



**BILL & MELINDA GATES FOUNDATION TRUST**

Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, 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, 2014 and 2013, 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  
April 30, 2015

**BILL & MELINDA GATES FOUNDATION TRUST**

Statements of Financial Position

December 31, 2014 and 2013

(In thousands)

<b>Assets</b>	<b>2014</b>	<b>2013</b>
Cash	\$ 207,321	117,157
Receivable for investment sales and other	84,437	231,468
Receivable for interest and dividends	50,278	46,341
Federal current excise tax receivable	—	6,049
Investments (note 3)	43,264,404	40,428,779
Total assets	\$ <u>43,606,440</u>	<u>40,829,794</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 2,726	2,123
Payable for investment purchases and other	47,298	266,062
Federal current and deferred excise tax payable	116,384	88,955
Total liabilities	166,408	357,140
Net assets – unrestricted	<u>43,440,032</u>	<u>40,472,654</u>
Total liabilities and net assets	\$ <u>43,606,440</u>	<u>40,829,794</u>

See accompanying notes to the financial statements.

**BILL & MELINDA GATES FOUNDATION TRUST**

Statements of Activities

Years ended December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Change in net assets:		
Revenues and gains:		
Contributions	\$ 4,479,398	2,598,610
Investment income, net (note 3)	2,939,649	5,688,883
Total revenues and gains	<u>7,419,047</u>	<u>8,287,493</u>
Expenses:		
Grants to the Bill & Melinda Gates Foundation (note 7)	4,388,873	4,108,470
Federal excise and other taxes, net (note 5)	62,796	77,706
Total expenses	<u>4,451,669</u>	<u>4,186,176</u>
Change in net assets	2,967,378	4,101,317
Unrestricted net assets, beginning of year	<u>40,472,654</u>	<u>36,371,337</u>
Unrestricted net assets, end of year	<u>\$ 43,440,032</u>	<u>40,472,654</u>

See accompanying notes to the financial statements.

**BILL & MELINDA GATES FOUNDATION TRUST**

## Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,967,378	4,101,317
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Stock and noncash contributions	(2,171,716)	(2,013,559)
Net realized and unrealized gains on investments	(2,821,295)	(5,587,050)
Net accretion and amortization	8,144	6,626
Changes in operating assets and liabilities:		
Interest and dividends receivable	(3,937)	(9,351)
Federal current excise tax receivable	6,049	(6,049)
Accounts payable and accrued liabilities	603	(146)
Federal current and deferred excise tax payable	27,429	22,985
Net cash used in operating activities	<u>(1,987,345)</u>	<u>(3,485,227)</u>
Cash flows from investing activities:		
Purchases of investments	(40,001,766)	(53,999,697)
Proceeds from sales and maturities of investments	42,079,275	57,513,676
Net cash provided by investing activities	<u>2,077,509</u>	<u>3,513,979</u>
Net change in cash	90,164	28,752
Cash, beginning of year	<u>117,157</u>	<u>88,405</u>
Cash, end of year	<u>\$ 207,321</u>	<u>117,157</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	\$ 29,300	60,350

See accompanying notes to the financial statements.

# BILL & MELINDA GATES FOUNDATION TRUST

Notes to the Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, 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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(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

Accounting Standards Codification Subtopic 820-10, *Fair Value Measurements – Overall*, allows for the use of 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 \$471,071 and \$447,980 for the years ended December 31, 2014 and 2013, respectively. Contributed investment management services included third-party management fees of \$49,142 and \$44,805 in 2014 and 2013, 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 2014 and 2013 were received from Warren Buffett and Bill Gates. Warren Buffett contributed Berkshire Hathaway “B” shares valued at \$2,139,199 and \$2,013,559 in 2014 and 2013, respectively. Bill Gates contributed stock and cash totaling \$1,869,127 in 2014 and \$135,240 in 2013. 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

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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.

**(i) Recently Adopted Accounting Guidance**

The Trust adopted accounting guidance regarding the recognition of services received from an affiliate, effective January 1, 2014. The guidance was issued by the Financial Accounting Standards Board (FASB) in April 2013 and adopted by the Trust effective January 1, 2014 using a modified retrospective approach. The application of this guidance had no impact on the Trust's financial statements for the years ending December 31, 2014 and 2013.

**(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:

<b>December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Gross fair value</b>	<b>Netting*</b>	<b>Net fair value</b>
Cash equivalents	\$ —	227,336	—	227,336		227,336
Equities:						
Berkshire Hathaway "B" shares	11,805,591	—	—	11,805,591		11,805,591
Consumer goods	4,685,739	4,335	—	4,690,074		4,690,074
Energy	419,652	—	—	419,652		419,652
Financials	1,458,670	169	664	1,459,503		1,459,503
Healthcare	511,548	—	—	511,548		511,548
Industrials	5,713,234	26	38	5,713,298		5,713,298
Information technology	992,751	—	32,517	1,025,268		1,025,268
Materials	1,376,575	—	—	1,376,575		1,376,575
Telecommunications and utilities	343,929	—	—	343,929		343,929
Other	10,578	—	—	10,578		10,578
Debt:						
U.S. government securities	9,635,219	142,255	—	9,777,474		9,777,474
U.S. municipals	—	9,018	—	9,018		9,018
Foreign government securities	—	1,424,690	—	1,424,690		1,424,690
Corporate debt securities	—	1,169,340	1,375	1,170,715		1,170,715
Mortgage-backed securities	—	704,277	289	704,566		704,566
Other debt securities	—	403,195	571	403,766		403,766
Commingled	650,286	109,703	—	759,989		759,989
Derivative contracts	986	526,278	—	527,264	(67,774)	459,490
Private investments	—	56,112	915,232	971,344		971,344
<b>Total investment assets</b>	<b>\$ 37,604,758</b>	<b>4,776,734</b>	<b>950,686</b>	<b>43,332,178</b>	<b>(67,774)</b>	<b>43,264,404</b>
Derivative liabilities	\$ 7,187	88,487	—	95,674	(88,001)	7,673

\*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, 2014 were \$462,424.

