

PATH Consolidated Financial Statements



For the Years Ended
December 31, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors PATH

Opinion

We have audited the financial statements of PATH and Subsidiaries (collectively, the Organization), which comprise the consolidated statements financial position as of December 31, 2021 and 2020, 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 financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.



Clark Nuber^{PS}

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Clark Nuber P.S.

Certified Public Accountants

June 3, 2022

PATH AND SUBSIDIARIES

Consolidated Statements of Financial Position December 31, 2021 and 2020 (In Thousands)

	2021	2020
Assets		
Cash and cash equivalents	\$ 23,135	\$ 17,141
Investments	230,730	211,221
Awards and contributions receivable, net	39,927	39,743
Prepaid expenses and other	8,073	7,324
Furniture, equipment and leasehold improvements, net	7,136	8,432
Total Assets	\$ 309,001	\$ 283,861
Liabilities and Net Assets		
Accounts payable	\$ 28,019	\$ 23,825
Accrued expenses and other liabilities	25,885	26,619
Deferred revenue	197,418	182,853
Total Liabilities	251,322	233,297
Net Assets:		
Without donor restrictions	24,375	23,544
With donor restrictions	33,304	27,020
Total Net Assets	57,679	50,564
Total Liabilities and Net Assets	\$ 309,001	\$ 283,861

See accompanying notes to the consolidated financial statements.

PATH AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets For the Years Ended December 31, 2021 and 2020 (In Thousands)

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues:						
Awards and contributions						
Private foundations	\$ 163,782	\$ -	\$ 163,782	\$ 157,000	\$ -	\$ 157,000
U.S. government	88,221	-	88,221	64,169	-	64,169
Other governments	31,255	-	31,255	34,599	-	34,599
Other awards and in-kind	46,481	645	47,126	25,898	314	26,212
Private campaign contributions	3,602	2,509	6,111	4,392	913	5,305
	333,341	3,154	336,495	286,058	1,227	287,285
Other income-						
Income and funding from invested funds	(1,275)	7,902	6,627	4,549	10,323	14,872
Other	241	463	704	708	358	1,066
	(1,034)	8,365	7,331	5,257	10,681	15,938
Net assets released from restrictions-						
Satisfaction of program restrictions	4,472	(4,472)	-	4,633	(4,633)	-
Private campaign - pledges released from restriction	763	(763)	-	879	(879)	-
	5,235	(5,235)	-	5,512	(5,512)	-
Total Operating Revenues	337,542	6,284	343,826	296,827	6,396	303,223
Expenses:						
Program services	301,101	-	301,101	252,136	-	252,136
Support services-						
Management and general	29,599	-	29,599	37,600	-	37,600
Bid and proposal	1,995	-	1,995	2,308	-	2,308
Fundraising	4,053	-	4,053	2,325	-	2,325
Total Expenses	336,748	-	336,748	294,369	-	294,369
Change in Net Assets From Operations	794	6,284	7,078	2,458	6,396	8,854
Non-Operating Activity:						
Gain (loss) on foreign currency exchange	37	-	37	(234)	-	(234)
Total Change in Net Assets	831	6,284	7,115	2,224	6,396	8,620
Net assets, beginning of year	23,544	27,020	50,564	21,320	20,624	41,944
Net Assets, End of Year	\$ 24,375	\$ 33,304	\$ 57,679	\$ 23,544	\$ 27,020	\$ 50,564

See accompanying notes to the consolidated financial statements.

