



BILL & MELINDA GATES FOUNDATION TRUST

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 Trust:

We have audited the accompanying financial statements of the Bill & Melinda Gates Foundation Trust (the Trust), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly in all material respects, the financial position of the Bill & Melinda Gates Foundation Trust as of December 31, 2016 and 2015, and changes 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 TRUST

Statements of Financial Position

December 31, 2016 and 2015

(In thousands)

Assets	2016	2015
Cash	\$ 197,115	307,916
Receivable for investment sales and other	199,210	77,619
Receivable for interest and dividends	76,863	63,018
Federal current excise tax receivable	—	13,615
Investments (note 3)	40,171,396	39,175,276
Total assets	<u>\$ 40,644,584</u>	<u>39,637,444</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 8,814	1,742
Payable for investment purchases and other	246,331	70,723
Federal current and deferred excise tax payable	72,499	50,445
Total liabilities	327,644	122,910
Net assets – unrestricted	40,316,940	39,514,534
Total liabilities and net assets	<u>\$ 40,644,584</u>	<u>39,637,444</u>

See accompanying notes to the financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Activities

Years ended December 31, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Change in net assets:		
Revenues and net gains (losses):		
Contributions	\$ 2,717,995	2,853,581
Investment income (losses), net (note 3)	<u>3,440,943</u>	<u>(2,094,741)</u>
Total revenues and net gains (losses)	<u>6,158,938</u>	<u>758,840</u>
Expenses:		
Grants to the Bill & Melinda Gates Foundation (note 7)	5,301,600	4,684,198
Federal excise and other taxes, net (note 5)	<u>54,932</u>	<u>140</u>
Total expenses	<u>5,356,532</u>	<u>4,684,338</u>
Change in net assets	802,406	(3,925,498)
Unrestricted net assets, beginning of year	<u>39,514,534</u>	<u>43,440,032</u>
Unrestricted net assets, end of year	<u>\$ 40,316,940</u>	<u>39,514,534</u>

See accompanying notes to the financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

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	\$ 802,406	(3,925,498)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock and noncash contributions	(2,173,415)	(2,154,350)
Net realized and unrealized (gains) losses on investments	(3,335,534)	2,095,514
Net accretion and amortization	38,450	37,859
Changes in operating assets and liabilities:		
Interest and dividends receivable	(13,845)	(12,740)
Federal current excise tax receivable	13,615	(13,615)
Accounts payable and accrued liabilities	7,072	(984)
Federal current and deferred excise tax payable	22,054	(65,939)
Net cash used in operating activities	<u>(4,639,197)</u>	<u>(4,039,753)</u>
Cash flows from investing activities:		
Purchases of investments	(57,211,332)	(47,167,288)
Proceeds from sales and maturities of investments	61,739,728	51,307,636
Net cash provided by investing activities	<u>4,528,396</u>	<u>4,140,348</u>
Net change in cash	(110,801)	100,595
Cash, beginning of year	307,916	207,321
Cash, end of year	\$ <u>197,115</u>	<u>307,916</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 19,250	79,700

See accompanying notes to the financial statements.

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

(1) Organization

The Bill & Melinda Gates Foundation Trust (the Trust) is a tax-exempt private foundation that holds the donated investment assets from Bill and Melinda Gates, and Warren Buffett. The Trust operates its main office in Seattle, Washington. Bill and Melinda Gates are its Trustees. The primary role of the Trust is to manage the investment assets and transfer the proceeds to the Bill & Melinda Gates Foundation (the Foundation) as necessary to achieve the Foundation's charitable goals (note 7).

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Trust 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, all activities of the Trust were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash

Cash consists of U.S. and foreign currencies.

(c) Investments

Investments are stated at fair value with unrealized gains and losses on investments resulting from fair value fluctuations recorded in the statements of activities in the period that such fluctuations occur. Highly liquid interest-earning investments and time deposits with an original maturity of less than three months are classified as cash equivalents within investments. Investment sales and purchases are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Amortization and accretion of premiums and discounts are recorded using the effective-interest method.

(d) Fair Value of Financial Instruments

In determining the fair value of investments, the Trust utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Trust 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 Trust 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

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

Level 3 Inputs: Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment

The Trust 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 Trust to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards.

