BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Trustees
Bill & Melinda Gates Foundation:

We have audited the accompanying consolidated statements of financial position of the Bill & Melinda Gates Foundation (the Foundation) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 includes 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bill & Melinda Gates Foundation as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 11, 2012

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2011 and 2010

(In thousands)

Assets		**2011**	**2010**
Cash	$	10,810	5,183
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust (notes 3 and 4)		33,778,997	36,720,209
Prepaid expenses and other assets		3,963	3,841
Program-related investments, net (note 5)		129,658	37,828
Property and equipment, net (note 6)		716,695	663,090
Total assets	$	34,640,123	37,430,151
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	52,502	58,003
Accrued and other liabilities (note 5)		46,835	43,915
Grants payable, net (note 8)		5,705,046	4,553,260
Total liabilities		5,804,383	4,655,178
Net assets – unrestricted		28,835,740	32,774,973
Total liabilities and net assets	$	34,640,123	37,430,151

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2011 and 2010

(In thousands)

		2011	2010
Change in net assets:			
Revenues and gains:			
Contributions and other income	$	2,783	2,353
Investment income		622	928
Total revenues and gains		3,405	3,281
Expenses and losses:			
Grants		4,373,582	2,180,636
Direct charitable expenses		165,542	100,051
Program and administrative expenses		424,043	361,686
Federal excise and other taxes (note 10)		119	21
Total expenses and losses		4,963,286	2,642,394
Change in net assets before beneficial interest		(4,959,881)	(2,639,113)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:			
Contributions from the Trust to the Foundation (notes 3 and 4)		3,961,860	3,161,730
Changes in net assets of the Trust		(2,941,212)	3,280,412
Total change in beneficial interest		1,020,648	6,442,142
Changes in net assets		(3,939,233)	3,803,029
Unrestricted net assets, beginning of year		32,774,973	28,971,944
Unrestricted net assets, end of year	$	28,835,740	32,774,973

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	(3,939,233)	3,803,029
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		31,731	22,980
Provisions on program-related investments		13,606	(34)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust net assets		2,941,212	(3,280,412)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(122)	(1,073)
Accounts payable		(5,501)	(8,154)
Accrued and other liabilities		2,920	14,642
Grants payable, net		1,151,786	(291,687)
Net cash provided by operating activities		196,399	259,291
Cash flows from investing activities:			
Funding of program-related investments		(105,436)	(1,865)
Purchases of property and equipment		(85,336)	(261,242)
Net cash used in investing activities		(190,772)	(263,107)
Net increase (decrease) in cash		5,627	(3,816)
Cash, beginning of year		5,183	8,999
Cash, end of year	$	10,810	5,183
Supplemental disclosure of cash flow information:			
Cash paid during the year for excise taxes	$	7	—

See accompanying notes to consolidated financial statements.

(1) Organization

The Bill & Melinda Gates Foundation (the Foundation) is a tax-exempt private foundation that works to reduce inequities around the world. In the developing world, it focuses on improving health and alleviating extreme poverty. In the United States, the Foundation supports programs related to education. In its local region, the Foundation promotes strategies and programs that help low income families. The Foundation is organized as a charitable trust, and operates in Seattle, Washington with branch offices in Washington, D.C., New Delhi, India, Beijing, China, and London, United Kingdom. Its Trustees are Bill and Melinda Gates and Warren Buffett.

The Foundation is funded by grants received from the Bill & Melinda Gates Foundation Trust (the Trust) as explained in note 3, *Related Parties*. The primary role of the Trust is to manage the investment assets and transfer the proceeds to the Foundation, as necessary, to achieve the Foundation's charitable goals.

IRIS Holdings, LLC (IRIS), a single member limited liability company, was formed for the purpose of purchasing land for the Foundation's new campus and constructing and owning the headquarters. Because the Foundation is the single member of IRIS, its financial statements have been consolidated with the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

The Foundation recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. For the years ended December 31, 2011 and 2010, activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash

Cash consists of U.S. and foreign currencies.

(c) Program-Related Investments (PRIs)

The Foundation makes PRIs to other organizations to achieve charitable purposes in alignment with the foundation's strategies. These investments are comprised of debt, equity and guaranties.

Debt PRIs consist of loans outstanding through 2019 bearing a below market interest rate in either a senior or subordinated position. Loans are recorded on a net basis to reflect a reasonable loss reserve. The loss reserve estimate is reviewed on an annual basis.

Equity PRIs include both direct investments and investments in limited partnerships. The Foundation records unrealized capital gains or losses throughout the life of the investment and realized gains or losses upon liquidation. Equity investments are stated at fair value. The Foundation obtains regular valuations as well as audited financial statements to determine fair value.

