



Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

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Independent Auditor's Report***Board of Directors***
PATH

We have audited the accompanying consolidated financial statements of PATH and Subsidiaries (collectively, the Organization) which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of unrestricted activities, changes in net assets, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 audits 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 auditor's 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.

CLARK NUBER

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Certified Public
Accountants
and Consultants

Clark Nuber P.S.

Certified Public Accountants
May 15, 2014

PATH AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2013 and 2012
(In Thousands)

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 88,011	\$ 40,453
Investments	240,323	275,355
Contributions and awards receivable, net	337,191	333,178
Prepaid expenses and other	2,919	2,777
Other receivables	1,327	2,437
Furniture, equipment and leasehold improvements, net	19,504	20,812
Patent, net	224	403
Total Assets	<u>\$ 689,499</u>	<u>\$ 675,415</u>
Liabilities and Net Assets		
Accounts payable	\$ 27,868	\$ 28,142
Accrued expenses and other liabilities	25,824	26,401
Notes payable	4,336	5,232
Total Liabilities	58,028	59,775
Net Assets:		
Unrestricted	22,394	21,281
Temporarily restricted	605,699	590,984
Permanently restricted	3,378	3,375
Total Net Assets	<u>631,471</u>	<u>615,640</u>
Total Liabilities and Net Assets	<u>\$ 689,499</u>	<u>\$ 675,415</u>

See accompanying notes.

PATH AND SUBSIDIARIES

**Consolidated Statements of Unrestricted Activities
For the Years Ended December 31, 2013 and 2012
(In Thousands)**

	<u>2013</u>	<u>2012</u>
Revenues, Gains and Other Support:		
Contributions and awards - government, international, agencies, foundations, and public and private funders-		
Contributions and awards released from restriction	\$ 308,040	\$ 306,655
Unrestricted private contributions	3,457	3,602
	<u>311,497</u>	<u>310,257</u>
Other income-		
Investment income	1,213	1,912
Program service income	5	27
Gain on foreign currency exchange	2,111	381
Other	302	242
	<u>3,631</u>	<u>2,562</u>
Total Revenues, Gains and Other Support	315,128	312,819
Expenses:		
Program services-		
Product development	132,724	138,531
International development	76,833	78,212
Public health impact	50,805	44,952
Other	6,324	6,080
	<u>266,686</u>	<u>267,775</u>
Support services-		
Management and general	41,957	38,599
Fundraising	2,939	1,503
Bid and proposal	2,433	1,719
	<u>47,329</u>	<u>41,821</u>
Total Expenses	314,015	309,596
Change in Unrestricted Net Assets Before Inherent Contribution from Acquisition	1,113	3,223
Inherent contribution from acquisition		<u>429</u>
Change in Unrestricted Net Assets	\$ 1,113	\$ 3,652

See accompanying notes.

PATH AND SUBSIDIARIES

**Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2013 and 2012
(In Thousands)**

	<u>2013</u>	<u>2012</u>
Unrestricted Net Assets:		
Contributions and awards released from restriction	\$ 308,040	\$ 306,655
Total unrestricted revenues, gains, and other support	7,088	6,164
Inherent contribution from acquisition		429
Total expenses	<u>(314,015)</u>	<u>(309,596)</u>
Change in Unrestricted Net Assets	1,113	3,652
Temporarily Restricted Net Assets:		
Contributions and awards	320,520	202,933
Inherent contribution from acquisition		34,921
Investment income	2,235	3,895
Contributions and awards released from restriction	<u>(308,040)</u>	<u>(306,655)</u>
Change in Temporarily Restricted Net Assets	14,715	(64,906)
Permanently Restricted Net Assets:		
Contributions	<u>3</u>	<u>5</u>
Change in Permanently Restricted Net Assets	3	5
Total Change in Net Assets	15,831	(61,249)
Net assets, beginning of year	<u>615,640</u>	<u>676,889</u>
Net Assets, End of Year	<u>\$ 631,471</u>	<u>\$ 615,640</u>

