



BILL & MELINDA GATES FOUNDATION

Consolidated Financial Statements

December 31, 2016 and 2015

(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, 2016 and 2015, 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, 2016 and 2015, 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 10, 2017

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Financial Position

December 31, 2016 and 2015

(In thousands)

Assets	2016	2015
Cash	\$ 17,508	21,719
Prepaid expenses and other assets	18,870	20,550
Beneficial interest in the net assets of Bill & Melinda Gates Foundation Trust (notes 3 and 4)	40,316,940	39,514,534
Program-related investment assets, net (note 5)	332,540	181,293
Property and equipment, net (note 6)	641,049	674,823
Total assets	<u>\$ 41,326,907</u>	<u>40,412,919</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 50,893	42,116
Accrued and other liabilities	29,901	47,913
Grants payable, net (note 8)	8,071,191	7,464,404
Program-related investment liabilities (note 5)	8,698	24,194
Total liabilities	<u>8,160,683</u>	<u>7,578,627</u>
Net assets – unrestricted	<u>33,166,224</u>	<u>32,834,292</u>
Total liabilities and net assets	<u>\$ 41,326,907</u>	<u>40,412,919</u>

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Activities

Years ended December 31, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Change in net assets:		
Revenues and gains:		
Contributions and other income	\$ 13,438	4,504
Investment income	2,094	2,239
Total revenues and gains	<u>15,532</u>	<u>6,743</u>
Expenses (note 7):		
Global programs	4,608,436	5,298,405
U.S. programs	544,620	591,933
Other charitable programs	363,068	187,611
Programmatic support	58,917	59,974
Total program expenses	5,575,041	6,137,923
Management and general expenses	212,565	180,560
Total expenses	<u>5,787,606</u>	<u>6,318,483</u>
Change in net assets before beneficial interest	<u>(5,772,074)</u>	<u>(6,311,740)</u>
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust (note 4):		
Contributions from the Trust (note 3)	5,301,600	4,684,198
Change in net assets of the Trust	802,406	(3,925,498)
Total change in beneficial interest	<u>6,104,006</u>	<u>758,700</u>
Change in net assets	331,932	(5,553,040)
Unrestricted net assets, beginning of year	<u>32,834,292</u>	<u>38,387,332</u>
Unrestricted net assets, end of year	<u>\$ 33,166,224</u>	<u>32,834,292</u>

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 331,932	(5,553,040)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,329	25,108
Impairment/Loss on disposal property and equipment	22,459	—
Program-related investment provisions and guarantees	(699)	10,893
Net realized losses (gains) on investments	2,305	(77,718)
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust net assets	(802,406)	3,925,498
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	1,680	(4,882)
Accounts payable	8,777	(43,104)
Accrued and other liabilities	(18,012)	(5,480)
Grants payable, net	606,787	1,707,244
Net cash provided by (used in) operating activities	<u>177,152</u>	<u>(15,481)</u>
Cash flows from investing activities:		
Funding of program-related investments	(169,152)	(69,861)
Purchases of property and equipment	(13,014)	(11,275)
Proceeds from sale of program-related investments	803	91,469
Net cash (used in) provided by investing activities	<u>(181,363)</u>	<u>10,333</u>
Net decrease in cash	(4,211)	(5,148)
Cash, beginning of year	<u>21,719</u>	<u>26,867</u>
Cash, end of year	\$ <u><u>17,508</u></u>	\$ <u><u>21,719</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 830	—

See accompanying notes to consolidated financial statements.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

(1) Organization

The Bill & Melinda Gates Foundation (the Foundation) is a tax-exempt private foundation that works to reduce inequity across the globe. In developing countries, it focuses on improving people's health and giving them the chance to lift themselves out of hunger and extreme poverty. In the United States, it seeks to ensure that all people – especially those with the fewest resources – have access to the opportunities they need to succeed in school and life.

Strategic Priorities

Global Programs

The Foundation works with partner organizations to tackle critical health and development issues – from infectious disease to agricultural development and financial services – facing the world's poorest people. The Foundation invests in advances in science and technology as well as creative approaches to delivering interventions to solve some of the challenges that prevent people in the poorest countries from thriving.

U.S. Program

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 collaborates with community organizations in Washington State, where the Gates family has lived for generations, to address a range of issues designed to help people reach their full potential.

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.

Gates Philanthropy Partners (GPP), a 501(c)(3) public charity, was formed for the purpose of providing donors with a cost-effective, efficient vehicle to co-invest with the Foundation in high impact global health, development, and U.S. education programs. As the Foundation is the single member of GPP, its financial statements have been consolidated with the accompanying consolidated financial statements.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

(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, 2016 and 2015, activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash

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 comprise primarily 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 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 Foundation's ownership significance and control. To arrive at the recorded value under either method, 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 or sale, which are included within the appropriate programmatic functional allocation expense on the consolidated statements of activities.

