

BILL & MELINDA  
GATES *foundation*

# 2008 Annual Report

## Progress and Pressing Needs

In a year of financial challenges, we continued to focus on helping the poor lift themselves out of poverty, improving health in the developing world, and strengthening education in the United States. Learn about how our efforts are helping people survive and, in the long term, thrive. ►



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## Letter from the CEO

**This is my first annual letter as CEO of the Bill & Melinda Gates Foundation.** I'm excited to be able to share some thoughts about the foundation's work over the past year.

Before joining the foundation in September 2008, I spent my career in business, most of it at Microsoft. As I was making the transition, I asked many people for advice. Over and over again, I heard a similar refrain: that the biggest difference between business and philanthropy is that in business, the market tells you exactly how you're doing. In philanthropy, most people said, there is no market.

Gradually, I started to take some issue with this idea. Without a doubt, businesses do get pure market feedback in many cases. Costco generates a detailed sales report every single day.

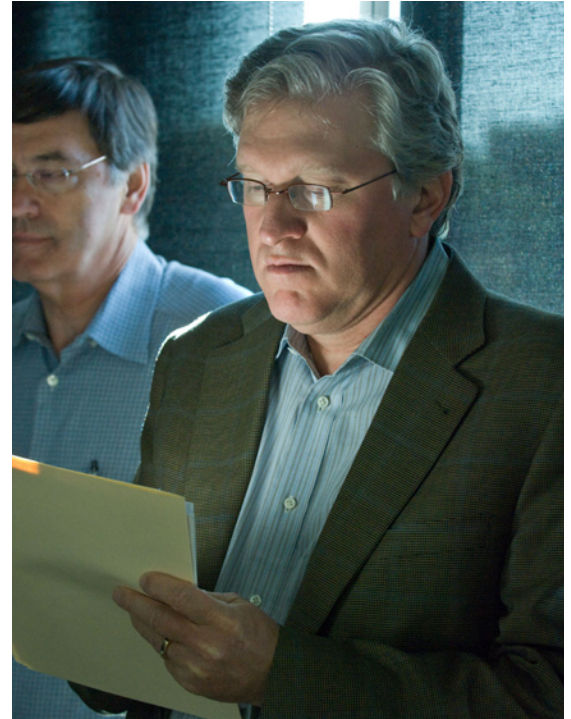
But there is more than one kind of business. When your work involves researching and developing new products and services, you can't always get real-time information about what's working and what isn't. For example, I joined the team that created Microsoft Office in 1981, and we didn't really turn the corner for 13 years. It took even longer for our work on tablet PCs to bear fruit and, 20 years later, it's still not clear where that technology is going to end up.

In short, in a business like software, sometimes you have to invest in innovations that don't reach the market for a decade or more. In those instances, you rely on the other tools at your disposal to determine if the potential reward is worth the risk. You do your homework before you take on a project. You gather feedback from others with experience and good judgment. You use whatever interim data are available to measure progress as rigorously as you can.

Foundations are in a similar position. Often, finding the best ways to help people improve their lives takes many years of research and experimentation. But businesses are obligated to pursue financial returns, which don't always coincide with social returns. Governments' ability to undertake socially beneficial research is sometimes limited by political considerations. Foundations, in contrast, have more freedom to innovate in pursuit of social returns.

Because we're taking risks, we have to accept the likelihood that some of our grants and strategies aren't going to get the results we expected. As Warren Buffett has pointed out, if some of our grants don't fail, that means we're not taking enough risks.

At the same time, we have to accept a series of responsibilities—setting clear priorities, using data effectively, relying on others' expertise—to make sure we're making the most effective grants and devising the best strategies we can. At the Gates Foundation, we work especially hard to engage a wide network of partners who bring diverse perspectives to the work we're doing together. I've spent a fair amount of my time over the past nine months getting to know our partners throughout the world. As a foundation, we depend on their willingness to challenge us when they disagree with our approach. In the end, this ongoing conversation will enable all of us to increase the impact we're having.



*Jeff Raikes, CEO, Bill & Melinda Gates Foundation.*

This has been a very hard year for foundations and nonprofits—and the near future doesn't look any easier. We've heard from our colleagues at many foundations, and we're all digging deeper into our pockets and coming out with less money. Our endowments are down, so even if we draw a higher percentage than we did last year, we don't have as much to give away. And many nonprofits have fewer and fewer resources at precisely the moment when the need for their services is greatest.

It's difficult for foundations to find fiscal balance when there are so many demands to be met. On the one hand, there are exciting opportunities presenting themselves right now. For example, the world is closer than it's ever been to a malaria vaccine. We will spend tens of millions to help fund the final phase of clinical trials, but we think it's worth it because we believe this malaria vaccine can save millions of lives.

On the other hand, there are needs that are just as pressing that demand long-term commitment and, therefore, long-term economic viability. An HIV vaccine is still at least a decade away, and we must make sure we have enough money to see that work through to the end. As we balance all these needs, we'll have to make tough choices. Even though our payout has gone up steadily in recent years, in the current environment it's unlikely that we'll be able to continue to increase our spending.

The good news is that the work our partners are doing on the ground still holds great promise for improving people's lives.

In March, I traveled to Kenya and Zambia to see some of that work. One of the sites I visited was a milk chilling plant in the Kenyan town of Ol Kalou. The plant, which is part of a project with Heifer International, gives almost 3,000 dairy farmers the ability to chill their milk so that it won't spoil before it is transported to a processing plant. This facility opens up a whole new market opportunity for them.