(In thousands)

Guaranties and credit enhancements are recorded as a liability at the larger of the estimated loss exposure to the Foundation or the fair market value of the guaranty to the recipient. The fair market value to the recipient is equivalent to what it would likely have had to pay if it entered into the transaction in the open market. Guaranties are revalued on an annual basis to reflect changes in the exposure level as well as any adjustments to the estimated loss exposure.

(d) Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets or amortized over the terms of the respective leases, as follows:

Computer hardware and software	3 years
Vehicles	5 years
Furniture and fixtures	7 years
Building components	5-30 years
Building	40 years
Leasehold improvements	Over the life of the lease or the estimated useful life of the asset, whichever is shorter

The Foundation annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

(e) Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2011, grants payable were discounted using the year-end risk free rate for each year grants were made, which ranged between 0.4% to 5.5%.

(f) Self-Insurance

The Foundation uses a combination of insurance and self-insurance mechanisms to provide for potential liabilities for employee healthcare benefits, workers’ compensation, general liability, property damage, director and officers’ liability, and vehicle liability. Liabilities associated with the risks that are retained by the Foundation are not discounted and are estimated, in part, by considering historical claims experience and evaluations of outside experts, demographic factors, severity factors, and other actuarial assumptions. The estimated accrual for these liabilities could be affected if future occurrences and claims differ from these assumptions and historical trends. For the years ended December 31, 2011, and 2010, the self-insurance liability was $860 and $912, respectively, and is included in accrued and other liabilities in the consolidated statements of financial position.

(g) Contributed Services

Contributed services are recognized if the services received either create or enhance long-lived assets, or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

(h) Contributions and Bequests from Unrelated Parties

The Foundation accepts contributions and bequests from unrelated parties if the donor is an individual and the gift is unrestricted. From time to time, the Foundation is notified that it has been named as the beneficiary in the estate of certain individuals under revocable agreements. Such amounts are recorded as contributions upon the passing of the donor and as the amounts become irrevocable.

(i) Presentation of Expenses on the Consolidated Statement of Activities

The costs of providing the various programs and other activities have been allocated between grants, direct charitable, and program and administrative expenses in the accompanying consolidated statements of activities based on management's estimates. Grants and direct charitable expenses are charitable costs, expended for the benefit of others. Program and administrative expenses relate to activities that support the grant-making process as well as administrative operational costs.

(j) Tax-Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise taxes.

(k) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

(l) Reclassifications

Certain reclassifications have been made to the statement of cash flows for 2010 to conform to the 2011 presentation of cash flows from program-related investments. The reclassifications had no effect on the ending cash balance at December 31, 2010.

(3) Related Parties

The Foundation engages in charitable activities that are funded by a related party, the Bill & Melinda Gates Foundation Trust. The Trust holds and manages investment assets, and makes annual grants to the Foundation as necessary to carry out the Foundation's charitable goals. Neither entity controls the other;

(In thousands)

however, they have two of three trustees in common. In 2011 and 2010, the Trust made grants to the Foundation totaling $3,961,860 and $3,161,730, respectively.

(4) Beneficial Interest in Net Assets of Bill & Melinda Gates Foundation Trust

The legal documents that formed the Trust obligate it to fund the Foundation in whatever dollar amounts are necessary to accomplish the Foundation's charitable purposes. This means that the Foundation has the legal right to demand any amount, up to the full net assets of the Trust, to achieve the Foundation's charitable goals. Because of the Foundation's legal right to call upon the assets of the Trust, the consolidated financial statements for the Foundation reflect a $33,778,997 and $36,720,209 beneficial interest in the net assets of the Trust as of December 31, 2011 and 2010, respectively. That interest is adjusted annually to reflect the changes in the net assets of the Trust and amounts transferred to the Foundation during the reporting period.

The total changes in beneficial interest in the net assets of the Bill & Melinda Gates Foundation Trust for the years ended December 31, 2011 and 2010 are summarized as follows:

		2011	2010
Beginning balance	$	36,720,209	33,439,797
Change in the net assets of the Trust before contributions to the Foundation		1,020,648	6,442,142
Trust contributions to the Foundation		(3,961,860)	(3,161,730)
Ending balance	$	33,778,997	36,720,209

(5) Program-Related Investments (PRIs)

At December 31, 2011, the Foundation's PRI portfolio includes debt, equity, and guaranties. The debt and equity investments are summarized in the table below for the years ended December 31, 2011 and 2010 as follows:

		2011	2010
Principal amount – debt	$	60,527	42,760
Uncollectible allowance – debt		(15,847)	(7,675)
Interest receivable – debt		192	137
Subtotal, debt		44,872	35,222
Investment amount – equity		84,786	2,606
Program-related investments, net	$	129,658	37,828

Quarterly interest payments are due on the outstanding debt amounts at interest rates ranging between 1% and 2.7%. Repayment of the debt is scheduled through 2019.