(e) 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. The value of contributed services recorded in the accompanying statements of activities, consisting primarily of investment management services donated by Bill Gates, totaled \$452,972 and \$479,231 for the years ended December 31, 2016 and 2015, respectively. Contributed investment management services included third-party management fees of \$47,089 and \$50,105 in 2016 and 2015, respectively. Contributed investment management services are reflected as contributions revenue and as investment management services expense, which is netted against investment income.

(f) Tax-Exempt Status

The Trust 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 Trust is subject to federal excise taxes as well as federal and state unrelated business income tax. In addition, some investments in foreign countries are subject to foreign income tax.

(g) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Contributions Received

The Trust accepts contributions from related and unrelated parties and bequests from unrelated parties. Related-party contributions in 2016 and 2015 were received from Warren Buffett, Bill and Melinda Gates. Warren Buffett contributed Berkshire Hathaway "B" shares valued at \$2,173,415 and \$2,154,350 in 2016 and 2015, respectively. In 2016 \$62,000 cash was contributed by Bill Gates and \$29,608 cash was contributed by Bill and Melinda Gates. Bill Gates contributed \$220,000 in cash in 2015. In addition, Bill Gates contributed third-party investment management services as described in note 2(e). Contributions from unrelated parties are only accepted by the Trust if the donor is an individual and the gift is unrestricted. From time to time, the Trust 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 the amounts become irrevocable.

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

(i) Reclassifications

Certain reclassifications have been made to the note disclosures of investment-related assets in 2015 to conform to the 2016 presentation.

(3) Investments

The Trust's investments, including placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis, are presented in the following tables:

December 31, 2016	Level 1	Level 2	Level 3	Gross fair value	Netting*	Net fair value
Cash equivalents	\$ —	205,642	—	205,642	—	205,642
Equities:					—	
Berkshire Hathaway "B" shares	11,302,658	—	—	11,302,658	—	11,302,658
Consumer goods	4,244,602	1	—	4,244,603	—	4,244,603
Energy	126,824	—	—	126,824	—	126,824
Financials	951,351	—	—	951,351	—	951,351
Healthcare	299,511	—	—	299,511	—	299,511
Industrials	6,128,498	—	—	6,128,498	—	6,128,498
Information technology	1,182,524	—	62,681	1,245,205	—	1,245,205
Materials	1,640,418	—	—	1,640,418	—	1,640,418
Real Estate	621,918	—	5	621,923	—	621,923
Telecommunications and utilities	256,763	—	—	256,763	—	256,763
Other	77,747	—	—	77,747	—	77,747
Debt:					—	
U.S. government securities	5,305,983	238,209	—	5,544,192	—	5,544,192
U.S. municipals	—	7,499	—	7,499	—	7,499
Foreign government securities	—	3,034,177	—	3,034,177	—	3,034,177
Corporate debt securities	16,246	1,020,091	962	1,037,299	—	1,037,299
Mortgage-backed securities	—	674,458	147	674,605	—	674,605
Other debt securities	—	503,529	111	503,640	—	503,640
Commingled	719,343	86,509	—	805,852	—	805,852
Physical Commodities	—	521,155	—	521,155	—	521,155
Derivative contracts	1,575	474,233	—	475,808	(307,911)	167,897
Total investments measured at fair value	32,875,961	6,765,503	63,906	39,705,370	(307,911)	39,397,459
Private investments measured at net asset value	—	—	—	773,937	—	773,937
Total investment assets	\$ 32,875,961	6,765,503	63,906	40,479,307	(307,911)	40,171,396
Derivative liabilities	\$ 12,763	333,914	—	346,677	(307,686)	38,991

* Represents the netting allowed under legally enforceable master netting agreements, including cash collateral (note 4).

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Notes to Financial Statements

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(Dollars in thousands)

Unfunded commitments related to private investments as of December 31, 2016 were \$289,396.