*James Nganga tests milk at the Ol Kalou chilling plant, Kenya.*



*Francis Kamau, an agricultural trainer, talks with Jeff Raikes and Sylvia Mathews Burwell, president of the Global Development Program, Ol Kalou, Kenya.*

I was impressed by the chilling facility, but what really struck me were all the additional services attached to it. The plant had become a central hub where dairy farmers in a radius of 50 kilometers could get access to financial services, buy feed, and seek veterinary care for their cattle.

This is one kind of investment foundations are well-suited to make. At some point, these agricultural hubs may be profitable. In that event, they will draw interest from the private sector. But businesses won't take that risk unless somebody provides more evidence that the business model works. I am optimistic that our project with Heifer International will do just that, while helping thousands of farmers escape poverty and hunger.

I have visited many different sites that accomplish a similar objective. In Chaintanda, Zambia, malaria is down about 80 percent in just five years because the community has embraced a comprehensive approach to malaria control. Results like these are leading the malaria community to set its sights higher (as we describe in the Global Health Program section of this report). In Washington, D.C., Friendship Collegiate Academy is demonstrating new ways of teaching that are helping low-income students earn postsecondary degrees. (We talk more about exemplary high schools in the United States Program section of this report.)

In Ol Kalou, I struck up a conversation with a man named Francis, an agricultural trainer who works through the dairy hub. To me, he has one of the greatest jobs in the world. I'd enjoy spending my days the way Francis does, talking to farmers about their work.

Francis was working with a married couple, David and Lucy, to help their cow produce more milk. David and Lucy told me they used to have three cows, but they sold two so they could send their daughter to college, where she's working on a degree in hotel management. So their whole livelihood now depends on that single cow and the few acres they farm.

Francis helped them devise a plan to store feed, which will keep the cow well-nourished. By properly storing their feed and following good husbandry practices, Francis said, they could triple their milk production to more than 10 liters per day. That might be the difference between their daughter graduating from college or running out of tuition money.

It was a small thing, maybe—a few farmers talking about feed storage. But for David and Lucy, the ramifications were a happy and rewarding future for their daughter. That day, I was humbled to see the impact that philanthropy can have.

As we look toward a future of economic uncertainty, I have two priorities as CEO to help the Gates Foundation increase our impact per dollar spent.

The first is to make sure our internal processes run smoothly. One of my key responsibilities as CEO is to create an environment in which our staff can do its best work. Earlier this year, we surveyed all our employees for the first time ever. We were heartened by many of the findings—99 percent of respondents are proud of what the foundation stands for—but our staff also told us that it can be hard to get things done at the foundation. We need to clear some hurdles so we can all focus our energy on the people we aim to help. We're currently developing a plan to address the results of the survey.

My second priority is to improve the quality of our external partnerships, which are our lifeblood. I know we are not doing as good a job as we can in this area. Starting with me, everybody at the foundation needs to make a concerted effort to listen more carefully to what our partners in the field have to tell us.

To that end, we are working with the Center for Effective Philanthropy to survey all of our active grantees this fall. In the past, we've received some feedback from our grantees that pointed out areas where they thought we were doing well and other areas, particularly with respect to how we interact with them, where we had room to improve. (You can read about what we learned on our web site.) This year's survey will give us a fuller picture than we've ever had before. We'll get the first cut of results back in January, and my leadership team and I will devote time next year responding to what we hear and building on our current efforts to strengthen our relationships with our partners. We will also post the findings of our grantee perception report on our web site.

As we address these important issues, we will be guided first and foremost by how this work contributes to our overarching goal of helping improve the lives of people like David and Lucy. In that spirit, I look forward to reporting back in next year's letter about how we've acted on the information we've received from our employees and our partners—and how we plan to keep increasing the impact of every grant we make. In the end, impact is why we're here.

Sincerely,



Jeff Raikes

Chief Executive Officer  
Bill & Melinda Gates Foundation  
June 2009

# Global Development Program Highlights



*Yuster Masano holds bags of maize seeds provided by Taseed, an AGRA grantee. Taseed also provides sesame and sunflower seeds and training in proper agricultural techniques to small farmers located near Morogoro, Tanzania.*

**The Global Development Program** was created in 2006 with the goal of increasing opportunities for people in developing countries to lift themselves out of hunger and poverty.

The statistics are sobering: Approximately 1 billion people live in chronic hunger, and more than 1 billion live in extreme poverty. Yet we are convinced that hunger and poverty are solvable problems. Progress—on a large scale—is possible.

We've picked a few areas of focus where we think we can have the greatest impact, and we have spent the past few years developing and beginning to execute on our strategies for these areas.

In this regard, 2008 was a year of significant progress for us. We now have strong teams and solid strategies in place for each of the four areas we've chosen: Agricultural Development, Financial Services for the Poor, Policy and Advocacy, and Special Initiatives. Each of these initiatives makes grants to attack the major causes of hunger and poverty at their root.

Still, unquestionably, 2008 was a year of painful setbacks in the broader view of hunger and poverty—and for the people our program aims to serve. A food security crisis pushed millions of people deeper into hunger and poverty. And the global financial crisis threatens to slow growth in developing countries and to cut into aid budgets in developed countries.

We believe 2008 will be remembered as a turning point in the world's efforts to address hunger and poverty. We are committed to helping ensure that the challenges of the past year strengthen, and not weaken, the world's resolve to solve them.

