

Reader's Guide to the Form 990-PF

The Form 990-PF, which is the annual information return for private foundations, is a public document that provides a source of useful information about a foundation's financial and charitable activities. It is also a regulatory document used by the IRS to assess excise taxes owed by the foundation, as well as to monitor certain regulated activity. Some of the underlying tax rules for private foundations are very complicated. It's not surprising, therefore, that while the Form 990-PF is a sought after public document for the information provided, it is also commonly misunderstood and misinterpreted. Also, given its many lengthy attachments, the 990-PF can be intimidating to those not familiar with the form.

The purpose of this Reader's Guide is to demystify the key information contained in the Form 990-PF. We have organized the information into responses to the most frequently asked questions we receive, as well as responses to other potentially confusing aspects of the return. In addition, we provide specific references to the location in the tax return where the information can be found.

First, it will help to explain an organizational change that happened last year. In October 2006, our trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation Trust (known informally as "the trust"), manages the investment assets. The other, the Bill & Melinda Gates Foundation ("the foundation"), distributes money to grantees. These are separate legal entities, and each organization is required to file a separate Form 990-PF; those returns can be found on our [Financials page](#). Because the foundation was formed late in the year, most of the grantmaking activity in 2006 appears on the tax return of the trust, while only a relatively small amount appears in the return for the foundation. The tax returns for 2007 and beyond will show that the trust makes grants to the foundation, and the foundation distributes those funds directly to grantees. For more information about the two-entity structure, please visit our [Bill & Melinda Gates Foundation Trust page](#).

Since most of the activity in 2006 occurred with the trust, the following key data and answers to frequently asked questions are provided for the trust. Following that is a table with key data for the foundation for its short period of operations in 2006.

Key Data Points from the 990-PF for the 2006 Bill & Melinda Gates Foundation Trust

| Topic | 2006 | Form 990-PF Reference | Comments |
|------------------------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grants Paid | \$1.546 billion | Attachment B (detail listing in Attachments C, D, & E) | The trust distributed \$1.546 billion in qualifying distribution grants. |
| Total Charitable Distributions (including grants) | \$1.733 billion | Page 8, Part XII, line 4 | This includes grants (\$1.546 billion), grant program and operating costs (\$157.0 million), and capital costs (\$30.0 million). |
| Excise Taxes | \$23.5 million | Page 4, Part VI, line 5 | The trust's excise taxes are calculated as 1.0 percent of its net investment income of \$2.349 billion, as shown on page 1, Part I, line 27b, column (b). |
| Distribution Ratio (sometimes called the "payout ratio") | 5.7 percent | Not calculated on the return | Although the return does not display this ratio, it can be calculated by dividing total qualifying distributions of \$1.733 billion (page 8, Part XII, line 4) by the net value of non-charitable use assets of \$30.300 billion (page 8, Part X, line 5). |
| Compensation of Officers, Directors, and Trustees | \$2.0 million | Page 6, Part VIII, line 1, column (c) (see detail at Statement 15) | The schedule provides a listing of compensation and benefits paid to each person. |
| Compensation of Five Highest Paid Employees (other than officers, directors, and trustees) | \$1.7 million | Page 6, Part VIII, line 2, column (c) (see detail at Statement 16) | The schedule provides a listing of compensation and benefits paid to each person. |
| Contributions by Bill Gates | \$387.6 million | Schedule B, page 1 of 1, of Part I (located three pages after page 13 of the 990-PF) | Total contributions included \$316.0 million in cash, \$17.8 million in securities, and \$53.7 million in investment management fees paid by Bill Gates on behalf of the trust. |
| Contributions by Warren Buffett | \$1.603 billion | Schedule B, page 1 of 1, of Part I (located three pages after page 13 of the 990-PF) | Contribution was 500,000 Class B Shares of Berkshire Hathaway, Inc. stock. |

Frequently Asked Questions

Form 990-PF for the Bill & Melinda Gates Foundation Trust

Payout

1. How much was the trust required to distribute in 2006?

The trust was required to distribute at least \$1.524 billion for 2006 as shown on page 8, Part XI, line 7. The trust actually distributed \$1.733 billion.

2. How is the required payout calculated?

Although the calculation is a bit complicated, the concept is simple. IRS rules require the trust to pay out 5.0 percent of its average "noncharitable-use assets," which includes investment assets such as stocks and bonds. The actual calculations involve several steps as summarized on page 8, in Parts X, XI, and XII of the tax return.

3. What types of disbursements count towards the trust's annual payout requirement?

All reasonable operating expenses count toward the payout requirement provided they further the charitable goals of the trust. This includes grants as well as the trust's operating costs. In addition, program-related investments (PRIs) are counted as part of our payout. PRIs include low-interest loans made for charitable purposes, as well as certain types of charitable-purpose equity investments. Finally, charitable-use capital costs such as furniture, computer equipment, office construction costs, etc. also count toward payout.

