
ANNUAL
REPORT 2007



BILL & MELINDA
GATES *foundation*



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A Message from Patty Stonesifer



Last month, Bill and Melinda Gates announced that they've hired Jeff Raikes to be the next chief executive officer of the foundation. I've had an amazing decade with the foundation, and I'm excited about new challenges to come. It's an honor to be handing the reins to someone as talented as Jeff. (You can read more about him elsewhere on our Web site.) And Jeff will be in good company, as both Bill and Melinda will spend more time with the foundation starting this year.

This transition is a natural time to be thinking about the two most important lessons I've learned with the foundation. (It's no accident that "lessons learned" is the theme of this annual report—they run throughout every story here.) In fact, this is the best advice I can offer to Jeff, or to anyone else who's involved with philanthropy.

First: Listen to your partners. That means your employees and advisers, of course, but also your grantees and the people who will ultimately benefit from your work. Years ago I heard an African proverb: "If you want to go fast, go alone. If you want to go far, go together." Stopping diseases like AIDS, restoring America's high schools, helping small farmers

"The danger isn't in what people do tell you—it's in what they don't."

in Africa lift themselves out of poverty and hunger—these are goals that entail going very far. So you'll have to go with many partners, ranging from nonprofits and governments to businesses and individuals. And working with partners requires, more than anything, listening hard to what they have to say.

While you're listening, make sure you're hearing the full story. The danger isn't in what people do tell you—it's in what they don't. It's amazing what people won't tell you when you have billions of dollars to give away. This is one of the main differences between working in technology, as I did for 20 years, and working in philanthropy. I still wear the same clothes that I had back then, but these days I get a lot more compliments!

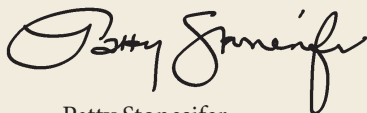
Second: As my friend Judith Rodin of the Rockefeller Foundation says, at the end of the day, those of us in philanthropy won't be judged

by how smart we were, how much we cared, or how much money we gave away. We're going to be judged by the impact we had. So don't take your eye off the ball.

Impact isn't simply paying out as much money as the government requires us to each year. It's not even helping to open new schools, develop new vaccines, create hardier varieties of crops, or build new housing.

Bill and Melinda created this foundation because they believe that all people, wherever they live, deserve the chance to live healthy and productive lives. That gives you a pretty great yardstick for impact: Did our work really advance health or opportunity? Did more high school students graduate ready for college, did fewer children get sick with malaria, did more African farmers lift themselves out of poverty, were fewer families homeless?

That's impact. We can't ever forget that. Getting there is unbelievably difficult. But for 11 years, it made for the most rewarding work of my life. My thanks to everyone who made it possible.



Patty Stonesifer
Chief Executive Officer

Global Development Program Overview



More than 2.5 billion people live on less than \$2 a day, and more than 800 million suffer chronic hunger. While these numbers are staggering, we believe solutions are within reach.

In 2006, we formed the Global Development Program to increase opportunities for people in the developing world to lift themselves out of hunger and poverty. Our work is focused on three key areas—agricultural development, financial services for the poor, and special initiatives that allow us to learn and have impact. These areas are all supported by policy and advocacy efforts around development issues.

Many of the world's poorest people are small farmers who rely on agriculture for their food and income. We work with a range of partners who share our focus on small farmers, most of whom are women. Our grants seek to address every part of a small farmer's economy—from better seeds and soil to helping farmers improve their techniques and find reliable markets for their surpluses. We also support data collection, research, and policy analysis.

Updates

In 2006, we made a grant to the Global Crop Diversity Trust, with the goal of protecting biodiversity and making sure that farmers in poor countries have access to the plant-genetic material they need to develop better crops.

In 2007, construction continued on the Svalbard Global Seed Vault, located on a Norwegian island less than 1,000 miles away from the North Pole. The vault opened officially in February 2008.

It can store 4.5 million seed samples for hundreds of years in a central and secure location, helping protect the world's valuable plant-genetic material.

In 2007, former U.N. Secretary-General Kofi Annan joined AGRA as its chairman. We also made a grant to support AGRA's second initiative, the Soil Health Program, which was launched in January 2008.

The Soil Health Program aims to help farmers revitalize some of the most depleted soils in the world. The goal is to reach more than 4 million small farmers and help them increase their yields by 50 to 100 percent.

Updates

In 2006, we teamed with the Rockefeller Foundation to launch the Nairobi-based Alliance for a Green Revolution in Africa (AGRA), which aims to help comprehensively revitalize African agriculture. AGRA's first initiative is focused on making improved seeds more accessible to small farmers so their crops can thrive.

In 2006, we hosted a peer-learning meeting in Chile that brought together representatives from six grantee countries who had worked on providing free public access to computers and the Internet through their libraries. The goal was to help them share lessons learned and ultimately build a network to transfer their expertise directly to each other.

In 2007, we launched a Global Libraries toolkit to provide an online forum for library leaders to continue the collaboration they started at the meeting.

The toolkit has three components: 1) an open discussion space for members of the library community to discuss topics of mutual interest; 2) a private online workspace to help grantees and program officers work on projects together; and 3) a repository of key documents, templates, and other resources that will be useful to our partners in the future.

We believe a renewed commitment to agricultural development—from donor and developing countries, the private sector, and philanthropies—could help hundreds of millions of people move out of hunger and poverty.

We also believe that increasing poor people's access to financial services can improve their financial security and make a significant difference in their lives. Having access to savings, loans, insurance, and other services is often the difference between planning for the future and reacting to the latest crisis. Our goal is to help expand the availability and affordability of financial products and services that meet the diverse needs of people in developing countries.

We realize that there are many ways to reduce poverty and increase opportunities, so our Special Initiatives grantmaking allows us to learn and have impact on a number of important development issues. This includes the work of Global Libraries, which helps provide free public access to computers and the Internet through libraries; Water, Sanitation, and Hygiene; and Urban Poverty, among other areas.

Our program is still young, but the results of our initial grants have reaffirmed our belief that hunger and poverty are problems with solutions. As we continue to learn from our partners and the people we serve, we are convinced that our interventions will become increasingly effective.

Helping Women Grow



What We're Learning:
Strategies for agricultural development are more effective when they account for women's needs.

In sub-Saharan Africa, women do about 80 percent of the farm labor. That means that any effort to improve the region's agriculture generally or the lives of its small farmers in particular must take women's needs and roles into account. Despite efforts to address gender issues in agriculture, changing the lives of women farmers on the ground has remained an elusive goal.

Gender is an often unseen but almost always important factor in agriculture. Consider two very different examples: Studies have found that due to cultural norms in many African countries, it is difficult for male agricultural extension workers to talk to women as they travel from farm to farm. This deprives women of the expertise that agricultural extension is intended to spread. It's also inefficient, because the people doing most of the work get less of the knowledge.

“ These modified cowpeas tend to be very hard and take hours to cook, which is a burden that women alone have to bear.”

Similarly, agricultural research, which is usually performed by men, is less effective when women's distinct perspectives and priorities aren't taken into account. For example, scientists have developed cowpea varieties that farmers can store for long periods of time, preventing the loss of food and income due to spoilage. However, these modified cowpeas tend to be very hard and take hours to cook, which is a burden that women alone have to bear—and which ultimately serves as a barrier to adoption.

Last year, we started a process of mainstreaming gender in our existing agriculture grants so that it becomes part of the planning process, not the cause of unintended consequences. Working with the International Center for Research on Women and the International Food Policy and Research Institute, we developed an extensive checklist to help our grantees

identify and then address gender-related issues as they develop and implement their strategies.

We are also re-evaluating our approach to monitoring and evaluation so that it reflects our goals for women. For example, we are working with our grantees to collect data that allows us to measure the impact of our grants on women wherever possible. (Some of the more traditional data, such as household income, tend to measure only how much grants are helping men.) We also are adding indicators of women's empowerment, such as how much control they have over decisions like what to plant and when to sell, and how often they're serving as leaders of local farming organizations we work with.