On the following pages are a few examples of how we're working to help people in developing countries overcome hunger and poverty and why we're optimistic about what we can achieve together with the many partners who share our passion for this cause.

## Agricultural Development

The food security crisis has helped reveal a larger crisis: Most of the world's poorest people rely on agriculture for their food and incomes but struggle to grow and sell enough to feed their families.

Our agricultural development strategy takes a comprehensive approach to the challenges poor farmers face: from investing in improved seeds and soils and supporting effective farm management practices to expanding farmers' access to markets and funding research. In January 2008, we announced a package of six grants that illustrate the range of our strategy. We also created a new section on our web site to help people learn more about the grants and follow progress, setbacks, and lessons we've learned.

One of these grants, to the International Rice Research Institute (IRRI), aims to develop improved varieties of rice and deliver them to 400,000 farmers in sub-Saharan Africa and South Asia. Rice is a critical crop for the world's poor—approximately 2.5 billion people consume it—and demand is growing. But production isn't keeping pace, and rice crops are often ruined by droughts, floods, and other threats.

The IRRI grant pairs rice breeders with farmers in a process called “participatory breeding.” This method ensures that the improved varieties of rice meet the needs of the farmers who will eventually plant them.

We've seen great progress so far. IRRI researchers have made a remarkable breakthrough, breeding a rice variety that can “hold its breath” under water for nearly three weeks. Imagine the fields of two farmers, side by side in flood-prone Bangladesh—one planted with the new seed, and one without. The difference between the two is a plentiful crop and a step toward prosperity or a failed crop and a step further into poverty. Researchers have also been successfully developing new rice varieties to withstand drought and excess salt in soils.

IRRI and its partners have already helped develop and distribute hundreds of tons of improved rice seeds to farmers, and they are working closely with farmers, governments, and the private sector so that many more poor rice farmers are able to improve their food security and increase their incomes.



*A researcher at IRRI inspects flourishing flood-tolerant rice varieties (right), planted next to traditional varieties, Los Baños, Philippines.*



## Financial Services for the Poor

In recent years, microcredit—providing small loans to the poor for income-generating purposes—has enjoyed increasing success. Microcredit has shown that poor people want and will pay for financial services.

Loans are important, but they're not enough. We've learned valuable lessons about what kinds of financial services poor people use and want through our grantees and others in the field. One of our grantees, the Financial Access Initiative (FAI), a research consortium, has shown compelling evidence that poor people, like all people, need a range of financial services to manage risks, take advantage of opportunities, and increase their financial security.

One of FAI's research projects documented how poor people without formal financial services manage their money. In Bangladesh, a couple named Hamid and Khadeja used 12 different informal methods to manage a monthly income of \$70. They especially needed safe places to save and accumulate their money.

Hamid and Khadeja's story is not unique: More than 2 billion people in the developing world are forced to turn to costly and risky approaches, such as storing money in mattresses.

In 2008, we approved a strategy that focuses on increasing safe, affordable ways for the poor to save. One of the biggest challenges in providing savings accounts to the poor is cost. Bricks-and-mortar bank branches are simply too expensive for banks to build and operate in the places where poor people live.

One of our grantees, Opportunity International, is tackling this problem by using technology and a new business model to take banking out of bank branches and into the neighborhoods and rural communities where poor people live and work. The organization's major innovation has been to develop a fleet of mobile banking units—trucks equipped with satellite technology, fingerprint scanning for identification purposes, and ATM services.



In Malawi, where 85 percent of the population lives in rural areas, formal banking services are scarce. But Opportunity International's mobile trucks and other banking outlets are now serving more than 200,000 savings account holders—in addition to providing loans and insurance services—with much greater convenience for the poor and at a fraction of the cost of a conventional bank.

*A mother and child visit an Opportunity International mobile banking vehicle, Mchinji village, Malawi.*



*A farmer in Yahmagala East, Sri Lanka, who received seeds and training from Mercy Corps, shows how his new crop (left) is outperforming his old crop.*

## Special Initiatives

Most of our work, such as agricultural development and financial services for the poor, is focused on long-term, large-scale solutions to hunger and poverty. But as the food security crisis demonstrated, sometimes rapid and flexible action is required.

As part of the foundation's response to this crisis, we awarded \$18.9 million in grants to help those most affected. The largest grant, to the World Food Programme, helps feed young children and pregnant and breastfeeding mothers in Niger, Côte D'Ivoire, and Burkina Faso, where malnutrition rates are staggering.

In emergencies, there is often a gap between immediate relief efforts and longer-term recovery. A farmer might receive food in the days after a crisis, but she may not be able to purchase supplies to grow food for the next season. A grant to Mercy Corps exemplifies how our response is helping to bridge that gap.

In Sri Lanka, for example, Mercy Corps provided not only immediate food assistance but also seeds and other support. As a result, farmers there will have a sustainable way to generate food and income in the future.

These short- and medium-term efforts are helping address some of the consequences of the food security crisis, but we can't forget the causes. Despite the fact that a majority of the world's poorest people rely on agriculture for their livelihoods, attention to and investments in agriculture have been lagging for years.

Our Policy and Advocacy team is working to help highlight the need for effective, sustained investments—by both developed and developing countries—in agriculture and other areas that give poor people opportunities to escape the cycle of hunger and poverty altogether.

## Global Health Program Highlights



*A student conducts research at the Institute of Biomedical Science, Fudan University, in Shanghai, China.*

**We have been working in global health for almost a decade.** The results we are seeing from our investments—and from the investments of other funders, who are focusing more than ever before on the health of people in poor countries—prove one thing: Global health spending works.