The Foundation utilizes 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 certain PRI equity funds 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.

Guarantees are recorded as a liability at the larger of the smallest amount within the Foundation's probable loss range 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.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

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 consolidated 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

The carrying value on the consolidated statement of financial position of cash, prepaid and other assets, accounts payable, and accrued and other liabilities approximates fair value.

(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

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

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 when a payment is made to a grantee, or in the period the grant is countersigned, 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, 2016, grants payable were discounted using the year-end risk-free rate for each year grants were made, which ranged between 0.4% to 4.7%.

(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, 2016 and 2015, the self-insurance liability, which is specific to employee healthcare benefits, was \$1,715 and \$1,577, 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, 2016 and 2015, contributed services totaled \$2,789 and \$2,102, 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 support to the various programs and other activities have been allocated between global programs, U.S. programs, other charitable programs, and programmatic support. Other administrative costs related to operational support and activities have been allocated to management and general expenses.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

(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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates 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 prior year numbers to ensure 2015 conforms to the presentation of 2016 financial information.

(3) Related Parties

The Foundation engages in charitable activities that are funded by a related party, the Trust. The Trust holds and manages investment assets, and makes 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 2016 and 2015, the Trust made grants to the Foundation totaling \$5,301,600 and \$4,684,198, 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 \$40,277,340 and \$39,514,534 beneficial interest in the net assets of the Trust as of December 31, 2016 and 2015, 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.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

The total changes in beneficial interest in the net assets of the Trust for the years ended December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 39,514,534	43,440,032
Change in the net assets of the Trust before contributions to the Foundation	6,104,006	758,700
Trust contributions to the Foundation	<u>(5,301,600)</u>	<u>(4,684,198)</u>
Ending balance	<u>\$ 40,316,940</u>	<u>39,514,534</u>

(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 2016, 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 scale, and guarantees to address structural challenges within markets.

(a) 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 focusing on developing countries. They enable partner organizations to invest in increasing agricultural productivity, gain access to financial systems, and develop medical technology. The Foundation has also made loans in support of its U.S. 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 8%. Repayment of the outstanding loan amounts is scheduled through 2026.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

The loans are summarized in the table below for the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Loan receivable, gross beginning of year	\$ 65,850	81,240
Additional loans	20,959	7,241
Principal repayments	(10,032)	(8,081)
Loan to equity conversions	—	(10,750)
Realized loss on loans	—	(3,800)
Gross subtotal, loans	<u>76,777</u>	<u>65,850</u>
Interest receivable	<u>552</u>	<u>430</u>
Net subtotal, loans	<u>77,329</u>	<u>66,280</u>
Less discount and uncollectible allowance	<u>(12,298)</u>	<u>(10,748)</u>
Loan receivable, net end of year	<u>\$ 65,031</u>	<u>55,532</u>

(b) Equity 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 in developing countries which include investing in novel vaccine and therapeutic platforms, developing improved diagnostics, and strengthening agriculture and health delivery systems. The Foundation has also made equity investments in support of U.S. education. The total change in equity investments for the years ended December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Equity investment amount, gross beginning of year	\$ 140,933	69,432
Additional investments	158,343	71,160
Loan to equity conversions	—	10,750
Return of capital	(169)	(10,135)
Realized loss	(3,058)	(274)
Equity investment amount, gross end of year	296,049	140,933
Cumulative valuation adjustments:		
Unrealized (loss)	<u>(28,540)</u>	<u>(15,172)</u>
Equity investment amount, net end of year	<u>\$ 267,509</u>	<u>125,761</u>
Realized gain on sale of investments	\$ 753	81,792

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

In 2016, the foundation received \$169 in return of capital and recognized a realized loss on the sale of investments of \$3,058. Furthermore, the Foundation recorded a realized gain on sale of investments of \$753. The Foundation has elected the fair value option for certain of its equity investments, totaling \$62,316 and \$9,182 at December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Foundation has program-related investments which have been valued using NAV as a practical expedient with total fair values of \$68,345 and \$15,370, respectively. The majority of equity PRIs at fair value include unobservable inputs considered to be Level 3 per the fair value hierarchy.

(c) 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. Guarantees in support of the Foundation's U.S. strategies have focused on financing school facilities as a result of general market challenges that started in 2008.

The Foundation recorded a liability of \$8,698 and \$24,194 at December 31, 2016 and 2015, respectively, which reflects the larger of the smallest probable loss amount or estimated fair value of all outstanding guarantee agreements. Guarantee agreements and the associated commitments extend through 2019.