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the Years Ended December 31, 2013 and 2012 (In Thousands)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 15,831	\$ (61,249)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation and amortization	3,429	3,894
Unrealized gain on investments	(505)	(2,213)
Loss on sale and disposal of equipment	41	158
Inherent contribution from acquisition		(35,350)
Contributions restricted for endowment	(3)	(5)
Changes in assets and liabilities:		
Contributions and awards receivable	(4,013)	79,325
Prepaid expenses and other	(142)	418
Other receivables	1,110	797
Accounts payable	(321)	(10,856)
Accrued expenses and other liabilities	(577)	1,739
Net Cash Provided (Used) by Operating Activities	14,850	(23,342)
Cash Flows from Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(1,999)	(2,492)
Proceeds from sale of equipment	63	34
Cash assumed from acquisition		3,138
Purchases of investments	(26,143)	(37,289)
Proceeds from maturity/sales of investments	61,680	82,925
Net Cash Provided by Investing Activities	33,601	46,316
Cash Flows from Financing Activities:		
Payments on notes payable	(896)	(748)
Proceeds from contributions restricted for endowment	3	5
Net Cash Used by Financing Activities	(893)	(743)
Net Change in Cash and Cash Equivalents	47,558	22,231
Cash and cash equivalents, beginning of year	40,453	18,222
Cash and Cash Equivalents, End of Year	\$ 88,011	\$ 40,453
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 93	\$ 102

See accompanying notes.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Organization and Summary of Accounting Policies

Organization - Program for Appropriate Technology in Health (PATH) and its Subsidiaries (collectively, the Organization) is a 501(c)(3) nonprofit, nongovernmental organization incorporated in the State of Washington. Effective February 3, 2014, the Organization's legal name was changed to PATH. PATH is an international organization that drives transformative innovation to save lives and improve health, especially among women and children. PATH accelerates innovation across five platforms – vaccines, drugs, diagnostics, devices, and systems and service innovations – that harness its entrepreneurial insight, scientific and public health expertise, and passion for health equity. By mobilizing partners around the world, PATH takes innovation to scale, working alongside countries primarily in Africa and Asia to tackle their greatest health needs. Together they deliver measurable results that disrupt the cycle of poor health.

For nearly 40 years, PATH has been a pioneer in translating bold ideas into breakthrough health solutions, with a focus on child survival, maternal and reproductive health, and infectious diseases. With headquarters in Seattle, Washington, PATH has 1,300 employees and offices in more than 20 countries. PATH receives support from foundations, governments, multilateral agencies, nongovernmental organizations, universities, corporations, and individuals. Learn more at www.path.org.

On January 1, 2012, PATH acquired PATH Drug Solutions (PDS), a controlled subsidiary (Note 17). PDS was previously known as Institute for OneWorld Health.

During 2013, PATH ceased to control Organization for Appropriate Technologies in Health (OATH), a Ukrainian international nongovernmental organization.

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States (U.S. GAAP). The consolidated financial statements include the accounts of PATH and PATH's wholly-owned subsidiaries, including PATH Vaccine Solutions (PVS), a 501(c)(3) nonprofit corporation formed to advance the development of vaccines to improve the health of children worldwide, Foundation for Appropriate Technologies in Health – Switzerland (FATH), a Swiss Foundation, OATH and PDS. All inter-entity accounts and transactions have been eliminated in consolidation.

For the purposes of financial reporting, the Organization classifies resources into three net asset categories pursuant to any donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets restricted by donor-imposed stipulations to be invested in perpetuity. The investment income from these funds is available for current use.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

Support and revenue are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of temporary restrictions result in the reclassification of temporarily restricted net assets to unrestricted net assets and are reported in the consolidated statements of unrestricted activities as contributions and awards released from restrictions.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less, other than those held in the Organization's investment portfolio, to be cash equivalents.

Investments - Investments in equity securities with readily determinable market values and all debt securities are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the consolidated statements of activities and changes in net assets. Securities are generally held in custodial investment accounts administered by certain financial institutions.

Investment securities, in general, are exposed to various risks, including interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investment return consists primarily of income earned on cash, cash equivalents and investments, and is recognized as earned. Where directed by the donor or grantor, interest earned on award advances is credited to specific restricted funds for future use as specified in the award agreement. All other interest income earned is credited to other restricted and unrestricted fund balances as is appropriate.