PATH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2021 (In Thousands)

	Program Services						Support Services			
	Program Innovation	Essential Medicines	Africa	AMEE	Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
Salaries	\$ 38,247	\$ 28,188	\$ 9,433	\$ 8,759	\$ 2,802	\$ 87,429	\$ 15,924	\$ 879	\$ 1,110	\$ 105,342
Sub-agreements	29,276	31,845	6,705	4,553	119	72,498	-	-	-	72,498
Fringe benefits and payroll tax	12,482	8,260	4,865	3,153	981	29,741	3,368	256	394	33,759
Sub-contracts	9,361	20,400	1,049	1,703	195	32,708	-	-	-	32,708
Professional services	7,323	1,632	1,517	3,024	747	14,243	4,604	184	193	19,224
Occupancy	5,960	4,542	1,531	1,532	567	14,132	2,062	160	207	16,561
Meetings, education and workshops	2,707	404	4,493	734	495	8,833	248	1	6	9,088
Travel	3,631	718	2,970	1,138	424	8,881	82	-	23	8,986
Project procurement	3,157	124	304	4,775	-	8,360	-	-	-	8,360
IT services	2,181	1,115	1,443	1,061	185	5,985	331	42	49	6,407
Supplies and other	2,092	700	1,871	737	6	5,406	54	-	2	5,462
Temporary services	506	233	1,146	1,984	43	3,912	985	22	6	4,925
In-kind contributions	268	-	-	-	-	268	712	2,420	-	3,400
Equipment rental and maintenance	699	93	1,039	786	3	2,620	148	-	4	2,772
Direct aid to beneficiaries	1	-	1,216	16	-	1,233	-	-	-	1,233
Telecommunications	336	145	518	45	48	1,092	128	5	-	1,225
Postage and freight	230	348	160	78	1	817	37	18	-	872
Printing and copying	201	59	345	124	33	762	34	40	1	837
Taxes, licenses and fees	92	26	268	128	33	547	200	47	-	794
Donations, sponsorships and memberships	242	103	55	19	16	435	318	24	-	777
Insurance	42	384	34	1	-	461	302	-	-	763
Bad debt	10	-	31	697	-	738	62	(45)	-	755
	<u>\$ 119,044</u>	<u>\$ 99,319</u>	<u>\$ 40,993</u>	<u>\$ 35,047</u>	<u>\$ 6,698</u>	<u>\$ 301,101</u>	<u>\$ 29,599</u>	<u>\$ 4,053</u>	<u>\$ 1,995</u>	<u>\$ 336,748</u>

See accompanying notes to the consolidated financial statements.

PATH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended December 31, 2020 (In Thousands)

	Program Services						Support Services			
	Program Innovation	Essential Medicines	Africa	AMEE	Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
Salaries	\$ 33,936	\$ 26,896	\$ 8,002	\$ 7,139	\$ 4,035	\$ 80,008	\$ 18,569	\$ 1,213	\$ 1,309	\$ 101,099
Sub-agreements	21,208	35,407	2,237	4,481	35	63,368	-	-	-	63,368
Fringe benefits and payroll tax	10,229	7,066	4,084	2,373	1,311	25,063	4,401	320	405	30,189
Sub-contracts	6,226	19,114	2,747	760	133	28,980	3	-	-	28,983
Professional services	5,571	1,479	1,463	1,344	486	10,343	2,861	161	285	13,650
Occupancy	5,863	4,710	1,270	1,277	764	13,884	4,106	213	255	18,458
Meetings, education and workshops	1,448	166	2,601	396	163	4,774	504	5	8	5,291
Travel	2,624	685	3,031	770	392	7,502	194	5	40	7,741
Project procurement	390	18	121	1,732	-	2,261	-	-	-	2,261
Supplies and other	2,230	137	1,480	560	19	4,426	65	13	-	4,504
Temporary services	708	110	1,246	907	66	3,037	844	50	6	3,937
In-kind contributions	362	32	-	13	-	407	562	108	-	1,077
Equipment rental and maintenance	1,715	164	824	288	50	3,041	1,174	4	-	4,219
Direct aid to beneficiaries	9	-	1,261	-	123	1,393	-	-	-	1,393
Unrecoverable costs	-	-	-	-	-	-	1,910	-	-	1,910
Telecommunications	317	163	389	32	60	961	134	6	-	1,101
Postage and freight	236	123	203	51	1	614	30	18	-	662
Printing and copying	225	41	324	113	25	728	140	45	-	913
Taxes, licenses and fees	68	503	230	33	24	858	588	29	-	1,475
Donations, sponsorships and memberships	153	77	20	9	18	277	863	23	-	1,163
Insurance	25	126	60	-	-	211	440	-	-	651
Bad debt	-	-	-	-	-	-	212	112	-	324
	<u>\$ 93,543</u>	<u>\$ 97,017</u>	<u>\$ 31,593</u>	<u>\$ 22,278</u>	<u>\$ 7,705</u>	<u>\$ 252,136</u>	<u>\$ 37,600</u>	<u>\$ 2,325</u>	<u>\$ 2,308</u>	<u>\$ 294,369</u>

