BILL & MELINDA GATES FOUNDATION

Financial Statements

December 31, 2006

(With Independent Auditors’ Report Thereon)
Independent Auditors’ Report

The Trustees
Bill & Melinda Gates Foundation:

We have audited the accompanying statement of financial position of the Bill & Melinda Gates Foundation (the Foundation) as of December 31, 2006, and the related statements of activities and cash flows for the period from October 25, 2006 (inception) to December 31, 2006. 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 audit.

We conducted our audit 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 audit provides 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, 2006, and the changes in its net assets and its cash flows for the period from October 25, 2006 to December 31, 2006 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 27, 2007
# BILL & MELINDA GATES FOUNDATION

Statement of Financial Position

December 31, 2006

(In thousands)

## Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,525</td>
</tr>
<tr>
<td>Interest in net assets of Bill &amp; Melinda Gates Foundation Trust</td>
<td>29,564,176</td>
</tr>
<tr>
<td>Program related investment loans receivable</td>
<td>30,000</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>333</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>54,507</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$29,654,541</td>
</tr>
</tbody>
</table>

## Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$255</td>
</tr>
<tr>
<td>Accrued and other liabilities</td>
<td>1,770</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>2,025</td>
</tr>
<tr>
<td>Net assets – unrestricted</td>
<td>29,652,516</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$29,654,541</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Change in net assets:
Revenues and gains:
  Contributions $ 94,739
  Investment income 98
  Total revenues and gains 94,837

Expenses:
  Grants 6,493
  Federal excise tax 4
  Total expenses 6,497

Increase in net assets due to beneficial interest in Bill & Melinda Gates Foundation Trust 29,564,176
Changes in net assets 29,652,516
Unrestricted net assets, beginning of period —
Unrestricted net assets, end of period $ 29,652,516

See accompanying notes to financial statements.
BILL & MELINDA GATES FOUNDATION

Statement of Cash Flows
Period from October 25, 2006 (inception) to December 31, 2006
(In thousands)

Cash flows from operating activities:
Change in net assets $ 29,652,516
Adjustments to reconcile change in net assets to net cash
(used in) provided by operating activities:
   Noncash transfer of IRIS Holdings, LLC  8,656
   Interest in the net assets of Bill & Melinda Gates Foundation Trust (29,564,176)
Changes in operating assets and liabilities:
   Program related investment loans receivable (30,000)
   Prepaid expenses and other assets (333)
   Accounts payable 255
   Accrued and other liabilities 1,770
Net cash provided by operating activities 68,688

Cash flows from investing activities:
   Purchases of property and equipment (63,163)
Net cash used in investing activities (63,163)
Net increase in cash and cash equivalents 5,525

Cash and cash equivalents, beginning of period —
Cash and cash equivalents, end of period $ 5,525

Supplemental disclosure of cash flow information:
   Cash paid during the year for excise taxes $ 10

See accompanying notes to financial statements.
(1) **Organization**

The Bill & Melinda Gates Foundation (the Foundation) was created on October 25, 2006 as a tax-exempt private foundation to continue the work of the Bill & Melinda Gates Foundation Trust (the Trust) in reducing inequities around the world. In the developing world, it focuses on improving health, increasing free public access to digital information, and alleviating extreme poverty. In the United States, the Foundation supports programs related to education and free public access to information. In its local region, the Foundation promotes strategies and programs that help low-income families. The Foundation is funded by grants received from the Trust (see note 3 for related party disclosures). The accompanying financial statements are for the period of October 25, 2006 (inception) to December 31, 2006.

The Foundation is organized as a charitable trust, and operates in Seattle, Washington.

In 2006, to separate its grantmaking from the management of its endowment, the Trust implemented a two-trust structure. On October 25, 2006, the organization then known as the Bill & Melinda Gates Foundation changed its name to the Bill & Melinda Gates Foundation Trust. The primary future role of the Trust will be to manage the investment of the endowment. Bill and Melinda Gates are its Trustees. On the same date, a new organization was formed; the Bill & Melinda Gates Foundation. Its Trustees are Bill and Melinda Gates, and Warren Buffet. Additional information is provided in note 8 to explain the relationship and purposes of the two entities beginning in 2007.

(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 period ended December 31, 2006, 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) **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: 5 years
- Leasehold improvements: Over estimated useful life of the lease

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

(d) **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, 2006 there were no outstanding grants payable.