Fair Value of Financial Instruments - Financial instruments reported at fair value on a recurring basis include investments. Financial instruments not reported at fair value on a recurring basis include receivables, accounts payable and notes payable. The carrying amounts of these financial instruments approximate fair value.

Contributions and Awards Receivable - Contributions and awards receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to change in net assets and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts, grants or contributions receivable.

Furniture, Equipment and Leasehold Improvements - The Organization capitalizes furniture, equipment and leasehold improvements with a cost of \$5,000 or greater. The cost of furniture and equipment is depreciated over the estimated useful life of the asset and is computed using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Maintenance and repairs are charged to expense as incurred. Computer software purchased of \$25,000 or greater is capitalized and depreciated. Internally developed software and internally developed enhancements and modifications to existing or purchased software that result in additional functionality, with a total development cost in excess of \$500,000 are capitalized and depreciated.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

Patent - The donated patent is stated at the original assessed value less amortization computed on the straight-line method over the life of the patent.

Vulnerability from Certain Concentrations - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash and cash equivalents and investments held by financial institutions at times exceed Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insured limits.

For the years ended December 31, 2013 and 2012, 45% and 48%, respectively, of the Organization's total revenues, gains and other support was received from one private foundation, and 53% and 52%, respectively, of gross contributions and awards receivable are from one private foundation. For the years ended December 31, 2013 and 2012, 33% and 35%, respectively, of the Organization's total revenues, gains and other support consists of awards from the United States government, and 18% and 26%, respectively, of gross contributions and awards receivable is from the United States government. Management is aware of the related vulnerabilities but does not anticipate any losses in connection with these concentrations. Management continues to seek improved diversification from donors and funding sources.

Contributions and Awards Revenue Recognition - Unconditional contributions and awards from U.S. and foreign government agencies, foundations and public and private funders are recognized as temporarily restricted revenue at the time committed or obligated, provided the donor has identified a restriction on the use of the funds. Revenue from contracts is recognized at the time the service or good is provided.

Donated Goods and Services - Donations of goods, including property and equipment, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance nonfinancial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. In-kind donations totaled \$0.5 million and \$1.03 million for the years ended December 31, 2013 and 2012, respectively, and are included in management and general expense on the consolidated statements of unrestricted activities.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of unrestricted activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Additionally, the Organization incurs various fundraising expenses.

Collaborations - Awards, contracts and temporarily restricted contributions are used to fund projects related to global health. In connection with these projects, the Organization works with collaborating partners to assess health problems, identify and implement solutions and evaluate results. Accordingly, the Organization enters into funding agreements and cooperative agreements with these collaborating partners including international agencies, ministries of health, nongovernmental organizations, commercial entities, and universities, et cetera. Subagreements and subcontracts awarded from these projects are funded by temporarily restricted contributions to other organizations and recorded as expense, which totaled \$125.9 million and \$134.1 million for the years ended December 31, 2013 and 2012, respectively.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

Tax Exempt Status - The Internal Revenue Service has determined that PATH, PVS and PDS are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). They are classified as organizations that are not private foundations under Section 501(a) of the IRC. FATH, as an independent nonprofit foundation within the meaning of Articles 80 *et seq* of the Swiss Civil Code, has been granted tax exemption by the Department of Finance. OATH, as an international charity fund, has been registered as such based on Article 157 Part 111 of the Tax Code of Ukraine. The Organization files tax returns with the United States and various state, local and foreign governments. The Organization is subject to tax examinations by the tax authorities of these governments for the current year and certain prior years based on the applicable laws and regulations of each jurisdiction.

Foreign Currency Translation - Substantially all assets and liabilities of the Organization that are held in foreign currencies are translated at year end exchange rates. Revenues, gains and other support and expenses are translated at the average monthly exchange rates during the year. Gains and losses from foreign currency translation for the year are included in the statements of unrestricted activities and changes in net assets. Net foreign currency translation gains for the year ended December 31, 2013, totaled \$1,772,000. Net foreign currency translation losses for the year ended December 31, 2012 totaled \$275,000.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to 2012 amounts to conform to the 2013 presentation. The reclassifications have no effect on the previously reported change in net assets or net asset balances for 2012.

