PATH

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Table of Contents

Clark Nuber PS

Independent Auditor's Report

To the 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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated 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.

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, 2018 and 2017, 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.

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Effects of Adopting New Accounting Standards

As discussed in Note 18, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* and ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* as of and for the year ended December 31, 2018. Our opinion is not modified with respect to these matters.

Clark Nuber P.S.

Certified Public Accountants
June 6, 2019

PATH AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2018 and 2017
(In Thousands)

	2018	2017
Assets		
Cash and cash equivalents	$ 21,677	$ 13,880
Investments	190,942	220,578
Contributions and awards receivable, net	37,111	52,115
Prepaid expenses and other	5,443	5,404
Furniture, equipment and leasehold improvements, net	11,116	12,550
Total Assets	**$ 266,289**	**$ 304,527**
Liabilities and Net Assets		
Accounts payable	$ 18,246	$ 24,116
Accrued expenses and other liabilities	25,932	28,209
Deferred revenue	186,838	212,562
Notes payable	194	577
Total Liabilities	**231,210**	**265,464**
Net Assets:		
Without donor restrictions	19,841	23,524
With donor restrictions	15,238	15,539
Total Net Assets	**35,079**	**39,063**
Total Liabilities and Net Assets	**$ 266,289**	**$ 304,527**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2018
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:			
Grants, contracts and contributions-			
U.S. government	$ 85,017	$ -	$ 85,017
Other governments	27,997		27,997
Private foundations	189,563	909	190,472
Other awards and in-kind	14,119		14,119
Private campaign contributions	1,755	862	2,617
	318,451	1,771	320,222
Other income-			
Income and funding from invested funds	3,577	(151)	3,426
Other	303	668	971
	3,880	517	4,397
Net assets released from restrictions-			
Satisfaction of program restrictions	857	(857)	
Private campaign - pledges released from restriction	1,732	(1,732)	
	2,589	(2,589)	
Total Operating Revenues	**324,920**	**(301)**	**324,619**
Expenses:			
Program services	277,701		277,701
Support services-			
Fundraising	2,959		2,959
Bid and proposal	2,279		2,279
Management and general	44,478		44,478
Total Expenses	**327,417**		**327,417**
Change in Net Assets From Operations	**(2,497)**	**(301)**	**(2,798)**
Nonoperating Activity:			
Loss on foreign currency exchange	(1,186)		(1,186)
Total Change in Net Assets	**(3,683)**	**(301)**	**(3,984)**
Net assets, beginning of year	23,524	15,539	39,063
Net Assets, End of Year	**$ 19,841**	**$ 15,238**	**$ 35,079**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017
(In Thousands)

	Without Donor Restriction	With Donor Restrictions	Total
Operating Revenues:			
Grants, contracts and contributions-			
U.S. government	$ 99,519	$ -	$ 99,519
Other governments	14,055		14,055
Private foundations	207,227		207,227
Other awards and in-kind	14,891		14,891
Private campaign contributions	6,921	3,563	10,484
	342,613	3,563	346,176
Other income-			
Income and funding from invested funds	2,088	778	2,866
Other	488		488
	2,576	778	3,354
Net assets released from restrictions-			
Satisfaction of program restrictions	2,890	(2,890)	
Private campaign - pledges released from restriction	1,420	(1,420)	
	4,310	(4,310)	
Total Operating Revenues	**349,499**	**31**	**349,530**
Expenses:			
Program services	280,492		280,492
Support services-			
Fundraising	5,358		5,358
Bid and proposal	3,441		3,441
Management and general	59,970		59,970
Total Expenses	**349,261**		**349,261**
Change in Net Assets From Operations	**238**	**31**	**269**
Nonoperating Activity:			
Loss on sale of assets	(228)		(228)
Loss on foreign currency exchange	(3,684)		(3,684)
Loss on uncollectible pledges receivable		(2,473)	(2,473)
Total Change in Net Assets	**(3,674)**	**(2,442)**	**(6,116)**
Net assets, beginning of year	27,198	17,981	45,179
Net Assets, End of Year	**$ 23,524**	**$ 15,539**	**$ 39,063**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018
(In Thousands)

