PATH
A catalyst for global health

Consolidated Financial Statements

For the Years Ended December 31, 2014 and 2013

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Clark Nuber PS

Independent Auditor's Report

Board of Directors
PATH

We have audited the accompanying consolidated financial statements of PATH and Subsidiaries (collectively, the Organization) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2014 and 2013, 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.

Clark Nuber P.S.

Certified Public Accountants
May 18, 2015

PATH AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2014 and 2013
(In Thousands)

	2014	2013
Assets		
Cash and cash equivalents	$ 154,206	$ 88,011
Investments	198,636	240,323
Contributions and awards receivable, net	297,908	337,191
Prepaid expenses and other	2,939	2,919
Other receivables	1,087	1,327
Furniture, equipment and leasehold improvements, net	17,354	19,504
Patent, net	45	224
Total Assets	**$ 672,175**	**$ 689,499**
Liabilities and Net Assets		
Accounts payable	$ 25,018	$ 27,868
Accrued expenses and other liabilities	27,182	25,824
Notes payable	3,404	4,336
Total Liabilities	**55,604**	**58,028**
Net Assets:		
Unrestricted	20,179	22,394
Temporarily restricted	593,005	605,699
Permanently restricted	3,387	3,378
Total Net Assets	**616,571**	**631,471**
Total Liabilities and Net Assets	**$ 672,175**	**$ 689,499**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statements of Unrestricted Activities
For the Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Revenues, Gains and Other Support:		
Contributions and awards - government, international, agencies, foundations, and public and private funders-		
Contributions and awards released from restriction	$ 301,931	$ 308,040
Unrestricted private contributions	5,558	3,457
	307,489	311,497
Other income-		
Investment income	800	1,213
Program service income	22	5
Other	408	302
	1,230	1,520
Gain (loss) on foreign currency exchange	(3,171)	1,772
Total Revenues, Gains and Other Support	**305,548**	**314,789**
Expenses:		
Program services-		
Product development	143,459	132,659
Public health impact	70,992	67,798
International development	37,564	59,741
Other	6,995	6,324
	259,010	266,522
Support services-		
Management and general	43,006	41,782
Fundraising	3,378	2,939
Bid and proposal	2,369	2,433
	48,753	47,154
Total Expenses	**307,763**	**313,676**
Change in Unrestricted Net Assets	**$ (2,215)**	**$ 1,113**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Unrestricted Net Assets:		
Contributions and awards released from restriction	$ 301,931	$ 308,040
Total unrestricted revenues, gains, and other support	3,617	6,749
Total expenses	(307,763)	(313,676)
Change in Unrestricted Net Assets	**(2,215)**	**1,113**
Temporarily Restricted Net Assets:		
Contributions and awards	287,545	320,520
Investment income	1,692	2,235
Contributions and awards released from restriction	(301,931)	(308,040)
Change in Temporarily Restricted Net Assets	**(12,694)**	**14,715**
Permanently Restricted Net Assets:		
Contributions	9	3
Change in Permanently Restricted Net Assets	**9**	**3**
Total Change in Net Assets	**(14,900)**	**15,831**
Net assets, beginning of year	631,471	615,640
Net Assets, End of Year	**$ 616,571**	**$ 631,471**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
(In Thousands)

	2014	2013
Cash Flows From Operating Activities:		
Change in net assets	$ (14,900)	$ 15,831
Adjustments to reconcile change in net assets to		
net cash provided by operating activities-		
Depreciation and amortization	3,539	3,429
Unrealized gain on investments	(328)	(505)
Loss on sale and disposal of equipment	274	41
Contributions restricted for endowment	(9)	(3)
Changes in assets and liabilities:		
Contributions and awards receivable	39,283	(4,013)
Prepaid expenses and other	(20)	(142)
Other receivables	240	1,110
Accounts payable	(2,850)	(321)
Accrued expenses and other liabilities	1,358	(577)
Net Cash Provided by Operating Activities	**26,587**	**14,850**
Cash Flows From Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(1,581)	(1,999)
Proceeds from sale of equipment	97	63
Purchases of investments	(35,673)	(26,143)
Proceeds from maturity/sales of investments	77,688	61,680
Net Cash Provided by Investing Activities	**40,531**	**33,601**
Cash Flows From Financing Activities:		
Payments on notes payable	(932)	(896)
Proceeds from contributions restricted for endowment	9	3
Net Cash Used by Financing Activities	**(923)**	**(893)**
Net Change in Cash and Cash Equivalents	**66,195**	**47,558**
Cash and cash equivalents, beginning of year	88,011	40,453
Cash and Cash Equivalents, End of Year	**$ 154,206**	**$ 88,011**
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 76	$ 93

See accompanying notes.