(e) **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. Because the Foundation was formed late in 2006, and because costs incurred were in support of both the Foundation’s formation as well as organizational changes to its related party, Bill & Melinda Gates Foundation Trust (see related party note 3), it is not practical to quantify the value of services provided by the Trust to the Foundation. Accordingly, no amounts are recorded as contributed services in the accompanying financial statements.

(f) **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 as well as federal and state unrelated business income tax.
(g) **Presentation of Expenses on the Statement of Activities**

The costs of providing the various programs and other activities have been allocated between grants and program and administrative expenses in the accompanying statement of activities based on management’s estimates. Grants are charitable costs, expended for the benefit of others. Program and administrative expenses relate to activities which support the grant-making process as well as administrative operational costs. Due to the timing of the formation of the Foundation, it did not incur any administrative costs in the current year.

(h) **Use of Estimates**

The preparation of 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.

(3) **Related Parties**

The Foundation engages in charitable activities that are funded by a related party, Bill & Melinda Gates Foundation Trust (Trust). The Trust holds and manages endowment assets, and makes annual grants to the Foundation as necessary to carry out the Foundation’s charitable goals. Neither entity controls the other; however, they share two of three trustees in common. In 2006, the Trust made grants to the Foundation totaling $94,739.

Another related party to the Foundation is IRIS Holdings, LLC (IRIS), a single member limited liability corporation 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 financial statements. The Trust previously held the single member ownership of IRIS, and transferred its interest in IRIS to the Foundation on November 1, 2006, pursuant to a transfer and assignment agreement.

(4) **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 financial statements for the Foundation reflect a $29,564,176 interest in the net assets of the Trust as of December 31, 2006. That interest will be adjusted annually to reflect the changes in the net assets of the Trust during the reporting period.
(5) Program Related Investment Loans Receivable

The Foundation made loans to other organizations for charitable purposes. At December 31, 2006, the Foundation’s program related investments include notes receivable of $30,000. Quarterly interest payments are due on the outstanding loan amounts at interest rates ranging between 1% and 2%. Repayment of the loans is due in 2016. Management has reviewed the collectibility of the notes receivable and believes no allowance is necessary as of December 31, 2006.

(6) Property and Equipment

At December 31, 2006, property and equipment consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction-in-progress</td>
<td>$26,335</td>
</tr>
<tr>
<td>Land</td>
<td>$28,172</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$54,507</strong></td>
</tr>
</tbody>
</table>

The construction in progress and land balances as of December 31, 2006, relate to the Foundation’s new campus headquarters which will be constructed on a 12-acre site in downtown Seattle. The project includes an underground garage which is being constructed on behalf of the City of Seattle. The City of Seattle will own and operate the garage, and lease parking stalls to the Foundation. The construction-in-progress balance at December 31, 2006 represents improvements to the land in preparation for the garage construction, which will ultimately be capitalized as a component of land costs, as replacement of lost parking was a condition of the land acquisition. The construction-in-progress balance also includes costs related to the design and development of the campus.

(7) 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. Under federal tax law, a private foundation is not eligible for the 1% tax rate in its year of formation. For this reason, the Foundation provided for excise taxes at the 2% rate in 2006. The current portion of excise tax expense is $4 for the period ended December 31, 2006. There was no deferred excise tax expense in 2006.
(8) Subsequent Event – Transfer of Assets and Liabilities from Trust to Foundation

The Trust and the Foundation executed an Asset Transfer and Acceptance Agreement which provided that effective January 1, 2007, the Trust would transfer to the Foundation, and the Foundation would accept all tangible and intangible assets, other than specifically identified excluded assets. In addition, the agreement provided that the Foundation would assume from the Trust all obligations arising from assumed contracts, transferred employees, and any accounts payable in the ordinary course of business, excluding any taxes payable by the Trust and certain obligations specifically excluded under the agreement. The effect of this agreement is that all endowment assets and associated obligations, including taxes, remain on the books of the Trust while all other property, equipment, contracts, employees, programs, grants payable, and other operating matters transfer to the Foundation. This transfer took effect on January 1, 2007 at which time $64,579 and $3,418,813 in assets and liabilities, respectively, were transferred from the Trust to the Foundation. Beginning in 2007, the role of the Trust is to manage the endowment assets and transfer amounts to the Foundation as required by the Foundation’s charitable goals. The role of the Foundation is to carry out its charitable and programmatic goals, with funding for those activities to be received from the Trust.