	Program Services		
	Essential Medicines	Global Health Programs	Technology, Analytics and Market Innovation
Salaries	$ 26,042	$ 39,861	$ 10,921
Fringe benefits and payroll tax	9,239	14,744	3,903
Sub-agreements	42,542	15,895	4,951
Sub-contracts	21,813	9,833	1,107
Professional services	1,698	4,273	703
Consultants	122	7,405	334
Occupancy	4,666	6,475	1,970
Relocation and moving	17	189	2
Travel	5,280	12,246	1,655
Meetings, education and workshops	447	7,017	203
Printing and copying	98	1,213	8
Telecommunications	310	843	99
Postage and freight	235	322	116
Supplies	392	2,773	931
Equipment rental and maintenance	113	1,343	167
Project procurement		532	10
In-kind contributions	3	71	
Insurance	188	31	5
Taxes, licenses and fees	248	581	10
Bad debt			
Direct aid to beneficiaries		4,664	
Donations and sponsorships	118	63	
Memberships and subscriptions	43	103	25
Other	36	68	46
	$ 113,650	**$ 130,545**	**$ 27,166**

See accompanying notes.

		Support Services			
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
$ 2,703	$ 79,527	$ 21,119	$ 1,472	$ 1,120	$ 103,238
963	28,849	7,018	539	418	36,824
9	63,397	15			63,412
320	33,073	1,081	48	25	34,227
426	7,100	6,569	168	227	14,064
92	7,953	461	27	8	8,449
534	13,645	3,845	275	239	18,004
5	213		12		225
544	19,725	1,123	63	209	21,120
427	8,094	291	40	19	8,444
31	1,350	171	4	7	1,532
61	1,313	268	18	2	1,601
19	692	47	2	1	742
33	4,129	220			4,349
80	1,703	944	3		2,650
	542				542
2	76	13			89
	224	303			527
40	879	385	45		1,309
		54	184		238
	4,664				4,664
20	201	94	6		301
4	175	210	30	2	417
27	177	247	23	2	449
$ 6,340	**$ 277,701**	**$ 44,478**	**$ 2,959**	**$ 2,279**	**$ 327,417**

PATH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2017
(In Thousands)

	Program Services		
	Essential Medicines	Global Health Programs	Technology, Analytics and Market Innovation
Salaries	$ 25,096	$ 35,392	$ 6,787
Fringe benefits and payroll tax	7,824	12,209	2,196
Sub-agreements	49,307	23,046	4,290
Sub-contracts	27,006	5,862	693
Professional services	1,451	3,731	554
Consultants	151	7,634	272
Occupancy	4,108	5,458	1,237
Relocation and moving	100	444	18
Travel	4,124	14,177	1,093
Meetings, education and workshops	399	7,900	94
Printing and copying	28	1,038	3
Telecommunications	308	874	44
Postage and freight	215	616	92
Supplies	394	2,352	723
Equipment rental and maintenance	140	1,872	83
Project procurement	87	1,677	5
In-kind contributions			
Insurance	187	11	2
Taxes, licenses and fees	102	380	9
Bad debt			
Direct aid to beneficiaries		5,210	
Donations and sponsorships	9	15	
Memberships and subscriptions	60	85	11
Other	3	2	
	$ 121,099	**$ 129,985**	**$ 18,206**

See accompanying notes.

			Support Services		
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
$ 4,542	$ 71,817	$ 26,830	$ 2,016	$ 1,813	$ 102,476
1,497	23,726	8,631	631	584	33,572
388	77,031				77,031
1,003	34,564	292	1,219	11	36,086
467	6,203	9,790	257	286	16,536
111	8,168	717	83	10	8,978
1,516	12,319	4,489	339	293	17,440
	562	55	15	3	635
1,042	20,436	2,540	76	398	23,450
300	8,693	770	431	12	9,906
56	1,125	192	31		1,348
90	1,316	348	16	9	1,689
21	944	71	26	1	1,042
41	3,510	424	3		3,937
54	2,149	1,347	88		3,584
5	1,774				1,774
		2,127			2,127
	200	265			465
39	530	262	61		853
		208			208
	5,210				5,210
5	29	119	9		157
23	179	471	55		705
2	7	22	2	21	52
$ 11,202	**$ 280,492**	**$ 59,970**	**$ 5,358**	**$ 3,441**	**$ 349,261**