In addition to mainstreaming gender in existing grants, we have made a few grants specifically to help women in agriculture. For example, we are funding a program to get more women involved in the study of agricultural sciences.

Gender issues are often complex. And solutions can require approaches that aren't standard in the field of agricultural

development. For example, one tactic in countries where many women aren't able to read or count is to teach literacy and numeracy so they can protect their interests when it comes time to sell crops at market. That approach has nothing to do with seeds and soil per se, but it can work.

We believe that getting gender issues right is fundamental to the success of our work in agriculture. As we work with agricultural organizations on the ground to address women's needs, we expect that our projects will have a greater impact.

Understanding Insurance



What We're Learning:

To help people manage risks, you have to understand their diverse and specific needs.

Risk is a constant companion for many poor people in the developing world. A sudden sickness or death can plunge a family into debt at the same time their income decreases. A drought or a flood can wipe out a year's labor and derail a life's work. These unexpected events push people further into poverty and prevent them from moving out.

In the developed world, insurance products help people manage these risks. But they're rarely designed to meet the diverse and specific needs of the poor. Therefore, we are making grants to better understand how insurance products can give people in the developing world greater financial security and how they can be made more accessible.

We are learning a lot from the Aga Khan Foundation about what kind of insurance products poor people most value. The Aga Khan Foundation is experimenting with

several different kinds of insurance products in Pakistan and Tanzania: hospitalization insurance, life insurance, and asset insurance (livestock insurance, for example).

In Pakistan, the Aga Khan Foundation has worked through an infrastructure of hospitals and microfinance institutions that already exists, allowing it to reach even those who live in remote rural areas. These customers have expressed a preference for hospitalization insurance over life insurance. They also want help with day-to-day health expenses such as medication. As a result, the Aga Khan Foundation is now thinking about developing health savings accounts for its clients.

In Tanzania, life expectancy is significantly lower than in Pakistan. For that reason, the Aga Khan Foundation will test its hypothesis that life insurance will be a more popular

“Customers in Pakistan have expressed a preference for hospitalization insurance over life insurance.”

product there as the project gets off the ground. It will continue to track its clients' preferences as its work progresses.

In both countries, livestock insurance is important because many families' assets are tied up in their herds. But thus far, livestock insurance has proved prohibitively expensive for many of the people who need it, and the Aga Khan Foundation is starting to explore ways to drive the price down.

As a result of these early lessons, the Aga Khan Foundation is now examining ways to bundle services together so that families can pay a single premium and still be protected against many of the shocks they might face. The hope is that bundling services could decrease costs while increasing convenience.

Over the next several years, by working closely with partners and listening carefully to clients in developing countries, we hope to find insurance products that help poor families manage risks and build financial security.

Demand For Sanitation



What We're Learning:

To end the age-old practice of public defecation, it's not enough to give away toilets.

Half the people in the developing world—2.5 billion people—don't have safe sanitation. The consequences of this state of affairs include the spread of deadly disease, weak economic growth, and the loss of personal dignity. Partly because sanitation can be an uncomfortable topic, the problem hasn't received the attention it deserves. When people have tried to address it, they've often done so by providing toilets. The assumption is that if people have toilets, they'll use them. But evidence shows that many people who are given toilets don't actually use them. In short, supplying toilets doesn't work unless people also want to use them.

We made a grant to the Water and Sanitation Program, an organization affiliated with the World Bank, to help fund the Total Sanitation and Sanitation Marketing project. The project addresses the demand side of the sanitation equation as well as the supply side.

“All but the poorest households pay for their own toilet.”

The project's goal is to reduce the number of people who defecate outside to zero in four different areas (one in Tanzania, one in Indonesia, and two in India) of about 1 million people each. And in the process, it is testing whether this approach can succeed on an even bigger scale in the future.

Total Sanitation is a participatory process. The goal is to secure an agreement from everybody in a given community to stop the practice of defecating in the open. In many cases, the people the project is targeting have been defecating outside for their whole lives. Encouraging them to change their ways takes a careful grassroots effort.

The project works with local NGO staffers and government officials who travel from village to village. They work with community leaders to organize a series of face-to-face meetings to make sure the message filters down. Oftentimes, emphasizing the health

reasons for sanitation is not the most effective way to build consensus. Some of the educators explain the goal in terms of reducing the smell or the potential danger and shame of public defecation.

At the same time, the project addresses the issue of supply by training local masons to offer a range of latrines that are affordable to every segment of their market, including the poorest people in their communities. And, except for the very poorest families, each household pays for its own toilet, minimizing the need for subsidies and, most importantly, maximizing each family's commitment to actually using it.

The Total Sanitation approach has already been tested on a large scale in one country, Bangladesh. But there isn't enough evidence about the extent to which Total Sanitation is improving the lives of poor people and how sustainable it will be over the long term.

Our grant aims to test this approach on a large scale and in different countries to get hard data on how it impacts people's health, economic, and social condition; whether it can be sustained over the long term; and

whether it can be replicated at an even larger scale. If it succeeds, the grant could spur the widespread use of an effective solution to a very old problem.

Paying Attention To African Progress



What We're Learning:

The world needs more researchers thinking about what's working in Africa, and what isn't.

The National Bureau of Economic Research (NBER) is the leading nonprofit economics research organization in the United States. Yet very few of the researchers at NBER—indeed, very few researchers anywhere—have a sophisticated understanding of African economic issues. To help fill this gap in knowledge about African development, we are helping NBER launch a program to draw more economists into the field and bring more attention to recent trends in African economic development.

Right now, the popular conception of Africa is that it's a failed continent, plagued by problems that are deep-rooted and seemingly insoluble. But a lot of that conventional wisdom is conjecture. The world needs more researchers thinking about what's really happening—and working—in African development.

“As a whole, sub-Saharan Africa's economy has grown steadily in recent years.”

The truth is, many African countries have made great economic progress in recent years, but these successes are neither well-known nor well-understood. As a whole, sub-Saharan Africa's economy has grown steadily in recent years (approximately 5 percent annually since 2004), and policy makers in many countries have achieved much greater macroeconomic stability. For example, a group of countries including Ghana, Mozambique, Rwanda, Senegal, and Tanzania have combined better governance with economic aid, rising foreign investment, and export diversification to speed up their growth. These countries can benefit from studies that will help them sustain this momentum, and other countries can benefit from well-researched analyses of these country's experiences.

NBER will help fill this need by commissioning 40 original research projects

that will encourage collaboration among experienced U.S.-based economists, up-and-coming scholars, and their African counterparts. Together, they will explore critical questions in the field of African development, such as the impact of health on economic growth, how central banks should manage fluctuating commodity prices, and African trade policies.

Researchers funded by NBER's program will visit African countries and interact with African officials and researchers. They will also be encouraged to work with African co-authors when appropriate.

NBER's project will include annual research conferences and will culminate in 2012 with a major policy conference in Africa. The research presented there will be arranged in a format that will be useful to policymakers in Africa, to guarantee that this is not merely an academic exercise.

By that time, NBER hopes not only that its researchers will have advanced the field with their specific findings, but also that they've brought attention to African development in general, established stronger relationships

between western and African researchers, documented success stories, and made African development a more popular field among economists.

One Size Doesn't Fit All



What We're Learning:

Public access to the Internet brings different benefits to different populations.

Since the foundation's inception, one of our priorities has been helping public libraries provide people with free, public access to computers and the Internet. We believe that these tools can help individuals improve their lives and whole societies grow.

Our Global Libraries program helps countries install new computers connected to the Internet in their libraries, and it trains librarians to help users get the most out of technology. The program started with projects in Chile and Mexico, and now it is extending to new countries, particularly countries in Eastern Europe that are making the transition out of poverty. In 2007, projects were active in Botswana, Latvia, Lithuania, Romania, and Ukraine.

