BILL & MELINDA GATES FOUNDATION

Financial Statements

December 31, 2004 and 2003

(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 statements of financial position of the Bill & Melinda Gates Foundation (the Foundation) as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2004 and 2003, 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 of America.

KPMG LLP

March 18, 2005

BILL & MELINDA GATES FOUNDATION

Statements of Financial Position

December 31, 2004 and 2003

(In thousands)

Assets		**2004**		**2003**
Cash and cash equivalents	$	186,118	$	41,387
Investments		29,433,534		27,558,570
Investments loaned under secured lending transactions		5,521,622		5,061,514
Investment sales receivable		672,347		679,220
Interest and dividends receivable		278,714		300,881
Federal excise tax refunds receivable		2,850		12,945
Program related investments receivable		1,440		1,440
Property and equipment, net		18,959		22,560
Total assets	$	36,115,584	$	33,678,517
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	5,736	$	4,726
Payable under investment loan agreements		5,637,866		5,158,317
Investment purchases payable		1,679,111		1,709,682
Accrued and other liabilities		19,481		15,583
Deferred excise taxes payable		34,039		26,034
Grants payable, net		1,885,062		1,672,868
Total liabilities		9,261,295		8,587,210
Net assets – unrestricted		26,854,289		25,091,307
Total liabilities and net assets	$	36,115,584	$	33,678,517

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION

Statements of Activities

Years ended December 31, 2004 and 2003

(In thousands)

	2004	2003
Change in net assets:		
Revenues and gains:		
Contributions	$ 711,453	$ 81,915
Investment income, net	2,632,002	3,928,204
Total revenues and gains	3,343,455	4,010,119
Expenses:		
Grants	1,464,573	1,359,635
Direct charitable expenses	25,297	32,836
Program and administrative expenses	68,303	54,534
Federal excise tax	22,300	34,054
Total expenses	1,580,473	1,481,059
Changes in net assets	1,762,982	2,529,060
Unrestricted net assets, beginning of year	25,091,307	22,562,247
Unrestricted net assets, end of year	$ 26,854,289	$ 25,091,307

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION

Statements of Cash Flows

Years ended December 31, 2004 and 2003

(In thousands)

		2004		2003
Cash flows from operating activities:				
Change in net assets	$	1,762,982	$	2,529,060
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization		9,442		8,783
Net realized and unrealized gain on sale of investments		(1,746,010)		(2,992,191)
Changes in operating assets and liabilities:				
Investment sales receivable		6,873		(342,518)
Interest and dividends receivable		22,167		(12,642)
Federal excise tax refunds receivable		10,095		(5,871)
Program related investment receivable		—		(1,440)
Accounts payable		1,010		75
Investment purchases payable		(30,571)		529,680
Accrued and other liabilities		3,898		7,792
Deferred excise taxes		8,005		13,925
Grants payable, net		212,194		177,613
Net cash provided by (used in) operating activities		260,085		(87,734)
Cash flows from investing activities:				
Purchases of investments		(187,752,068)		(190,370,489)
Proceeds from sales of investments		187,623,114		190,467,802
Cash received (paid) under secured lending arrangements		19,441		(55,675)
Purchases of property and equipment		(5,841)		(3,561)
Net cash (used in) provided by investing activities		(115,354)		38,077
Net increase (decrease) in cash and cash equivalents		144,731		(49,657)
Cash and cash equivalents, beginning of year		41,387		91,044
Cash and cash equivalents, end of year	$	186,118	$	41,387
Supplemental disclosure of cash flow information:				
Cash paid during the year for excise taxes	$	4,200	$	26,000
Noncash contributions		84,453		81,915

See accompanying notes to financial statements.

(1) Organization

The Bill & Melinda Gates Foundation (the Foundation) is a tax exempt private foundation that supports charitable organizations and projects in the areas of global health, education, libraries, and the Pacific Northwest. The Foundation's mission is to reduce global health inequities, support America's high schools to ensure that all students graduate ready for college, increase public access to information via computers in public libraries, and support programs for vulnerable families in the Pacific Northwest.

The Foundation is organized as a charitable trust, and operates its main office in Seattle, Washington, with branch offices in Washington, D.C. and New Delhi, India.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Presentation

The accompanying 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, 2004 and 2003, all activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and highly liquid investments with original maturities of three months or less at the date of acquisition.

