KPMG

BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008 and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 28, 2010

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2009 and 2008

(In thousands)

Assets		**2009**	**2008**
Cash	$	8,999	10,283
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust		33,439,797	29,574,486
Program-related investments, net		35,929	29,535
Prepaid expenses and other assets		2,768	12,402
Property and equipment, net		424,828	262,996
Total assets	$	33,912,321	29,889,702
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	66,157	52,356
Grants payable, net		4,844,947	5,263,223
Accrued and other liabilities		29,273	22,928
Total liabilities		4,940,377	5,338,507
Net assets – unrestricted		28,971,944	24,551,195
Total liabilities and net assets	$	33,912,321	29,889,702

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Change in net assets:			
Revenues and gains:			
Contributions	$	1,972	10,428
Investment income		669	1,524
Total revenues and gains		2,641	11,952
Expenses:			
Grants		2,630,833	3,643,780
Direct charitable expenses		90,431	54,086
Program and administrative expenses		351,979	352,166
Federal excise and other taxes		60	31
Total expenses		3,073,303	4,050,063
Change in net assets before beneficial interest		(3,070,662)	(4,038,111)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:			
Contributions from the Trust to the Foundation		3,626,100	3,307,259
Changes in net assets of the Trust		3,865,311	(9,078,490)
Total change in beneficial interest		7,491,411	(5,771,231)
Changes in net assets		4,420,749	(9,809,342)
Unrestricted net assets, beginning of year		24,551,195	34,360,537
Unrestricted net assets, end of year	$	28,971,944	24,551,195

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	4,420,749	(9,809,342)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		19,479	6,994
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust		(3,865,311)	9,078,490
Changes in operating assets and liabilities:			
Program-related investments		(6,394)	761
Prepaid expenses and other assets		9,634	(10,347)
Accounts payable		13,801	18,570
Accrued and other liabilities		6,345	2,494
Grants payable, net		(418,276)	840,160
Net cash provided by operating activities		180,027	127,780
Cash flows from investing activity:			
Purchases of property and equipment		(181,311)	(127,442)
Net cash used in investing activity		(181,311)	(127,442)
Net (decrease) increase in cash and cash equivalents		(1,284)	338
Cash, beginning of year		10,283	9,945
Cash, end of year	$	8,999	10,283
Supplemental disclosure of cash flow information:			
Cash paid during the year for excise taxes	$	—	29

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, 2009 and 2008, 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) 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:

Computers, printers, and software	3 years
Telecommunications equipment	5 years
Furniture and fixtures	10 years
Leasehold improvements	Over estimated useful life of the lease or the estimated 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.

(d) 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, 2009, grants payable were discounted using the year-end risk free rate for each year grants were made, which ranged between 1% to 5.5%.

(e) 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.

(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 that 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. 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.

(Continued)

(In thousands)

(j) 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. The Foundation became self-insured for employee healthcare benefits, subject to stop-loss provisions, as of December 1, 2008. For the years ended December 31, 2009, and 2008, the self-insurance liability was $711 and $433, respectively, and is included in accrued and other liabilities on the consolidated statements of financial position.

(3) Related Parties

The Foundation engages in charitable activities that are funded by a related party, the Bill & Melinda Gates Foundation Trust (the 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; however, they have two of three trustees in common. In 2009 and 2008, the Trust made grants to the Foundation totaling $3,626,100 and $3,307,259, 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 $33,439,797 and $29,574,486 beneficial interest in the net assets of the Trust as of December 31, 2009 and 2008, 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, 2009 and 2008 are summarized as follows:

		2009	2008
Beginning balance	$	29,574,486	38,652,976
Change in beneficial interest		7,491,411	(5,771,231)
Trust contributions to the Foundation		(3,626,100)	(3,307,259)
Ending balance	$	33,439,797	29,574,486

(In thousands)

(5) Program-Related Investments (PRIs)

The Foundation makes PRIs to other organizations for charitable purposes. At December 31, 2009, the Foundation's PRI portfolio includes loans, an equity investment, and a bond credit enhancement. The loans and equity investments are summarized in the table below for the years ended December 31, 2009 and 2008 as follows:

		2009	2008
Investment amount – loans	$	43,056	37,000
Uncollectible allowance and discount – loans		(7,686)	(7,581)
Interest receivable – loans		113	116
Subtotal, loans		35,483	29,535
Investment amount – equity		446	—
Program related investments, net	$	35,929	29,535

Quarterly interest payments are due on the outstanding loan amounts at interest rates ranging between 1% and 2.7%. Repayment of the loans will begin in 2012, with the final payment due in 2019. As the equity investment was made in late November 2009, the Foundation believes that the market value of the investment at December 31, 2009 is equal to the cost.