PATH AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017
(In Thousands)

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ (3,984)	$ (6,116)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	2,992	2,828
Unrealized loss (gain) on investments	1,376	(159)
Loss on hedging activity	1,122	4,120
Loss on sale and disposal of equipment	1	228
Contributions restricted for endowment	(1)	(3)
Changes in assets and liabilities:		
Contributions and awards receivable	15,004	2,419
Prepaid expenses and other	(39)	1,448
Accounts payable	(5,870)	(2,609)
Accrued expenses and other liabilities	(2,819)	916
Deferred revenue	(25,724)	(48,690)
Net Cash Used by Operating Activities	**(17,942)**	**(45,618)**
Cash Flows From Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(2,106)	(2,126)
Proceeds from sale of equipment	547	99
Net purchases from hedging activity	(580)	(2,990)
Purchases of investments	(141,563)	(418,197)
Proceeds from maturity/sales of investments	169,823	379,976
Net Cash Provided (Used) by Investing Activities	**26,121**	**(43,238)**
Cash Flows From Financing Activities:		
Payments on notes payable	(383)	(948)
Proceeds from contributions restricted for endowment	1	3
Net Cash Used by Financing Activities	**(382)**	**(945)**
Net Change in Cash and Cash Equivalents	**7,797**	**(89,802)**
Cash and cash equivalents, beginning of year	13,880	103,682
Cash and Cash Equivalents, End of Year	**$ 21,677**	**$ 13,880**
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 9	$ 19
Property and equipment purchases included in accounts payable	$ -	$ 47

See accompanying notes.

Note 1 - Organization and Summary of Accounting Policies

Organization - PATH, along with its Subsidiaries (collectively, the Organization), is a 501(c)(3) nonprofit, nongovernmental organization incorporated in the State of Washington. 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 over 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 close to 1,500 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.

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 of America (U.S. GAAP). The consolidated financial statements include the accounts of PATH and PATH's controlled 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; PATH Drug Solutions (PDS), a 501(c)(3) nonprofit corporation that advances the development of medicines to improve the health of children worldwide; and Organization for Appropriate Technologies in Health - Nigeria (OATH - Nigeria), a non-political, not-for-profit Registered Trust under the Federal Republic of Nigeria Companies and Allied Matters Act. OATH - Nigeria supports PATH's activities in Nigeria in the areas of development of health technologies for vaccine development as well as emerging and epidemic disease prevention, detection, and treatment, and is registered at a federal level with the Federal Inland Revenue Service. All inter-entity accounts and transactions have been eliminated in consolidation.

Effective December 31, 2018 PDS was dissolved and its assets were transferred to PATH.

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

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations to be invested in perpetuity, restricted for specific purposes, or that may or will be met by actions of the Organization and/or the passage of time.

Note 1 - Continued

Support and revenue are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Restrictions on which the organization is required to perform an action expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of restrictions related to the passage of time result in the reclassification of net assets with donor restrictions to net assets without donor restrictions and are reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. The Organization has elected to report donor-restricted contributions whose restrictions are met in the same period that the condition is met as revenue within net assets without donor restriction.

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 and gains and losses earned on cash, cash equivalents and investments. Where directed by the donor or grantor, investment return on award advances is credited to deferred revenue for future use as specified in the award agreement. All other investment return is credited to net assets with or without donor restrictions as is appropriate.

Grants, Contracts, and Contributions Revenue Recognition - Grants, contracts, and contributions from United States and foreign government agencies, foundations and public and private funders are recognized as revenue when the donor-imposed conditions, if any, have been met. Revenue from contracts with customers are recognized at the time the service or good is provided.

Contributions and awards receivable are stated at the amount management expects to collect from outstanding balances. Awards receivable represents expenditures made in accordance with the terms of the awards not yet reimbursed in cash. Deferred revenues represents funding received in advance of the incurrence of project expenditures. Management provides for probable uncollectible amounts through a charge to expense 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.

Note 1 - Continued

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 purchases of $25,000 or greater are 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.

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, 2018 and 2017, total revenues, gains and other support of 54% and 57%, respectively, were from one private foundation.

For the years ended December 31, 2018 and 2017, 25% and 23%, respectively, of the Organization's total revenues, gains and other support consists of awards from agencies of the United States government.