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(In thousands)

The Foundation has guaranties outstanding of $48,464 and $83,470 at December 31, 2011 and 2010, respectively. The Foundation recorded a liability of $5,462 and $6,100 at December 31, 2011 and 2010, respectively, which reflects the estimated loss exposure to the Foundation.

(6) Property and Equipment

At December 31, 2011 and 2010, property and equipment consisted of the following:

		2011	2010
Land	$	109,701	97,325
Construction-in-progress, new campus and other		46,921	516,717
Campus buildings		532,035	—
Computer hardware and software		58,021	59,465
Furniture, fixtures, and artwork		13,855	8,019
Vehicles		150	140
Leasehold improvements		8,128	60,803
		768,811	742,469
Less accumulated depreciation and amortization		(52,116)	(79,379)
Property and equipment, net	$	716,695	663,090

The majority of the construction in progress and all campus buildings balances as of December 31, 2011 and 2010 relate to the construction and capitalization of the Foundation's new campus headquarters in downtown Seattle, which occurred in May 2011.

(7) Functional Allocation of Expenses

At December 31, 2011 and 2010, the Foundation's functional allocation of expenses was as follows:

		2011	2010
Program expenses:			
Global Health	$	2,931,955	1,422,494
Global Development		924,608	497,809
U.S. Programs		762,410	422,072
Family Interest and other		139,094	134,611
Total program expenses		4,758,067	2,476,986
Management and general expenses		205,100	165,387
Federal excise and other tax expense		119	21
Total expenses and losses	$	4,963,286	2,642,394

Included in management and general expenses are expenses not directly related to the programs including such expenses as human resources, legal, accounting, rent, and information technology.

(Continued)

(In thousands)

(8) Grants Payable

Grants payable totaling $6,052,057 (discounted to $5,705,046) at December 31, 2011 consisted of approved grant commitments. As of December 31, 2011, based on the specific grant agreements, grants payable are expected to be paid in the following years:

2012	$	2,158,906
2013		1,549,695
2014		852,582
2015		584,006
2016		119,214
Thereafter		787,654
		6,052,057
Less discount to reflect grant payable at present value		(347,011)
Grants payable, net	$	5,705,046

(9) Retirement Plan

In 2011 and 2010, the Foundation offered three Retirement Plans for the benefit of its employees: a 403(b), 401(a), and a 457(b) plan that allows for additional executive deferrals subject to annual limitations.

The 403(b) retirement plan covers employees meeting certain qualifications. Under the terms of the plan, employees are allowed to contribute up to 100% of pretax annual compensation, as defined in the Plan, and subject to annual limitations imposed by the Internal Revenue Code.

The 401(a) retirement plan covers employees meeting certain qualifications. Under the terms of the plan, the Foundation contributes 15% of employee-eligible plan compensation subject to annual limitations. Employees are immediately vested in employer contributions. For the years ended December 31, 2011 and 2010, employer contributions to the 401(a) retirement plan totaled $16,889 and $15,075, respectively.

(10) Federal Excise Taxes

The Foundation is subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Foundation provided for excise taxes at the 2% excise tax rate for the years ended December 31, 2011 and 2010. The current portion of excise tax expense was $14 and $8 for the years ended December 31, 2011 and 2010, respectively.

(Continued)

(In thousands)

(11) Commitments and Contingencies

(a) Lease Commitments

The Foundation is obligated under various operating leases for equipment and office facilities, which expire on various dates through 2021. Future minimum lease payments related to these leases as of December 31, 2011 are as follows:

2012	$	3,241
2013		2,785
2014		2,611
2015		1,628
2016		1,654
Thereafter		7,777
Total lease commitments	$	19,696

Rent expense, net of sublease income, totaled $18,365 for the year ended December 31, 2011 and $14,484 for the year ended December 31, 2010. Sublease income was $233 and $458 for the years ended December 31, 2011 and 2010, respectively.

(b) Legal Matters

In the ordinary course of business, the Foundation is subject to certain legal actions. In the opinion of management, such matters will not have a material effect on the financial position of the Foundation.

(12) Subsequent Events

The Foundation evaluated subsequent events from December 31, 2011 through June 11, 2012, the date on which the consolidated financial statements were available to be issued.