BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2012 and 2011

(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, 2012 and 2011, 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 auditors consider 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, 2012 and 2011, 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
May 23, 2013

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Cash	$	4,998	10,810
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust (notes 3 and 4)		36,371,337	33,778,997
Prepaid expenses and other assets		10,776	3,963
Program-related investments, net (note 5)		75,861	129,658
Property and equipment, net (note 6)		713,805	716,695
Total assets	$	37,176,777	34,640,123
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	59,420	52,502
Accrued and other liabilities		55,151	46,835
Grants payable, net (note 8)		5,111,593	5,705,046
Total liabilities		5,226,164	5,804,383
Net assets – unrestricted		31,950,613	28,835,740
Total liabilities and net assets	$	37,176,777	34,640,123

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2012 and 2011

(In thousands)

		2012	2011
Change in net assets:			
Revenues and gains:			
Contributions and other income	$	2,753	2,783
Investment income		990	622
Total revenues and gains		3,743	3,405
Expenses:			
Grants		2,673,358	4,373,582
Direct charitable expenses		229,934	165,542
Program and administrative expenses		450,928	424,043
Federal excise and other taxes (note 10)		40	119
Total expenses		3,354,260	4,963,286
Change in net assets before beneficial interest		(3,350,517)	(4,959,881)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:			
Contributions from the Trust (notes 3 and 4)		3,873,050	3,961,860
Changes in net assets of the Trust		2,592,340	(2,941,212)
Total change in beneficial interest		6,465,390	1,020,648
Changes in net assets		3,114,873	(3,939,233)
Unrestricted net assets, beginning of year		28,835,740	32,774,973
Unrestricted net assets, end of year	$	31,950,613	28,835,740

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	3,114,873	(3,939,233)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		35,709	31,731
Provisions on program-related investments		90,365	13,606
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust net assets		(2,592,340)	2,941,212
Changes in operating assets and liabilities:			
Prepaid expenses and other assets		(6,813)	(122)
Accounts payable		6,918	(5,501)
Accrued and other liabilities		8,316	2,920
Grants payable, net		(593,453)	1,151,786
Net cash provided by operating activities		63,575	196,399
Cash flows from investing activities:			
Funding of program-related investments		(36,568)	(105,436)
Purchases of property and equipment		(32,819)	(85,336)
Net cash used in investing activities		(69,387)	(190,772)
Net (decrease) increase in cash		(5,812)	5,627
Cash, beginning of year		10,810	5,183
Cash, end of year	$	4,998	10,810
Supplemental disclosure of cash flow information:			
Cash paid during the year for excise taxes	$	19	7

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; 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, 2012 and 2011, 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 debt, equity and guaranties.

Debt PRIs consist of loans outstanding through 2022 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 contributions element exists. Loans are 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 collectibility 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 limited partnerships. The Foundation records unrealized gains or losses throughout the life of the investment and realized gains or losses upon liquidation. Equity investments are recorded using either the fair value, if elected by management, equity method or cost 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 or net asset value required to either revalue or record its share of gains and losses on its investments.

Guaranties and credit enhancements are recorded as a liability at the larger of the estimated loss exposure to the Foundation or the fair value of the guaranty 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. Guaranties are measured at inception and amortized over the life of the arrangement using a systematic and rational method.

(d) 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.

(e) 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, 2012, 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%.

(f) 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, 2012, and 2011, the self-insurance liability was $1,054 and $860, respectively, and is included in accrued and other liabilities in the consolidated statements of financial position.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(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

(Continued)

(In thousands)

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 2012 and 2011, the Trust made grants to the Foundation totaling $3,873,050 and $3,961,860, 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 $36,371,337 and $33,778,997 beneficial interest in the net assets of the Trust as of December 31, 2012 and 2011, 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, 2012 and 2011 are summarized as follows:

		2012	2011
Beginning balance	$	33,778,997	36,720,209
Change in the net assets of the Trust before contributions to the Foundation		6,465,390	1,020,648
Trust contributions to the Foundation		(3,873,050)	(3,961,860)
Ending balance	$	36,371,337	33,778,997

(5) Program-Related Investments

At December 31, 2012, 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, 2012 and 2011 as follows:

		2012	2011
Debt principal amount	$	74,059	60,527
Debt uncollectible allowance and discounts		(22,991)	(15,847)
Debt interest receivable		212	192
Subtotal, debt		51,280	44,872
Equity investment amount		24,581	84,786
Program-related investments, net	$	75,861	129,658

Quarterly interest payments are due on the outstanding debt amounts at interest rates ranging between 1% and 4%. Repayment of the debt is scheduled through 2022.