Administrative and Other Costs

4. How much did the trust spend in administrative overhead in 2006?

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. Total 2006 expenses for the trust on a *book* basis — i.e. accrual, not cash — were \$3.219 billion as shown on page 1 of the return, line 26, column (a). After subtracting for grants expense of \$2.933 billion (line 25), that leaves \$286.0 million in operating costs (line 24). These operating costs include three major components: (1) direct grantmaking 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 run the trust, 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 easily break out these operating costs, so we have provided this information below:

| | |
|------------------------|------------------------------------------------------------------------------|
| \$71.0 million | direct grantmaking expenses |
| 36.0 million | direct charitable activities (page 7, Part IX-A) |
| <u>179.0 million</u> | all other operating costs (referred to by some as "administrative overhead") |
| \$286.0 million | total operating costs (page 1, line 24, column (a)) |

5. What were the trust's administrative overhead expenses in 2006 as a percentage of total expenses?

The answer to this depends on how you define administrative overhead, as discussed in the answer to question 4. We believe the correct definition of administrative overhead expense would exclude direct grantmaking costs and direct charitable activities. Under this approach, the percentage for 2006 is 5.6 percent (calculated as \$179.0 million divided by \$3.219 billion). Some prefer to evaluate total operating costs as a percentage of total expenses including grants. This perspective results in a percentage of 8.9 percent (calculated as \$286.0 million divided by \$3.219 billion). The problem with this approach is that it includes costs other than administrative overhead—such as costs to make and manage grants as well as activities that directly benefit grantees. Under either method, the trust's high level of grantmaking, which makes up most of the denominator in the percentage calculation, results in a fairly modest overhead percentage relative to what is normal for most organizations.

Taxes and Other

6. I thought foundations were exempt from taxes. What kind of taxes do you pay?

Under IRS rules, foundations are exempt from income taxes, but are required to pay a 2.0 percent excise tax on net investment income. Net investment income includes rent, interest, dividends, royalties, and net realized capital gains, minus expenses paid for investment management. The income and expenses that figure into this calculation are shown on page 1, column (b) of the Form 990-PF. For 2006, the trust had taxable revenue of \$2.434 billion (page 1, Part I, line 12, column (b)), minus investment management expenses paid by the trust of \$85.4 million (line 26, column (b)), for a net income figure of \$2.349 billion (line 27b). This is the amount that's subject to the excise tax.

7. Why do some foundations pay 1.0 percent in taxes, and others pay 2.0 percent?

A foundation may reduce its excise tax rate from 2.0 percent to 1.0 percent if it disburses a sufficient amount above its required 5.0 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 2006, the trust qualified for the reduced 1.0 percent tax rate because it distributed \$1.733 billion (line 8), which was more than the \$1.587 billion (line 7), which was the distribution required to achieve the reduced tax rate.

8. Why does the trust's tax return list total assets of \$33.030 billion, while its audited financial statements list \$39.000 billion?

We arrive at the \$33.030 billion figure (page 2, Part II, line 16, column (c)), by eliminating certain investment-related transactions. This avoids counting those transactions twice, which we think provides a clearer picture of the amount of money that's actually available for the charitable activities. These investment balances are disclosed in the tax return in Statement 13. A more complete explanation of the elimination entry is provided in footnotes 3 and 4 to the Combined Statements of Financial Position for the trust and foundation, found on our [Financials page](#).

Key Data Points from the 990-PF for the 2006 Bill & Melinda Gates Foundation

| Topic | 2006 | Form 990-PF Reference | Comments |
|------------------------------------------------------------------------------------------------------|----------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grants Paid | \$6.5 million | Page 1, Part I, line 25 (d) (detail listing at Attachment E) | As explained above, the foundation was created late in 2006. The vast majority of our 2006 grantmaking was concentrated in the trust. |
| Total Charitable Distributions (including grants) | \$79.8 million | Page 8, Part XII, line 4 | Total charitable distributions included grants of \$6.5 million, program related investments of \$30.0 million, and capital investments of \$43.3 million in IRIS Holdings, LLC, the separate company which is developing the foundation's new headquarters in downtown Seattle; ownership of IRIS Holdings, LLC was transferred from the trust to the foundation in 2006. |
| Excise Taxes | \$1,959 | Page 4, Part VI, line 5 | Excise taxes in 2006 were very small due to limited taxable revenue in 2006. |
| Distribution Ratio (sometimes called the "payout ratio") | 611.0 percent | Not calculated on the return | Although the return does not display this ratio, it can be calculated by dividing total qualifying distributions of \$79.8 million (page 8, Part XII, line 4) by the net value of non-charitable use assets of \$13.1 million (page 8, Part X, line 5). |
| Compensation of Officers, Directors, and Trustees | \$0 | Page 6, Part VIII, line 1, column (c) (see detail at Statement 7) | Although the officers, directors, and trustees are listed on this schedule, no compensation was paid by the foundation in 2006. Refer to Form 990-PF for the trust for compensation information. |
| Compensation of Five Highest Paid Employees (other than officers, directors, and trustees) | \$0 | Page 6, Part VIII, line 2 | The foundation did not have any employees in 2006 (since most of the activity occurred with the trust). Refer to Form 990-PF for the trust for compensation information. |
| Contributions | \$94.7 million | Schedule B, page 1 of 1, of Part I (located two pages after page 13 of the 990-PF) | Contributions were received from the trust as explained in the introduction to the Reader's Guide. |