Subsequent Events - The Organization has evaluated subsequent events through May 15, 2014, the date on which the consolidated financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Money market accounts and other cash equivalents	\$ 73,514	\$ 34,399
Cash	<u>14,497</u>	<u>6,054</u>
	<u>\$ 88,011</u>	<u>\$ 40,453</u>

When specified by funding agreement, the Organization holds project-related funds in separate bank accounts.

Cash and cash equivalents held in bank accounts outside of the United States totaled \$16.3 million and \$6.6 million at December 31, 2013 and 2012, respectively.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 3 - Investments

Investments consisted of the following at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Corporate bonds	\$ 164,568	\$ 182,685
U.S., state, and foreign government securities	22,836	33,171
Government guaranteed corporate securities		5
Asset-backed securities	32,710	19,644
Equity securities	5,767	4,374
Short-term funds, bills and notes		35,470
Money market investment funds	14,442	6
	<u>\$ 240,323</u>	<u>\$ 275,355</u>

The return on cash and investments was comprised of the following for the years ended December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 3,037	\$ 4,402
Unrealized gains	505	2,213
Realized losses	(94)	(808)
	<u>\$ 3,448</u>	<u>\$ 5,807</u>

Note 4 - Fair Value Measurements

U.S. GAAP provides a framework for measuring fair value. To increase consistency and comparability in fair value measurements, the framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The framework uses a three-level valuation hierarchy based on observable and nonobservable inputs. Observable inputs consist of data obtained from independent sources. Nonobservable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

Assets and liabilities classified as Level 1 have fair values based on unadjusted quoted market prices for identical instruments in active markets. Assets and liabilities classified as Level 2 have fair values based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, or model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 4 - Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

Money Market Investment Funds - Valued at cost plus accrued interest, which approximates fair value.

Equity and Debt Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Organization at year-end.

Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

Debt Securities - Valued using bid evaluations from similar instruments in actively traded markets.

Assets recorded at fair value on a recurring basis were as follows at December 31, 2013:

	<i>(In Thousands)</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities and equity mutual funds-				
Equity securities:				
Biopharmaceuticals	\$ 20	\$ -	\$ -	\$ 20
Equity mutual funds:				
Large blend	3,827			3,827
Large value	1,920			1,920
	<u>5,767</u>			<u>5,767</u>
Total equity securities and equity mutual funds	5,767			5,767
Debt securities and debt mutual funds-				
Debt securities:				
U.S. government		14,318		14,318
Foreign government		8,518		8,518
Corporate		161,003		161,003
Asset-backed securities		32,710		32,710
Debt mutual funds:				
Multi-sector bond	3,565			3,565
	<u>3,565</u>			<u>3,565</u>
Total debt securities and debt mutual funds	3,565	216,549		220,114
Money market investment funds	14,442			14,442
Total Assets at Fair Value	<u>\$ 23,774</u>	<u>\$ 216,549</u>	<u>\$ -</u>	<u>\$ 240,323</u>

PATH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012**

Note 4 - Continued

Assets recorded at fair value on a recurring basis were as follows at December 31, 2012:

	<i>(In Thousands)</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities and equity mutual funds-				
Equity securities:				
Biopharmaceuticals	\$ 35	\$ -	\$ -	\$ 35
Equity mutual funds:				
Large blend	2,899			2,899
Large value	1,440			1,440
	<u>4,374</u>			<u>4,374</u>
Total equity securities and equity mutual funds	4,374			4,374
Debt securities and debt mutual funds-				
Debt securities:				
U.S. government		32,074		32,074
Foreign government		1,102		1,102
Corporate		179,220		179,220
Asset-backed securities		19,644		19,644
Short-term funds, bills and notes	35,470			35,470
Debt mutual funds:				
Multi-sector bond	3,465			3,465
	<u>38,935</u>	<u>232,040</u>		<u>270,975</u>
Total debt securities and debt mutual funds	38,935	232,040		270,975
Money market investment funds	6			6
	<u>6</u>			<u>6</u>
Total Assets at Fair Value	\$ 43,315	\$ 232,040	\$ -	\$ 275,355