(In thousands)

The Foundation has a portfolio of equity investments. The most significant of these was an investment by the Foundation, alongside a partner foundation, in an organization developing education technology. In 2011 and 2012, the Foundation made a total investment in this organization of $87,333. The Foundation wrote down this investment by $21,499 and $3,501 in 2012 and 2011, respectively, based on the investee's use of funds to further develop their technology and operate the organization. In December 2012, as intended in the original agreement, the Foundation donated its remaining equity interest of $62,333 to another organization supporting the Foundation's programmatic goals and specializing in this field.

The Foundation has guaranties outstanding of $252,700 and $48,464 at December 31, 2012 and 2011, respectively. In 2012, the Foundation entered into a five-year volume guarantee of $231,700. The Foundation recorded a liability of $13,589 and $5,462 at December 31, 2012 and 2011, respectively, which reflects the estimated fair value of the guaranties by the Foundation.

Subsequent to December 31, 2012, the Foundation entered into guaranty agreements totaling $340,000 of which $82,000 is assumed by other organizations through sub-guarantee agreements.

(6) Property and Equipment

At December 31, 2012 and 2011, property and equipment consisted of the following:

		2012	2011
Land	$	93,945	93,945
Construction-in-progress, new campus, and other		42,569	62,677
Campus buildings		568,817	532,035
Computer hardware and software		69,141	58,021
Furniture, fixtures, and artwork		13,613	13,855
Vehicles		287	150
Leasehold improvements		9,768	8,128
		798,140	768,811
Less accumulated depreciation and amortization		(84,335)	(52,116)
Property and equipment, net	$	713,805	716,695

The majority of the construction in progress and all campus buildings balances as of December 31, 2012 and 2011 relate to the construction and capitalization of the Foundation's campus headquarters in downtown Seattle, which occurred in May 2011, as well as the Foundation's Visitor Center, which was completed and capitalized in February 2012.

(Continued)

(In thousands)

(7) Functional Allocation of Expenses

At December 31, 2012 and 2011, the Foundation's functional allocation of expenses was as follows:

		2012	2011
Program expenses:			
Global Programs	$	2,448,317	3,872,696
U.S. Programs		578,979	752,987
Strategic Media Partnerships		67,570	63,442
Family Interest and other		47,352	72,013
Total program expenses		3,142,218	4,761,138
Management and general expenses		212,002	202,029
Federal excise and other tax expense		40	119
Total expenses	$	3,354,260	4,963,286

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 $5,436,881 (discounted to $5,111,593) at December 31, 2012 consisted of approved grant commitments. As of December 31, 2012, based on the specific grant agreements, grants payable are expected to be paid in the following years:

2013	$	1,944,513
2014		1,386,517
2015		860,409
2016		254,020
2017		60,007
Thereafter		931,415
		5,436,881
Less discount to reflect grant payable at present value		(325,288)
Grants payable, net	$	5,111,593

(9) Retirement Plan

In 2012 and 2011, 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.

(In thousands)

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, 2012 and 2011, employer contributions to the 401(a) retirement plan totaled $18,697 and $16,889, 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, 2012 and 2011. The current portion of excise tax expense was $10 and $14 for the years ended December 31, 2012 and 2011, 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 2021. Future minimum lease payments related to these leases as of December 31, 2012 are as follows:

2013	$	4,184
2014		3,668
2015		2,415
2016		2,307
2017		1,738
Thereafter		6,122
Total lease commitments	$	20,434

Rent expense, net of sublease income, totaled $5,375 for the year ended December 31, 2012 and $18,365 for the year ended December 31, 2011.

(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.

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(12) Subsequent Events

The Foundation evaluated subsequent events from December 31, 2012 through May 23, 2013, the date on which the consolidated financial statements were available to be issued, and determined that no additional disclosures are required.