BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2007 and 2006

(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 (Foundation) as of December 31, 2007 and 2006, and the related consolidated statements of activities and cash flows for the year ended December 31, 2007 and period from October 25, 2006 (inception) to December 31, 2006. 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 Foundation as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the year ended December 31, 2007 and period from October 25, 2006 (inception) to December 31, 2006 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 23, 2008

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2007 and 2006

(In thousands)

Assets		**2007**		**2006**
Cash and cash equivalents	$	9,945	$	5,525
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust		38,652,976		29,564,176
Program related investment loans receivable, net		30,296		30,000
Prepaid expenses and other assets		2,055		333
Property and equipment, net		142,548		54,507
Total assets	$	38,837,820	$	29,654,541
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	33,786	$	255
Grants payable, net		4,423,063		—
Accrued and other liabilities		20,434		1,770
Total liabilities		4,477,283		2,025
Net assets – unrestricted		34,360,537		29,652,516
Total liabilities and net assets	$	38,837,820	$	29,654,541

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Year ended December 31, 2007 and period from
October 25, 2006 (inception) to December 31, 2006

(In thousands)

	2007	2006
Change in net assets:		
Revenues and gains:		
Contributions	$ 1,579	$ —
Investment income	2,232	98
Total revenues and gains	3,811	98
Expenses:		
Grants	3,048,299	6,493
Direct charitable expenses	41,842	—
Program and administrative expenses	222,682	—
Federal excise and other taxes	36	4
Total expenses	3,312,859	6,497
Change in net assets before beneficial interest	(3,309,048)	(6,399)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:		
Contributions from the Trust to the Foundation	2,327,300	94,739
Changes in net assets of the Trust	9,088,800	29,564,176
Transfer of net liabilities from the Trust to the Foundation	(3,399,031)	—
Total change in beneficial interest	8,017,069	29,658,915
Changes in net assets	4,708,021	29,652,516
Unrestricted net assets, beginning of period	29,652,516	—
Unrestricted net assets, end of period	$ 34,360,537	$ 29,652,516

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Year ended December 31, 2007 and period from
October 25, 2006 (inception) to December 31, 2006

(In thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 4,708,021	$ 29,652,516
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,665	—
Loss on disposal of property and equipment	8	—
Noncash transfer of IRIS Holdings, LLC	—	8,656
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust, net of cash received	(5,683,903)	(29,564,176)
Changes in operating assets and liabilities:		
Program related investment loans receivable	(297)	(30,000)
Prepaid expenses and other assets	(485)	(333)
Accounts payable	16,647	255
Accrued and other liabilities	7,195	1,770
Grants payable, net	1,032,604	—
Net cash provided by operating activities	83,455	68,688
Cash flows from investing activities:		
Purchases of property and equipment	(79,035)	(63,163)
Net cash used in investing activities	(79,035)	(63,163)
Net increase in cash and cash equivalents	4,420	5,525
Cash and cash equivalents, beginning of period	5,525	—
Cash and cash equivalents, end of period	$ 9,945	$ 5,525
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	$ 16	$ 10

See accompanying notes to consolidated financial statements.

(1) Organization

The Bill & Melinda Gates Foundation (Foundation) was created on October 25, 2006 as a tax-exempt private foundation to continue the work of the Bill & Melinda Gates Foundation Trust (Trust) in reducing 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 funded by grants received from the Trust (see Note 3 for related party disclosures). The accompanying consolidated financial statements are for the year ended December 31, 2007 and period from October 25, 2006 (inception) to December 31, 2006.

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

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 role of the Trust is 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 Buffett. Additional information is provided in Note 12 to explain the relationship and purposes of the two entities beginning in 2007.

IRIS Holdings, LLC (IRIS), a single member limited liability corporation 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. 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.

(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 year ended December 31, 2007, 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 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, 2007, grants payable were discounted using rates ranging from 3.24% to 5.5%. In 2006, grant commitments were recorded in the Trust's financial statements. See Note 12 for an explanation of the transfer of activities from the Trust to the Foundation.

(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.

(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.

(g) 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 which support the grant-making process as well as administrative operational costs.

(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.

(i) 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. The Foundation has been notified that it has been named as the beneficiary in the estate of certain individuals under revocable agreements. Such amounts will be recorded as contributions upon the passing of the donor and the amounts become known.

(j) Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform with the 2007 presentation.

(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 2007 and 2006, the Trust made grants to the Foundation totaling $2,327,300 and $94,739, 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 $38,652,976 and $29,564,176 beneficial interest in the net assets of the Trust as of December 31, 2007 and 2006, 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.