See accompanying notes to the consolidated financial statements.

PATH AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the Years Ended December 31, 2021 and 2020 (In Thousands)

	2021	2020
Cash Flows From Operating Activities:		
Change in net assets	\$ 7,115	\$ 8,620
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	2,445	3,114
Unrealized loss (gain) on investments	1,851	(2,388)
Loss (gain) on hedging activity	274	(260)
Loss on sale and disposal of equipment	148	14
Contributions restricted for endowment	(3)	(3)
Changes in assets and liabilities:		
Contributions and awards receivable	(184)	3,604
Prepaid expenses and other	(749)	450
Accounts payable	4,194	5,895
Accrued expenses and other liabilities	(953)	931
Deferred revenue	14,565	3,415
Net Cash Provided by Operating Activities	28,703	23,392
Cash Flows From Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(1,318)	(1,547)
Proceeds from sale of equipment	22	22
Net purchases from hedging activity	(55)	(8)
Purchases of investments	(77,407)	(88,358)
Proceeds from maturity/sales of investments	56,047	57,083
Net Cash Used by Investing Activities	(22,712)	(32,808)
Cash Flows From Financing Activities:		
Proceeds from contributions restricted for endowment	3	3
Net Cash Provided by Financing Activities	3	3
Net Change in Cash and Cash Equivalents	5,994	(9,413)
Cash and cash equivalents, beginning of year	17,141	26,554
Cash and Cash Equivalents, End of Year	\$ 23,135	\$ 17,141
Supplementary Disclosure of Cash Flow Information:		
Property and equipment purchases included in accounts payable	\$ 62	\$ -

See accompanying notes to the consolidated financial statements.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 1 - Organization and Summary of Accounting Policies

Organization - PATH, along with its Subsidiaries (collectively, the Organization) is a global nonprofit accelerating health equity and access to good health so people and communities can thrive. PATH advises and partners with public institutions, businesses, grassroots groups and investors to solve the world's most pressing health challenges. Headquartered in Seattle, PATH has close to 1,540 employees that work in more than 60 countries and with 20 offices worldwide, PATH delivers through a model that is both global and local. With leading global capabilities in primary health care, malaria, vaccines and data and digital solution development, its team of professionals that includes scientists, health professionals, business leaders, advocates and experts from dozens of specialties, transform bold ideas into sustainable solutions that improve health and well-being.

PATH's solution areas include: advocacy and policy; development of easy to use and affordable device and diagnostics tools; invention and advancement of affordable and effective medicines, as well as partnering with countries to assess and design appropriate demand and supply markets for affordable and available quality health products and services. As a global health organization addressing health problems facing people and communities around the world, the breadth and scope of the health areas covered by PATH are broad, encompassing: cancer, diabetes, diarrheal disease, early childhood development, Ebola, epidemic preparedness, heart disease, HIV/AIDS, HPV, Influenza, Japanese Encephalitis, malaria, maternal and newborn care, meningitis, tropical diseases, nutrition, pneumonia, polio, sexual and reproductive health, tuberculosis, water sanitation and hygiene.

Basis of Presentation - The 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 financial statements include the accounts of PATH and PATH's controlled subsidiaries, including:

- Foundation for Appropriate Technologies in Health - Switzerland (FATH), a Swiss Foundation.
- Program for Appropriate Technology in Health (PATH), an organization registered under the Nongovernmental Organizations Co-ordination Act, 1990 in Kenya.