As we have worked with more countries in more regions, we have learned how important it is to tailor projects so that

"In Latvia, public libraries are piloting an e-signature that allows people to fill out government forms online."

they serve countries' particular needs. In Mexico, for example, the population is very young, and the country has focused on using libraries for educational purposes. Some schools teach classes in public libraries because they don't have the necessary facilities.

In Eastern Europe, e-government is increasingly popular. In Latvia, public libraries are meeting this demand by piloting an e-signature that allows people to fill out government forms online.

As we continue to refine our strategies based on the lessons we learn in the field, we are paying particular attention to the question of impact assessment. How do we measure the impact that Internet access is having on people's day-to-day lives?

In the first countries we worked with, we

tended to measure success by the number of computers installed, the number of libraries connected to the Internet, and the number of people with access. But those numbers tell only part of the story. They don't tell us how the information is improving people's lives.

So this year, we started working with a research organization to help us figure out how to conduct better impact studies. We aim to collect hard evidence on the social and economic benefits of access to information and technology.

This research is testing our own assumptions, and we're confident that, whatever the results, it will help us make better grants while helping our partners convey how important access to computers and the Internet is.

Global Health Program Overview



Year after year, millions of people in poor countries die from diseases that the world knows how to prevent or treat. The simplest solutions—such as sterile blades to cut umbilical cords—can save lives, but they aren't delivered to all the people who need them.

In addition, the world isn't doing enough to develop new solutions that could save even more lives. Many of the methods used to treat major killers such as malaria and tuberculosis simply don't work very well, and researchers need to discover and develop better approaches.

By making grants and advocating for global health, we try to act as a catalyst to bring these changes about. We aim to highlight issues that don't get the attention they deserve, to demonstrate solutions that work, and to help our partners collaborate to create and share the most effective interventions.

Updates

In 2005, we reported on a range of grants we were making to help fight malaria, including one to the Malaria Vaccine Initiative to conduct clinical trials of a vaccine candidate called RTS-S.

In 2007, researchers presented new data suggesting that RTS-S offers long-lasting protection of up to four years.

If everything continues as planned, RTS-S is scheduled to enter Phase 3 trials in 2008.

In 2005, we reported on a creative financing mechanism for global health. Five European countries collaborated to form the International Financing Facility for Immunizations, which issues bonds against countries' long-term foreign aid commitments to raise money for vaccine programs.

Updates

In 2007, another creative financing mechanism, this one called UNITAID, made great progress after being launched at the end of 2006.

UNITAID, which draws funds from a small airline ticket tax in France among other means, strategically intervenes in markets to drive down drug prices and reduce stock-outs.

In 2006, the Stop TB Partnership released its Global Plan to Stop TB. At the launch event, Bill Gates announced that the foundation would increase its spending by \$900 million over the next decade.

In 2007, we made \$280 million in TB grants.

These grants aim to spur the development of TB vaccines, to improve TB diagnostic tests, and to discover new TB treatments.

We focus on three strategies:

Discovery: Research to understand the scientific basis of major diseases in developing countries.

Development: Partnerships to translate scientific breakthroughs into new vaccines, drugs, and other health tools.

Delivery: Local, national, and international efforts to ensure that effective health solutions reach the people who need them most.

The Long Road to Success



What We're Learning:

It's more difficult than we realized to design scientifically rigorous clinical trials for HIV prevention.

We are committed to the idea that the best way to fight HIV/AIDS is not just to treat people who already have it, but to find ways to prevent people from getting it in the first place. Last year, however, was a year of frustration for the HIV prevention field. Clinical trials testing diaphragms, herpes suppression, one vaccine candidate, and several microbicide candidates did not show any of these interventions or candidates to be effective in preventing HIV infection.

We funded the diaphragm trial and helped with the microbicide trials.

Researchers considered diaphragms a promising method of protection because they cover the cervix, where HIV infections are thought to occur in women.

Microbicides, topical gels that reduce the risk of contracting the virus, are thought to have good potential because they allow women to initiate prevention.

“In the diaphragm and microbicide trials, many women simply did not use the intervention.”

But last year two different microbicide candidates, Carraguard and cellulose sulfate, failed in trials.

Like everyone else working in prevention, we were disappointed with these results, but we are not discouraged. Scientific research and development is a high-risk endeavor. Negative results are expected; it's part of the process.

In fact, failure is critical to success. When we discover what doesn't work, we gain scientific knowledge that eventually will help us learn what does work. And the feedback from failures helps us continually set new priorities.

In the case of HIV prevention, we learned a couple of important lessons in 2007. First, we have to improve our planning of clinical trials, particularly as it relates to the problem of HIV “incidence.” Incidence is the rate of new infections that researchers

will see in a given trial. Because it is difficult to predict incidence, planning the size and duration needed for a trial to show results is a challenge.

Second, we learned that we have to do a lot more to promote adherence to the product being tested. In the diaphragm trial and the microbicide trials especially, many women simply did not use the intervention. In the Carraguard trial, for example, adherence to the product was estimated to be less than 50 percent.

This is problematic for two reasons. First, it means we don't know if an intervention failed because it didn't work or because people didn't use it. Second, as long as adherence rates are that low, even theoretically effective interventions won't be practically effective. Even the best preventative method isn't any good if it doesn't get used.

Potential ways to improve adherence include educating people about the benefits of effective prevention measures or better monitoring people as they use them.

As we look ahead, several new methods are slated for clinical trials in the next few

years. A new generation of microbicide candidates—ones that are more potent because they include antiretroviral drugs that attack the virus directly—are being developed for testing in large trials.

In addition, we are helping to fund trials of Truvada, an AIDS treatment combination drug that may also help prevent infection.

Finally, we are funding an entirely different kind of herpes-suppression study. The two that failed last year studied whether people who took herpes drugs acquired HIV less frequently; this one studies whether people who take herpes drugs transmit HIV less frequently.

We know that some of these trials will also have negative results. That's part of the scientific process. But they are all part of the long-term strategy for success.

Risk and Reward



What We're Learning:

We need better ways to explore unorthodox ideas that could generate dramatic results.

Only a small portion of medical research today focuses on the health problems that disproportionately affect the world's poorest people. Historically, this lack of resources has meant that the scientific community must gamble on a relatively small number of ideas generated from within small, specialized research communities. Five years ago, we helped launch the Grand Challenges in Global Health initiative to help address this problem by engaging the world's best scientists to study the critical obstacles to improving global health.

We've made more than 40 Grand Challenges grants and are encouraged by the progress to date. Investigators have already published hundreds of scientific articles, and a few projects are heading into clinical trials soon.

But discovery is a long-term and ongoing process, requiring contributions from

“Discovery is a long-term and ongoing process, requiring contributions from experts in every discipline and from all over the world.”

experts in every discipline and from all over the world. To encourage this kind of approach, we launched a program called Grand Challenges Explorations in early 2008. Over the next five years, we will award hundreds of \$100,000 Grand Challenges Explorations grants to people with good ideas, so they can see where the ideas lead. The grant application is just two pages; we don't require preliminary data, and the review process is quick. If the ideas prove promising, then we will offer the chance to apply for additional funding of \$1 million or more.

The unconventional ideas we're hoping to incubate with Grand Challenges Explorations are all unproven, and we expect that the vast majority of them will fail. But if even a few uncover a new way forward in the fight against the deadly diseases of the

developing world, then we will consider the initiative a success.

The program immediately generated a lot of interest. In the first month, applicants from more than 80 countries created nearly 2,500 accounts on our Web site.

Large grants are appropriate in many cases, especially when there is broad consensus in the scientific community about the best approach to a given problem. But small, exploratory grants have an important place, too. When the path forward is unclear, they can help uncover new ideas and new approaches to problems. We hope that combining these two methods will accelerate discovery of solutions to the greatest global health problems.

