25)
Deferred federal excise taxes payable	3,695	1,740
Grants payable	(7,549)	9,687
Net cash used in operating activities	(50,538)	(52,358)
Investing activities		
Purchases of investments	(482,276)	(405,142)
Proceeds on disposition of investments and return of capital	548,038	474,749
Acquisition of fixed assets	(224)	(744)
Net cash provided by investing activities	65,538	68,863
Net increase in cash and cash equivalents	15,000	16,505
Cash and cash equivalents, beginning of year	36,026	19,521
Cash and cash equivalents, end of year	$ 51,026	$ 36,026
Supplemental disclosures		
Unsettled trade at year end	$ –	$ 617
Taxes paid during the year	$ 650	$ 900

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

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 2020 and 2019 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.

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.

Leases

Effective January 1, 2019, the Foundation adopted Accounting Standards Codification 842, *Leases* ("ASC 842") using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application.

Under ASC 842, the Foundation determines if an arrangement is a lease at inception based on whether the Foundation has the right to control the asset during the contract period and other facts and circumstances. The Foundation has obligations as a lessee for office space and office equipment with initial noncancelable terms in excess of one year. The Foundation classified these leases as operating leases. Operating leases are included in right-of-use (ROU) assets and lease liabilities on the statements of financial position. ROU assets represent the Foundation's right to use an underlying asset for the lease term, and lease liabilities represent the Foundation's obligation to make lease payments arising from the lease, both of which are recognized at the commencement date based on the present value of future lease payments over the lease term. For this purpose, the Foundation considers only payments that are fixed and determinable at the time of commencement. The office space lease contains a renewal option of five years. Because the Foundation is not reasonably certain to exercise the renewal option, the optional periods are not included in determining the lease term, and associated payments under the renewal option are excluded from lease payments. As the implicit rates for the Foundation's leases were not readily determinable, the Foundation's incremental borrowing rate was used in determining the present value of lease payments. The Foundation's incremental borrowing rate is a hypothetical rate based on the rate of interest the Foundation would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The office space lease agreement contains variable costs such as common area maintenance, insurance, real estate taxes or other costs. Variable lease costs are expensed as incurred on the statements of activity. Leases with a lease term of 12 months or less at inception are not recorded on the statements of financial position and are expensed on a straight-line basis over the lease term in the statements of activities. The Foundation's lease agreements generally do not contain any residual value guarantees or restrictive covenants.

Fair Value of 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, that 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 comparable, 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, 2020 were as follows (in thousands):

	Level 1	Level 2	Investments at NAV	Total
Assets:				
Common and preferred stock	$ 670,761	$ –	$ –	$ 670,761
Corporate bonds	–	45,347	–	45,347
Municipal bonds	–	5,524	–	5,524
Government bonds	25,699	82	–	25,781
Foreign investments	67,883	34,702	–	102,585
Mortgage- and asset-backed securities	–	83,528	–	83,528
Mutual funds	281,584	–	–	281,584
Private equity funds	–	–	328,053	328,053
Hedge funds	–	–	24,743	24,743
Total	$ 1,045,927	$ 169,183	$ 352,796	$ 1,567,906

The Foundation's assets measured at fair value on a recurring basis at December 31, 2019 were as follows (in thousands):

	Level 1	Level 2	Investments at NAV	Total
Assets:				
Common and preferred stock	$ 534,689	$ –	$ –	$ 534,689
Corporate bonds	–	29,898	–	29,898
Municipal bonds	–	4,287	–	4,287
Government bonds	33,721	44	–	33,765
Foreign investments	47,069	28,867	–	75,936
Mortgage- and asset-backed securities	–	68,020	–	68,020
Mutual funds	241,876	–	–	241,876
Private equity funds	–	–	292,028	292,028
Hedge funds	–	–	30,009	30,009
Total	$ 857,355	$ 131,116	$ 322,037	$ 1,310,508

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 (in thousands)	2020	2019
Cash and cash equivalents	$ 51,026	$ 36,026
Interest and dividends receivable	1,606	1,707
Liquid investments (excludes private equity)	1,239,853	1,018,480
Unsettled trades	–	617
Total financial assets available to management for general expenditure within one year	$ 1,292,485	$ 1,056,830

Supplemental disclosures

Grant commitments due within one year	$ (15,625)	$ (13,000)

Liquidity Management

The Foundation has $1,292,485 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, 2020		Year Ended December 31, 2019	
	Cost	Fair Value	Cost	Fair Value
Common and preferred stock	$ 322,318	$ 670,761	$ 310,601	$ 534,689
Corporate bonds	38,741	45,347	26,950	29,898
Municipal bonds	4,371	5,524	3,481	4,287
Government bonds	25,738	25,781	33,290	33,764
Foreign investments	65,998	102,585	54,602	75,937
Mortgage- and asset-backed securities	83,098	83,528	68,805	68,020
Mutual funds	191,503	281,584	209,410	241,876
Private equity funds	200,315	328,053	233,371	292,028
Hedge funds	33,500	24,743	33,500	30,009
	$ 965,582	$ 1,567,906	$ 974,010	$ 1,310,508