Management is aware of the related vulnerabilities but does not anticipate material losses in connection with these concentrations. Management continues to seek improved diversification from donors and funding sources.

Donated Goods and Services - Donations of goods, including property and equipment and software licenses, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as support without restrictions 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.

Functional Allocation of Expenses - The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include fringe benefits, payroll taxes and occupancy expenses. These expenses are allocated to program and supporting services categories, based on salary expense.

Operating and Nonoperating Activities - Operating activities represent all sources of revenue and expenses except those designated as nonoperating. Nonoperating activities are the gains and losses related to foreign currency exchange, sale of furniture, equipment and leasehold improvements and write-off of uncollectible pledges.

Collaborations - Awards, contracts and contributions subject to donor conditions and restrictions 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. Subagreements and subcontracts awarded from these projects are funded by contributions with conditions from other organizations and recorded as expense, which totaled $97.6 million and $110.6 million for the years ended December 31, 2018 and 2017, respectively.

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 - Nigeria is a non-political, not-for-profit Registered Trust under the Federal Republic of Nigeria Companies and Allied Matters Act.

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 and expenses are translated using daily, transactional exchange rates during the year. Gains and losses from foreign currency translation for the year are included in the consolidated statements of activities and changes in net assets.

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 2017 amounts to conform to the 2018 presentation.

Subsequent Events - The Organization has evaluated subsequent events through June 6, 2019, 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:

	(In Thousands) 2018	2017
Money market accounts and other cash equivalents	$ 14,017	$ 10,493
Cash	7,660	3,387
	$ 21,677	**$ 13,880**

Cash and cash equivalents held in bank accounts outside of the United States totaled $7.1 million and $4.1 million at December 31, 2018 and 2017, respectively. When specified by funding agreement, the Organization holds project-related funds in separate bank accounts.

Note 3 - Investments

Investments consisted of the following at December 31:

	(In Thousands)	
	2018	2017
Corporate bonds	$ 81,475	$ 132,672
U.S., state and foreign government securities	77,017	52,975
Asset-backed securities	8,449	12,174
Equity mutual funds	5,612	6,034
Money market investment funds	18,389	16,723
	$ 190,942	**$ 220,578**

Where directed by the donor or grantor, investment return on award advances is credited to deferred revenue for future use as specified in the award agreement. Investment return utilized for specific awards is included in investment return on the consolidated statement of activities and changes in net assets. A reconciliation of investment return earned for the year and investment return reported on the consolidated statement of activities and changes in net assets for the years ended December 31 is presented below:

	(In Thousands)	
	2018	2017
Interest and dividends	$ 2,770	$ 3,764
Unrealized gains (losses)	(266)	159
Realized gains	75	272
Investment management services	(282)	(155)
Investment return	2,297	4,040
Investment return added to deferred revenues	(2,125)	(2,348)
Use of investment return from deferred revenues	3,254	1,174
Income and Funding from Invested Funds Reported on the Consolidated Statement of Activities and Changes in Net Assets	**$ 3,426**	**$ 2,866**

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.

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, 2018 and 2017.

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.

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

Foreign Exchange Derivative Contracts - Valued based primarily on the exchange rates effective at the measurement date.

Note 4 - Continued

Assets and liabilities recorded at fair value on a recurring basis were as follows at December 31, 2018:

	(In Thousands)		
	Level 1	Level 2	Total
Equity mutual funds-			
Biopharmaceuticals	$ 5,612	$ -	$ 5,612
Debt securities and debt mutual funds-			
U.S., state and foreign government securities	77,017		77,017
Corporate	81,475		81,475
Asset-backed securities	8,449		8,449
Total debt securities and debt mutual funds	166,941		166,941
Money market investment funds	18,389		18,389
Total investments	190,942		190,942
Foreign exchange derivative contracts		(150)	(150)
Total Assets and Liabilities at Fair Value	**$ 190,942**	**$ (150)**	**$ 190,792**

Note 4 - Continued

Assets and liabilities recorded at fair value on a recurring basis were as follows at December 31, 2017:

	(In Thousands)		
	Level 1	Level 2	Total
Equity mutual funds-			
Biopharmaceuticals	$ 6,034	$ -	$ 6,034
Debt securities and debt mutual funds-			
U.S., state and foreign government securities	52,975		52,975
Corporate	132,672		132,672
Asset-backed securities	12,174		12,174
Total debt securities and debt mutual funds	197,821		197,821
Money market investment funds	16,723		16,723
Total investments	220,578		220,578
Foreign exchange derivative contracts		(691)	(691)
Total Assets and Liabilities at Fair Value	**$ 220,578**	**$ (691)**	**$ 219,887**

Note 5 - Contributions and Awards Receivable

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

	(In Thousands)	
	2018	2017
Amounts due in less than one year	$ 37,273	$ 52,321
Less allowance for doubtful accounts	(162)	(206)
	$ 37,111	**$ 52,115**

Awards from the United States government and certain nongovernmental organizations are recorded as revenue when costs are incurred, which may not reflect the full amount awarded. The total amount of unrecognized awards pending for active projects was $1.185 billion and $1.018 billion at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, 69% and 59%, respectively, of the Organization’s unrecognized awards were from one private foundation. At December 31, 2018 and 2017, 22% and 24%, respectively, of the Organization’s unobligated awards were from one agency of the United States government.

Note 6 - Furniture, Equipment and Leasehold Improvements

The Organization funds purchases of furniture, equipment and leasehold improvements from two sources: the capital fund, a designated reserve of net assets without donor restriction; or project funds with donor restrictions.

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

	2018 (In Thousands)		
	Capital Fund	Project Funds	Total
Furniture	$ 3,700	$ -	$ 3,700
Equipment	3,496	7,634	11,130
Software	1,548		1,548
Leasehold improvements	20,413	67	20,480
	29,157	7,701	36,858
Less accumulated depreciation and amortization	(20,323)	(5,419)	(25,742)
	$ 8,834	**$ 2,282**	**$ 11,116**

Note 6 - Continued

	2017 (In Thousands)		
	Capital Fund	Project Funds	Total
Furniture	$ 3,643	$ -	$ 3,643
Equipment	4,226	7,534	11,760
Leasehold improvements	20,568	67	20,635
	28,437	7,601	36,038
Less accumulated depreciation and amortization	(18,416)	(5,692)	(24,108)
	10,021	1,909	11,930
Construction in process	620		620
	$ 10,641	$ 1,909	$ 12,550

Note 7 - 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 July 1, 2019. Interest on the line is at LIBOR plus 1.0%. 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 its lease commitments. PATH has a SBLC for $234,300 at December 31, 2018 and 2017. No amounts were outstanding under the line of credit or SBLC at December 31, 2018 and 2017.

Note 8 - Notes Payable

Notes payable consisted of the following at December 31:

	(In Thousands)	
	2018	2017
Note payable to a commercial bank that matured February 1, 2018. Interest payments accrued at 1.86%. Principal was payable in monthly installments of $56,944. The note was secured by the Organization's personal property. The note included certain restrictive covenants, including the requirement for the Organization to maintain certain financial ratios.	$ -	$ 113
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.	194	464
	$ 194	**$ 577**

Interest expense on notes payable totaled $9,000 and $19,000 for the years ended December 31, 2018 and 2017, respectively.

Note 9 - 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 $125,000 per incident and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2018 and 2017, $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 $125,000 to $10 million.

Note 10 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consisted of the following at December 31:

	(In Thousands) 2018	2017
Capital fund	$ 4,400	$ 4,400
Catalyst fund	6,337	9,927
Board designated quasi-endowment fund	3,246	3,588
Self-insured retention reserve	2,140	2,107
Undesignated	3,718	3,502
	$ 19,841	**$ 23,524**

The following is a description of board designated net assets without donor restrictions:

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.

Board Designated Quasi-Endowment Fund - The quasi-endowment that is included in net assets without donor restrictions represents amounts designated by the Board.

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 9).

Note 11 - Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following purposes at December 31:

	(In Thousands) 2018	2017
Project equipment	$ 2,460	$ 2,054
Private campaign - donor-restricted	6,413	6,315
Donor-restricted endowment funds	5,851	6,468
Prepaid licenses	514	702
	$ 15,238	**$ 15,539**

Restricted funds are available primarily for global health initiatives.