Flour Power



What We're Learning:

Lessons from one country can make a big difference for others.

Most children in Ghana don't get the vitamins and minerals they need to grow up healthy and strong. To take just one example, more than 80 percent of Ghanaian children under 5 suffer from anemia. This kind of undernutrition exists throughout the developing world, and it is devastating to the health and economic well-being of millions of people.

We are among the partners involved in the Global Alliance for Improved Nutrition (GAIN), a public-private effort to make sure people in developing countries get the nutrients they need. In 2007, GAIN and Ghana reached an important milestone together: All the wheat flour in Ghana is now fortified with eight different micronutrients, including iron.

The success in Ghana is based in part on lessons GAIN learned from some of the

other countries in which it's been working, where progress has been slower.

GAIN has learned how important it is to fortify foods for which processing activities are centralized. In Ghana, there are only four flour mills in the whole country. Compare that to the iodization of salt, which can be produced in hundreds of different locations in a given country. Logistically speaking, zeroing in on four sites is significantly easier.

It is critical to pick the right foods to fortify. They have to be cheap, so the poorest people who tend to suffer the most from micronutrient deficiencies can afford to buy them. These foods also have to be a common and predictable part of people's diets. Otherwise, there is a danger that some people won't get enough of the nutrients, while others will get too much.

"It is critical to pick the right foods to fortify."

Wheat flour is very common in Ghana, but still, some of the poorest people who live in the most remote parts of the country eat a diet of maize instead. Ghana is working with the country's flour companies to build awareness about the health benefits of fortified products and ultimately to create more demand for them. Ultimately, however, fortification won't reach everybody, and it must be complemented by other health and nutrition initiatives.

GAIN is an excellent example of the potential of public-private partnerships to achieve health successes that neither sector could engineer on its own. The government of Ghana works on two things. First, it passes regulations to make sure that no company has an advantage in the marketplace by not fortifying foods. It also conducts extensive monitoring and evaluation to understand what impact the fortification efforts are having on the health of the population, including the poorest people in the country.

Meanwhile, the private sector does what it does best: It produces, distributes, and markets the product.

The success in Ghana—the smooth public-private collaboration and the wise planning that went into its fortification program—suggests that GAIN can meet its goal of improving the nutrition and health of 1 billion people.

Crunching the Numbers



What We're Learning:

Global health experts need better data about what works.

For decades, the world largely ignored the health problems of developing countries. In the last 10 years, it has started paying more attention, and funding to research those problems has gone way up. That's great news, but the field of global health is now growing much faster than its capacity to collect good data and measure the impact that interventions are having on people's lives. The gap that's opening up between what is being done and what is being measured raises a serious concern: Global health experts don't have reliable ways to know what their priorities should be or whether their current approaches are having the desired effect.

To help start closing this gap, we have made a grant to the University of Washington to create the Institute for Health Metrics and Evaluation (IHME).

"Global health experts don't have reliable ways to know what their priorities should be."

The IHME has four main goals. First, to gather better data. In many developing countries, the infrastructure for collecting key health data—things like censuses and birth and death registries—either doesn't exist or isn't reliable. Second, to use data to evaluate the effectiveness of particular health interventions. Third, to make sure the data and evaluations are disseminated to a broad audience of policymakers so they can make smart decisions. Fourth, to encourage advances in the field of health metrics by building up the science of collecting and working with data.

The IHME intends to be a resource for experts in the developing world. It is already offering a master's degree and will soon offer a Ph.D., and it is recruiting students from developing countries for these programs. In addition, it is encouraging its faculty to

work with collaborators from developing countries.

Getting better data—and improving the analysis of that data—is absolutely essential. For example, last year a new study that crunched child mortality data in a new way showed that while the trends are generally positive, child mortality is actually getting worse in certain countries. That is the kind of information that can lead to more effective, more targeted programs—and ultimately to better results.

Food and Funds



What We're Learning:

Creative financing can attract the private sector to help lift people out of poverty and improve health.

In the developing world, most families must contend with a series of interlinked problems. Because they're poor, they are undernourished. Because they're undernourished and can't study or work, they're poor.

Last year, Groupe Danone, in partnership with Grameen Bank (the microfinance institution founded by the Nobel Prize winner Muhammad Yunus), launched a sophisticated project in Bangladesh to address both health and poverty. We are involved in the project through the Global Alliance for Improved Nutrition, which is providing technical assistance to Danone and Grameen Bank and studying the project's effectiveness.

Here's how the project works: Grameen Bank gives loans to women in Bangladesh to help them purchase special hybrid milk

“Danone hires local women to sell the fortified yogurt in communities throughout Bangladesh.”

cows that produce five times more milk than the non-hybrid cows, along with common vaccinations and micronutrients to include in their feed. Danone promises to buy any milk the cows produce, which helps the women pay back Grameen and build assets for their families.

Danone then uses the milk to make yogurt, which is fortified with vitamins and minerals essential to growth and development. Then Danone hires local women to sell the yogurt for a small profit in communities throughout Bangladesh.

In the developed world, Danone uses massive factories and distribution networks to take advantage of economies of scale. But that model doesn't work in Bangladesh, where poor roads limit distribution to a 25-kilometer radius around each production facility. The dispersed model works well in

Bangladesh, where the milk producers and yogurt sellers are scattered throughout the country.

Through this approach, the milk producers and yogurt sellers increase their incomes significantly while large segments of the Bangladeshi population, particularly children, get improved diets. And though the project is not yet profitable enough to be self-sustaining, Danone is confident that it will be.

The project is new, but Danone has made some adjustments already. For example, the company discovered that it was considered culturally inappropriate for young women in Bangladesh to be far away from their homes, which made them inappropriate salespeople. So it has started recruiting older women for those jobs. In addition, Danone has decided to increase its investment in advertising to build its brand among consumers. The fortified yogurt now has a kid-friendly logo, a smiling lion flexing its muscles.

Danone hopes that in 10 years, the project will create 25,000 farm jobs and up to 100,000 sales and distribution jobs while

improving the health of more than a quarter of the Bangladeshi population. Moreover, the model that Danone and Grameen Bank are developing could very well be adapted to other countries and other products.

US Program Overview



We are committed to the goal of extending greater opportunity to everyone in the United States, with a particular focus on improving secondary and postsecondary education in America.

Right now, many of the pathways to opportunity in our society have turned into dead ends. Many of the things we do to help prepare young people for productive and rewarding lives simply don't meet that goal. In particular, America's education system fails millions of students every year. But working with our partners, we have seen that change is possible, and we have continually reaffirmed our belief that these problems can be solved.

We work with organizations throughout the country that have a history of bringing ingenuity and innovation to bear on the problems that limit opportunity. We help our partners create high-performing schools and fashion better public policy so that all students get a great high school education regardless of how much their families make or where they happen to live. In today's world, a high school diploma is insufficient. And so we also are working to double the number of young adults

Updates

In 2005, we worked with the National Governors' Association and Achieve Inc. to help states implement more rigorous education policies that would lead to higher graduation rates.

In 2007, Achieve announced progress that a number of states have made on multiple fronts.

Nineteen states have aligned their high school standards college entrance requirements, and 26 more states plan to do so. Eighteen states and Washington, D.C. require all students to complete a college- and career-ready curriculum to graduate, and 12 more states plan to do so. Nine states administer college readiness tests to all students, and 23 more states plan to do so. Eight states have implemented extensive data systems that track students from preschool through college, and 39 more states plan to do so.

In 2006, we made a grant to help rebuild public libraries in the Gulf Coast region that were destroyed by hurricanes Katrina and Rita in 2005.

By the end of 2007, 15 of the 18 temporary library facilities we funded had opened their doors.

Updates

The remaining libraries, delayed because of permit problems, are slated to open soon. The staff at these libraries reports that free computer and Internet access is the most popular service they offer and that the computer workstations are always full.