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Gross fair value</u>	<u>Netting*</u>	<u>Net fair value</u>
Cash equivalents	\$ 197,047	114,491	—	311,538	—	311,538
Equities:						
Berkshire Hathaway "B" shares	9,821,340	—	—	9,821,340	—	9,821,340
Consumer goods	4,320,202	1	—	4,320,203	—	4,320,203
Energy	125,878	—	—	125,878	—	125,878
Financials	1,242,193	—	—	1,242,193	—	1,242,193
Healthcare	380,511	—	—	380,511	—	380,511
Industrials	5,144,511	—	—	5,144,511	—	5,144,511
Information technology	1,110,454	—	62,681	1,173,135	—	1,173,135
Materials	1,507,116	—	—	1,507,116	—	1,507,116
Real Estate	574,922	—	—	574,922	—	574,922
Telecommunications and utilities	346,374	—	—	346,374	—	346,374
Other	40,202	28	—	40,230	—	40,230
Debt:						
U.S. government securities	8,393,615	215,274	—	8,608,889	—	8,608,889
U.S. municipals	—	6,126	—	6,126	—	6,126
Foreign government securities	—	1,761,129	—	1,761,129	—	1,761,129
Corporate debt securities	—	1,212,919	3,180	1,216,099	—	1,216,099
Mortgage-backed securities	—	613,093	198	613,291	—	613,291
Other debt securities	—	373,543	209	373,752	—	373,752
Commingled	733,162	155,745	—	888,907	—	888,907
Derivative contracts	2,806	205,801	—	208,607	(159,794)	48,813
Total investments measured at fair value	33,940,333	4,658,150	66,268	38,664,751	(159,794)	38,504,957
Private investments measured at net asset value	—	—	—	670,319	—	670,319
Total investment assets	\$ 33,940,333	4,658,150	66,268	39,335,070	(159,794)	39,175,276
Derivative liabilities	\$ 8,704	157,625	—	166,329	(148,075)	18,254

* Represents the netting allowed under legally enforceable master netting agreements, including cash collateral (note 4).

Investment income (losses) comprises the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 567,144	539,423
Net realized and unrealized gains (losses) on investments	3,335,534	(2,095,514)
Other investment income (expense), net	17,402	(27,879)
Investment expenses:		
Investment management expenses	(452,775)	(478,936)
Other	(26,362)	(31,835)
Investment income (losses), net	\$ 3,440,943	(2,094,741)

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

Private investments measured using NAV as a practical expedient are not classified in the fair value hierarchy. Given the longer-term nature of private investments, many of those holdings could not be liquidated immediately in the unlikely event that such a need were to arise for the Trust. The majority of the private investments held as of December 31, 2016 and 2015 require general partner or managing member approval for an early redemption or transfer of ownership and a 10-90 day waiting period to liquidate the investment. In addition, certain holdings require that membership not exceed a certain number of owners, which could also delay the Trust's ability to transfer its ownership. The decision to invest in private investments includes consideration of the liquidation limitations as well as expected long-term funding requirements of the Foundation.

For the year ended December 31, 2015, changes in Level 3 holdings consisted primarily of acquisitions of stock in a privately held company in the information technology industry. There were no significant changes occurring in Level 3 holdings for the year ended December 31, 2016.

(4) Derivative Financial Instruments

In the normal course of business, the Trust uses various financial instruments, including derivative financial instruments, in an effort to manage exposure on long-term investments.

In order to manage price and interest rate risk associated with investing activities, the Trust primarily uses a combination of forward contracts and futures. Under these instruments, the Trust agrees to the future delivery of a currency or security, on an agreed-upon date, and at an agreed-upon price. These contracts are entered into with the intent of minimizing the Trust's economic exposure to adverse fluctuations in financial or currency markets and to reduce interest rate risk.

The Trust also enters into derivative instruments for speculative and other purposes, including income enhancement and as an alternative to ownership of the underlying asset. Specifically, written options and forward contracts are used for enhancing returns on other investments and as an alternative to ownership.

The Trust nets certain derivative asset positions and derivative liability positions under legally enforceable master netting agreements. The Trust's net derivative asset positions are included within investments on the accompanying statements of financial position. The Trust's net derivative liability positions are included in the payable for investment purchases and other on the accompanying statements of financial position. Realized gains and losses as well as changes in fair value for all derivative instruments are included as a component of investment income.