All inter-entity accounts and transactions have been eliminated in consolidation.

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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 1 - Continued

Award and contribution revenues 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. Donor stipulated restrictions expire when the stipulated purpose has been fulfilled and/or the 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.

Awards and Contributions Revenue Recognition - Awards 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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 1 - Continued

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 revenue 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 awards 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 purchases of \$150,000 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 \$150,000 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 year ended December 31, 2021, total revenues, gains and other support of 48% were from one private foundation and 23% were from agencies of the United States government (54% and 22%, respectively in 2020). Management is aware of the related vulnerabilities but does not anticipate material losses in connection with these concentrations. The Organization actively pursues a broad based of 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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 1 - Continued

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 service center costs, fringe benefits, payroll taxes, occupancy, and overhead expenses. Service centers perform specific technical or administrative services and include editorial and proofreading, graphic design, human resources compliance, library and knowledge management, grants and contract administration, donor reporting, information systems, and lab and shop. Service center costs are direct charged based on usage as either a standard hourly rate or flat fee per deliverable. Fringe benefits, payroll taxes, and occupancy expenses are allocated to program and supporting services categories based on salary expense. Overhead expenses are allocated to program and supporting services categories based on modified direct costs.

The information systems, grants and contract administration and donor reporting services centers were formed in 2021, previously allocated through overhead.

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.

Sub-Agreements and Sub-Contracts - In connection with projects funded through awards and contributions, the Organization enters into funding agreements and cooperative agreements with 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 \$105.2 million and \$92.4 million for the years ended December 31, 2021 and 2020, respectively.

Tax Exempt Status - The Internal Revenue Service has determined that PATH is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). It is classified as an organizations that is not private foundations under Section 501(a) of the IRC. FATH, as an independent nonprofit foundation within the meaning of Article 80 et seq of the Swiss Civil Code, has been granted certain exemptions from tax by the Switzerland Department of Finance, Cantonal Tax Administration. PATH Kenya is a not-for-profit organization registered under section 10 of the Nongovernmental Organizations Co-ordination Act, 1990 in Kenya. PATH Kenya qualifies for exemption from income tax in Kenya under Paragraph 10 of the First Schedule to the Income Tax Act CAP 470.

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 a rate based upon the funding rate the Organization receives from banks when transferring money between currencies, which approximates the exchange rate at the transaction date. Gains and losses from foreign currency translation for the year are included in the consolidated statements of activities and changes in net assets.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 1 - Continued

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - The Organization has evaluated subsequent events through June 3, 2022, the date on which the 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)	
	2021	2020
Cash	\$ 13,129	\$ 7,422
Money market accounts and other cash equivalents	10,007	9,719
	<u>\$ 23,135</u>	<u>\$ 17,141</u>

Cash and cash equivalents held in bank accounts outside of the United States totaled \$10.9 million and \$6.3 million at December 31, 2021 and 2020, 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)	
	2021	2020
Corporate bonds	\$ 121,319	\$ 130,189
U.S., state and foreign government securities	52,286	68,194
Equity mutual funds	8,908	6,159
Money market investment funds	48,216	6,679
	<u>\$ 230,730</u>	<u>\$ 211,221</u>

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 3 - Continued

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)	
	2021	2020
Interest and dividends	\$ 3,508	\$ 3,519
Unrealized (losses) gains	(2,388)	1,628
Realized gains	432	835
Investment management services	(336)	(225)
Investment return	1,216	5,757
Investment return added to deferred revenues	(2,115)	(2,366)
Use of investment return from deferred revenues	7,526	11,481
Income and Funding From Invested Funds Reported on the Consolidated Statement of Activities and Changes in Net Assets	<u>\$ 6,627</u>	<u>\$ 14,872</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, 2021 and 2020

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, 2021 and 2020.

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

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.

