READER'S GUIDE TO THE FORM 990-PF

The annual Form 990-PF is a public document that provides useful information about a private foundation's financial and charitable activities. The IRS uses it to assess taxes owed by foundations and to monitor some key activities. The underlying tax rules for private foundations are complicated, so it's not surprising that some of the information provided on the Form 990-PF is often misunderstood. Because of the foundation's ongoing commitment to transparency, we offer this Reader's Guide to highlight some of the key information in a more clear and concise way.

To address the questions we are asked most frequently, we have organized the information into charts. We also have developed answers to a series of questions that have been frequently posed to us over the years. We provide specific references to the location in the tax return where the information can be found to provide additional context.

To understand the information in these tax returns, it is helpful to explain how the foundation is organized. In October 2006, our trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation Trust (which we refer to as "the trust"), manages the assets that are granted to the Bill & Melinda Gates Foundation ("the foundation"). The foundation then distributes money to grantees. The trust and foundation are separate legal entities, and each is required to file a separate Form 990-PF. The returns can be found at http://www.gatesfoundation.org/about/Pages/financials.aspx. For more information about the two-entity structure, please refer to http://www.gatesfoundation.org/about/Pages/gates-foundation-asset-trust.aspx.

Key Data Points from the 2011 990-PF for the Bill & Melinda Gates Foundation

Form 990-PF Topic	2011Amount	What it Means	Form 990-PF Reference
Grants Paid	$3.239 billion	The foundation distributed approximately $3.2 billion in 2011 in contributions received from the trust.	Page 1, Part I, line 25 (d); detailed listing attached to the return
Total Charitable Distributions (including grants)	$3.964 billion	Total distributions of $3.964 billion comprised three categories: grants of $3.239 billion, operating expenses of $528 million, including things like employee salaries and upkeep of our office space, $106 million in program related investments, which allow the foundation to help some of our partners with low interest loans and other support to help them accomplish their goals, and capital investments of $91 million, primarily in IRIS Holdings, LLC, the separate company that has developed, and continues to develop the foundation's new headquarters in downtown Seattle.	Page 8, Part XII, line 4
Excise Taxes	$2,120	The foundation receives its funding from the trust and therefore does not maintain a separate endowment. Having no endowment results in a relatively low excise tax which foundations are required to pay on investment income.	Page 4, Part VI, line 5
Compensation of Officers, Directors, and Trustees	$5.488 million	The schedule provides a listing of 2011 compensation and benefits paid to the foundation's officers. The trustees receive no compensation.	Page 1, Part I, line 13(a); see detail on Page 6, Part VIII, line 1, column (c)
Compensation of Five Highest Paid Employees (other than officers, directors, and trustees)	$3.519 million	The schedule provides a listing of 2011 compensation and benefits paid to some of the most senior staff at the foundation who are not officers or directors.	Page 6, Part VIII, line 2, column (c)
Contributions	$3.964 billion	Contributions were received from the trust as explained in the introduction to the Reader's Guide. The foundation also received unsolicited contributions from other people; any that were for $5,000 or more are disclosed on Schedule B.	Page 1, Part I, line 1 (a); see detail of gifts of $5,000 or greater on Schedule B of the Form 990-PF
Contribution by Bill Gates	$1.2 million	This contribution is comprised of $1.2 million of expenses paid by Bill Gates on behalf of the foundation.	Schedule B, Page 2

FREQUENTLY ASKED QUESTIONS

Payout

1. How much was the foundation required to payout in 2011?

To encourage philanthropy, private foundations are exempt from many of the taxes that others institutions pay. In order to qualify for those exemptions, foundations must make a certain amount of disbursements for charitable purposes that are based on the size of the foundation's assets. The technical IRS term for the minimum payout is "distributable amount." The foundation was required to distribute $44.6 million in 2011 as shown on page 8, Part XI, line 7. The distributable amount for the foundation is quite small compared to the trust; this is because the foundation retains only a modest amount of money on hand. As explained previously, the endowment assets are maintained by the trust, rather than by the foundation.

The trust also has a requirement to disburse a certain amount of its assets every year. In 2011, the trust was required to pay out $1.758 billion. As you can see from the return, it actually paid out significantly more -- $3.962 billion -- to the foundation. This excess amount was distributed to meet the requirements and terms of the gift from Warren Buffett.

The foundation in turn distributed $3.964 billion in grants and other charitable expenses.

2. What types of disbursements count toward the foundation's annual payout requirement?

All reasonable operating expenses count toward the payout requirement, provided they further the charitable goals of the foundation. This includes grants as well as the foundation's operating costs. Program-related investments (PRIs) also count toward payout. (PRIs include low interest loans made for charitable purposes and certain types of charitable-purpose equity investments.) Finally, capital costs for charitable use – such as furniture, computer equipment, and the construction of our new campus – also count toward payout.