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December 31, 2016 and 2015

(Dollars in thousands)

The fair values of forward contracts, futures, options, and swaps as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	
	Derivative assets	Derivative liabilities
Forward contracts	\$ 468,325	(326,764)
Futures	1,206	(12,438)
Options	369	(325)
Swaps	5,908	(7,150)
Total	475,808	(346,677)
Netting offset*	(307,911)	307,686
Fair value presented in statement of financial position	167,897	(38,991)
Noncash collateral	(165,966)	31,296
Net amount	<u>\$ 1,931</u>	<u>(7,695)</u>
	December 31, 2015	
	Derivative assets	Derivative liabilities
Forward contracts	\$ 204,587	(152,388)
Futures	1,544	(8,099)
Options	1,262	(605)
Swaps	1,214	(5,237)
Total	208,607	(166,329)
Netting offset*	(159,794)	148,075
Fair value presented in statement of financial position	48,813	(18,254)
Noncash collateral	(39,084)	17,521
Net amount	<u>\$ 9,729</u>	<u>(733)</u>

* Represents the netting allowed under legally enforceable master netting agreements, including cash collateral of \$225 and \$11,719 netted against derivative assets at December 31, 2016 and 2015, respectively.

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

Outstanding notional purchases and sales were as follows:

	December 31, 2016		December 31, 2015	
	Purchases	Sales	Purchases	Sales
Forward contracts	\$ 3,518,004	6,942,958	4,638,450	8,088,566
Futures	319,874	5,676,062	736,186	5,235,082
Options	4,310	1,127	11,485	7,137
Swaps	504,498	557,586	33,076	193,508

The Trust's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the statements of financial position, arising either from potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Trust monitors the financial condition of the firms used for these contracts in order to minimize the risk of loss. Management believes the Trust's use of derivatives does not result in credit or market risk that would materially affect the Trust's financial statements.

(5) Federal Excise Taxes

The Trust 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 Trust qualified for a 1% excise tax rate for the years ended December 31, 2016 and 2015. The current portion of excise tax expense is \$33,811 and \$41,091 for the years ended December 31, 2016 and 2015, respectively.

The Trust made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2016 and 2015. Deferred excise tax expense (benefit) was \$21,108 and \$(40,946) for the years ended December 31, 2016 and 2015, respectively, resulting from net unrealized gains (losses) on investments.

(6) Commitments and Contingencies

In the ordinary course of business, the Trust 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 Trust.

(7) Related Parties

The Trust holds and invests assets to fund a related party, the Foundation. The Trust makes annual grants to the Foundation as necessary to carry out the Foundation's charitable goals. The Foundation has the legal right to demand any amount, up to the full net assets of the Trust over time, to achieve the Foundation's charitable goals. Neither entity controls the other; however, they share two trustees in common. In 2016 and 2015, the Trust made grants to the Foundation totaling \$5,301,600 and \$4,684,198, respectively.

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Notes to Financial Statements

December 31, 2016 and 2015

(Dollars in thousands)

(8) Conditional Pledge Receivable

The Trust recognizes conditional promises to give as revenues when the conditions are met. On June 26, 2006, Warren Buffett, a Trustee of the Foundation, pledged to the Trust 10 million shares (500 million split-adjusted*) of Berkshire Hathaway “B” shares. The shares will be transferred in annual gifts of 5% of the remaining balance of the earmarked shares. Contributions from Mr. Buffett in 2016 and in prior years are as follows:

Berkshire Hathaway “B” shares contributed*		
Date	Shares	Value
August 2006 – July 2011	132,454	\$ 9,516,582
July 2012	18,377	1,515,851
July 2013	17,458	2,013,559
July 2014	16,586	2,139,199
July 2015	15,756	2,154,350
July 2016	14,968	2,173,415
Total to date*	215,599	\$ 19,512,956

* On January 21, 2010, Berkshire Hathaway “B” shares split 50:1. All shares received prior to this date and the total shares received to date have been converted to reflect this split.

Although Mr. Buffett did not designate any significant restrictions on the use of the contributions, he did place three conditions on his remaining pledge:

- (1) At least one of Bill or Melinda Gates must remain alive and active in the policy-setting and administration of the Foundation.
- (2) The Trust must continue to satisfy legal requirements qualifying his gift as charitable and not subject to gift or other taxes.
- (3) The value of his annual gift must be fully additive to the spending required by the Internal Revenue Code (i.e., approximately 5% of the Trust’s net assets). The additional spending required as a condition of the gift will be based on the prior year’s contribution.

As this gift is conditional and the conditions cannot be satisfied in advance of each year’s installment of the gift, a receivable for the remaining contribution has not been reflected in these financial statements. Rather, future contribution income will be recognized in annual installments as the conditions of the gift are met.

(9) Subsequent Events

The Trust evaluated subsequent events from December 31, 2016 through May 10, 2017, the date on which the financial statements were available to be issued, and determined that no additional disclosures are required.