(c) Investments

Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value. Fair value is determined based on quoted market prices. Private equities are stated at fair value as estimated by the general partner. Unrealized gains or losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon the ex-dividend date, and interest income is recorded as earned on an accrual basis. Futures, forwards, and options contracts are marked to market with the change reflected in investment income.

(Continued)

(In thousands)

(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, whichever is shorter, as follows:

Computers, printers, and software	3 years
Furniture and fixtures	10 years
Telecommunications equipment	3 years
Leasehold improvements	Over estimated useful life of the lease

(e) Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to future contingencies. 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, 2004 and 2003, grants payable were discounted using rates ranging from 3.25% to 5.5%.

(f) Contributed Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of contributed services recorded in the accompanying statement of activities, consisting primarily of investment management services provided by a related party, totaled $84,453 and $81,915 for the years ended December 31, 2004 and 2003, respectively. Investment management services contributed are reflected as contributions revenue, and as investment management services expense which is netted against investment income. All other types of contributed services are reflected in program and administration expenses.

(g) 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.

(h) Presentation of Expenses on the Statement of Activities

The costs of providing the various programs and other activities have been allocated between direct charitable and program and administrative expenses in the accompanying statement of activities based on management’s estimates. Direct charitable expenses are charitable costs, largely for the benefit of others, where the Foundation initiates and conducts the activity in part or in whole. Program and administrative expenses relate to general grant making and supporting activities.

(Continued)

(In thousands)

(i) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(3) Functional Allocation of Expenses

At December 31, 2004 and 2003, the Foundation's financial allocation of expenses is represented as follows:

	2004	2003
Program expenses:		
Health programs	$ 642,345	$ 653,454
Education programs	767,908	648,009
Library programs	28,989	31,507
Special projects	28,511	14,593
Pacific Northwest, Advocacy and other programs	54,031	58,981
Total program expenses	1,521,784	1,406,544
Management and general expenses	36,389	40,461
Federal excise tax expense	22,300	34,054
Total expenses	$ 1,580,473	$ 1,481,059

(4) Investments

At December 31, 2004 and 2003, the Foundation's investments consist of the following:

	2004	2003
Short-term investments	$ 7,143,262	$ 6,434,316
Bonds, notes, and other	20,394,702	20,948,348
Equities	7,417,192	5,237,420
	34,955,156	32,620,084
Less investments loaned under secured lending transactions	(5,521,622)	(5,061,514)
Total investments	$ 29,433,534	$ 27,558,570

(In thousands)

Short-term investments consist primarily of U.S. government treasury securities, high-grade commercial paper, and discounted notes. Bonds, notes, and other consist primarily of U.S. government agency and treasury securities, mortgage-backed securities, collateralized mortgage obligations, high-grade corporate securities, international corporate and government securities, and investments in domestic and international pooled funds. Equities consist primarily of U.S. and international stock, as well as private equity investment funds.

Investment income was comprised of the following for the years ended December 31, 2004 and 2003:

	2004	2003
Interest and dividend income	$ 1,026,077	$ 1,057,132
Net realized and unrealized gain on investments	1,746,010	2,992,191
Investment expenses:		
Contributed investment management expenses (see note 2(f))	(83,677)	(81,403)
Third party investment management and custodian fees and other expenses	(56,408)	(39,716)
Investment income, net	$ 2,632,002	$ 3,928,204

(5) Securities Lending

The Foundation participates in securities lending transactions with a third-party investment company whereby the Foundation lends certain investments in exchange for a premium. Under the terms of its securities lending agreement, the Foundation requires collateral of a value at least equal to 102% of the fair value of the loaned investments and accrued interest, if any. The Foundation maintains effective control of the loaned investments during the term of the agreement, in that they may be redeemed prior to the agreement's maturity. Upon the maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The principal risks to the Foundation of securities lending are that the yield earned on the collateral is insufficient to cover the rebate owed to the borrower, and than an investment purchased via the collateral reinvestment process becomes impaired. However, the Foundation believes that its risk is low. Investments loaned under secured lending transactions totaled $5,521,622 and $5,061,514 as of December 31, 2004 and 2003, respectively.