During 2009, the Foundation also entered into a 10-year support agreement that could require the Foundation to provide up to $10,000 to support the debt service of one of its grant recipients in the event of that recipient's default (credit enhancement). While not a guaranty, the credit enhancement creates contingent obligations that are similar to those of a guaranty and is subject to the requirements of U.S. generally accepted accounting principles. Under these requirements, the Foundation records a contingent liability at the larger of the estimated loss exposure or the value of the credit enhancement to the bond issuer at the time of issuance. The Foundation anticipates that the estimated loss exposure is less than the value of the credit enhancement; therefore, a contingency equal to the value of the credit enhancement of $3,810, has been recorded. Additionally, the support agreement requires up to $20,000 of additional credit enhancements for future bond offerings in the event certain criteria are achieved.

(In thousands)

(6) Property and Equipment

At December 31, 2009 and 2008, property and equipment consisted of the following:

		2009	2008
Land and land improvements	$	96,907	29,244
Construction-in-progress, new campus and other		261,299	202,852
Computers, printers and software		57,199	15,364
Furniture, fixtures, and artwork		7,975	7,513
Telecommunications		172	172
Vehicles		140	140
Leasehold improvements		59,822	49,435
		483,514	304,720
Less accumulated depreciation and amortization		(58,686)	(41,724)
Property and equipment, net	$	424,828	262,996

The majority of the construction in progress and all land balances as of December 31, 2009 and 2008 relate to the Foundation's new campus headquarters, which is under construction on a 12-acre site in downtown Seattle with a planned completion date in 2011. The project includes a garage, which was constructed in partnership with the City of Seattle. The City of Seattle owns and operates the garage, and leases parking stalls to the Foundation.

(7) Functional Allocation of Expenses

At December 31, 2009 and 2008, the Foundation's functional allocation of expenses was as follows:

		2009	2008
Program expenses:			
Global Health	$	1,682,744	2,473,185
U.S. Programs		563,266	730,810
Global Development		651,974	686,803
Total program expenses		2,897,984	3,890,798
Management and general expenses		175,263	159,234
Federal excise and other tax expense		56	31
Total expenses	$	3,073,303	4,050,063

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.

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(In thousands)

(8) Grants Payable

Grants payable totaling $5,104,711 (discounted to $4,844,947) at December 31, 2009 consisted of approved grant commitments. As of December 31, 2009, amounts payable are expected to be paid in the following years:

2010	$	1,853,976
2011		1,446,849
2012		904,102
2013		487,320
2014		242,909
Thereafter		169,555
		5,104,711
Less discount to reflect grants payable at present value		(259,764)
Grants payable, net	$	4,844,947

(9) Retirement Plan

In 2009 and 2008, the Foundation offered two retirement plans for the benefit of its employees: a 401(k) 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 100% of pretax annual compensation, as defined in the Plan, and subject to annual limitations imposed by the Internal Revenue Code.

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, 2009 and 2008, employer contributions to the Money Purchase retirement plan totaled $13,070 and $10,387, respectively.

On December 31, 2009, the 401(k) and Money Purchase plans were combined into a 401(a) plan, which, beginning in 2010, will receive Foundation contributions for employees. On January 1, 2010, the Foundation established two new plans: a 403(b) plan that serves as the recipient of employee deferrals both on a pretax and after-tax basis, and a 457(b) plan that allows for additional executive deferrals subject to annual limitations.

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(In thousands)

(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, 2009 and 2008. The current portion of excise tax expense is $20 and $5 for the years ended December 31, 2009 and 2008, 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, 2009 are as follows:

2010	$	13,961
2011		10,755
2012		5,251
2013		3,925
2014		2,861
Thereafter		1,737
Total lease commitments	$	38,490

Rent expense, net of sublease income, totaled $14,524 for the year ended December 31, 2009, and $12,533 for the year ended December 31, 2008. Sublease income was $439 and $422 for the years ended December 31, 2009 and 2008, 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

Effective December 31, 2009, the Foundation adopted SFAS No. 165, *Subsequent Events* (ASC 855-10), which establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The Foundation evaluated subsequent events from December 31, 2009 through May 28, 2010, the date on which the consolidated financial statements were available to be issued.