In 2006, we reported on the progress being made in New York City's high schools. The 14 new small schools that opened in 2002 graduated almost 80 percent of their students that spring.

In 2007, we received data on 47 schools that opened in 2002 and 2003. Their combined graduation rate is more than 70 percent, more than double that of the schools they replaced.

The fact that the rates stayed high even as the number of schools with graduating classes increased from 14 to 47 gives us confidence that the solutions in New York are both sustainable over the long term and scalable so that they reach millions of students.

In 2006, we reported preliminary data about our Sound Families Initiative, which started in 2000 with the goal of tripling the amount of affordable, transitional housing in the Puget Sound region that is linked with support services such as child care and domestic abuse counseling.

In 2007, Sound Families made its final round of grants and released its final evaluation report.

The initiative built 1,445 units of housing, and our grantees have served almost 3,000 children. Two-thirds of the families in a Sound Families program moved to permanent housing, and 90 percent of those families were still in permanent housing after a year. Moreover, about half of families increased their incomes by the end of the program, and after a year, that figure went up to three-quarters of families.

who complete a post-secondary degree or certificate that has real value in the workplace.

Bill and Melinda Gates also understand that barriers to opportunity go beyond the classroom. They believe in the power of information, and so the foundation helps public libraries ensure that everyone has access to life-changing technology through computers and the Internet. And in the Pacific Northwest region, the foundation helps local organizations provide a range of services, especially excellent early childhood learning programs and programs that help vulnerable families break the cycle of homelessness.

In 2007, our ongoing commitment in these areas was bolstered by the addition of several strong leaders to our team who will carry our work forward: Vicki Phillips (Education), Hilary Pennington (Special Initiatives), David Bley (Pacific Northwest), and Greg Shaw (Advocacy). In addition, we launched our Special Initiatives work, resulting in a commitment to post-secondary education.

In all of our U.S. work, we share our results with other nonprofits, businesses, and government at all levels. We know that it will take a combined, concerted effort to support our mission to ensure greater opportunity for all Americans through the attainment of secondary and post-secondary education with genuine economic value.

Casting a Wider Net



What We're Learning:

To help promising students get to college, you have to do more than just pay the bills.

If you go to high school in Washington, D.C., your chances of eventually earning a college degree are exceedingly low. More than half the students in D.C. who enroll in the ninth grade never graduate high school. Of those who do graduate, about one-third don't go to college. Of those who do go to college, more than two-thirds don't finish within five years. Do the math, and here's where you wind up: In many neighborhoods, just one out of 10 young people will ever earn a bachelor's degree.

Obviously, the city's schools are broken in many places. In 2006, a number of community organizations, government entities, and philanthropies came together to think systematically about how to fix them. They formed the Double the Numbers coalition with the goal of helping twice as many students in the nation's capital earn bachelor's degrees.

"In many neighborhoods in Washington, D.C., just one out of 10 young people will ever earn a bachelor's degree."

There is no magic bullet when it comes to doubling the numbers. The district needs wholesale changes, and it's developing a strategy to make them. Last year, we helped fund one of the key components of a comprehensive plan: a college scholarship for low-income students called the D.C. Achievers Program. Helping students overcome the often overwhelming financial barriers to higher education isn't the only thing that needs to get done, but it is essential.

The D.C. Achievers Program is modeled after a similar scholarship program we've been funding in Washington state since 2001, and it incorporates many of the lessons we've learned over the past six years.

For example, the Washington state program paired the scholarships with a controversial high school redesign effort.

The D.C. Achievers Program prioritizes scholarships, so it won't get bogged down in the occasionally messy politics of high school reform. The city's high schools will still be reformed, but as a separate yet complementary effort.

At the same time, the D.C. Achievers Program is adopting the best practices of the Washington state program.

First, it doesn't select students based on grades or test scores alone. It also emphasizes characteristics such as leadership potential, which, though harder to gauge, are an important complement to more traditional measures. Here's why: All our high school work is based on the idea that many of the nation's high schools aren't giving students the challenging, relevant curriculum they need to fulfill their potential. By using non-standard criteria to select students for the Achievers program, we can reclaim some of the talented young people who otherwise would never even dream of attending college.

The second unique characteristic of the D.C. Achievers program—also adapted from the Washington state program—is its

recognition of the fact that just paying the bills isn't enough. The Achievers program augments financial aid with advising as students navigate the college application maze and mentoring as they adjust to campus life, oftentimes at colleges where the vast majority of students come from very different backgrounds.

This year, 175 students in D.C. were selected as Achievers. They'll be heading off to college in the fall, early success stories in D.C.'s long-term effort to double the numbers.

Culture of Success



What We're Learning:

With the right support, even the most at-risk students can succeed.

“A remarkable 91 percent of the students in the summer program have gone on to college.”

The graduation rate for Native American students in Portland, Ore., is abysmal—about 30 percent, according to even the most generous estimates. Portland is home to the ninth largest Native American community in the United States, with more than 50,000 Native Americans living in the metro area, so the community's education emergency affects thousands of young people.

A group called the Native American Youth and Family Center (NAYA) has spent the past four years trying to solve this problem. NAYA runs two programs focused on this issue: a year-round program and an intensive summer program. Both have gotten great results.

In four years, 85 percent of the students in the year-round program have graduated from high school. And a remarkable 91 percent of the students in the summer program have gone on to college.

There are several secrets to NAYA's success.

First, it takes the students' culture into account instead of ignoring it. Historically, America's efforts to assimilate Native Americans centered on Indian boarding schools. For more than a century and until just a few decades ago, Native American children were typically separated from their families at a very young age and sent far away to learn a primarily vocational curriculum. Children were punished if they spoke their indigenous language or practiced any cultural traditions.

So part of NAYA's job is to help young Native American students develop positive associations with school. The staff is mostly Native American, which helps them build trusting relationships with their students. In addition, NAYA includes classes on Native American arts and culture in all its programs to help young people build confidence, a

sense of identity, and a proud connection to their culture.

Another part of NAYA's formula is giving every student individual attention. For the year-round program, all students are assigned an advocate, who works with the students, their parents, and school personnel to set specific goals and monitor the progress they're making. NAYA also offers after-school tutoring four days a week to help these students meet academic goals.

But the advocates don't just help students in school. They're also trusted advisors about the many issues that come up outside of school. For example, many Native American students live transient lives, moving back and forth from the city to the reservation, or moving often within the city to find affordable housing. The advocates help students who are having problems at home get access to some of the other services that NAYA offers, such as mental health services or the housing department.

In the summer program, the students take classes at Portland Community College for eight weeks. Every day, when class ends, they go to a session with tutors who help them

complete their homework while developing better study skills for the future.

The work can be painstaking. It is not one size fits all. But it works. There simply aren't very many programs for students that can more than double graduation rates in just a few years or boast of college attendance rates above 90 percent.

Making Great Schools the Norm



What We're Learning:

If it's hard to create a great school once, it's even harder to do it thousands of times.

Since we started making grants in education in 1999, we have worked with a number of charter management organizations, or CMOs, that open and operate new public high schools to provide families with additional options.

Green Dot Public Schools, a CMO that has opened 12 schools in Los Angeles, takes the very same students who are struggling in Los Angeles Unified School District high schools and proves that they can and will excel when they are held to high expectations and given the support they need to meet them. The test scores of the students at Green Dot schools are significantly higher than those of their peers at traditional high schools. At the three schools that have had graduating classes so far, more than 80 percent of the seniors have graduated, compared to barely 50 percent in Los Angeles overall.

“To get its charter, Green Dot had to win the support of a majority of Locke’s teachers.”

However, even though Green Dot and many other CMOs are creating effective new schools, there is a big question looming: Can they fundamentally reform high school education by making great schools the norm, rather than the exception?