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 5 - Contributions and Awards Receivable

Contributions and awards receivable consisted of the following at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Due in less than one year	\$ 220,315	\$ 212,563
Due in one to five years	118,269	122,162
	338,584	334,725
Less present value discount (0.3% - 4.8%)	(1,111)	(1,331)
Less allowance for doubtful accounts	(282)	(216)
	<u>\$ 337,191</u>	<u>\$ 333,178</u>

Awards from the U.S. government and certain nongovernment organizations are recorded as revenue when obligated, which may not reflect the full amount awarded. The total amount of unobligated awards pending for active projects was \$171.1 million and \$341.4 million at December 31, 2013 and 2012, respectively.

Note 6 - Furniture, Equipment and Leasehold Improvements

The Organization funds purchases of furniture, equipment and leasehold improvements from two sources: from the capital fund, a designated reserve of unrestricted net assets; or directly from temporarily restricted project funds.

Furniture, equipment and leasehold improvements consisted of the following at December 31:

	<i>2013 (In Thousands)</i>		
	<u>Capital Fund</u>	<u>Project Funds</u>	<u>Total</u>
Furniture	\$ 3,490	\$ 7	\$ 3,497
Equipment	4,433	6,201	10,634
Leasehold improvements	20,465	67	20,532
Software in progress	603		603
	28,991	6,275	35,266
Less accumulated depreciation and amortization	(11,818)	(3,944)	(15,762)
	<u>\$ 17,173</u>	<u>\$ 2,331</u>	<u>\$ 19,504</u>

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 6 - Continued

	<i>2012 (In Thousands)</i>		
	<i>Capital Fund</i>	<i>Project Funds</i>	<i>Total</i>
Furniture	\$ 3,466	\$ -	\$ 3,466
Equipment	4,392	5,376	9,768
Leasehold improvements	20,242	66	20,308
	28,100	5,442	33,542
Less accumulated depreciation and amortization	(9,638)	(3,092)	(12,730)
	<u>\$ 18,462</u>	<u>\$ 2,350</u>	<u>\$ 20,812</u>

Note 7 - Patent

The Organization holds a patent for the UltraRice Technology for fortified rice originally valued at \$3.3 million. The patent was issued in March 1995 and expires in March 2015. The patent is being amortized over its expected useful life of 18.25 years. Accumulated amortization totaled \$3.0 million and \$2.9 million as of December 31, 2013 and 2012, respectively.

Note 8 - Line of Credit

The Organization has a revolving line of credit for up to \$1 million with a commercial bank for working capital purposes available through June 30, 2014. Interest on the line is at LIBOR plus 1.25%. The line of credit is secured by the Organization's personal property. The credit facility available to the Organization is reduced by Standby Letters of Credit (SBLC) associated with various lease commitments. PATH has a SBLC for \$361,000. No amounts were outstanding under the line of credit or SBLCs at December 31, 2013 or 2012.

PATH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012**

Note 9 - Notes Payable

Notes payable consisted of the following at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Note payable to a commercial bank maturing February 1, 2018. Interest payments accrue at 1.86%. Principal is payable in monthly installments of \$56,944. The note is secured by the Organization's personal property. The note includes certain restrictive covenants, including the requirement for the Organization to maintain certain financial ratios.	\$ 2,847	\$ 3,500
Program-related investment from a private foundation in the form of a note payable maturing November 2019. Interest is paid at a 2% fixed rate. Quarterly principal and interest payments of \$69,114 are required. The note is secured by the Organization's trade fixtures, equipment and furnishings. The note includes certain restrictive covenants, including the requirement for the Organization to maintain certain financial ratios.	<u>1,489</u>	<u>1,732</u>
	<u>\$ 4,336</u>	<u>\$ 5,232</u>

Maturities of notes payable are as follows:

<i>For the Year Ending December 31,</i>	<i>(In Thousands)</i>
2014	\$ 932
2015	937
2016	942
2017	947
2018	383
Thereafter	<u>195</u>
	<u>\$ 4,336</u>

Interest expense on notes payable totaled \$93,000 and \$102,000 for the years ended December 31, 2013 and 2012, respectively.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 10 - Self-Insurance Reserve

The Organization maintains a research insurance program made up of a Self-Insured Retention (SIR) reserve fund and an excess insurance policy. The Organization's SIR program covers claims up to \$250,000 per incident and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2013 and 2012, \$2.1 million has been funded and set aside in the reserve. It is anticipated that additional planned annual allocations and interest income will add to the reserve going forward. Additionally, the Organization carries an excess insurance policy to cover any potential claims from \$250,000 to \$10 million.