The Foundation's guarantee investments are summarized in the tables below for the years ended December 31, 2016 and 2015:

	<u>Total gross exposure 12/31/15</u>	<u>New commitments in 2016</u>	<u>Commitments satisfied in 2016</u>	<u>Total gross exposure 12/31/16</u>	<u>Sub-guarantee amounts</u>	<u>Net exposure 12/31/16</u>	<u>Value of guarantee liability</u>
Guarantee investments:							
Credit enhancement	\$ 8,000	—	(8,000)	—	—	—	—
Volume	271,535	—	(164,279)	107,256	(65,973)	41,283	8,698
Total, guarantees	<u>\$ 279,535</u>	<u>—</u>	<u>(172,279)</u>	<u>107,256</u>	<u>(65,973)</u>	<u>41,283</u>	<u>8,698</u>
	<u>Total gross exposure 12/31/14</u>	<u>New commitments in 2015</u>	<u>Commitments satisfied in 2015</u>	<u>Total gross exposure 12/31/15</u>	<u>Sub-guarantee amounts</u>	<u>Net exposure 12/31/15</u>	<u>Value of guarantee liability</u>
Guarantee investments:							
Credit enhancement	\$ 18,000	—	(10,000)	8,000	—	8,000	1,050
Volume	382,616	—	(111,081)	271,535	(105,610)	165,925	23,144
Total, guarantees	<u>\$ 400,616</u>	<u>—</u>	<u>(121,081)</u>	<u>279,535</u>	<u>(105,610)</u>	<u>173,925</u>	<u>24,194</u>

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

(6) Property and Equipment

At December 31, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 93,945	93,945
Construction-in-progress, new campus, and other	57,784	66,771
Campus buildings	571,841	571,841
Computer hardware and software	64,573	73,440
Furniture, fixtures and other	19,225	18,970
Leasehold improvements	<u>20,633</u>	<u>20,656</u>
	828,001	845,623
Less accumulated depreciation and amortization	<u>(186,952)</u>	<u>(170,800)</u>
Property and equipment, net	<u>\$ 641,049</u>	<u>674,823</u>

(7) Natural Classification of Expenses

At December 31, 2016 and 2015, the Foundation's natural classification of expenses was as follows:

	<u>2016</u>	<u>2015</u>
Expenses:		
Programmatic expenses:		
Grants	\$ 4,895,244	5,472,228
Direct charitable contracts	309,399	330,464
Programmatic support and administrative expenses:		
Compensation and benefits	318,620	299,182
Operational support contracts	132,036	93,763
Staff travel	43,042	41,945
Depreciation	24,329	25,108
Federal excise and other taxes (note 10)	391	1,123
Other	<u>64,545</u>	<u>54,670</u>
Total expenses	<u>\$ 5,787,606</u>	<u>6,318,483</u>

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.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

(8) Grants Payable

At December 31, 2016 and 2015, grants payable totaled \$8,505,203 (discounted to \$8,071,191) and \$7,895,493 (discounted to \$7,464,404), respectively. Grants payable activity consisted of the following:

	<u>2016</u>	<u>2015</u>
Grants payable balance, beginning of year	\$ 7,895,493	6,099,272
Current year activity:		
New and supplemental grants	4,975,376	6,037,286
Payments	(4,260,444)	(3,860,217)
Grant amendments and contingencies	(105,222)	(380,848)
Grants payable balance, end of year	<u>\$ 8,505,203</u>	<u>7,895,493</u>

As of December 31, 2016, based on the specific grant agreements, grants payable are expected to be paid in the following years:

2017	\$ 2,888,402
2018	2,156,436
2019	1,165,861
2020	686,936
2021	131,675
Thereafter	<u>1,475,893</u>
	8,505,203
Less discount to reflect grant payable at present value	<u>(434,012)</u>
Grants payable, net	<u>\$ 8,071,191</u>

(9) Retirement Plan

In 2016 and 2015, the Foundation offered three Retirement Plans for the benefit of its employees: a 403(b) plan, 401(a) plan, and a 457(b) plan. The 457(b) plan 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.

BILL & MELINDA GATES FOUNDATION
Notes to Consolidated Financial Statements
December 31, 2016 and 2015
(Dollars in thousands)

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. Employer contributions to the 401(a) retirement plan relating to the years ended December 31, 2016 and 2015 totaled \$31,169 and \$28,392, 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 1% excise tax rate for the years ended December 31, 2016 and 2015. The current portion of excise tax (benefit) expense was \$(7) and \$802 for the years ended December 31, 2016 and 2015, 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 2023. Future minimum lease payments related to these leases as of December 31, 2016 are as follows:

2017	\$	4,767
2018		4,366
2019		3,272
2020		2,947
2021		2,066
Thereafter		2,134
Total lease commitments	\$	19,552

Rent expense totaled \$5,342 for the year ended December 31, 2016 and \$6,020 for the year ended December 31, 2015.

(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, 2016 through May 10, 2017 the date on which the consolidated financial statements were available to be issued, and determined that no additional disclosures are required.