BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Trustees
Bill & Melinda Gates Foundation:

We have audited the accompanying consolidated financial statements of the Bill & Melinda Gates Foundation (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the change in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Seattle, Washington
April 30, 2014

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2013 and 2012

(In thousands)

Assets		**2013**	**2012**
Cash	$	18,085	4,998
Prepaid expenses and other assets		11,983	10,776
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust (notes 3 and 4)		40,472,654	36,371,337
Program-related investment assets, net (note 5)		114,840	75,861
Property and equipment, net (note 6)		692,646	713,805
Total assets	$	41,310,208	37,176,777
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	82,105	59,420
Accrued and other liabilities		47,097	41,562
Grants payable, net (note 8)		5,143,677	5,111,593
Program-related investment liabilities (note 5)		75,944	13,589
Total liabilities		5,348,823	5,226,164
Net assets – unrestricted		35,961,385	31,950,613
Total liabilities and net assets	$	41,310,208	37,176,777

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2013 and 2012

(In thousands)

		2013	2012
Change in net assets:			
Revenues and gains:			
Contributions and other income	$	7,806	2,753
Investment income		1,726	990
Total revenues and gains		9,532	3,743
Expenses:			
Grants		3,392,343	2,673,358
Direct charitable		340,691	229,934
Program and administrative		475,446	450,928
Federal excise and other taxes (note 10)		67	40
Total expenses		4,208,547	3,354,260
Change in net assets before beneficial interest		(4,199,015)	(3,350,517)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:			
Contributions from the Trust (notes 3 and 4)		4,108,470	3,873,050
Change in net assets of the Trust		4,101,317	2,592,340
Total change in beneficial interest		8,209,787	6,465,390
Change in net assets		4,010,772	3,114,873
Unrestricted net assets, beginning of year		31,950,613	28,835,740
Unrestricted net assets, end of year	$	35,961,385	31,950,613

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	4,010,772	3,114,873
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		36,382	35,709
Program-related investment provisions and guarantees		64,863	98,492
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust net assets		(4,101,317)	(2,592,340)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(1,207)	(6,813)
Accounts payable		22,685	6,918
Accrued and other liabilities		5,535	189
Grants payable, net		32,084	(593,453)
Net cash provided by operating activities		69,797	63,575
Cash flows from investing activities:			
Funding of program-related investments		(41,487)	(36,568)
Purchases of property and equipment		(15,223)	(32,819)
Net cash used in investing activities		(56,710)	(69,387)
Net increase (decrease) in cash		13,087	(5,812)
Cash, beginning of year		4,998	10,810
Cash, end of year	$	18,085	4,998
Supplemental disclosure of cash flow information:			
Cash paid during the year for excise taxes	$	6	19

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 help all people lead healthy, productive lives. In developing countries, it focuses on giving the poorest people in the world a chance to live a healthy and productive life by concentrating on improvements in health and agriculture. In the United States, it seeks to ensure that all people – especially those most disadvantaged – have a chance at equal opportunity through investments in education.

Strategic Priorities

Global Programs

The Foundation works with partner organizations to tackle critical health and development issues facing the world's poorest people. The Foundation invests in advances in science and technology – including vaccines, drugs, and diagnostics – as well as creative approaches to traditional interventions to solve some of the health and agricultural challenges that prevent people in the poorest countries from succeeding. In addition to investments in tools, drugs, and other interventions, the Foundation focuses on how to deliver the interventions to the populations that need them most.

US Programs

In the United States the Foundation's primary focus is on ensuring that all students graduate from high school prepared for college and have an opportunity to earn a postsecondary degree with labor-market value. The Foundation is particularly concerned with improving access to quality educational opportunities for low-income and minority students. The Foundation also works to address issues of social inequity and poverty in Washington State, where the Gates family has lived for generations and the Foundation makes its permanent home.

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; London, United Kingdom; Addis Ababa, Ethiopia; Johannesburg, South Africa; and Abuja, Nigeria. 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 fund 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 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, 2013 and 2012, activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash

For the purpose of the statements of cash flows, cash consists of U.S. and foreign currencies.

(c) Program-Related Investments (PRIs)

The Foundation makes PRIs to other organizations to achieve charitable purposes in alignment with the Foundation's strategies. These investments are comprised of loans, equity investments and guarantees.

Loan PRIs consist of loans outstanding bearing a below-market interest rate in either a senior or subordinated position. Loans are measured at fair value at inception to determine if a contribution element exists. Loans are initially recorded on a net basis to reflect a discount on loan receivable (if a contribution element exists) or a reasonable loss reserve. The loss reserve estimate is reviewed on an annual basis and adjusted if collectability risk has significantly changed based on the Foundation's understanding of the borrower's financial health and/or payment history.

Equity PRIs include both direct investments and investments in equity funds. Equity investments are recorded using either fair value or the equity method of accounting depending on the level of the Foundation's ownership significance and control. For equity investments recorded at fair value, the Foundation obtains regular valuations as well as audited financial statements to determine the fair value required to either revalue or record its share of gains and losses on its investments. The Foundation records unrealized gains or losses throughout the life of the investment and realized gains or losses upon liquidation.