Note 11 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Capital Fund	\$ 3,350	\$ 3,000
Catalyst Fund	4,813	4,007
Reach Fund	993	1,500
FIPI	12	14
Patent	224	403
Board Designated Endowment	3,224	2,792
FTT		1,103
Microcredit Guaranty	988	993
Self-Insured Retention Reserve	2,078	2,061
Special Project Fund		6
Undesignated	6,712	5,402
	<u>\$ 22,394</u>	<u>\$ 21,281</u>

The following is a description of board designated unrestricted net assets:

Capital Fund - Represents the portion of net assets attributed to the net book value of fixed assets and amounts designated for future purchases of fixed assets, net of any related loan balance.

Catalyst Fund - Represents a fund established by the Organization that consists of donor contributions that serve as a key source of innovation funding; funds that support new initiatives, leverage major grants and meet critical organizational needs.

Reach Fund - Represents a fund established by the Organization to expand and deepen the Organization's geographic reach, accelerate the development and introduction of health technologies, deliver integrated packages of health solutions, and build organizational infrastructure including investing in people and systems for the future.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 11 - Continued

FIPI - The Fund for Intellectual Property and Innovation (FIPI) is a reserve generated by net royalty earnings and license fees resulting from the licensing and/or transfers of technologies. The funds are used for patent application and maintenance, and the advancement of technologies.

Patent - Represents the net value of the donated UltraRice Patent (Note 7).

Board Designated Endowment - The endowment that is included in unrestricted net assets represents amounts designated by the Board.

FTT - The Fund for Technology Transfer (FTT) represented funds available for lending. Funds were either out on loan or were invested in interest bearing accounts. The FTT was closed in 2013.

Microcredit Guaranty - A reserve fund established as part of the Organization's microcredit loan guaranty program (Note 16).

Self-Insured Retention Reserve - The amount funded to date to pay the Organization's share of any claims resulting from settlement or judgment of actions as a result of clinical trials (Note 10).

Special Project Fund - The special project fund is a reserve of unrestricted funding that will be applied to specific programs.

Note 12 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31:

	<i>(In Thousands)</i>	
	<u>2013</u>	<u>2012</u>
Privately funded projects	\$ 460,402	\$ 436,250
U.S. government funded projects	42,322	62,748
Project funds generated from interest earnings	35,454	40,104
International government funded projects	50,094	28,406
International bi-lateral funded projects	12,596	19,497
Project equipment	2,416	2,339
Endowment earnings	2,415	1,640
	<u>\$ 605,699</u>	<u>\$ 590,984</u>

Restricted funds are available for projects specified by donors and are focused primarily on global health initiatives.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 13 - Endowment

The Organization's endowment consists of a number of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as an endowment (quasi-endowment). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this determination, the Organization classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) duration and preservation of the endowment fund; 2) the purposes of the Organization and the endowment fund; 3) general economic conditions; 4) effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) other resources of the Organization; and, 7) the investment policy of the Organization.