Note 1 - Organization and Summary of Accounting Policies

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

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

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

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

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

> Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
>
> Permanently Restricted Net Assets - Net assets restricted by donor-imposed stipulations to be invested in perpetuity. The investment income from these funds is available for current use.

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

Note 1 - Continued

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

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

Contributions and Awards Receivable - Contributions and awards receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to 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.

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

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

Note 1 - Continued

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, 2014 and 2013, 51% and 45%, respectively, of the Organization's total revenues, gains and other support was received from one private foundation, and 61% and 53%, respectively, of gross contributions and awards receivable are from one private foundation. For the years ended December 31, 2014 and 2013, 25% and 33%, respectively, of the Organization's total revenues, gains and other support consists of awards from the United States government, and 14% and 18%, respectively, of gross contributions and awards receivable is from the United States government. Management is aware of the related vulnerabilities but does not anticipate any losses in connection with these concentrations. Management continues to seek improved diversification from donors and funding sources.

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

Donated Goods and Services - Donations of goods, including property and equipment, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance nonfinancial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. In-kind donations totaled $565,588 and $465,965 for the years ended December 31, 2014 and 2013, respectively, and are included in the consolidated statements of unrestricted activities.

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

Collaborations - Awards, contracts and temporarily restricted contributions are used to fund projects related to global health. In connection with these projects, the Organization works with collaborating partners to assess health problems, identify and implement solutions and evaluate results. Accordingly, the Organization enters into funding agreements and cooperative agreements with these collaborating partners including international agencies, ministries of health, nongovernmental organizations, commercial entities, and universities, et cetera. Subagreements and subcontracts awarded from these projects are funded by temporarily restricted contributions from other organizations and recorded as expense, which totaled $121.2 million and $125.9 million for the years ended December 31, 2014 and 2013, 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, as an international charity fund, has been registered as such based on Article 157 Part 111 of the Tax Code of Ukraine.

Foreign Currency Translation - Substantially all assets and liabilities of the Organization that are held in foreign currencies are translated at year end exchange rates. Revenues, gains and other support and expenses are translated at the average monthly exchange rates during the year. Gains and losses from foreign currency translation for the year are included in the consolidated statements of unrestricted activities.

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 2013 amounts to conform to the 2014 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2013.

Subsequent Events - The Organization has evaluated subsequent events through May 18, 2015, 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)	
	2014	2013
Money market accounts and other cash equivalents	$ 126,598	$ 73,514
Cash	27,608	14,497
	$ 154,206	**$ 88,011**

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

Cash and cash equivalents held in bank accounts outside of the United States totaled $29.1 million and $16.3 million at December 31, 2014 and 2013, respectively.

Note 3 - Investments

Investments consisted of the following at December 31:

	(In Thousands)	
	2014	2013
Corporate bonds	$ 125,754	$ 164,568
U.S., state, and foreign government securities	48,813	22,836
Asset-backed securities	17,118	32,710
Equity securities	6,019	5,767
Money market investment funds	932	14,442
	$ 198,636	**$ 240,323**

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

	(In Thousands)	
	2014	2013
Interest and dividends	$ 2,503	$ 3,037
Unrealized gains	328	505
Realized losses	(339)	(94)
	$ 2,492	**$ 3,448**

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.

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, 2014 and 2013.

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

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

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

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

Assets recorded at fair value on a recurring basis were as follows at December 31, 2014:

	(In Thousands)		
	Level 1	Level 2	Total
Equity securities and equity mutual funds-			
Equity securities:			
Biopharmaceuticals	$ 21	$ -	$ 21
Equity mutual funds:			
Large blend	4,031		4,031
Large value	1,967		1,967
Total equity securities and equity mutual funds	6,019		6,019
Debt securities and debt mutual funds-			
Debt securities:			
U.S. government		39,103	39,103
Foreign government		9,710	9,710
Corporate		121,958	121,958
Asset-backed securities		17,118	17,118
Debt mutual funds:			
Multi-sector bond	3,796		3,796
Total debt securities and debt mutual funds	3,796	187,889	191,685
Money market investment funds	932		932
Total Assets at Fair Value	**$ 10,747**	**$ 187,889**	**$ 198,636**