(In thousands)

The changes in the beneficial interest include the contributions from the Trust to the Foundation in the amounts of $2,327,300 and $94,739 in 2007 and 2006, respectively. The total changes in beneficial interest in the net assets of the Bill & Melinda Gates Foundation Trust for the years ended December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Beginning balance	29,564,176	—
Change in beneficial interest	8,017,069	29,658,915
Assumption of net liabilities from the Trust	3,399,031	—
Trust contributions to the Foundation	(2,327,300)	(94,739)
End of year balance	$ 38,652,976	$ 29,564,176

(5) Program Related Investment Loans Receivable

The Foundation made loans to other organizations for charitable purposes. At December 31, 2007 and 2006, the Foundation's program related investments include notes receivable of $30,296 (net of an allowance for discount and non-collectibility of $6,704) and $30,000, respectively. Quarterly interest payments are due on the outstanding loan amounts at interest rates ranging between 1% and 2%. Repayment of the loans will begin in 2012, with the final payment due in 2019.

(6) Property and Equipment

At December 31, 2007 and 2006, property and equipment consisted of the following:

	2007	2006
Construction-in-progress	$ 86,881	$ 26,335
Land	28,881	28,172
Construction-in-progress, information technology	13,672	—
Computers, printers and software	15,556	—
Furniture and fixtures	7,444	—
Telecommunications	746	—
Artwork	65	—
Vehicles	75	—
Leasehold improvements	30,635	—
	183,955	54,507
Less accumulated depreciation and amortization	(41,407)	—
Property and equipment, net	$ 142,548	$ 54,507

The construction-in-progress and land balances as of December 31, 2007 and 2006, relate to the Foundation's new campus headquarters which will be constructed on a 12-acre site in downtown Seattle.

(Continued)

(In thousands)

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.

(7) Functional Allocation of Expenses

At December 31, 2007 and 2006, the Foundation's financial allocation of expenses is represented as follows:

	2007	2006
Program expenses:		
Global Health	$ 1,978,506	$ —
U.S. Program	727,306	—
Global Development	509,730	6,493
Total program expenses	3,215,542	6,493
Management and general expenses	97,281	—
Federal excise tax expense	36	4
Total expenses	$ 3,312,859	$ 6,497

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. In 2006, the majority of grant expenses, as well as management and general expenses, were recorded in the Trust. See Note 12 related to the transfer of these activities to the Foundation.

(8) Grants Payable

Grants payable totaling $4,863,578 (discounted to $4,423,063) at December 31, 2007, consisted of approved grant commitments. Grant commitments were recorded in the Trust's financial statements as of December 31, 2006 (see Note 12). As of December 31, 2007, amounts payable are expected to be paid in the following years:

2008	$ 1,655,230
2009	1,271,291
2010	909,819
2011	480,601
2012	196,548
Thereafter	350,089
	4,863,578
Less discount to reflect grants payable at present value	(440,515)
Grants payable, net	$ 4,423,063

(Continued)

(In thousands)

(9) Retirement Plan

The sponsorship of two retirement plans, a 40l(k) Plan and a Money Purchase Plan, was transferred from the Trust to the Foundation on January 1, 2007.

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 year ended December 31, 2007 employer contributions to the Money Purchase retirement plan totaled $7,165.

(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. 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 1% and 2% rate in 2007 and 2006, 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 2016. Future minimum lease payments related to these leases as of December 31, 2007 are as follows:

2008	$	10,949
2009		10,813
2010		10,236
2011		8,050
2012		3,851
Thereafter		6,529
Total lease commitments	$	50,428

Rent expense, net of sublease income of $438, totaled $12,128 for the year ended December 31, 2007.

(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.

(In thousands)

(12) Transfer of Assets and Liabilities from the Trust to the 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 $19,782 and $3,418,813 in assets and liabilities, respectively, were transferred from the Trust to the Foundation. Beginning in 2007, the fundamental role of the Trust is to manage the endowment assets and transfer proceeds to the Foundation, as required by the Foundation’s charitable goals. The fundamental role of the Foundation is to carry out its charitable and programmatic goals, with funding for those activities to be received from the Trust.

Transfer of assets and liabilities on January 1, 2007 comprised the following:

Assets:		
Cash and cash equivalents	$	5,866
Non cash items:		
Prepaid expenses and other assets		1,237
Property and equipment, net		12,679
Total assets		19,782
Liabilities:		
Accounts payable		(16,885)
Accrued and other liabilities		(11,469)
Accrued grants payable, net		(3,390,459)
Total liabilities		(3,418,813)
Net liabilities transferred	$	(3,399,031)