

## READER'S GUIDE TO THE FORM 990-PF

The annual Form 990-PF is a public document that provides useful information about a private foundation's financial and charitable activities. The IRS uses it to assess excise taxes owed by foundations and to monitor some key activities. The underlying tax rules for private foundations are complicated, so it's not surprising that some of the information provided on the Form 990-PF is often misunderstood. We offer this Reader's Guide to highlight some of the key information in a more clear and concise way.

To address the questions we are asked most frequently, we have organized the information into charts. We also have developed answers to a series of questions that have been posed to us over the years. We provide specific references to the location in the tax return where the information can be found to provide additional context.

To understand the information in these tax returns, it is helpful to explain how the foundation is organized. In October 2006, our trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation Trust (which we refer to as "the trust"), manages the assets that are granted to the Bill & Melinda Gates Foundation ("the foundation"). The foundation then distributes money to grantees. The trust and foundation are separate legal entities, and each is required to file a separate Form 990-PF. Those returns can be found at <http://www.gatesfoundation.org/about/Pages/financials.aspx>. For more information about the two-entity structure, please refer to <http://www.gatesfoundation.org/Who-We-Are/General-Information/Financials/Asset-Trust>.

## Key Data Points from the 2013 990-PF for the Bill &amp; Melinda Gates Foundation

Topic	2013	What it Means	Form 990-PF Reference
<b>Grants Paid</b>	\$3.321 billion	The foundation distributed approximately \$3.3 billion in 2013 from contributions received from the trust.	Page 1, Part I, Line 25(d); detailed listing attached to the return
<b>Total Charitable Distributions</b> (including grants)	\$4.136 billion	Total distributions of \$4.136 billion comprised four categories: <ul style="list-style-type: none"> <li>- Grants of \$3.321 billion,</li> <li>- Operating expenses of \$755 million, including expenses such as employee salaries and the upkeep of our office space,</li> <li>- \$46 million in program related investments, which allow the foundation to help some of our partners with low interest loans and other support to accomplish their goals, and</li> <li>- Capital investments of \$14 million, primarily in software development and expenses related to the Seattle Campus.</li> </ul>	Page 8, Part XII, Line 4
<b>Excise Taxes</b>	\$14,253	The foundation receives its funding from the trust and therefore does not maintain a separate endowment. Having no endowment results in a relatively low excise tax which foundations are required to play on investment income.	Page 4, Part VI, Line 5
<b>Compensation of Officers, Directors, and Trustees</b>	\$6.6 million	The schedule provides a listing of 2013 compensation and benefits paid to the foundation's officers. The trustees receive no compensation.	Page 1, Part I, Line 13(a); see detail on Page 6, Part VIII, Line 1, Column (c)
<b>Compensation of Five Highest Paid Employees</b> (other than officers, directors, and trustees)	\$4.4 million	The schedule provides a listing of 2013 compensation and benefits paid to some of the most senior staff at the foundation who are not officers or directors; all of whom were on foreign assignment in 2013.	Page 6, Part VIII, Line 2, Column (c)
<b>Contributions</b>	\$4.115 billion	Contributions were received from the trust as explained in the introduction to the Reader's Guide. The foundation also received unsolicited contributions from other people; any that were for \$5,000 or more are disclosed on Schedule B.	Page 1, Part I, Line 1(a); see detail of gifts of \$5,000 or greater on Schedule B of the Form 990-PF
<b>Contribution by Bill Gates</b>	\$1.3 million	This contribution is comprised of \$1.3 million of expenses paid by Bill Gates on behalf of the foundation.	Schedule B, Page 2

## FREQUENTLY ASKED QUESTIONS

### Payout

#### 1. How much was the foundation required to payout in 2013?

To encourage philanthropy, private foundations are exempt from many of the taxes that other institutions pay. In order to qualify for those exemptions, foundations must make a certain amount of disbursements for charitable purposes that are based on the size of the foundation's assets. The technical IRS term for the minimum payout is "distributable amount." The foundation was required to distribute \$33 million in 2013 as shown on Page 8, Part XI, Line 7. The distributable amount for the foundation is quite small compared to the trust; this is because the foundation retains only a modest amount of money on hand. As explained previously, the endowment assets are maintained by the trust, rather than by the foundation.

The trust also has a requirement to disburse a certain amount of its assets every year. In 2013, the trust was required to pay out \$1.899 billion. As you can see from the return, it actually paid out significantly more -- \$4.108 billion -- to the foundation. This excess amount was distributed to meet the requirements and terms of the gift from Warren Buffett. The foundation in turn distributed \$4.136 billion in grants and other charitable expenses.

## 2. What types of disbursements count toward the foundation's annual payout requirement?

All reasonable operating expenses count toward the payout requirement, provided they further the charitable goals of the foundation. This includes grants as well as the foundation's operating costs. Program-related investments (PRIs) also count toward payout. (PRIs include low interest loans made for charitable purposes and certain types of charitable-purpose equity investments.) Capital costs for charitable use – such as furniture, computer equipment, and the construction of our new campus – also count toward payout.