Given the right approaches, it is possible to save hundreds of thousands of lives in a remarkably short period of time. For example, in the past nine years, measles deaths have dropped by more than 74 percent, thanks to a concerted effort to vaccinate children in hard-hit regions. In our 2005 Annual Report, we wrote about the Malaria Control and Evaluation Partnership in Africa (MACEPA) program in Zambia. Now, results show that by increasing the distribution of bed nets, spraying with insecticides, and providing greater access to prevention and treatment services, Zambia has cut malaria cases in half.

In addition to the foundation's investments, governments and organizations around the world are working together in new ways to save lives. For example, an international public-private institution called The Global Fund to Fight AIDS, Tuberculosis, and Malaria has helped detect and treat 4.6 million cases of tuberculosis worldwide and delivered 70 million insecticide-treated bed nets and 74 million malaria drug treatments.

Global health is a complex and vast undertaking, however, and there are many urgent issues that still haven't received the attention they deserve. For example, the diagnostic test for tuberculosis doesn't work very well, but there hasn't been a new one developed for more than 100 years. With sufficient investments, we can develop an accurate and rapid test for TB that will dramatically reduce transmission of a disease that kills 1.7 million people every year. These are the sorts of opportunities we tried to capitalize on in 2008.

## Goals for Malaria Eradication

Building on recent successes in malaria control—like those in Zambia—we have, with our partners, set the long-term ambition of eradicating the disease altogether. At the United Nations Millennium Development Goals Malaria Summit in September, world leaders endorsed the Global Malaria Action Plan (GMAP), which lays out a comprehensive, multibillion dollar strategy to help reduce malaria in the short term and also to help move toward eradication in the long term.

The GMAP's roadmap to eradication includes increasing access to currently available interventions and funding the research and development of new interventions.

The GMAP was created with input from more than 250 experts from 65 international institutions and 30 countries and regions where malaria is endemic. The scope of the collaboration and the GMAP's ambitious targets are unprecedented in the field.

## Progress in Vaccines

Vaccines are one of the most effective health interventions ever developed. However, in the past, new vaccines have not reached poor countries until a decade or more after they're introduced in rich countries. With our partners, we have made historic progress toward closing that gap.

In 2006, a new rotavirus vaccine was introduced in developed countries and, with a donation from Merck & Co., in Nicaragua as well. This marked the first time a vaccine was introduced in developed and developing countries in the same year, and it represented a major breakthrough for health equity. One of our partners, the GAVI Alliance, announced in November that it will continue to support rotavirus vaccination in Nicaragua, and it is expanding the program to other low-income countries.

The world is also making progress in preventing pneumococcal disease (pneumonia, meningitis, and sepsis), the leading cause of vaccine-preventable death for children under 5. Earlier this



*Women receive mosquito nets in the Babile district, Ethiopia.*



*A child receives vaccinations at Manhiça Health Centre, Mozambique.*

year, with a vaccine donation from Wyeth, Rwanda became the first low-income country to introduce the pneumococcal vaccine. The list of developing countries approved by GAVI for pneumococcal vaccine is now at 11, and 30 more have expressed interest in partnering with GAVI to introduce the vaccine.

Through expansive partnerships involving many governments and international organizations, many millions of children in the developing world will have access to the same vaccines as children in rich countries, and many of the 2 million lives now lost to rotavirus and pneumococcal disease will be saved.

## Better Vaccines Through Advanced Market Commitments

We expect even more progress on the pneumococcal vaccine in particular. A new health financing tool, called Advanced Market Commitments (AMC), is designed to lead to the development of an even better vaccine against pneumococcal disease. (The current vaccine protects against seven strains of the disease, which is effective in many countries, but the AMC targets a vaccine that will address 10 to 13 strains.)

AMCs are a creative response to the fact that there aren't vaccines for many diseases that affect poorer countries, in large part because governments and people living there often can't pay for them. Without a market, there's no incentive for pharmaceutical companies to research and develop these products.

Under an AMC, donors commit money to guarantee the price of vaccines once they've been developed. An independent advisory group makes decisions in advance of the AMC about which diseases to target, the criteria for effectiveness, and how much the vaccine will cost.

In 2007, we joined the governments of Canada, Italy, Norway, Russia, and the United Kingdom to pledge \$1.5 billion for the pneumococcal AMC—the first ever AMC—which will launch later this year.

The lessons learned from the pneumococcal AMC will guide decisions about potential future AMCs for other diseases, such as malaria and tuberculosis.



*Rotavirus vaccine for distribution at Dong Anh District Hospital, Hanoi, Vietnam.*

## United States Program Highlights



*Biology students at LaGuardia Community College, New York, N.Y.*

**In the United States, we work toward one overarching goal:** more opportunity for everyone in this country. Bill and Melinda Gates believe an excellent education is the most direct path to opportunity, especially for low-income young people, so that is the focus of our efforts.

Since 2000, we have invested \$4 billion in schools and scholarships. In 2008, we deepened and extended those investments based on lessons we have learned over the years.

Most importantly, we learned from students that the hypothesis we started with was correct: All students can succeed, given the right support. In our 2006 annual report, we highlighted the great progress in New York City, where students are graduating from dozens of new high schools at impressive rates. In our 2007 annual report, we described the work of Green Dot Schools, one exemplary partner that is getting excellent results with the same low-income students who struggled in other schools.

