



**BILL & MELINDA GATES FOUNDATION TRUST**

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## Independent Auditors' Report

To The Trustees  
Bill & Melinda Gates Foundation Trust:

We have audited the accompanying financial statements of the Bill & Melinda Gates Foundation Trust, which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, 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 9, 2018

**BILL & MELINDA GATES FOUNDATION TRUST**

Statements of Financial Position

December 31, 2017 and 2016

(In thousands)

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 282,512	197,115
Receivable for investment sales and other	82,716	199,210
Receivable for interest and dividends	66,572	76,863
Contribution receivable	25,310	—
Investments (notes 3 and 4)	50,637,336	40,171,396
Total assets	<u>\$ 51,094,446</u>	<u>40,644,584</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 2,178	8,814
Payable for investment purchases and other (note 4)	205,248	246,331
Federal current and deferred excise tax payable (note 5)	139,533	72,499
Total liabilities	346,959	327,644
Net assets – unrestricted	50,747,487	40,316,940
Total liabilities and net assets	<u>\$ 51,094,446</u>	<u>40,644,584</u>

See accompanying notes to the financial statements.

**BILL & MELINDA GATES FOUNDATION TRUST**

Statements of Activities

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Change in net assets:		
Revenues and net gains:		
Contributions	\$ 7,627,476	2,717,995
Investment income, net (note 3)	8,334,165	3,440,943
Total revenues and net gains	<u>15,961,641</u>	<u>6,158,938</u>
Expenses:		
Grants to the Bill & Melinda Gates Foundation (note 7)	5,410,808	5,301,600
Federal excise and other taxes, net (note 5)	120,286	54,932
Total expenses	<u>5,531,094</u>	<u>5,356,532</u>
Change in net assets	10,430,547	802,406
Unrestricted net assets, beginning of year	<u>40,316,940</u>	<u>39,514,534</u>
Unrestricted net assets, end of year	<u>\$ 50,747,487</u>	<u>40,316,940</u>

See accompanying notes to the financial statements.

**BILL & MELINDA GATES FOUNDATION TRUST**

Statements of Cash Flows

Years ended December 31, 2017 and 2016

(In thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 10,430,547	802,406
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock and noncash contributions	(7,045,932)	(2,173,415)
Net realized and unrealized gains on investments	(8,187,644)	(3,335,534)
Net accretion and amortization	22,891	38,450
Changes in operating assets and liabilities:		
Interest and dividends receivable	10,291	(13,845)
Contribution receivable	(25,310)	—
Federal current excise tax receivable	—	13,615
Accounts payable and accrued liabilities	(6,636)	7,072
Federal current and deferred excise tax payable	67,034	22,054
Net cash used in operating activities	<u>(4,734,759)</u>	<u>(4,639,197)</u>
Cash flows from investing activities:		
Purchases of investments	(72,531,188)	(57,211,332)
Proceeds from sales and maturities of investments	<u>77,351,344</u>	<u>61,739,728</u>
Net cash provided by investing activities	<u>4,820,156</u>	<u>4,528,396</u>
Net change in cash	85,397	(110,801)
Cash, beginning of year	<u>197,115</u>	<u>307,916</u>
Cash, end of year	\$ <u><u>282,512</u></u>	<u><u>197,115</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 53,250	19,250

See accompanying notes to the financial statements.

## **BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

December 31, 2017 and 2016

(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, 2017 and 2016, 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

## **BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

December 31, 2017 and 2016

(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 \$519,234 and \$452,972 for the years ended December 31, 2017 and 2016, respectively. Contributed investment management services included third-party management fees of \$54,939 and \$47,089 in 2017 and 2016, 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 2017 and 2016 were received from Warren Buffett, Bill and Melinda Gates. Warren Buffett contributed Berkshire Hathaway "B" shares valued at \$2,404,602 and \$2,173,415 in 2017 and 2016, respectively. In 2017, Bill Gates contributed Microsoft shares valued at \$4,636,480 as well as cash and other stock totaling \$41,850. In 2016, Bill Gates contributed cash of \$62,000 and Bill and Melinda Gates contributed cash of \$29,608. Bill Gates also 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.

**BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

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(Dollars in thousands)