Last year, Green Dot did something that may help educators start answering that question. It sought what is called a conversion charter to start operating new Green Dot schools on the premises of Locke High School, one of the lowest-performing high schools in Los Angeles. Instead of building new schools near Locke and giving those students who choose to switch schools a better option, Green Dot is becoming the primary provider of public education to the Locke community.

This approach not only paves the way for Green Dot to impact more students, it also solves one of the most difficult problems

facing Green Dot and other CMOs: facilities. Charter schools in many states don't receive extra funding for facilities, and finding a place where students can engage in rigorous learning can be a serious challenge. But if these CMOs can use pre-existing facilities, then they can concentrate more fully on what they set out to do—providing the best possible education to as many students as possible.

Green Dot's conversion charter for Locke High School is indicative of one more positive trend in the movement for high school reform. To get its charter, Green Dot had to win the support of a majority of Locke's teachers. The catch was that none of the teachers would be guaranteed a job at the Green Dot schools that would replace Locke.

But the teachers did vote for the charter, sacrificing their job security for their students' sakes. In fact, Green Dot is the only CMO in the state whose teachers are unionized. Their unique contract doesn't provide for tenure but pays slightly more, and it allows greater flexibility for school staff members to make decisions that are tailored to their specific needs. The vote

suggests that teachers will be at the vanguard of efforts to fix high schools.

We don't have the data yet to determine how the Locke conversion will affect students' performance. But reformers both inside and outside the current system are agreeing that the status quo is unacceptable, and they're working together toward solutions.

Making the Case



What We're Learning:

To keep computers available to the public, librarians need help advocating for funding.

More than a decade ago, when the Web was still relatively new, we set the goal that everybody who could get to a public library could get on a computer connected to the Internet. It was Bill and Melinda's first major philanthropic effort. Starting in 1997, we worked with more than 11,000 libraries in all 50 states to install computers with Internet access.

Eventually, we achieved our goal—virtually 100 percent of libraries are online. But we started to realize that we were not at an end but rather at the beginning of a much longer process. Information technology is constantly changing, and libraries, especially those in low-income communities that are chronically short on funds, have a hard time keeping up.

We believe access to technology should always be a standard service in libraries

“Information technology is constantly changing, and libraries, especially those in low-income communities that are chronically short of funds, have a hard time keeping up.”

because millions of low-income people either have no other access or have access that is too slow to run the latest applications. Therefore, the library is the place for them to go to find work, learn about health information, stay in touch with family and friends, and in general tap into the world of information available online. In 2007, we launched a new program in support of that goal called Opportunity Online.

To sustain access to technology, libraries have to generate more funding. Therefore, librarians are going to have to become more proactive advocates, making the case that computers and the Internet are a wise community investment. Research shows that libraries serve their communities in many ways that the public is not even aware of.

Opportunity Online is designed to help librarians gain the confidence and skills to advocate on behalf of their libraries.

The program has two main parts. First, it brings librarians from across the country together for a two-day conference to learn about effective strategies for building relationships with leaders in their communities. Second, it gives grants to libraries to purchase new computers, on the condition that they raise money from other sources as well. This way, their technology programs will stay up to date while they build the networks that will allow them to sustain the programs indefinitely.

When the first training was held in Iowa, four buses full of librarians from the four corners of the state converged on Des Moines. Many of the people who attended the session are the only employees at their libraries, and they had to find volunteers to keep their libraries open during their absence. It was a small sign of how central librarians are to the lives of their communities.

As librarians learn more about how to advocate on their own behalf, libraries will only grow in importance.

Joining the Chorus



What We're Learning:

Advocacy groups are more effective when they speak with one voice.

Our goal is to ensure that every student graduates from high school with the skills to succeed in college and life. In practice, that often means focusing on those most often deprived of that opportunity: low-income, minority students. According to almost every measure we have—including graduation rates—African American, Latino, Native American, and Southeast Asian students fare worse than white students. Moreover, the worst schools in the country—the roughly 10 percent of schools that account for about 50 percent of the dropouts nationwide—are overwhelmingly composed of these students.

That's why civil rights organizations are a natural champion for better high schools. On their own, many of these organizations have been working on education for years, but they have never before come together to

“High schools won't improve until people in the communities being poorly served by failing schools demand change.”

make high school reform a key civil rights issue.

That is, until now. Last year, we gave a series of grants to help create the Campaign for High School Equity (CHSE), a coalition of nine leading civil rights organizations focused on education and equity. CHSE has two goals. First, to help each member organization expand its individual efforts to promote change in our schools. Second, and more importantly, to help all the members unite around a common policy agenda for high school reform. Instead of nine different groups with nine different messages, CHSE will act as a single coalition advancing a single message about the reforms our schools need.

CHSE has agreed to organize its work around six specific policy positions, ranging from better ways to make sure schools are

accountable for their students' performance to more sophisticated data systems to measure progress. They have been sharing their policy recommendations in a series of co-authored editorials, briefings on Capitol Hill, and roundtable discussions with other key education organizations.

CHSE is quickly becoming an important national voice for school reform, but its influence also filters down to the community level. Ultimately, high schools won't improve until people in the communities being poorly served by failing schools demand change. The organizations that make up CHSE have been working to empower minority communities for decades.

So as CHSE begins to speak out more forcefully on education issues, so will their constituents at the grass-roots level. In fact, two leading Hispanic organizations, the League of United Latin American Citizens and the Mexican American Legal Defense Fund, recently brought more than 200 parents from around the country to Washington, D.C. to meet with their representatives about education reform.

CHSE aims to continue to collaborate to build a broad base for a new civil rights movement for better high schools.

Overview of Financial Statements

The condensed statements of financial position, activities, and grants paid for the years ended December 31, 2007 and 2006 are presented in this section.

In October 2006, to prepare for significant future growth and to separate our grantmaking from the management of the endowment, the trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs.

Though their purposes are linked, the foundation and the trust are distinct legal entities. For this reason, each entity has a separate set of books and undergoes an independent audit by KPMG, our external auditors. KPMG issued an unqualified opinion on the financial statements of each entity as of December 31, 2007, which are presented in conformity with generally accepted accounting principles (GAAP). Audited financial statements for the trust and the foundation may be viewed on our Web site.

Although the entities have separate audited financial statements, given their related purposes we believe it is helpful to present information in a way that allows readers to understand the financial position of the two entities on a combined basis. For this reason, the annual report contains combined financial statements with appropriate eliminating entries and explanatory notes.

As shown in the accompanying financial statements and grants paid summary, the following are selected financial highlights as of December 31, 2007 for the combined entities:

- Endowment assets available for charitable activities totaled \$38.7 billion.
- There is a \$4.4 billion liability for future year payments on already approved grants.
- Total revenues included \$1.76 billion in Berkshire Hathaway “B” shares contributed by Warren Buffett and \$1.3 billion in stock, cash, and investment manager fees contributed by Bill Gates.
- Grants expense on an accrual basis totaled \$3.0 billion.
- On a cash basis, the combined entities paid approximately \$2.0 billion in grants.

Additional information can be found in the 2006 annual information return, called the Form 990-PF-Return of Private Foundation, which is available for the trust and foundation on our Web site. Each entity will file its Form 990-PF for 2007 with the IRS later this year, with copies posted to the foundation’s Web site.