However, we also learned that changing the size and structure of schools, which had been at the root of our strategy, often isn't enough by itself. In the years to come, our grants will also focus on effective teaching. This approach aligns with a growing body of research showing that effective teaching is the most important school-based factor in student achievement.

Finally, we learned that graduating from high school isn't enough. In today's economy, a postsecondary credential is no longer just nice to have; it's virtually a requirement for jobs that pay enough to support a family. Yet only a quarter of low-income students ever get a postsecondary degree.

In November, we held a forum in Seattle to report on our progress to many of our partners. Our leadership team outlined our strategy for achieving two ambitious education goals: ensuring that 80 percent of students graduate from high school with the knowledge and skills they need to complete college, and doubling the number of students who earn a postsecondary degree or certificate by age 26.



*Students in a chemistry class at Hidalgo Early College High School, Hidalgo, Texas.*

## Hidalgo Early College High School

Hidalgo Early College High School is one of the schools that proves all students can succeed with the right support. Hidalgo is located in the Rio Grande Valley of Texas, one of the poorest places in the United States. More than half the students at Hidalgo have a parent who never finished high school. And yet Hidalgo's graduation rate is almost 90 percent, more than 10 percentage points higher than the Texas average. How does Hidalgo do it? Part of the answer is that it's an early college high school, which means students complete high school while taking rigorous college courses. Many of them earn so many credits that they graduate not only with their high school diploma but also with an associate degree.

The early college model works, especially for students who belong to groups that are under-represented at colleges, because it helps them get further, faster—and for less money, which is critically important for low-income students. Hidalgo is one of more than 200 early college high schools created since 2002 with support from the Gates Foundation and other partners.

Bill and Melinda Gates visited Hidalgo in October 2008 to get a better understanding of the school's success. In meetings with students and teachers, two themes came up over and over again. First, high expectations. All the students Bill and Melinda talked to expected to continue their education after graduation. Second, close relationships between teachers and students. Hidalgo extended the school day by a half hour so it could fit tutoring into the curriculum, and the students thrive on the one-on-one contact with their teachers. One student told Melinda that Hidalgo “is like a second home.”

## Moving Toward Common Standards

One of our goals is to help promote the shared conviction that all students should graduate from high school ready for college.

In 2005, two key partners, Achieve and the National Governors Association (NGA), co-sponsored the National Education Summit on High Schools, where Bill Gates called on the governors to publish data that tracks graduation rates clearly. At the time, many states calculated the rates in a way that obscured the extent of the dropout problem.

Bill's speech was part of a much larger push among education leaders to get an accurate picture of how many students were graduating and how many were dropping out. Eventually, all 50 governors agreed to use a single, accurate, and clear method of calculating graduation rates.

The leadership of the states paved the way for federal action. In April 2008, Secretary of Education Margaret Spellings introduced new rules that require all states to report graduation rates based on the formula agreed upon by the governors.



*Graduation for students of Bronx Lab School, a foundation-funded high school in New York, N.Y.*

This is an important milestone as states move together toward adopting more rigorous education standards that will help their students graduate prepared for college-level work. Working through the Council of Chief State School Officers, Achieve, and NGA, many state leaders have committed to raising standards.

These organizations built enough consensus around the issue of standards that the administration and Congress made them a key part of the stimulus package.

### Accelerating Learning

One of the reasons so many low-income students fail to complete college is that their high schools don't prepare them to do the work. Forty-three percent of students at open-admission two-year community colleges—the most affordable and convenient options for many students—need some kind of remediation when they get there.

But remedial education was never supposed to be a cornerstone of higher education. It's happened by default as a result of the shortcomings of so many high schools. Consequently, postsecondary institutions don't see remediation as part of their core mission, they haven't thought about it strategically, and they don't have sufficient evidence about what works and what doesn't.

In December 2008, we made a grant to MDC Inc., an organization that works with community colleges, to help start closing that knowledge gap. MDC's Achieving the Dream network includes 84 community colleges. Our grant will work with up to 15 of those colleges and five states to analyze data about which instructional practices, curricula, and technology help more students catch up quickly and eventually graduate. This research is a first step in a much larger process of addressing one of the hidden barriers to college completion.





*Students in a broadcasting class at LaGuardia Community College, New York, N.Y.*

### Additional Priorities in the United States

The United States Program also includes initiatives that complement our core investments in high school and postsecondary education.

For more than a decade, we have been working with libraries across the country to help them provide computers and high-speed Internet access. Now we are helping them develop strategies to sustain technology programs over the long term.

In our home state of Washington, we collaborate with hundreds of partners on a variety of projects. In 2008, we made progress on two long-term projects. In early childhood education, we helped launch two pilot sites to test the most effective approaches to helping young children learn. In family homelessness, after wrapping up our successful Sound Families program in 2007, we spent 2008 incorporating more preventative measures into our strategy to reduce family homelessness in Washington by 50 percent.

Throughout the United States, we continue to see evidence that when people have opportunities, they seize them. We are optimistic that, with our partners, we can help millions of people in this country get access to more opportunities.

# Overview of Financial Statements

The condensed statements of financial position, activities, and grants paid for the years ended December 31, 2008 and 2007, are presented in this section.

In October 2006, to prepare for significant future growth and to separate our grantmaking from the management of the endowment, the trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs.

Though their purposes are linked, the foundation and the trust are distinct legal entities. For this reason, each entity has a separate set of books and undergoes an independent audit by KPMG, our external auditors. KPMG issued an unqualified opinion on the financial statements of each entity as of December 31, 2008, which are presented in conformity with generally accepted accounting principles (GAAP). Audited financial statements for the trust and the foundation may be viewed in the Financials section of our web site .