Note 12 - 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 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 permanent endowment fund is a separate fund included in net assets with donor restrictions. The accumulated earnings of the donor-restricted endowment fund that is classified as a separate endowment earnings fund within net assets with donor restrictions 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.

Note 12 - Continued

Endowment net assets consisted of the following at December 31:

	2018 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated quasi-endowment funds	$ 3,246	$ -	$ 3,246
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor		3,398	3,398
Accumulated investment gains		2,453	2,453
	$ 3,246	**$ 5,851**	**$ 9,097**

	2017 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated quasi-endowment funds	$ 3,588	$ -	$ 3,588
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be retained by donor		3,397	3,397
Accumulated investment gains		3,071	3,071
	$ 3,588	**$ 6,468**	**$ 10,056**

Note 12 - Continued

Changes to endowment net assets were as follows for the years ended December 31, 2018 and 2017:

	(In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ 3,334	$ 6,006	$ 9,340
Endowment investment return	254	904	1,158
Contributions		3	3
Earnings appropriated for expenditure		(445)	(445)
Endowment Net Assets, December 31, 2017	**3,588**	**6,468**	**10,056**
Endowment investment return	(342)	(151)	(493)
Contributions		1	1
Earnings appropriated for expenditure		(467)	(467)
Endowment Net Assets, December 31, 2018	**$ 3,246**	**$ 5,851**	**$ 9,097**

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.

Note 12 - Continued

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 U.S. Aggregate Index and 60% MSCI All Country World IMI Net Total Return Index. 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.

Note 13 - 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, for each of these projects was as follows for the year ended December 31, 2018:

	(In Thousands)
Technical Assistance for Nutrition 2016 to 2020	$ 4,675
Product Development Partnership Programme 2017 to 2021	7,717
Product Development Partnership (PDP) Arrangement for 2010-2015- Meningococcal Conjugate Vaccines	76
Strengthening Supply: shaping markets and supply chains for quality reproductive health for quality reproductive health commodities for the poorest and the most marginalized	2,807
New Health Technologies (MAPS)	239
Development of New Health Technologies (DAWN)	476
	$ 15,990

Revenue for these awards is recognized 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.

Note 14 - Employee Benefits

The Organization sponsors a defined contribution 401(k) plan (the Plan). Under the Plan, eligible 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 1:2 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.

Within the various countries in which PATH operates outside the United States, most employees are citizens of the host country. These employees are generally not eligible for PATH's defined contribution plan; however, they are eligible for certain local government sponsored plans appropriate for that country.

Employer contributions for both U.S.-based plans totaled $8.3 million and $8.0 million for the years ended December 31, 2018 and 2017, respectively. Total global pension costs totaled $10.3 million and $9.9 million for the years ended December 31, 2018 and 2017, respectively.

Note 15 - Commitments and Contingencies

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

For the Year Ending December 31,	(In Thousands)
2019	$ 9,279
2020	9,070
2021	9,098
2022	8,942
2023	8,989
Thereafter	34,814
	$ 80,192

Rental expense was $10.9 million and $10.2 million for the years ended December 31, 2018 and 2017, respectively.

Potential Disallowed Costs - 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.

Note 16 - Private Campaign Contributions

Private campaign contributions consist of contributions and pledges both with and without donor restrictions. Donor restricted contributions and pledges are to be used for specific purposes and/or will be paid over a period of time. Private campaign contribution revenue for the years ended December 31 consisted of:

	(In Thousands)	
	2018	2017
Contributions without donor restrictions	$ 1,755	$ 6,921
Contributions with donor restrictions:		
Time restricted	761	2,270
Purpose restricted	100	1,290
Endowment	1	3
Total contributions with donor restrictions	862	3,563
	$ 2,617	**$ 10,484**

Note 17 - Derivative Instruments and Hedging Activities

The Organization's risk management strategies include the use of foreign exchange (FX) derivative contracts. The goal of these strategies is to mitigate both market and economic risk so that movements in currency fluctuations do not adversely affect the value of the Organization or its ability to deliver on its contractual obligations and overall mission. The net fair value of the FX derivative contracts, reported at market value, is included in prepaid expenses or in accounts payable on the consolidated statements of financial position, depending on whether the net position is positive or negative at year end.