Guarantees are recorded as a liability at the larger of the estimated loss exposure to the Foundation or the fair value of the guarantee to the recipient. The fair value to the recipient is equivalent to what it would likely have had to pay if it entered into the transaction in the open market. Guarantees are measured at inception and amortized over the life of the arrangement using a systematic and rational method.

(d) Fair Value

The Foundation applies fair value accounting for all financial assets and liabilities that are recognized at fair value in the financial statements. In determining the fair value of investments, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Foundation determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 Inputs: Valuations based on observable inputs (other than Level 1 prices) such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly
- Level 3 Inputs: Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment

Accounting Standards Codification Subtopic 820-10, *Fair Value Measurements – Overall*, allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Foundation to value PRI equity fund investments is the Net Asset Value (NAV). In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. As of December 31, 2013 and 2012, the Foundation has investments which have been valued using the NAV as a practical expedient with total market values of $5,089 and $4,083 respectively. The carrying value on the consolidated statement of financial position of cash, prepaid and other assets, accounts payable, accrued and other liabilities, and grants payable, net approximates fair value. The estimated fair value for grants payable, however, involves unobservable inputs considered to be Level 3 per the fair value hierarchy.

(e) 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
Vehicles	5 years
Furniture and fixtures	7 years
Building components	3 – 30 years
Building	40 years
Leasehold improvements	Over the life of the lease or the estimated useful 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.

(f) Grant Expense

Grant expense is 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, 2013, grants payable were discounted using the year-end risk-free rate for each year grants were made, which ranged between 0.4% to 5.5%.

(g) 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, 2013, and 2012, the self-insurance liability, which is specific to employee healthcare benefits, was $1,177 and $1,054, respectively, and is included in accrued and other liabilities in the consolidated statements of financial position.

(h) 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. For the years ended December 31, 2013, and 2012, contributed services totaled $1,642 and $1,589, respectively, and are included in contributions and other income in the consolidated statements of activities.

(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.

(j) 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.

(k) 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.

(l) Use of Estimates

The preparation of the 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. The significant estimates and assumptions used include the valuation of PRI guarantees, discounting the allowance for loan PRIs, and the valuation of equity PRI investments.

(m) Reclassifications

Certain reclassifications have been made to the statement of cash flows for 2012 to conform to the 2013 presentation of cash flows from program-related investments. The reclassifications had no effect on the ending cash balance at December 31, 2012.

(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 2013 and 2012, the Trust made grants to the Foundation totaling $4,108,470 and $3,873,050, 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 $40,472,654 and $36,371,337 beneficial interest in the net assets of the Trust as of December 31, 2013 and 2012, 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.

(Dollars in thousands)

The total changes in beneficial interest in the net assets of the Bill & Melinda Gates Foundation Trust for the years ended December 31, 2013 and 2012 are summarized as follows:

		2013	2012
Beginning balance	$	36,371,337	33,778,997
Change in the net assets of the Trust before contributions to the Foundation		8,209,787	6,465,390
Trust contributions to the Foundation		(4,108,470)	(3,873,050)
Ending balance	$	40,472,654	36,371,337

(5) Program-Related Investments

PRIs are strategic investments, beyond grants, made by the Foundation for the specific objective of furthering the Foundation's charitable purpose. The production of income is not the primary driver of a PRI. In 2013, the Foundation entered into 10 new PRI investments and its PRI portfolio includes loans to support the growth of key partners or institutions, equity investments to promote innovation, and guarantees to address structural challenges within markets.

Loan PRIs

The Foundation's loan portfolio includes both loans and convertible loans invested in not-for-profit and private sector entities. The majority of these loans are in support of its global strategies, enabling partner organizations to invest in increasing agricultural productivity, access to financial systems, and development of medical technology, all for the benefit of developing countries. The Foundation has also made loans in support of its US strategies, providing low-cost capital support for charter school facilities. Interest payments are due on the outstanding loan amounts at interest rates generally ranging between 0% and 4%. Repayment of the outstanding loan amounts is scheduled through 2023.

In 2013, the Foundation converted $8,220 of convertible loans to equity. The loans are summarized in the table below for the year ended December 31, 2013 as follows:

Loan receivable, beginning of year	$	74,059
2013 Activity:		
Additional loans		30,740
Principal repayments		(4,244)
Loan to equity conversions		(8,220)
Loss on loans		(780)
Interest receivable		469
Subtotal, loans		92,024
Less discount and uncollectible allowance		(22,427)
Loan receivable, net end of year	$	69,597

(Dollars in thousands)

Equity Investment PRIs

The Foundation's equity portfolio includes direct equity investments as well as investments in equity funds. The majority of these equity investments are in support of its global strategies which include investing in novel vaccine and therapeutic platforms, developing improved diagnostics, and strengthening agriculture and health delivery systems. The Foundation has also made investments in support of US education. In 2013, the Foundation converted $8,220 of convertible loans into equity. The total change in equity investments for the year ended December 31, 2013 is summarized as follows:

Equity investment amount, net beginning of year	$	24,581
2013 Activity:		
Additional investments		14,992
Loan to equity conversions		8,220
Return of capital		—
Valuation adjustments, net		(2,550)
Equity investment amount, net end of year	$	45,243

The Foundation has elected the fair value option for certain of its equity investments, totaling $31,662 and $17,081 at December 31, 2013 and 2012, respectively. The majority of equity PRIs at fair value include unobservable inputs considered to be Level 3 per the fair value hierarchy.