Endowment net assets consisted of the following at December 31:

	2013 (In Thousands)			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 2,415	\$ 3,378	\$ 5,793
Board designated quasi-endowment funds	3,224			3,224
	<u>\$ 3,224</u>	<u>\$ 2,415</u>	<u>\$ 3,378</u>	<u>\$ 9,017</u>

	2012 (In Thousands)			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 1,640	\$ 3,375	\$ 5,015
Board designated quasi-endowment funds	2,792			2,792
	<u>\$ 2,792</u>	<u>\$ 1,640</u>	<u>\$ 3,375</u>	<u>\$ 7,807</u>

PATH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2013 and 2012**

Note 13 - Continued

Changes to endowment net assets are as follows for the years ended December 31, 2013 and 2012:

	<i>(In Thousands)</i>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2012	\$ 2,459	\$ 1,040	\$ 3,370	\$ 6,869
Endowment investment return-				
Interest and dividends	69	125		194
Realized and unrealized gains	<u>264</u>	<u>475</u>		<u>739</u>
Total endowment investment return	333	600		933
Contributions			<u>5</u>	<u>5</u>
Endowment Net Assets, December 31, 2012	2,792	1,640	3,375	7,807
Endowment investment return-				
Interest and dividends	54	134		188
Realized and unrealized gains	<u>378</u>	<u>937</u>		<u>1,315</u>
Total endowment investment return	432	1,071		1,503
Contributions			3	3
Earnings appropriated for expenditure		<u>(296)</u>		<u>(296)</u>
Endowment Net Assets, December 31, 2013	<u>\$ 3,224</u>	<u>\$ 2,415</u>	<u>\$ 3,378</u>	<u>\$ 9,017</u>

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 13 - Continued

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in mutual funds to ensure a broad diversification among investment styles, sectors, industries, market capitalizations and credit quality. These vehicles offer the advantages of economies of scale, greater liquidity, broader diversification, cost efficiency, lower transaction costs and low minimum investment requirements not available through separate account management. The performance objective for the total endowment investment portfolio is to achieve an annualized investment return, net of fees, which will exceed a composite index composed of 40% Barclays Capital Aggregate Index and 60% S&P 500 Index. Performance is monitored quarterly over rolling one-year, three-year and five-year periods. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount based on current market conditions.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation between two asset classes: 40% fixed income and 60% equity investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has established an endowment spending policy for appropriating a maximum distribution in support of PATH's programs each year. In establishing this policy, the Organization considered the long-term expected return on its endowment and the need for that return to provide additional protection for any necessary adjustment to the value of the endowment for inflation. In order to sustain the real value of the endowment, the long-term return of the endowment should meet or exceed spending plus inflation as measured by an appropriate benchmark, such as the Consumer Price Index (CPI). To protect the essential value of the endowment against the expected impact of inflation, the Finance Committee sets a payout rate for the endowment's income that provides a prudent rate of real growth of endowment funds while also providing a relatively constant funding stream in support of PATH's current expenditures for programs. In determining each year's level of distribution, PATH will be governed by a spending policy which seeks to distribute up to 5% of the market value of the endowment investment portfolio, calculated based on the prior year's ending balance. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 14 - Project Revenue

The Organization has received several awards from The Department for International Development (DFID), United Kingdom of Great Britain and Northern Ireland, to support specific projects. DFID requires separate disclosure of revenue recognized in the Organization's financial statements. Revenue recognized, including releases of restriction, for each of these projects is as follows for the year ended December 31, 2013:

	<u><i>(In Thousands)</i></u>
Product Development Partnership (PDP) Arrangement for 2009-2013- New Vaccines for Diarrheal Diseases	\$ 4
Nutrition Embedding Evaluation Project (NEEP)	53
Product Development Partnership (PDP) Arrangement for 2010-2015- Meningococcal Conjugate Vaccines	570
Reproductive Health Supplies Coalition: Developing Affordable, Quality Reproductive Health Commodities- Purchase Order 40068171	1,601
Reproductive Health Supplies Coalition: Quality Reproductive Health Medicines- Product Component Code 202825-101	1,929
Maximizing the Quality of Scaling up Nutrition Programmes	3,619
Product Development Partnership (PDP) Arrangement for 2009-2014	3,812
Product Development Partnership Programme 2013 to 2018	<u>4,342</u>
	<u>\$ 15,930</u>

Revenue for these awards is released from restriction as related allowable project costs are incurred and is included in contribution and award revenue on the consolidated statements of activities and changes in net assets.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 15 - Employee Benefits

The Organization sponsors a defined contribution 401(k) plan (the Plan). Under the Plan, PATH employees may elect to contribute up to 75% of their pre-tax compensation, subject to certain limits under the IRC. The Organization will match the employee's contribution monthly at a ratio of 1:1 for the first 2%, and 2:1 for the next 4%, with a maximum employer contribution equal to 4% of pre-tax salary. Employer matching contributions to the Plan are fully vested after one year of completed service. Employee optional contributions in the Plan vest immediately. In addition, the Organization may make a voluntary employer contribution of up to 8% of employees' base compensation. Voluntary employer contributions to the Plan vest at a rate of 20% for each completed year of service. All regular U.S. hire employees are eligible to enter the Plan on the first of the month after completing three months of employment. The Organization also offers an optional Roth 401(k) plan.