## Administrative and Other Costs

### 3. How much did the foundation spend in administrative overhead in 2013?

People use the term “administrative overhead” in different ways, and the format of the return is not very clear on this question, so let's start by explaining the cost components. If we take the total 2013 expenses on a book basis—i.e., accrual, not cash—and subtract grant expenses, we're left with \$816 million in operating costs (Page 1, Part I, Line 24 (a)). The operating costs include three major components: (1) direct grant-making expenses to pay salaries and operating costs of the program staff who make and manage grants, (2) “direct charitable expenses” such as technical assistance paid to support the work of our grantees, and (3) administrative costs to operate the foundation, including salaries and benefits for support functions such as finance and human resources, legal services, rent, office supplies, etc. The format of the tax return does not allow a foundation to display these operating costs, so we have provided this information below:

\$231 million	Direct grant-making expenses
\$341 million	Direct charitable expenses (Page 7, Part IX-A)
<u>\$244 million</u>	Administrative costs to operate the foundation
\$816 million	Total operating and administrative expenses (Page 1, Part I, Line 24a)

### 4. What were the foundation's administrative overhead expenses in 2013 as a percentage of total expenses?

The answer to this depends on how you define administrative overhead, as discussed in the answer to question 3. If you mean total operating costs as a percentage of total expenses including grants, then it is 19 percent (calculated as \$816 million divided by \$4.208 billion). The problem with this approach is that it includes costs to make and manage grants as well as costs of activities that directly benefit grantees and are therefore not just administrative overhead costs.

We believe a better definition of “administrative overhead expenses” would exclude direct grant-making costs and direct charitable activities. Under this approach, the percentage for 2013 is 6 percent (calculated as \$244 million divided by \$4.208 billion).

## Taxes and Other

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

Under IRS rules, foundations are exempt from income taxes, but they are required to pay a 2 percent excise tax on net investment income. (Foundations can reduce their excise tax rates to 1 percent if they meet certain conditions. See question 6 below.) Net investment income includes rent, interest, dividends, royalties, net realized capital gains, and other similar types of income, minus expenses for managing investments. The income and expenses that figure into this calculation are shown on page 1, column “b” of the Form 990-PF. The foundation's net taxable revenue in 2013 was \$1,425,308 (page 1, Part I, line 27b), resulting in an excise tax of \$14,253.

### 6. Why do some foundations pay 1 percent in taxes, and others pay 2 percent?

A foundation may reduce its excise tax rate from 2 percent to 1 percent if it disburses a sufficient amount above its required 5 percent minimum distribution. The calculation to determine whether a foundation qualifies for the reduced tax rate is shown on page 3, Part V of the tax return. In 2013, the foundation needed to distribute \$2.6 billion to achieve the lower tax rate (page 3, Part V, line 7). As it distributed more than that amount, it qualified for the lower tax rate.

## Key Data Points from the 2013 990-PF for the Bill &amp; Melinda Gates Foundation Trust

Topic	2013	What it Means	Form 990-PF Reference
<b>Grants Paid</b>	\$4.108 billion	The trust distributed \$2.158 billion in qualifying distribution grants, plus \$1.95 billion in additional grants that were not applied toward the annual payout, as explained in question 2 below. All grants were made to the foundation.	Page 11, Part XV, Line 3
<b>Total Charitable Distributions (including grants)</b>	\$2.158 billion	Charitable distributions were made up nearly entirely of grants, since the trust incurred only \$115 in operating costs in 2013.	Page 1, Part I, Line 26(d)
<b>Non-charitable Use Assets</b>	\$38.763 billion	Non-charitable use assets represent the investment assets of the trust. The value of the non-charitable use assets is used to calculate the trust's required distribution.	Page 8, Part X, Line 5
<b>Excise Taxes</b>	\$39 million	The trust's excise taxes are calculated as 1 percent of its net investment income of \$3.9 billion, as shown on Page 1, Part I, Line 27(b).	Page 4, Part VI, Line 5
<b>Contributions by Bill Gates</b>	\$180 million	The contribution is comprised of \$44.8 million in investment management fees paid by Bill Gates on behalf of the trust, 3,000,000 shares of Microsoft, and cash of \$34.5 million.	Schedule B, Page 2 and Page 3
<b>Contributions by Warren Buffett</b>	\$2.014 billion	This contribution is comprised of 17,458,431 Class B Shares of Berkshire Hathaway, Inc. stock.	Schedule B, Page 2 and Page 3

## FREQUENTLY ASKED QUESTIONS

### Payout and Other

#### 1. Did the trust qualify for the 1 percent tax rate in 2013?

Yes. The trust needed to distribute at least \$2.130 billion to achieve the lower tax rate (Page 3, Part V, Line 7), and it actually disbursed \$2.158 billion in qualifying distributions (Page 3, Part V, Line 8). As explained above in question 6, a foundation may reduce its excise tax rate from 2 percent to 1 percent if it disburses a sufficient amount above its required 5 percent minimum distribution.

#### 2. Page 11, Part XV shows that the trust made grants to the foundation totaling \$4.108 billion, but only counted \$2.158 billion of the grants toward its payout. Why is that?

The trust has a goal each year of making sure it achieves the 1 percent tax rate by distributing sufficient grants funds to the foundation. In 2013 the trust needed to distribute more than \$2.130 billion to qualify for the 1 percent tax rate (Page 3, Part V, Line 7). The trust claimed a distribution of \$2.158 billion (Page 3, Part V, Line 8), which allowed it to qualify for the 1 percent rate and give the remaining portion of the \$4.108 billion to the foundation to meet the distribution requirements of the trustees.

#### 3. Why do the trust's total assets of \$40.56 billion, as listed on the tax return, differ from total assets of \$40.83 billion listed in the trust's audited financial statements?

The tax return and the audited financial statements present the assets and liabilities in different ways, but arrive at the same net asset value of \$40.47 billion (Page 2, Part II, Line 30).

Guided by the belief that every life has equal value, the Bill & Melinda Gates Foundation works to help all people lead healthy, productive lives. 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. Based in Seattle, Washington, the foundation is led by CEO Sue Desmond-Hellmann and Co-chair William H. Gates Sr., under the direction of Bill and Melinda Gates and Warren Buffett.

For additional information on the Bill & Melinda Gates Foundation, please visit our web site: [www.gatesfoundation.org](http://www.gatesfoundation.org).