Although the entities have separate audited financial statements, given their related purposes and our desire for transparency, we believe it is helpful to present information in a way that allows readers to understand the financial position of the two entities on a combined basis. For this reason, the annual report contains combined financial statements with appropriate eliminating entries and significant explanatory notes.

As shown in the accompanying financial statement and grants paid summary, the following are selected financial highlights as of December 31, 2008, for the combined entities:

- Endowment assets available for charitable activities totaled \$29.5 billion. This includes a 20 percent reduction in the endowment portfolio value during 2008 as a result of the general economic decline.
- Total revenues for the year included \$1.8 billion in Berkshire Hathaway “B” shares contributed by Warren Buffett, and \$183 million in investment management services contributed by Bill Gates.
- There is a \$5.3 billion liability for future-year payments on already approved grants.
- Grants expense on an accrual basis totaled \$3.6 billion. On a cash basis, the combined entities paid approximately \$2.8 billion in grants and direct charitable activities.
- In 2009, we expect total cash payout for grants and other charitable expenses to be approximately \$3.5 billion, excluding certain one-time capital expenses related to construction of the new campus and development of a new IT system.

Additional information can be found in the 2007 annual information return, called the Form 990-PF Return of Private Foundation, which is available for the trust and foundation on our web site. Each entity will file its 2008 Form 990-PF with the IRS later this year, with copies posted to the foundation’s web site.

**Alexander S. Friedman**  
Chief Financial Officer

## 2008 Combined Statements of Financial Position

Amounts in thousands

ASSETS	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED DEC. 31, 2008 <sup>(1)</sup>	TOTAL COMBINED DEC. 31, 2007 <sup>(1)</sup>
Cash and cash equivalents	\$ 305,184	\$ 10,283	\$ -	\$ 315,467	\$ 445,873
Investments	29,670,616 <sup>(2)</sup>	-	(586,847) <sup>(3,4)</sup>	29,083,769	38,099,517
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust		29,574,486 <sup>(5)</sup>	(29,574,486) <sup>(5)</sup>	-	-
Investments loaned under secured lending transactions	1,261,902 <sup>(3)</sup>	-	(1,261,902) <sup>(3)</sup>	-	-
Investment sales receivable	645,808 <sup>(4)</sup>	-	(645,808) <sup>(4)</sup>	-	-
Interest and dividends receivable	141,913	-	-	141,913	200,733
<b>Subtotal, investment and endowment assets</b>	<b>32,025,423</b>	<b>29,584,769</b>	<b>(32,069,043)</b>	<b>29,541,149</b>	<b>38,746,123</b>
Federal current and deferred excise tax receivable	44,119	-	-	44,119	-
Program related investment loans receivable, net	-	29,535	-	29,535	30,296
Prepaid expenses and other assets	-	12,402	-	12,402	2,055
Property and equipment, net	-	262,996 <sup>(6)</sup>	-	262,996	142,548
<b>Total assets</b>	<b>\$ 32,069,542 <sup>(8)</sup></b>	<b>\$ 29,889,702 <sup>(9)</sup></b>	<b>\$ (32,069,043)</b>	<b>\$ 29,890,201</b>	<b>\$ 38,921,022</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts payable and other accrued liabilities	\$ 499	\$ 52,356	\$ -	\$ 52,855	\$ 33,786
Payable under investment loan agreements	1,295,252 <sup>(3)</sup>	-	(1,295,252) <sup>(3)</sup>	-	-
Investment purchases payable	1,199,305 <sup>(4)</sup>	-	(1,199,305) <sup>(4)</sup>	-	-
Accrued and other liabilities	-	22,928	-	22,928	21,908
Federal current and deferred excise tax payable	-	-	-	-	81,728
Grants payable, net	-	5,263,223 <sup>(7)</sup>	-	5,263,223	4,423,063
<b>Total liabilities</b>	<b>2,495,056</b>	<b>5,338,507</b>	<b>(2,494,557)</b>	<b>5,339,006</b>	<b>4,560,485</b>
<b>NET ASSETS:</b>					
Net assets, unrestricted	29,574,486	24,551,195	(29,574,486) <sup>(5)</sup>	24,551,195	34,360,537
<b>Total liabilities and net assets</b>	<b>\$ 32,069,542 <sup>(8)</sup></b>	<b>\$ 29,889,702</b>	<b>\$ (32,069,043)</b>	<b>\$ 29,890,201</b>	<b>\$ 38,921,022</b>

<sup>1</sup> In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

<sup>2</sup> Investments managed by the trust are comprised primarily of bonds, notes, equities, and short-term investments.

<sup>3</sup> The trust participates in securities lending transactions with a third-party investment company whereby the trust lends certain investments in exchange for a premium. Under the terms of the securities lending agreement, the trust requires collateral of a value at least equal to 102 percent of the value of the loaned investments. Consistent with generally accepted accounting principles (GAAP), these transactions are recorded in the audited financial statements as an asset to reflect the investments on loan, and as a liability to return the collateral for the loaned assets. This “double counting” tends to display a higher dollar value of the trust’s investment assets than would exist if only the net value was presented. For this reason, an eliminating entry is shown in the Elimination Adjustments column to remove the effects of the security lending program. In this way, the reader is provided with a clearer picture of the net endowment assets available for charitable purposes at year end.