Employer contributions for both U.S.-based plans totaled \$6.0 million and \$5.3 million for the years ended December 31, 2013 and 2012, respectively. Total global pension costs totaled \$7.3 million and \$6.3 million for the years ended December 31, 2013 and 2012, respectively.

Note 16 - Commitments and Contingencies

Operating Leases - A summary of annual noncancelable minimum commitments under operating leases for office space and equipment is as follows:

<i>For the Year Ending December 31,</i>	<i>(In Thousands)</i>
2014	\$ 7,580
2015	7,244
2016	7,000
2017	7,074
2018	7,012
Thereafter	<u>35,037</u>
	<u>\$ 70,947</u>

Rental expense was \$8.2 million and \$7.8 million for the years ended December 31, 2013 and 2012, respectively.

Awarding Agencies - Expenses incurred under certain programs are subject to audit by the awarding agencies. If, as a result of such audit, certain expenses incurred are determined to be nonreimbursable, the Organization may be liable for repayment of disallowed expenses previously claimed or received.

Contingencies - In the normal course of business, the Organization has various claims in process, matters in litigation, and other contingencies. In management's opinion, the outcome from these matters will not materially impact the Organization's financial position or results of activities.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2013 and 2012

Note 16 - Continued

Guaranty - The Organization entered into an agreement whereby it agreed to participate as a guarantor in a microcredit loan guaranty program. Losses realized on the microcredit loans will be allocated pro rata to each guarantor in the program; however, the Organization's maximum commitment and obligation to the program will not exceed \$1 million. The obligation under this program is with full recourse to the Organization. Under the terms of the agreement, the Organization will remain in the program until it provides advance written notice of withdrawal. Commitment may then be withdrawn after 18 months following the Organization's notice. In 2013, the Organization gave notice of its intention to withdraw as guarantor. The 18 month notice period will conclude February 7, 2015. A loss of \$4,540 was recorded for the year end December 31, 2013. No liability or loss was recorded for the year end December 31, 2012.

Note 17 - Acquisition of PATH Drug Solutions

On January 1, 2012, PATH Drug Solutions (PDS), previously known as Institute for OneWorld Health, became a controlled affiliate of PATH. PDS brings its drug development expertise and experience in neglected infectious diseases to bear on PATH's mission of improving global health through innovation. By becoming a PATH affiliate, PDS will be able to scale and accelerate its successful drug development efforts, which include developing a semi synthetic version of artemisinin, a key component in treating malaria, to help provide an affordable, stable source of the drug, alleviate shortages, and meet global demand. PDS, based in South San Francisco, was founded in 2000 and became the first nonprofit pharmaceutical company in the United States. PDS, which also has offices in New Delhi and Patna, India, currently works on drug development projects for diseases that include diarrheal disease, malaria, and visceral leishmaniasis, a parasitic disease spread by sand flies. PDS will remain a nonprofit organization operating out of its South San Francisco headquarters.

PATH accounted for this transaction as an acquisition in accordance with U.S. GAAP; therefore, the financial statements of PDS are included in PATH's consolidated financial statements effective January 1, 2012. The Organization recognized an inherent contribution of \$35.4 million, which represents the fair value of the net assets of PDS on January 1, 2012. The fair value of PDS assets acquired and liabilities assumed on that date were as follows:

	<u>(In Thousands)</u>
Cash and investments	\$ 23,045
Contributions and award receivable	13,320
Other assets	567
Accounts payable and accrued expenses	<u>(1,582)</u>
	<u>\$ 35,350</u>