The Organization had in place foreign currency contracts for purchases of U.S. dollars (USD) with notional amounts totaling $24.6 million and $84.6 million, respectively, and sales of USD for foreign currencies with notional amounts totaling $19.3 million and $47.1 million, respectively, for the years ended December 31, 2018 and 2017. At December 31, 2018 and 2017, the fair values of FX contracts held recognized in the consolidated statement of financial position are a liability of $0.7 million and $0.1 million, respectively. The currencies being hedged are Euros and Great Britain Pounds.

Note 18 - Adoption of New Accounting Pronouncements

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions.

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 - *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* for revenue transactions. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional.

The primary effect of adoption of this ASU for the Organization is that certain awards received that were previously treated as unconditional are now treated as conditional. As a result, revenue for these awards is recognized when the conditions are met during the award term, whereas previously revenue had been recognized when the awards were awarded. The effect of this change was to increase total change in net assets for 2018 by $25.7 million, of which $25.7 million is attributable to change in net assets with donor restrictions and none was attributable to change in net assets without donor restrictions.

Note 18 - Continued

PATH has elected to adopt the changes from this ASU retrospectively to the 2017 financial statements. The effect of this change is presented in the tables below:

	2017 (In Thousands)		
	Reported on 12/31/2017	Restatements	Restated 12/31/2017
Impacted Lines - Consolidated Statement of Financial Position			
Assets:			
Contributions and awards receivable	$ 276,954	$ (224,839)	$ 52,115
Liabilities:			
Deferred revenue		212,562	212,562
Net Assets			
Without donor restrictions	25,860	(2,336)	23,524
With donor restrictions	450,605	(435,066)	15,539

Note 18 - Continued

	2017 (In Thousands)		
	Unrestricted 12/31/2017	Restatements	Restated - Without Donor Restrictions 12/31/2017
Impacted Lines - Consolidated Statement Activities and Changes in Net Asssets - Without Donor Restrictions			
Revenues:			
U.S. Government	$ -	$ 99,519	$ 99,519
Other government		14,055	14,055
Private foundations		207,227	207,227
Other awards and in-kind		14,891	14,891
Other Income:			
Investment return	968	1,120	2,088
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	339,858	(336,968)	2,890
Nonoperating Activity:			
Loss on foreign currency exchange	(205)	(3,479)	(3,684)

Note 18 - Continued

	2017 (In Thousands)		
	Temporary and Permanently Restricted 12/31/2017	Restatements	Restated - With Donor Restrictions 12/31/2017
Impacted Lines - Consolidated Statement Activities and Changes in Net Asssets - With Donor Restrictions			
Revenues:			
U.S. Government	$ 107,332	$ (107,332)	$ -
Other government	39,939	(39,939)	
Private foundations	170,156	(170,156)	
Other awards and in-kind	7,136	(7,136)	
Other Income:			
Investment return	3,227	(2,449)	778
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	(339,858)	336,968	(2,890)
Nonoperating Activity:			
Refund of unused project funds	(11,271)	11,271	

Note 19 - Liquidity and Availability of Financial Assets

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

The Organization has Catalyst and undesignated funds within its net assets without donor restrictions, which serve as operating reserves. The Catalyst fund had a balance of $6.3 million and $9.9 million at December 31, 2018 and 2017 respectively. The undesignated fund had a balance of $3.7 million and $3.5 million at December 31, 2018 and 2017 respectively. These funds can be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. Additionally, the Organization has a quasi-endowment of $3.2 and $3.6 million at December 31, 2018 and 2017, respectively. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

Note 19 - Continued

In the event of an unanticipated liquidity need, the Organization also could draw upon $1 million of available lines of credit. The following reflects the Organization's financial assets as of the date of the consolidated statement of financial position, reduced by amounts not available for general use within one year of the date of the consolidated statement of financial position because of contractual or donor-imposed restrictions.

	(In Thousands)	
Financial assets, at year-end	2018	2017
Cash and cash equivalents	$ 21,677	$ 13,880
Investments	190,942	220,578
Contributions and awards receivable	37,111	52,115
Total financial assets	249,730	286,573
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(15,238)	(15,539)
Deferred revenue on subject to meeting award conditions	(186,838)	(212,562)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	**$ 47,654**	**$ 58,472**