<sup>4</sup> The trust’s investments are accounted for on a trade date, rather than a settlement date, basis. This means that at any given time there are significant investment receivables and payables outstanding related to trades that are in process. These transactions are recorded in the audited financial statements as required by GAAP. Eliminating these receivables and payables as shown in the Elimination Adjustments column gives the reader a clearer picture of the actual endowment balance available for charitable purposes at year end.

<sup>5</sup> The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation’s charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation’s financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated to avoid double counting of the same net assets.

<sup>6</sup> Property and equipment for the foundation includes land and construction in progress related to the foundation’s new campus headquarters that is being constructed on a 12-acre site in downtown Seattle. IRIS Holdings, LLC (IRIS) is the legal entity which owns the land and will construct the headquarters for the foundation’s use. Because the foundation is the sole owner in IRIS, the financial statements of the two entities are presented here on a consolidated basis.

<sup>7</sup> Grants payable reflects the total amount of grants approved for payment in future periods (\$5.6 billion in 2008 and \$4.9 billion in 2007), discounted to the present value as of December 31, 2008 and 2007, as required by GAAP.

<sup>8</sup> Total assets, total liabilities, and total liabilities and net assets per the audited financial statements will not match the amounts shown in the trust’s 2008 990-PF tax return because the audited financial statements include adjustments required under GAAP to reflect securities lending transactions and investment receivables and payables as described in notes 3 and 4 above. These transactions are eliminated for purposes of presentation in the tax return, as they are in this presentation by the Elimination Adjustments, in order to portray more clearly for the reader the endowment assets available for charitable purposes. After removing the effect of these adjustments, the following amounts will appear in the trust’s 2008 990-PF: total assets of \$29,574,985; total liabilities of \$499; and total liabilities and net assets of \$29,574,985.

*General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.*

## 2008 Combined Statements of Activities

Amounts in thousands

	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED DEC. 31, 2008 <sup>(1)</sup>	TOTAL COMBINED DEC. 31, 2007 <sup>(1)</sup>
<b>CHANGE IN NET ASSETS</b>					
<b>REVENUES AND GAINS</b>					
Contributions	\$ 1,982,275 <sup>(2)</sup>	\$ 10,428 <sup>(2)</sup>	\$ -	\$ 1,992,703	\$ 3,129,335
Investment income (loss), net	(7,830,420) <sup>(4)</sup>	1,524	-	(7,828,896)	4,953,021
<b>Total revenues and gains</b>	<b>(5,848,145)</b>	<b>11,952</b>		<b>(5,836,193)</b>	<b>8,082,356</b>
<b>EXPENSES</b>					
Grants	3,307,259	3,643,780 <sup>(5)</sup>	(3,307,259) <sup>(3,5)</sup>	3,643,780	3,048,299
Direct charitable expenses	-	54,086 <sup>(6)</sup>	-	54,086	41,842
Program and administrative expenses	1	352,166	-	352,167	223,148
Federal excise and other taxes (benefit)	(79,915) <sup>(7)</sup>	31	-	(76,884)	61,046
<b>Total expenses</b>	<b>3,230,345</b>	<b>4,050,063</b>	<b>(3,307,259)</b>	<b>3,973,149</b>	<b>3,374,335</b>
Changes in net assets before beneficial interest	(9,078,490)	(4,038,111)	3,307,259	(9,809,342)	4,708,021
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:					
Contributions from the Bill & Melinda Gates Foundation Trust	-	3,307,259 <sup>(3)</sup>	(3,307,259) <sup>(3)</sup>	-	-
(Decrease) in net assets due to beneficial interest in Bill & Melinda Gates Foundation Trust	-	(9,078,490) <sup>(8)</sup>	9,078,490 <sup>(8)</sup>	-	-
Change in net assets	(9,078,490)	(9,809,342)	9,078,490	(9,809,342)	4,708,021
Unrestricted net assets, beginning of year	38,652,976	34,360,537	(38,652,976) <sup>(8)</sup>	34,360,537	29,652,516
<b>Unrestricted net assets, end of year</b>	<b>\$ 29,574,486</b>	<b>\$ 24,551,195</b>	<b>\$(29,574,486)</b>	<b>\$ 24,551,195</b>	<b>\$ 34,360,537</b>

<sup>1</sup> In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

<sup>2</sup> Contributions received by the trust in 2008 were provided primarily by Warren Buffett and Bill Gates. Approximately \$1.8 billion was received from Warren Buffett in the form of 451,250 shares of Berkshire Hathaway “B” stock. Bill Gates contributed approximately \$183 million in contributed investment management services. Also, several donors from the general public made contributions to the trust and foundation.

<sup>3</sup> The foundation received \$3.3 billion in contributions from the trust in 2008, which were used to fund the foundation’s operations comprised of grants to third parties and other direct charitable expenses, operating costs, and capital and program related investments. When presenting the financial statements of the two entities on a combined basis, the grant from the trust to the foundation must be eliminated, as shown in the Elimination Adjustments, in order to avoid double counting of the funds.

<sup>4</sup> Includes interest and dividends received, plus realized and unrealized gains and losses on the endowment portfolio, less investment management expenses. The trust maintains a conservative approach to endowment management, aiming for a 5 percent return each year, since Bill and Melinda intend to donate more of their financial resources over time.