Cash and noncash financial instruments received as collateral totaled $5,637,866 and $5,158,317 as of December 31, 2004 and 2003, respectively. Amounts received as collateral are included in investments and as a payable under investment loan agreements in the accompanying statements of financial position as of December 31, 2004 and 2003.

(6) Derivative Financial Instruments

In the normal course of business, the Foundation uses various financial instruments, including derivative financial instrument, in an effort to manage exposure on long-term investments.

(In thousands)

Specifically, to manage price and interest rate risk associated with investing activities, the Foundation primarily uses a combination of forward contracts and futures. Under these instruments, the Foundation agrees to the future delivery of a currency or security, on an agreed-upon date, and at an agreed-upon price. These contracts are entered into with the intention to minimize the Foundation's economic exposure to adverse fluctuations in financial or currency markets and to reduce interest rate risk.

The Foundation also enters into derivative instruments for speculative and other purposes, including income enhancement and as an alternative to ownership of the underlying asset. Specifically, written options and forward contracts are sometimes used for enhancing returns on other investments and as an alternative to ownership, respectively.

All of the Foundation's derivative instrument positions are marked to current value as a change in net assets. The gross fair values of these instruments are included in investments in bonds, notes, and other.

The notional and fair values of forward contracts, futures, options, and swaps as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Notional value	**Fair value**	**Notional value**	**Fair value**
Forward contracts	$ 6,898,718	$ (8,785)	$ 3,933,775	$ 150,343
Futures	53,117,447	(7,145)	56,034,006	28,684
Options	(60,002)	2,013	(167,737)	6,237
Swaps	(86,915)	(16,180)	(157,433)	(1,740)
		$ (30,097)		$ 183,524

All notional amounts have been translated to and aggregated in U.S. dollars.

The Foundation's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the statement of financial position, arising either from potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Foundation's investment advisors monitor the financial condition of the firms used for these contracts in order to minimize the risk of loss. Management believes the Foundation's use of derivatives does not result in credit or market risk that would materially affect the Foundation's financial statements.

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(In thousands)

(7) Property and Equipment

At December 31, 2004 and 2003, property and equipment consist of the following:

	2004	2003
Work in progress	$ 337	$ 65
Computers, printers, and software	19,394	17,321
Furniture and fixtures	6,487	5,823
Telecommunications	764	740
Leasehold improvements	22,740	20,334
	49,722	44,283
Less accumulated depreciation and amortization	(30,763)	(21,723)
Property and equipment, net	$ 18,959	$ 22,560

(8) Grants Payable

Grants payable totaling $2,112,335 and $1,845,554 at December 31, 2004 and 2003, respectively, consisted of approved grant commitments. As of December 31, 2004, such amounts are expected to be paid in the following years:

2005	$ 718,516
2006	442,748
2007	290,728
2008	113,938
2009	117,876
Thereafter	428,529
	2,112,335
Less discount to reflect grants payable at present value	(227,273)
Grants payable, net	$ 1,885,062

(9) 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 realized gains on the sale of investments. The Foundation qualified for a 1% excise tax rate for the years ended December 31, 2004 and 2003. The current portion of excise tax expense is $14,294 and $20,129 for the years ended December 31, 2004 and 2003, respectively.

(Continued)

(In thousands)

The Foundation made provisions for deferred excise taxes in 2004 and 2003, which were recorded at the 1% excise tax rate in 2004 and 2003. Deferred excise tax expense was $8,006 and $13,925 for the years ended December 31, 2004 and 2003, respectively, resulting from unrealized appreciation (gains) on investments.

(10) Retirement Plan

The Foundation has two retirement plans: a 401(k) Plan and a Money Purchase Plan.

The 401(k) retirement plan covers employees meeting certain qualifications. Under the terms of the plan, employees are allowed to contribute up to 15% of their compensation subject to annual limitations.

The Money Purchase retirement plan covers employees meeting certain plan 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, 2004 and 2003, employer contributions to the Money Purchase retirement plan totaled $2,568 and $2,443, respectively.

(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 2011. Future minimum lease payments related to these leases as of December 31, 2004 are as follows:

2005	$	3,337
2006		3,311
2007		3,027
2008		2,996
2009		3,071
Thereafter		5,406
Total lease commitments	$	21,148

Rent expense totaled $4,232 and $5,215 for the years ended December 31, 2004 and 2003, 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.