Guarantee PRIs

The Foundation's guarantee portfolio includes credit enhancement and volume guarantees. The majority of these guarantees are in support of its global strategies, enabling accessibility and affordability of vaccines and health commodities in developing countries as well as its US strategies, that were focused on financing school facilities given general market challenges that started in 2008.

In 2013, the Foundation entered into three new guarantees totaling $373,000. Two of the new agreements are volume related guarantees in support of its family planning strategy. The third new agreement is intended to ensure injectable polio vaccinations are made available to GAVI countries at affordable prices.

The Foundation recorded a liability of $75,944 and $13,589 at December 31, 2013 and 2012, respectively, which reflects the larger of the probable loss amount or estimated fair value of all outstanding guarantee agreements. Guarantee agreements and the associated commitments extend through 2020.

(Dollars in thousands)

The Foundation's guarantee investments are summarized in the table below for the year ended December 31, 2013 as follows:

		Total Gross Exposure 12/31/12	New Commitments in 2013	Commitments Satisfied in 2013	Total Gross Exposure 12/31/13	Recorded Value of Guarantee Liability
Guarantee investments:						
Credit enhancement	$	21,000	—	(3,000)	18,000	4,861
Volume		231,700	373,000	(88,117)	516,583	71,083
Subtotal, guaranties	$	252,700	373,000	(91,117)	534,583	75,944

Though not reflected in the above table nor recorded as a Foundation asset at December 31, 2013, the Foundation also entered into 6 sub guarantee agreements in 2013. In the agreements, partner organizations agree to backstop portions of the Foundation's risk exposure on its guarantees. The sub guarantee agreements reduce the Foundation's total exposure of $534,583 to $349,194 as of December 31, 2013. The fair value of the sub guarantee agreements is not recorded until collection is reasonable, which would be when the Foundation's guarantee is triggered. As of December 31, 2013, no guarantee or sub guarantee agreements have been triggered.

(6) Property and Equipment

At December 31, 2013 and 2012, property and equipment consisted of the following:

		2013	2012
Land	$	93,945	93,945
Construction-in-progress, new campus, and other		51,109	42,569
Campus buildings		570,079	568,817
Computer hardware and software		68,871	69,141
Furniture, fixtures and other		16,424	13,900
Leasehold improvements		11,281	9,768
		811,709	798,140
Less accumulated depreciation and amortization		(119,063)	(84,335)
Property and equipment, net	$	692,646	713,805

(Dollars in thousands)

(7) Functional Allocation of Expenses

At December 31, 2013 and 2012, the Foundation's functional allocation of expenses was as follows:

		2013	2012
Program expenses:			
Global Programs	$	3,288,587	2,448,317
U.S. Programs		553,650	578,979
Strategic Media Partnerships		72,428	67,570
Family Interest and other		49,967	47,352
Total program expenses		3,964,632	3,142,218
Management and general expenses		243,915	212,002
Total expenses	$	4,208,547	3,354,220

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 $5,503,314 (discounted to $5,143,677) at December 31, 2013 consisted of approved grant commitments and other activity:

Grants payable balance, beginning of year	$	5,436,881
2013 activity:		
New and supplemental grants		3,437,889
Payments		(3,320,723)
Grant amendments		(50,733)
Grants payable balance, end of year	$	5,503,314

(Dollars in thousands)

As of December 31, 2013, based on the specific grant agreements, grants payable are expected to be paid in the following years:

2014	$	1,861,492
2015		1,546,811
2016		637,340
2017		272,740
2018		152,731
Thereafter		1,032,200
		5,503,314
Less discount to reflect grant payable at present value		(359,637)
Grants payable, net	$	5,143,677

(9) Retirement Plan

In 2013 and 2012, the Foundation offered three Retirement Plans for the benefit of its employees: a 403(b), 401(a), 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, 2013 and 2012, employer contributions to the 401(a) retirement plan totaled $24,092 and $18,697, 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, 2013 and 2012. The current portion of excise tax expense was $16 and $10 for the years ended December 31, 2013 and 2012, respectively.

(Dollars in thousands)

(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 2023. Future minimum lease payments related to these leases as of December 31, 2013 are as follows:

2014	$	4,778
2015		4,541
2016		5,064
2017		4,350
2018		4,319
Thereafter		12,298
Total lease commitments	$	35,350

Rent expense totaled $6,072 for the year ended December 31, 2013 and $5,160 for the year ended December 31, 2012.

(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, 2013 through April 30, 2014, the date on which the consolidated financial statements were available to be issued, and determined that no additional disclosures are required.