<sup>5</sup> Grant expense includes cash payments made during 2008, as well as an adjustment to record expenses related to grants approved for payment in future years. The future grants payable portion is then discounted to the present value as of December 31, 2008, as required by generally accepted accounting principles (GAAP). Presented in the accompanying grants paid summary is grant expense on a cash basis, consistent with the reporting basis required in the annual 990-PF tax return. In 2008, the trust granted \$3.3 billion to the foundation, which must be eliminated in the Elimination Adjustments to avoid double counting of grants when the financials are presented on a combined basis.

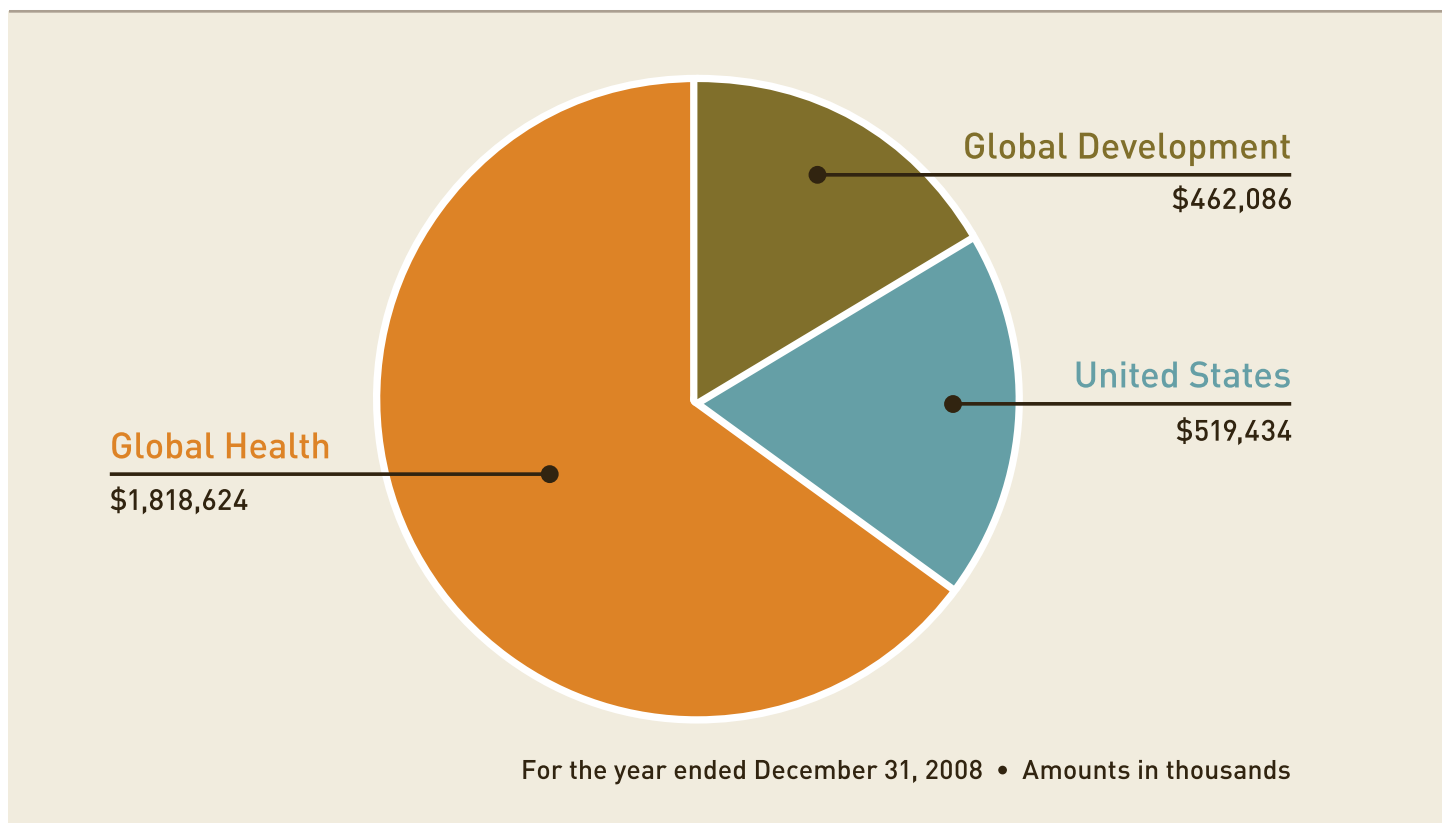
<sup>6</sup> Direct charitable expense includes payments made to third parties for charitable purposes. Examples of direct charitable expenses include payment for consulting services provided for grantees’ benefit and travel costs to bring grantees and other participants together. Direct charitable expenses, working in tandem with grants, are an effective means of achieving charitable goals and are disclosed separately in the audited financial statements to distinguish these from operational costs of running the trust.

<sup>7</sup> The trust is subject to federal excise taxes imposed on private foundations at 2 percent, or at 1 percent if certain conditions are met. The excise tax is imposed on net taxable investment income, as defined under federal law, which does not include all components of net investment income as presented in these financial statements on a GAAP basis. The trust qualified for a 1 percent tax rate in 2008.

<sup>8</sup> The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation’s charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation’s financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated in the Elimination Adjustments to avoid double counting of the same net assets.

*General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.*

## 2008 Grants Paid Summary



For the years ended December 31, 2008 and 2007  
Amounts in thousands

PROGRAM AREAS	2008	2007
Global Development	\$ 462,086	\$ 308,041
Global Health	1,818,624	1,220,008
United States	519,434	483,626
<b>Total Grants Paid</b>	<b>\$ 2,800,144</b>	<b>\$ 2,011,675</b>