Alexander S. Friedman
Chief Financial Officer

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Financial Position

As of December 31, 2007 and 2006
Amounts in thousands

	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED DEC. 31, 2007 ¹	TOTAL COMBINED DEC. 31, 2006 ¹
ASSETS					
Cash and cash equivalents	\$ 435,928	\$ 9,945	\$ -	\$ 445,873	\$ 165,910
Investments	39,071,008 ²	-	(971,491) ^{3,4}	38,099,517	32,636,866
Beneficial Interest in the net assets of Bill & Melinda Gates Foundation Trust	-	38,652,976 ⁵	(38,652,976) ⁵	-	-
Investments loaned under secured lending transactions	4,492,520 ³	-	(4,492,520) ³	-	-
Investment sales receivable	544,847 ⁴	-	(544,847) ⁴	-	-
Interest and dividends receivable	200,733	-	-	200,733	210,326
Subtotal, investment and endowment assets	\$ 44,745,036	\$ 38,662,921	\$(44,661,834)	\$ 38,746,123	\$ 33,013,102
Federal excise tax refund receivable	-	-	-	-	8,523
Program related investment loans receivable, net	-	30,296	-	30,296	30,000
Prepaid expenses and other assets	1	2,055	-	2,055	1,570
Property and equipment, net	-	142,548 ⁶	-	142,548	67,186
Total Assets	\$ 44,745,036⁸	\$ 38,837,820⁹	\$(44,661,834)	\$ 38,921,022	\$ 33,120,381
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts payable	\$ 10	\$ 33,786	\$ -	\$ 33,796	\$ 17,139
Payable under investment loan agreements	4,583,440 ³	-	(4,583,440) ³	-	-
Investment purchases payable	1,425,418 ⁴	-	(1,425,418) ⁴	-	-
Accrued and other liabilities	1,474	20,434	-	21,898	18,025
Federal excise tax payable	17,083	-	-	17,083	-
Deferred excise taxes payable	64,645	-	-	64,645	42,242
Grants payable, net	-	4,423,063 ⁷	-	4,423,063	3,390,459
Total Liabilities	\$ 6,092,060	\$ 4,477,283	\$(6,008,858)	\$ 4,560,485	\$ 3,467,865
NET ASSETS:					
Unrestricted	38,652,976	34,360,537	(38,652,976) ⁵	34,360,537	29,652,516
Total Liabilities and Net Assets	\$ 44,745,036⁸	\$ 38,837,820	\$(44,661,834)	\$ 38,921,022	\$ 33,120,381

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Financial Position

¹ In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs. It should be noted, however, that the trust carried out most of the charitable activities in 2006 because the foundation, in its current structure, was not formed until late in the year. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

² Investments managed by the trust are primarily composed of bonds, notes, equities, and short-term investments.

³ The trust participates in securities lending transactions with a third-party investment company whereby the trust lends certain investments in exchange for a premium. Under the terms of the securities lending agreement, the trust requires collateral of a value at least equal to 102 percent of the value of the loaned investments. Consistent with generally accepted accounting principles (GAAP), these transactions are recorded in the audited financial statements as an asset to reflect the investments on loan and as a liability to return the collateral for the loaned assets. This “double counting” tends to display a higher dollar value of the trust’s investment assets than would exist if only the net value were presented. For this reason, an eliminating entry is shown in the Elimination Adjustments column to remove the effects of the security lending program. In this way, the reader is provided with a clearer picture of the net endowment assets available for charitable purposes at year end.

⁴ The trust’s investments are accounted for on a trade date, rather than a settlement date, basis. This means that at any given time there are significant investment receivables and payables outstanding related to trades that are in process. These transactions are recorded in the audited financial statements as required by GAAP. Eliminating these receivables and payables as shown in the Elimination Adjustments column gives the reader a clearer picture of the actual endowment balance available for charitable purposes at year end.

⁵ The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation’s charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation’s financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated to avoid double counting of the same net assets.

⁶ Property and equipment for the foundation is comprised of land and construction in progress related to the foundation’s new campus headquarters that is being constructed on a 12-acre site in downtown Seattle. IRIS Holdings, LLC (IRIS) is the legal entity which owns the land and will construct the headquarters for the foundation’s use. Because the foundation is the sole owner in IRIS, the financial statements of the two entities are presented here on a consolidated basis.

⁷ Grants payable reflects the total amount of grants approved for payment in future periods (\$4.9 billion in 2007 and \$3.8 billion in 2006), discounted to the present value as of December 31, 2007 and 2006, as required by GAAP.

⁸ Total assets, total liabilities, and total liabilities and net assets per the audited financial statements will not match the amounts shown in the trust’s 2007 990-PF tax return because the audited financial statements include adjustments required under GAAP to reflect securities lending transactions and investment receivables and payables as described in notes 3 and 4 above. These transactions are eliminated for purposes of presentation in the tax return, as they are in this presentation by the Elimination Adjustments, in order to portray more clearly for the reader the endowment assets available for charitable purposes. After removing the effect of these adjustments, the following amounts will appear in the trust’s 2007 990-PF: total assets of \$38,736,178; total liabilities of \$83,202; and total liabilities and net assets of \$38,736,178.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Activities

For the Years Ended December 31, 2007 and 2006
Amounts in thousands

	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED DEC. 31, 2007 ¹	TOTAL COMBINED DEC. 31, 2006 ¹
CHANGE IN NET ASSETS					
REVENUES AND GAINS					
Contributions	\$ 3,127,756 ²	\$ 1,579 ²	-	\$ 3,129,335	\$ 2,084,216
Investment income, net	4,950,789 ⁴	2,232	-	4,953,021	3,619,351
Total Revenues and Gains	\$ 8,078,545	\$ 3,811	\$ -	\$ 8,082,356	\$ 5,703,567
EXPENSES					
Grants	\$ 2,327,300	\$ 3,048,299 ⁵	\$ (2,327,300) ^{3,5}	\$ 3,048,299	\$ 2,845,654
Direct charitable expenses	-	41,842 ⁶	-	41,842	30,336
Program and administrative expenses	466	222,682	-	223,148	142,528
Federal excise and other taxes	61,010 ⁷	36	-	61,046	39,249
Total Expenses	\$ 2,388,776	\$ 3,312,859	\$ (2,327,300)	\$ 3,374,335	\$ 3,057,767
Changes in Net Assets before Beneficial Interest	5,689,769	(3,309,048)	2,327,300	4,708,021	2,645,800
Change in beneficial interest in the Bill & Melinda Gates Foundation Trust:					
Contributions from the Bill & Melinda Gates Foundation Trust	-	2,327,300 ³	(2,327,300) ³	-	-
Increase in net assets due to beneficial interest in Bill & Melinda Gates Foundation Trust	-	9,088,800 ⁸	(9,088,800) ⁸	-	-
Transfer of net liabilities to Bill & Melinda Gates Foundation	3,399,031 ⁹	(3,399,031) ⁹	-	-	-
Change in net assets	9,088,800	4,708,021	(9,088,800)	4,708,021	2,645,800
Unrestricted net assets, beginning of year	29,564,176	29,652,516	(29,564,176) ⁸	29,652,516	27,006,716
Unrestricted Net Assets, End of Year	\$ 38,652,976	\$ 34,360,537	\$ (38,652,976)	\$ 34,360,537	\$ 29,652,516

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Activities

¹ In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation ("foundation"), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust ("trust"), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation's grantmaking activities and its operating costs. It should be noted, however, that the trust carried out most of the charitable activities in 2006 because the foundation, in its current structure, was not formed until late in the year. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

² Contributions received by the trust in 2007 were provided primarily by Warren Buffett and Bill Gates. Approximately \$1.76 billion was received from Warren Buffett in the form of 475,000 shares of Berkshire Hathaway "B" stock. Bill Gates contributed \$1.2 billion in cash and Microsoft stock, and approximately \$168 million in contributed investment management services. Also, several donors from the general public made contributions to the trust and foundation.

³ The foundation received \$2.327 billion in contributions from the trust in 2007, which were used to fund the foundation's operations comprised of grants to third parties and other direct charitable expenses, operating costs, and capital and program-related investments. When presenting the financial statements of the two entities on a combined basis, the grant from the trust to the foundation must be eliminated, as shown in the Elimination Adjustments, in order to avoid double counting of the funds.

⁴ Includes interest and dividends received, plus realized and unrealized gains and losses on the endowment portfolio, less investment management expenses. The trust maintains a conservative approach to endowment management, aiming for a 5 percent return each year, since Bill and Melinda intend to donate more of their financial resources over time.