**(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, 2017	Level 1	Level 2	Level 3	Gross fair value	Netting*	Net fair value
Cash equivalents	\$ —	508,661	—	508,661	—	508,661
Equities:						
Berkshire Hathaway "B" shares	12,600,840	—	—	12,600,840	—	12,600,840
Consumer goods	5,656,531	—	—	5,656,531	—	5,656,531
Energy	134,354	—	—	134,354	—	134,354
Financials	1,235,732	—	—	1,235,732	—	1,235,732
Healthcare	335,967	—	—	335,967	—	335,967
Industrials	7,799,287	—	—	7,799,287	—	7,799,287
Information technology	5,541,729	—	69,681	5,611,410	—	5,611,410
Materials	2,165,598	1	—	2,165,599	—	2,165,599
Real Estate	778,233	—	7	778,240	—	778,240
Telecommunications and utilities	307,138	—	—	307,138	—	307,138
Other	42,740	—	—	42,740	—	42,740
Debt:						
U.S. government securities	6,486,668	611,271	—	7,097,939	—	7,097,939
U.S. municipals	—	7,248	—	7,248	—	7,248
Foreign government securities	—	1,857,542	—	1,857,542	—	1,857,542
Corporate debt securities	—	1,128,000	—	1,128,000	—	1,128,000
Mortgage-backed securities	—	551,601	101	551,702	—	551,702
Other debt securities	—	408,140	504	408,644	—	408,644
Commingled	981,457	91,310	—	1,072,767	—	1,072,767
Physical Commodities	—	589,648	—	589,648	—	589,648
Derivative contracts	4,438	88,232	—	92,670	(60,567)	32,103
Total investments measured at fair value	44,070,712	5,841,654	70,293	49,982,659	(60,567)	49,922,092
Private investments measured at net asset value	—	—	—	715,244	—	715,244
Total investment assets	\$ 44,070,712	5,841,654	70,293	50,697,903	(60,567)	50,637,336
Derivative liabilities	\$ 11,322	162,456	—	173,778	(60,567)	113,211

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



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Unfunded commitments related to private investments as of December 31, 2017 were \$239,192.

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).

Investment income (losses) comprises the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividend income	\$ 653,574	567,144
Net realized and unrealized gains on investments	8,187,644	3,335,534
Other investment income	41,379	17,402
Investment expenses:		
Investment management expenses	(518,855)	(452,775)
Other	(29,577)	(26,362)
Investment income, net	\$ 8,334,165	3,440,943

## **BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

December 31, 2017 and 2016

(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, 2017 and 2016 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, 2017, 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 in 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.

**BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

The fair values of forward contracts, futures, options, and swaps as of December 31, 2017 and 2016 are as follows:

	<u>December 31, 2017</u>	
	<u>Derivative assets</u>	<u>Derivative liabilities</u>
Forward contracts	\$ 51,775	(101,218)
Futures	3,230	(10,769)
Options	1,208	(553)
Swaps	<u>36,457</u>	<u>(61,238)</u>
Total	92,670	(173,778)
Netting offset*	<u>(60,567)</u>	<u>60,567</u>
Fair value presented in statement of financial position	32,103	(113,211)
Noncash collateral	<u>(27,660)</u>	<u>100,666</u>
Net amount	<u>\$ 4,443</u>	<u>(12,545)</u>
	 <u>December 31, 2016</u>	
	<u>Derivative assets</u>	<u>Derivative liabilities</u>
Forward contracts	\$ 468,325	(326,764)
Futures	1,206	(12,438)
Options	369	(325)
Swaps	<u>5,908</u>	<u>(7,150)</u>
Total	475,808	(346,677)
Netting offset*	<u>(307,911)</u>	<u>307,686</u>
Fair value presented in statement of financial position	167,897	(38,991)
Noncash collateral	<u>(165,966)</u>	<u>31,296</u>
Net amount	<u>\$ 1,931</u>	<u>(7,695)</u>

\* Represents the netting allowed under legally enforceable master netting agreements, including cash collateral of \$0 and \$225 netted against derivative assets at December 31, 2017 and 2016, respectively.

**BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

December 31, 2017 and 2016

(Dollars in thousands)

Outstanding notional purchases and sales were as follows:

	<b>December 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>
Forward contracts	\$ 1,039,664	3,752,061	3,518,004	6,942,958
Futures	507,880	9,572,675	450,625	11,218,204
Options	16,328	2,502	4,310	1,127
Swaps	918,820	1,043,840	504,498	557,586

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, 2017 and 2016. The current portion of excise tax expense is \$58,477 and \$33,811 for the years ended December 31, 2017 and 2016, respectively.

The Trust made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2017 and 2016. Deferred excise tax expense was \$61,808 and \$21,108 for the years ended December 31, 2017 and 2016, 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 2017 and 2016, the Trust made grants to the Foundation totaling \$5,410,808 and \$5,301,600, respectively.

At December 31, 2017, an unrestricted contribution receivable from Bill and Melinda Gates of \$25,310, related to 2017 giving activities, was recorded. The full amount was received in cash in January 2018.

**BILL & MELINDA GATES FOUNDATION TRUST**

Notes to Financial Statements

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(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 2017 and in prior years are as follows (shares in thousands):

<b>Berkshire Hathaway “B” shares contributed*</b>		
<b>Date</b>	<b>Shares</b>	<b>Value</b>
August 2006 – July 2013	168,290	\$ 13,045,993
July 2014	16,586	2,139,199
July 2015	15,756	2,154,350
July 2016	14,968	2,173,415
July 2017	14,220	2,404,602
Total to date*	229,820	\$ 21,917,559

\* 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, 2017 through May 9, 2018, the date on which the financial statements were available to be issued, and determined that no additional disclosures are required.