December 31, 2013	Level 1	Level 2	Level 3	Gross fair value	Netting*	Net fair value
Cash equivalents	\$ 507	174,666	—	175,173	—	175,173
Equities:						
Berkshire Hathaway "B" shares	9,726,639	—	—	9,726,639	—	9,726,639
Consumer goods	7,005,493	1,250	—	7,006,743	—	7,006,743
Energy	1,353,802	—	—	1,353,802	—	1,353,802
Financials	970,731	—	—	970,731	—	970,731
Healthcare	416,248	—	—	416,248	—	416,248
Industrials	5,003,112	1,889	230	5,005,231	—	5,005,231
Information technology	957,064	—	—	957,064	—	957,064
Materials	1,519,024	—	—	1,519,024	—	1,519,024
Telecommunications and utilities	619,539	—	—	619,539	—	619,539
Other	15,368	84	—	15,452	—	15,452
Debt:						
U.S. government securities	6,399,588	158,767	—	6,558,355	—	6,558,355
U.S. municipals	—	12,817	—	12,817	—	12,817
Foreign government securities	—	1,534,792	—	1,534,792	—	1,534,792
Corporate debt securities	—	2,206,182	—	2,206,182	—	2,206,182
Mortgage-backed securities	—	400,802	105	400,907	—	400,907
Other debt securities	—	261,318	379	261,697	—	261,697
Commingled	276,338	64,904	—	341,242	—	341,242
Derivative contracts	5,389	238,888	—	244,277	(79,490)	164,787
Private investments	—	57,608	1,124,746	1,182,354	—	1,182,354
Total investment assets	\$ 34,268,842	5,113,967	1,125,460	40,508,269	(79,490)	40,428,779
Derivative liabilities	\$ 333	119,714	—	120,047	(79,490)	40,557

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

Investment income comprises the following for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 626,642	579,120
Net realized and unrealized gains on investments	2,821,295	5,587,050
Other investment expense, net	(14,486)	(7,130)
Investment expenses:		
Investment management expenses	(471,071)	(447,980)
Other	(22,731)	(22,177)
Investment income, net	\$ 2,939,649	5,688,883



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**(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.

The fair values of forward contracts, futures, options, and swaps as of December 31, 2014 and 2013 are as follows:

	<b>December 31, 2014</b>	
	<b>Derivative asset</b>	<b>Derivative liabilities</b>
Forward contracts	\$ 523,198	(67,418)
Futures	734	(7,012)
Options	252	(175)
Swaps	3,080	(21,069)
Total	527,264	(95,674)
Netting offset*	(67,774)	88,001
Fair value presented in statement of financial position	459,490	(7,673)
Noncash collateral**	(454,029)	—
Net amount	\$ 5,461	(7,673)

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(Dollars in thousands)

	<b>December 31, 2013</b>	
	<b>Gross derivative asset</b>	<b>Gross derivative liabilities</b>
Forward contracts	\$ 238,888	(118,606)
Futures	4,971	(144)
Options	418	(189)
Swaps	—	(1,108)
Total	<u>244,277</u>	<u>(120,047)</u>
Netting offset*	<u>(79,490)</u>	<u>79,490</u>
Fair value presented in statement of financial position	164,787	(40,557)
Noncash collateral**	<u>(156,829)</u>	<u>38,723</u>
Net amount	<u>\$ 7,958</u>	<u>(1,834)</u>

\*Represents the netting allowed under legally enforceable master netting agreements, including cash collateral of \$357 and \$20,583 netted against derivative assets and liabilities, respectively, at December 31, 2014. No cash collateral was included at December 31, 2013.

\*\* Noncash collateral relates to over-the-counter derivatives.

Outstanding notional purchases and sales were as follows:

	<b>December 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>
Forward contracts	\$ 4,944,420	1,886,855	5,343,858	2,638,251
Futures	969,950	10,555,750	931,150	4,123,250
Options	1,794	4,420	257	550
Swaps	933,100	49,600	12,141	—

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

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### Notes to the Financial Statements

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(Dollars in thousands)

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, 2014 and 2013. The current portion of excise tax expense is \$60,343 and \$44,648 for the years ended December 31, 2014 and 2013, respectively.

The Trust made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2014 and 2013. Deferred excise tax expense was \$2,436 and \$32,637 for the years ended December 31, 2014 and 2013, respectively, resulting from net unrealized gains 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 2014 and 2013, the Trust made grants to the Foundation totaling \$4,388,873 and \$4,108,470, respectively.

#### (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 2014 and in prior years are as follows:

Berkshire Hathaway "B" shares contributed*		
Date	Shares	Value
August 24, 2006 – July 1, 2008	71,313	\$ 5,165,776
July 2009	21,434	1,248,770
July 2010	20,363	1,604,577
July 2011	19,344	1,497,459
July 2012	18,377	1,515,851
July 2013	17,458	2,013,559
July 2014	16,586	2,139,199
Total to date*	184,875	\$ 15,185,191

\* 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.

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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, 2014 through April 30, 2015, the date on which the financial statements were available to be issued, and determined that no additional disclosures are required.