Administrative and Other Costs

3. How much did the foundation spend in administrative overhead in 2011?

People use the term "administrative overhead" in different ways, and the format of the return is not very clear on this question, so let's start by explaining the cost components. If we take the total 2011 expenses and subtract grant expenses, we're left with $583.7 million in operating costs (Page 1, Part I, line 24 (a)). The operating costs include three major components: (1) direct grant-making expenses to pay salaries and operating costs of the program staff who make and manage grants, (2) "direct charitable expenses" such as technical assistance paid to support the work of our grantees, and (3) administrative costs to operate the foundation, including salaries and benefits for support functions such as finance and human resources, legal services, rent, office supplies, etc. The format of the tax return does not allow a foundation to display these operating costs, so we have provided this information below:

$179.1 million	direct grant-making expenses
$165.5 million	direct charitable expenses (or DCE) (Page 7, Part IX-A)
239.1 million	administrative costs to operate the foundation (referred to by some as "administrative overhead")
$583.7 million	total operating costs

4. What were the foundation's administrative overhead expenses in 2011 as a percentage of total expenses?
The answer depends on how you define administrative overhead, as discussed in the answer to question 4. Total operating costs as a percentage of total expenses including grants, is 11.77 percent (calculated as $583.7 million divided by $4.957 billion). The problem with this approach is that it includes costs to make and manage grants as well as costs of activities that directly benefit grantees and are therefore not just administrative overhead costs.

We believe a better definition of "administrative overhead expenses" would be what it costs to make and manage grants as well as our direct charitable investments that support the work of our partners and grantees. Under this approach, the percentage for 2011 is 4.82 percent (calculated as $239.1 million divided by $4.957 billion).

Taxes and Other

5. I thought foundations were exempt from taxes. What kind of taxes do you pay?
Under IRS rules, foundations are exempt from income taxes, but they are required to pay a 2 percent excise tax on net investment income. (Foundations can reduce their excise tax rates to 1 percent if they meet certain conditions. See question 7 below.) Net investment income includes rent, interest, dividends, royalties, net realized capital gains, and other similar types of income, minus expenses for managing investments. The income and expenses that figure into this calculation are shown on page 1, column "b" of the Form 990-PF. The foundation's net taxable revenue in 2011 was $211,980 (page 1, Part I, line 27b), resulting in an excise tax of $2,120.

6. Why do some foundations pay 1 percent in taxes, and others pay 2 percent?
A foundation may reduce its excise tax rate from 2 percent to 1 percent if it disburses a sufficient amount above its required 5 percent minimum distribution. The calculation to determine whether a foundation qualifies for the reduced tax rate is shown on page 3, Part V of the tax return. In 2011, the foundation needed to distribute $3.5 billion to achieve the lower tax rate (page 3, Part V, line 7). As it distributed more than that amount, it qualified for the lower tax rate.

Key Data Points from the 2011 990-PF for the Bill & Melinda Gates Foundation Trust

Form 990-PF Topic	2011 Amount	What it means	Form 990-PF Reference
Grants Paid	$1.970 billion	The trust distributed $1.970 billion in qualifying distribution grants, plus $1.992 billion in additional grants that were not applied toward the annual payout, as explained in question 2 below. All grants were made to the foundation.	Page 1, Part I, line 25 (d)
Total Charitable Distributions (including grants)	$1.970 billion	Charitable distributions were primarily made up of grants.	Page 8, Part XII, line 4 and Attachment A
Non-charitable Use Assets	$35.643 billion	Non-charitable use assets represent the investment assets of the trust. The value of the non-charitable use assets is used to calculate the trust's required payout.	Page 8, Part X, line 5
Excise Taxes	$24 million	The trust's excise taxes are calculated as 1 percent of its net investment income of $2.4 billion, as shown on Page 1, Part I, line 27b, column (b).	Page 4, Part VI, line 5
Contributions by Bill Gates	$66.6 million	The contribution is comprised of $50.6 million in investment management fees paid by Bill Gates on behalf of the trust, and cash of $16.0 million.	Schedule B, Page 2
Contributions by Warren Buffett	$1.497 billion	This contribution is comprised of 19,344,522 Class B Shares of Berkshire Hathaway, Inc. stock.	Schedule B, Page 2 and Page 3

FREQUENTLY ASKED QUESTIONS

Payout and Other

1. Did the trust qualify for the 1 percent tax rate in 2011?

Yes. The trust needed to distribute at least $1.949 billion to achieve the lower tax rate (page 3, part V, line 7), and it actually disbursed $1.970 billion in qualifying distributions (page 3, part V, line 8). As explained above in question 6, a foundation may reduce its excise tax rate from 2 percent to 1 percent if it disburses a sufficient amount above its required 5 percent minimum distribution.

2. Page 11, Part XV shows that the trust made grants to the foundation totaling $3.962 billion, but only counted $1.970 billion of the grants toward its payout. Why is that?

The trust has a goal each year of making sure it achieves the 1 percent tax rate by distributing sufficient grant funds to the foundation. In 2011 the trust needed to distribute more than $1.949 billion to qualify for the 1% tax rate (page 3, part V, line 7). The trust claimed a distribution of $1.970 billion (page 3, part V, line 8), which allowed it to qualify for the 1% rate and give the remaining portion of the $3.962 billion to the foundation to meet the distribution requirements of its trustees.

3. Why do the trust's total assets of $33.821 billion, as listed on the tax return, differ from total assets of $34.251 billion listed in the trust's audited financial statements?

The tax return and the audited financial statements present the assets and liabilities in different ways, but arrive at the same net asset value of $33.779 (page 2, part II, line 30).