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

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

Assets and liabilities recorded at fair value on a recurring basis were as follows at December 31, 2021:

	(In Thousands)		
	Level 1	Level 2	Total
Debt securities and debt mutual funds-			
U.S., state and foreign government securities	\$ 52,286	\$ -	\$ 52,286
Corporate	121,319	-	121,319
Total debt securities and debt mutual funds	173,606	-	173,606
Equity mutual funds	8,908	-	8,908
Money market investment funds	48,216	-	48,216
Total investments	230,730	-	230,730
Foreign exchange derivative contracts	-	(70)	(70)
Total Assets and Liabilities at Fair Value	\$ 230,730	\$ (70)	\$ 230,660

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 4 - Continued

Assets and liabilities recorded at fair value on a recurring basis were as follows at December 31, 2020:

	(In Thousands)		
	Level 1	Level 2	Total
Debt securities and debt mutual funds-			
U.S., state and foreign government securities	\$ 68,194	\$ -	\$ 68,194
Corporate	130,189	-	130,189
Total debt securities and debt mutual funds	198,383	-	198,383
Equity mutual funds	6,159	-	6,159
Money market investment funds	6,679	-	6,679
Total investments	211,221	-	211,221
Foreign exchange derivative contracts	-	149	149
Total Assets and Liabilities at Fair Value	\$ 211,221	\$ 149	\$ 211,370

Note 5 - Awards and Contributions Receivable

Awards and contributions receivable consisted of amounts due in less than one year and are recorded net of an allowance for doubtful accounts of \$876,000 and \$349,000, respectively, at December 31, 2021 and 2020.

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 \$1.069 billion and \$1.098 billion at December 31, 2021 and 2020, respectively. At December 31, 2021, 41% of the Organization's unrecognized awards were from one private foundation and 38% were from agencies of the United States government (48% and 38%, respectively at December 31, 2020).

Note 6 - Furniture, Equipment and Leasehold Improvements

The Organization funds purchases of furniture, equipment and leasehold improvements from two sources: net assets without donor restriction, or project funds with donor restrictions.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 6 - Continued

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

	2021 (In Thousands)		
	Without Donor Restrictions	Project Funds	Total
Furniture	\$ 3,739	\$ -	\$ 3,739
Equipment	3,553	5,982	9,535
Software	2,102	-	2,102
Leasehold improvements	22,118	66	22,184
Assets not yet in service	-	359	359
	31,512	6,407	37,919
Less accumulated depreciation and amortization	(25,716)	(5,067)	(30,783)
	<u>\$ 5,796</u>	<u>\$ 1,340</u>	<u>\$ 7,136</u>
	2020 (In Thousands)		
	Without Donor Restrictions	Project Funds	Total
Furniture	\$ 3,733	\$ -	\$ 3,733
Equipment	3,977	6,532	10,509
Software	1,548	-	1,548
Leasehold improvements	22,137	67	22,204
Assets not yet in service	-	146	146
	31,395	6,745	38,140
Less accumulated depreciation and amortization	(24,390)	(5,318)	(29,708)
	<u>\$ 7,005</u>	<u>\$ 1,427</u>	<u>\$ 8,432</u>

Note 7 - 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, 2021 and 2020, \$2.08 million and \$2.03 million, respectively, 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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 8 - Net Assets Without Donor Restrictions

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

	(In Thousands)	
	2021	2020
Board designations-		
Contingency reserve fund	\$ 8,000	\$ 8,000
Capital fund	4,400	4,400
Self-insured retention reserve	2,078	2,031
Total board designated	14,478	14,431
Undesignated	9,897	9,113
Total Net Assets Without Donor Restrictions	\$ 24,375	\$ 23,544

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

Contingency Reserve Fund - The board has established an \$8 million contingency reserve to help ensure PATH's long-term financial stability and position the Organization to respond to varying economic conditions and changes that affect its financial position and ability to continuously carry out its mission. The main objectives of this reserve are to protect against sudden and significant disruptions to the Organization's business continuity and operative capital requirements, and to promote public and funder confidence in the long-term stability of the Organization. This reserve is comprised of:

	(In Thousands)	
	2021	2020
Quasi-endowment fund*	\$ 4,187	\$ 3,898
Contingency reserve balance	3,813	4,102
Total Contingency Reserve Fund	\$ 8,000	\$ 8,000

* Quasi-Endowment Fund - Amounts designated to function as an endowment which provide general support for the Organization (Note 10).