⁵ Grant expense includes cash payments made during 2007, as well as an adjustment to record expenses related to grants approved for payment in future years. The future grants payable portion is then discounted to the present value as of December 31, 2007, as required by generally accepted accounting principles (GAAP). Presented in the accompanying grants paid summary is grant expense on a cash basis, consistent with the reporting basis required in the annual 990-PF tax return. In 2007, the trust granted \$2.327 billion to the foundation, which must be eliminated in the Elimination Adjustments to avoid double counting of grants when the financials are presented on a combined basis.

⁶ Direct charitable expense includes payments made to third parties for charitable purposes. Examples of direct charitable expenses include payment for consulting services provided for grantees' benefit and travel costs to bring grantees and other participants together. Direct charitable expenses, working in tandem with grants, are an effective means of achieving charitable goals and are disclosed separately in the audited financial statements to distinguish these from operational costs of running the trust.

⁷ The trust is subject to federal excise taxes imposed on private foundations at 2 percent, or at 1 percent if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which does not include all components of net investment income as presented in these financial statements on a GAAP basis. The trust qualified for a 1 percent tax rate in 2007.

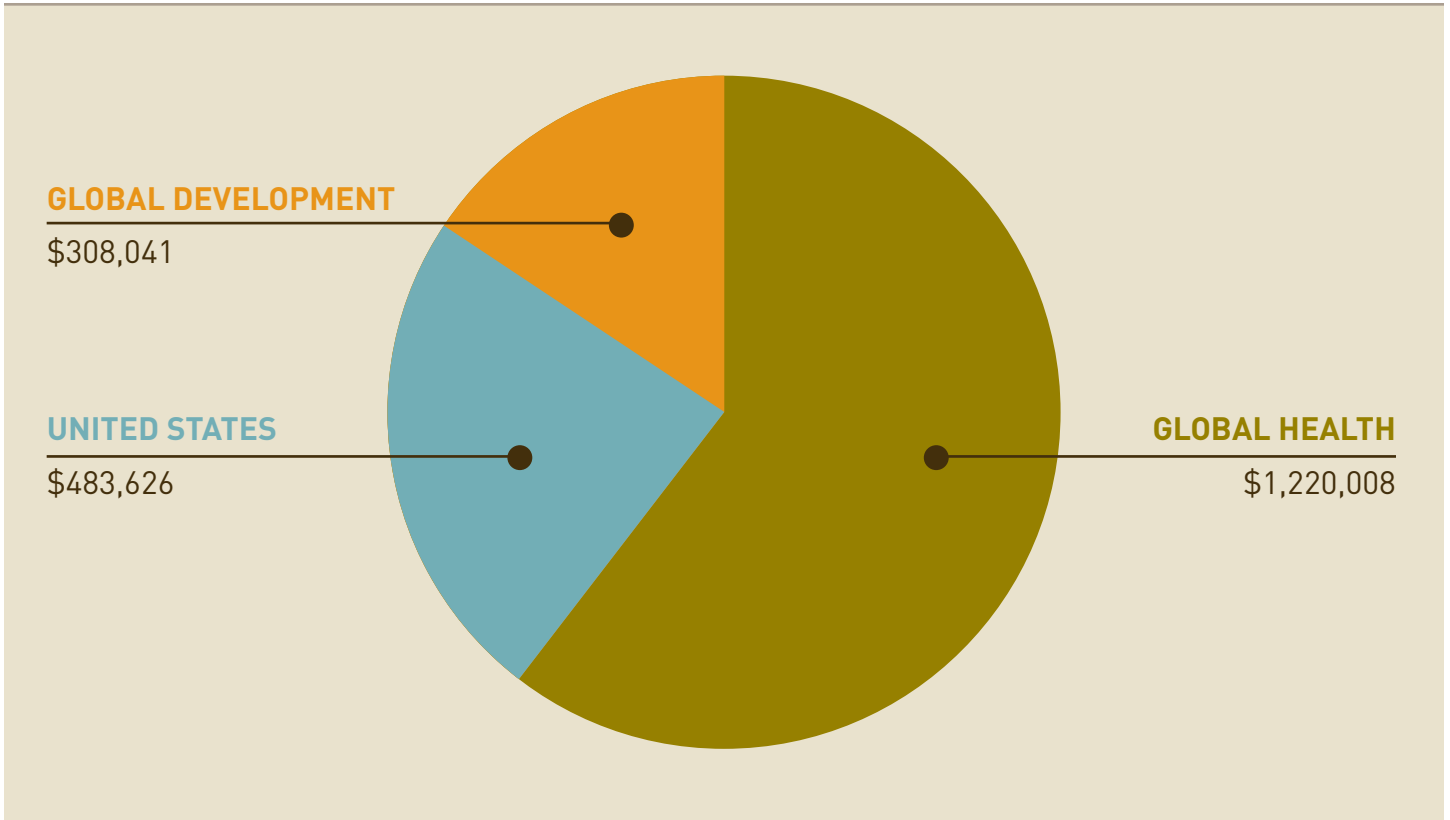
⁸ The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation's charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation's financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated in the Elimination Adjustments to avoid double counting of the same net assets.

⁹ Pursuant to an Asset Transfer and Acceptance Agreement, the trust transferred to the foundation on January 1, 2007, all the tangible and intangible assets, other than certain assets and liabilities specifically excluded from the agreement. The effect of this agreement is that all endowment assets and associated obligations remain on the books of the trust while all other property, equipment, contracts, employees, programs, grants payable, and other operating matters transfer to the foundation. Beginning in 2007, the role of the trust is to manage the endowment assets and transfer proceeds to the foundation, as required by the foundation's charitable goals. The role of the foundation is to carry out its charitable and programmatic goals, with funding for those activities to be received by the trust.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.

Grants Paid Summary

(Cash Basis)



For the Years Ended December 31, 2007 and 2006
Amounts in thousands

PROGRAM AREAS	2007	2006
Global Development	\$ 308,041	\$ 170,304
Global Health	1,220,008	916,339
United States	483,626	475,871
Total Grants Paid	\$ 2,011,675	\$ 1,562,514

Foundation Leadership



William (Bill) H. Gates III,
co-chair and trustee (center), tours the
Chaoyang CDC Clinic in Beijing, China.



Melinda French Gates,
co-chair and trustee (right), talks to students
in a biology class at John Hope College Prep
High School in Chicago, Ill.



Warren Buffett,
trustee, speaks to foundation staff
during a 2007 visit to Seattle, Wash.



William H. Gates Sr.,
co-chair (center), visits students and
teachers at Oscar de la Hoya Animo
Charter High School in Los Angeles, Calif.



Patty Stonesifer,
chief executive officer (right), visits a
crop research center at Patancheru in
Andhra Pradesh, India.



Sylvia Mathews Burwell,
president, Global Development Program
(center), examines plantain demonstration
plots at research station in Abuja, Nigeria.



Allan C. Golston,
president, U.S. Program (right), talks to
Chicago Public Library Commissioner Mary
Dempsey at the Humboldt branch in Chicago, Ill.



Tadataka Yamada, M.D.,
president, Global Health Program (blue
shirt), talks with a patient and her family
at the Janani Surya Franchise clinic in
Mahuwa, Bihar, India.



Martha Choe,
chief administrative officer (left), sits
in on a mobile computer training class
in Veracruz, Mexico.



Connie Collingsworth,
general counsel, attends a foundation
meeting in Seattle, Wash.



Alexander S. Friedman,
chief financial officer (right), visits the
West Gonja District Hospital in West
Gonja, Ghana.



Geoff Lamb,
managing director, Public Policy,
talks with foundation colleagues in
Washington, D.C.



Heidi Sinclair,
chief communications officer, tours
Kothapally village in Andhra Pradesh, India.