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 (in thousands)	2020	2019
Net unrealized gains, beginning of year	$ 336,498	$ 146,865
Net unrealized gains on investments for the year	265,826	189,633
Net unrealized gains, end of year	$ 602,324	$ 336,498

4. Investments (continued)

The Foundation has made total capital contributions (net of distributions/return of capital) of $233,815,000 to private equity funds and hedge funds it held as of December 31, 2020. The hedge funds can be redeemed on a quarterly basis after a one-year lock-up and are invested in Level 1, Level 2 and Level 3 investments. Two hedge funds were fully redeemed in 2019. The private equity funds are primarily invested in assets valued using Level 3 inputs and, as of December 31, 2020, are subject to lock-up provisions up to 9 years subject to certain further extension adjustments. The Foundation had total future capital commitments related to private equity funds of $90,255,000 as of December 31, 2020.

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, was subject to a 2% (1% if certain criteria were met) federal excise tax on net investment income through December 31, 2019. During 2019, the Foundation accrued a 1% excise tax on net investment income.

Legislation was passed in 2019 that simplified the private foundation excise tax on investment income by replacing the two-tier system (1% and 2%) with a flat rate of 1.39%, effective January 1, 2020. During 2020, the Foundation accrued a 1.39% 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 consists of the following (in thousands):

Year Ended December 31 (in thousands)	2020	2019
Current	$ 1,152	$ 656
Deferred	3,695	1,740
	$ 4,847	$ 2,396

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 1.39% for the years presented for years after December 31, 2020.

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 2016 through 2020 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, 2020 (in thousands)	Program Services	Management and General	Total
Grants	$ 54,280	$ –	$ 54,280
Salaries, employee benefits and payroll taxes	3,436	341	3,777
Professional services, contract services and other management and general services	1,948	209	2,157
Total functional expenses	$ 59,664	$ 550	$ 60,214

Year Ended December 31, 2019 (in thousands)	Program Services	Management and General	Total
Grants	$ 66,066	$ –	$ 66,066
Salaries, employee benefits and payroll taxes	3,133	300	3,433
Professional services, contract services and other management and general services	2,057	286	2,343
Total functional expenses	$ 71,256	$ 586	$ 71,842

7. Grants Payable and Conditional Grant Commitments

Grants payable and conditional grant commitments as of December 31, 2020, are as follows (in thousands):

	Unconditional	Conditional
2021	$ 15,625	$ 6,625
2022	1,000	15,500
2023	3,000	15,500
2024 and thereafter	7,700	137,750
	$ 27,325	$ 175,375
Less present value discount	(832)	–
	$ 26,493	$ 175,375

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 has operating leases related to office space and office equipment. New leases commenced for office space and for office equipment in 2019. Statement of Financial Position information related to operating leases are as follows (in thousands):

Year Ended December 31 (in thousands)	2020	2019
Right-of-use asset	$ 3,981	$ 4,357
Lease liabilities	4,029	4,313

As of December 31, 2020, the Foundation's leases have original lease periods expiring between 2022 and 2029. The office space lease includes an option to renew for an additional 5 years.

The components of lease costs, lease term and discount rate are as follows (in thousands):

Year Ended December 31 (in thousands)	2020	2019
Operating lease cost	$ 546	$ 697
Variable lease cost	361	407
Total operating lease cost	$ 907	$ 1,104

Year Ended December 31 (in thousands)	2020	2019
Weighted-average remaining lease term for operating leases	8.89 YEARS	9.88 YEARS
Weighted-average discount rate for operating leases	4.04%	4.04%

The following table summarizes the maturity of the Foundation's operating lease liabilities as of December 31, 2020 (in thousands):

Year Ended December 31 (in thousands)	
2021	$ 471
2022	487
2023	500
2024	520
2025	541
Thereafter	2,335
Total operating lease payments	$ 4,854
Less: Imputed interest	(825)
Present value of operating lease liabilities	$ 4,029

Supplemental cash flow information related to leases are as follows (in thousands):

Year Ended December 31 (in thousands)	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow from operating leases	$ 455	$ 530
ROU assets obtained in exchange for lease obligations:		
Operating leases	$ –	$ 4,744
Reductions to ROU assets resulting from reductions to lease obligations:		
Operating lease	$ (377)	$ (622)

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 $278,000 and $272,000 for the years ended December 31, 2020 and 2019, respectively.

10. Uncertainties

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. The coronavirus outbreak has severely restricted the level of economic activity. As a result, there has been significant volatility in equity and debt markets. During 2020 the Foundation's operations were not materially impacted by the pandemic. The extent to which COVID-19 impacts the future performance of the Foundation will depend on future developments, which cannot be determined at this time.

11. Subsequent Events

The Foundation's management has evaluated subsequent events through May 19, 2021, 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.