Capital Fund - A reserve amount set aside for furniture, equipment or leasehold improvements generally set not less than the anticipated net book value of the Organization's assets, less tenant improvement allowances.

Self-Insurance Retention Reserve - A reserve set aside for uninsured portion of claims resulting from settlement of judgment of actions related to clinical trials (Note 7).

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 9 - Net Assets With Donor Restrictions

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

	(In Thousands)	
	2021	2020
Private campaign - donor-restricted	\$ 23,419	\$ 17,208
Donor-restricted endowment funds	7,556	7,033
Project equipment	1,340	1,427
Prepaid licenses	989	1,352
Total Net Assets With Donor Restrictions	\$ 33,304	\$ 27,020

Restricted funds are available primarily for global health initiatives.

Note 10 - Endowment

The Organization's endowment includes donor-restricted endowment funds and funds designated by the Board to function as an endowment (quasi-endowment), both of which provide general support for the Organization. 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 interpreted the Washington Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Organization to track 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 interpretation, the Organization considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation 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: the duration and preservation of the fund, the purposes of the Organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization and the investment policies of the Organization.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 10 - Continued

Endowment net assets consisted of the following at December 31:

	2021 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated quasi-endowment funds	\$ 4,187	\$ -	\$ 4,187
Donor-restricted endowment funds-			
Original donor-restricted gift amount			
and amounts required to be retained			
by donor	-	3,406	3,406
Accumulated investment return	-	4,150	4,150
	<u>\$ 4,187</u>	<u>\$ 7,556</u>	<u>\$ 11,743</u>

	2020 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated quasi-endowment funds	\$ 3,898	\$ -	\$ 3,898
Donor-restricted endowment funds-			
Original donor-restricted gift amount			
and amounts required to be retained			
by donor	-	3,403	3,403
Accumulated investment return	-	3,630	3,630
	<u>\$ 3,898</u>	<u>\$ 7,033</u>	<u>\$ 10,931</u>

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 10 - Continued

Changes to endowment net assets were as follows for the years ended December 31, 2021 and 2020:

	(In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2020	\$ 3,670	\$ 6,618	\$ 10,288
Endowment investment return	390	705	1,095
Contributions	-	3	3
Earnings appropriated for expenditure	(162)	(293)	(455)
Endowment Net Assets, December 31, 2020	3,898	7,033	10,931
Endowment investment return	472	851	1,323
Contributions	-	3	3
Earnings appropriated for expenditure	(183)	(331)	(514)
Endowment Net Assets, December 31, 2021	\$ 4,187	\$ 7,556	\$ 11,743

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 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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 10 - Continued

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 is 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, 2021 and 2020

Note 11 - Awards from the Foreign, Commonwealth & Development Office

The Organization has received several awards from the Foreign, Commonwealth & Development Office (FCDO), United Kingdom of Great Britain and Northern Ireland, to support specific projects. FCDO requires separate disclosure of revenue recognized in the Organization's financial statements. Revenue recognized, for each of these projects was as follows for the years ended December 31, 2021 and 2020:

	(In Thousands)	
	2021	2020
Product Development Partnership Programme 2017 to 2021	\$ 5,379	\$ 10,682
The Fleming Fund Country Grants	3,392	1,714
Development of New Health Technologies (DAWN)	1,314	1,938
Reproductive Health Supplies Coalition (2020-2025)	1,296	1,128
New Health Technologies (MAPS)	935	1,441
AMR in Sri Lanka	347	453
ASCEND DFID - RFP for MMDP Services of LF in Bangladesh	126	46
Improving outcome of future transmission assessment surveys and community compliance for MDA in LF patients	76	116
COVIDaction Vaccine Data Co-Lab	14	-
Technical Assistance for Nutrition 2016 to 2020	-	2,388
Strengthening Supply: shaping markets and supply chains for quality reproductive health for quality reproductive health commodities for the poorest and the most marginalized	-	81
Reducing Maternal and Newborn Health	-	113
National consultation on COVID-19 vaccine development in Vietnam	-	8
National workshop for COVID-19 vaccine introduction	-	8
Consultation meeting with stakeholders on protocol synopsis of COVID-19 vaccine clinical trial	-	6
	\$ 12,879	\$ 20,122

As disclosed in Note 1, revenue for these awards is recognized as related allowable project costs are incurred and is included in award and contribution 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, 2021 and 2020

Note 12 - Employee Benefits

The Organization sponsors a defined contribution 401(k) plan (the Plan) for US employees. 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 eligible for plans, including local government sponsored plans, appropriate for that country.

Employer contributions for US based plans totaled \$8.1 million and \$7.9 million, for years ended December 31, 2021 and 2020. Total global pension contributions totaled \$11.3 million and \$10.3 million for the years ended December 31, 2021 and 2020, respectively.

Note 13 - 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)	
	2021	2020
Contributions without donor restrictions	\$ 3,602	\$ 4,392
Contributions with donor restrictions-		
Time restricted	62	22
Purpose restricted	2,444	88
Endowment	3	3
Total contributions with donor restrictions	2,509	913
	<u>\$ 6,111</u>	<u>\$ 5,305</u>

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 14 - 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 \$6.4 million and \$6.7 million, respectively, and sales of USD for foreign currencies with notional amounts totaling \$4.1 million and \$11.0 million, respectively, for the years ended December 31, 2021 and 2020. At December 31, 2021 and 2020, the fair value of FX contracts recognized in the consolidated statement of financial position is a liability of \$0.07 million and an asset of \$0.15 million, respectively. The currencies being hedged are the Euro, British Pound Sterling, Japanese Yen, South African Rand and Indian Rupee.

Note 15 - 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 Contingency reserve and undesignated funds within its net assets without donor restrictions, which serve as operating reserves. The Contingency reserve fund had a balance of \$8 million at December 31, 2021 and 2020. The undesignated fund had a balance of \$9.3 million and \$9.1 million at December 31, 2021 and 2020 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.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 15 - Continued

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)	
	2021	2020
Financial assets, at year end-		
Cash and cash equivalents	\$ 23,135	\$ 17,141
Investments	230,730	211,221
Contributions and awards receivable	39,927	39,743
Total financial assets	293,792	268,105
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions-		
Restricted by donor with time or purpose restrictions	(30,975)	(24,241)
Deferred revenue subject to meeting award conditions	(197,418)	(182,853)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 65,399	\$ 61,011

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:

For the Year Ending December 31,	(In Thousands)
2022	\$ 10,649
2023	10,075
2024	9,901
2025	4,251
2026	3,738
Thereafter	18,954
	\$ 57,568

Rental expense was \$10.9 million and \$11.7 million for the years ended December 31, 2021 and 2020, respectively.

PATH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Years Ended December 31, 2021 and 2020

Note 16 - Continued

Standby Letter of Credit - The Organization has Standby Letters of Credit (SBLC) associated with its lease commitments, with total available credit of \$263,000 at December 31, 2021 and 2020. There were no outstanding balances owed on the SBLCs as of December 31, 2021 and 2020.

Awards - PATH participates in several federal and other grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that PATH has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2021 and 2020 may be impaired. Liabilities are accrued for any amounts where management assesses a probability of adjustment or refund to funders.

Conditional Grants and Contracts - PATH has awarded conditional grants and contracts to subrecipients related to performance of these sponsored projects, which have outstanding commitments of up to \$263 million and \$231 million as of December 31, 2021 and 2020, respectively.

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.