BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2010 and 2009

(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, 2010 and 2009, 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, 2010 and 2009, 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 26, 2011

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2010 and 2009

(In thousands)

Assets		**2010**		**2009**
Cash	$	5,183		8,999
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust		36,720,209		33,439,797
Program-related investments, net		37,828		35,929
Prepaid expenses and other assets		3,841		2,768
Property and equipment, net		663,090		424,828
Total assets	$	37,430,151		33,912,321

Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	58,003		66,157
Grants payable, net		4,553,260		4,844,947
Accrued and other liabilities		43,915		29,273
Total liabilities		4,655,178		4,940,377
Net assets – unrestricted		32,774,973		28,971,944
Total liabilities and net assets	$	37,430,151		33,912,321

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2010 and 2009

(In thousands)

		2010	2009
Change in net assets:			
Revenues and gains:			
Contributions and other income	$	2,353	1,972
Investment income		928	669
Total revenues and gains		3,281	2,641
Expenses:			
Grants		2,180,636	2,630,833
Direct charitable expenses		100,051	90,431
Program and administrative expenses		361,686	351,979
Federal excise and other taxes		21	60
Total expenses		2,642,394	3,073,303
Change in net assets before beneficial interest		(2,639,113)	(3,070,662)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:			
Contributions from the Trust to the Foundation		3,161,730	3,626,100
Changes in net assets of the Trust		3,280,412	3,865,311
Total change in beneficial interest		6,442,142	7,491,411
Changes in net assets		3,803,029	4,420,749
Unrestricted net assets, beginning of year		28,971,944	24,551,195
Unrestricted net assets, end of year	$	32,774,973	28,971,944

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Change in net assets	$	3,803,029	4,420,749
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		22,980	19,479
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust net assets		(3,280,412)	(3,865,311)
Changes in operating assets and liabilities:			
Program-related investments		(1,899)	(6,394)
Prepaid expenses and other assets		(1,073)	9,634
Accounts payable		(8,154)	13,801
Accrued and other liabilities		14,642	6,345
Grants payable, net		(291,687)	(418,276)
Net cash provided by operating activities		257,426	180,027
Cash flows from investing activity:			
Purchases of property and equipment		(261,242)	(181,311)
Net cash used in investing activity		(261,242)	(181,311)
Net decrease in cash and cash equivalents		(3,816)	(1,284)
Cash, beginning of year		8,999	10,283
Cash, end of year	$	5,183	8,999
Supplemental disclosure of cash flow information:			
Cash paid during the year for excise taxes	$	—	—

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, 2010 and 2009, 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:

Computer hardware and software	3 years
Telecommunications equipment	5 years
Furniture and fixtures	7 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, 2010, grants payable were discounted using the year-end risk free rate for each year grants were made, which ranged between 0.6% 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. For the years ended December 31, 2010, and 2009, the self-insurance liability was $912 and $711, 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 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 2010 and 2009, the Trust made grants to the Foundation totaling $3,161,730 and $3,626,100, 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 $36,720,209 and $33,439,797 beneficial interest in the net assets of the Trust as of December 31, 2010 and 2009, 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, 2010 and 2009 are summarized as follows:

		2010	2009
Beginning balance	$	33,439,797	29,574,486
Change in the net assets of the Trust before contributions to the Foundation		6,442,142	7,491,411
Trust contributions to the Foundation		(3,161,730)	(3,626,100)
Ending balance	$	36,720,209	33,439,797

(In thousands)

(5) Program-Related Investments (PRIs)

The Foundation makes PRIs to other organizations for charitable purposes. At December 31, 2010, 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, 2010 and 2009 as follows:

		2010	2009
Principal amount – debt	$	42,760	43,056
Uncollectible allowance and discount – debt		(7,675)	(7,686)
Interest receivable – debt		137	113
Subtotal, debt		35,222	35,483
Investment amount – equity		2,606	446
Program related investments, net	$	37,828	35,929

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

The Foundation's total loss exposure related to guaranties is $83,470 and $10,000 at December 31, 2010 and 2009, respectively. Guaranties are subject to the requirements of U.S. generally accepted accounting principles and under these requirements the Foundation records a contingent liability at the larger of the estimated loss exposure or the fair market value of the guaranty. The Foundation recorded a contingency of $6,100 and $3,810 at December 31, 2010 and 2009, respectively.

(6) Property and Equipment

At December 31, 2010 and 2009, property and equipment consisted of the following:

		2010	2009
Land and land improvements	$	97,325	96,907
Construction-in-progress, new campus and other		516,717	261,299
Computer hardware and software		59,459	57,199
Furniture, fixtures, and artwork		8,019	7,975
Telecommunications		6	172
Vehicles		140	140
Leasehold improvements		60,803	59,822
		742,469	483,514
Less accumulated depreciation and amortization		(79,379)	(58,686)
Property and equipment, net	$	663,090	424,828

(In thousands)

The majority of the construction in progress and all land balances as of December 31, 2010 and 2009 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.

(7) Functional Allocation of Expenses

At December 31, 2010 and 2009, the Foundation's functional allocation of expenses was as follows:

		2010	2009
Program expenses:			
Global Health	$	1,427,161	1,682,744
U.S. Program		515,523	563,266
Global Development		510,167	651,974
Total program expenses		2,452,851	2,897,984
Management and general expenses		189,522	175,263
Federal excise and other tax expense		21	56
Total expenses	$	2,642,394	3,073,303

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.

(8) Grants Payable

Grants payable totaling $4,725,095 (discounted to $4,553,260) at December 31, 2010 consisted of approved grant commitments. As of December 31, 2010, based on the specific grant agreements, amounts payable are expected to be paid in the following years:

2011	$	2,093,256
2012		1,403,538
2013		676,467
2014		342,695
2015		137,702
Thereafter		71,437
		4,725,095
Less discount to reflect grants payable at present value		(171,835)
Grants payable, net	$	4,553,260

(In thousands)

(9) Retirement Plan

On December 31, 2009, the Money Purchase plan was merged into the 401(k) plan, which, beginning in 2010, was restated to a 401(a) plan and received 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.

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, 2010 and 2009, employer contributions to the 401(a) and Money Purchase retirement plans totaled $15,075 and $13,070, 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, 2010 and 2009. The current portion of excise tax expense was $8 and $20 for the years ended December 31, 2010 and 2009, 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, 2010 are as follows:

2011	$	11,804
2012		5,516
2013		4,198
2014		2,894
2015		1,148
Thereafter		588
Total lease commitments	$	26,148

Rent expense, net of sublease income, totaled $14,484 for the year ended December 31, 2010, and $14,524 for the year ended December 31, 2009. Sublease income was $458 and $439 for the years ended December 31, 2010 and 2009, 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, 2010 through May 26, 2011, the date on which the consolidated financial statements were available to be issued.