Note 4 - Continued

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

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

Note 5 - Contributions and Awards Receivable

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

	(In Thousands)	
	2014	2013
Due in less than one year	$ 200,027	$ 220,315
Due in one to five years	98,790	118,269
	298,817	338,584
Less present value discount (0.3% - 4.8%)	(654)	(1,111)
Less allowance for doubtful accounts	(255)	(282)
	$ 297,908	**$ 337,191**

Awards from the U.S. government and certain nongovernment organizations are recorded as revenue when obligated, which may not reflect the full amount awarded. The total amount of unobligated awards pending for active projects was $415.3 million and $194.9 million at December 31, 2014 and 2013, respectively.

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 unrestricted net assets; or temporarily restricted project funds.

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

	2014 (In Thousands)		
	Capital Fund	Project Funds	Total
Furniture	$ 3,589	$ -	$ 3,589
Equipment	4,060	6,307	10,367
Leasehold improvements	20,236	67	20,303
	27,885	6,374	34,259
Less accumulated depreciation and amortization	(12,677)	(4,228)	(16,905)
	$ 15,208	**$ 2,146**	**$ 17,354**

Note 6 - Continued

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

Note 7 - Patent

The Organization holds a patent for the UltraRice Technology for fortified rice originally valued at $3.3 million. The patent was issued in March 1995 and expires in March 2015. The patent is being amortized over its expected useful life of 18.25 years. Accumulated amortization totaled $3.2 million and $3.0 million as of December 31, 2014 and 2013, respectively.

Note 8 - Line of Credit

The Organization has a revolving line of credit for up to $1 million with a commercial bank for working capital purposes available through June 30, 2016. Interest on the line is at LIBOR plus 1.25%. The line of credit is secured by the Organization's personal property. The credit facility available to the Organization is reduced by Standby Letters of Credit (SBLC) associated with various lease commitments. PATH has a SBLC for $234,300 and $361,000 at December 31, 2014 and 2013, respectively. No amounts were outstanding under the line of credit or SBLC at December 31, 2014 or 2013.

Note 9 - Notes Payable

Notes payable consisted of the following at December 31:

	(In Thousands)	
	2014	2013
Note payable to a commercial bank maturing February 1, 2018. Interest payments accrue at 1.86%. Principal is payable in monthly installments of $56,944. The note is secured by the Organization's personal property. The note includes certain restrictive covenants, including the requirement for the Organization to maintain certain financial ratios.	$ 2,164	$ 2,847
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.	1,240	1,489
	$ 3,404	**$ 4,336**

Maturities of notes payable are as follows:

For the Year Ending December 31,	(In Thousands)
2015	$ 937
2016	942
2017	947
2018	383
2019	195
	$ 3,404

Interest expense on notes payable totaled $76,000 and $93,000 for the years ended December 31, 2014 and 2013, respectively.

Note 10 - Self-Insurance Reserve

The Organization maintains a research insurance program made up of a Self-Insured Retention (SIR) reserve fund and an excess insurance policy. The Organization's SIR program covers claims up to $250,000 per incident and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2014 and 2013, $2.1 million has been funded and set aside in the reserve. It is anticipated that additional planned annual allocations and interest income will add to the reserve going forward. Additionally, the Organization carries an excess insurance policy to cover any potential claims from $250,000 to $10 million.

Note 11 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	(In Thousands)	
	2014	2013
Capital Fund	$ 3,350	$ 3,350
Catalyst Fund	6,557	4,813
Board Designated Reach Fund		993
FIPI		12
Patent	45	224
Board Designated Endowment	3,499	3,224
Microcredit Guaranty	988	988
Self-Insured Retention Reserve	2,079	2,078
Undesignated	3,661	6,712
	$ 20,179	**$ 22,394**

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

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

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

Board Designated Reach Fund - Represents a board designated portion of the Reach fund, which was established by the Organization to expand and deepen the Organization's geographic reach, accelerate the development and introduction of health technologies, deliver integrated packages of health solutions, and build organizational infrastructure including investing in people and systems for the future. The board designated portion of this fund was closed during 2014.

Note 11 - Continued

FIPI - The Fund for Intellectual Property and Innovation (FIPI) is a reserve generated by net royalty earnings and license fees resulting from the licensing and/or transfers of technologies. The funds are used for patent application and maintenance, and the advancement of technologies. The fund was closed during 2014.

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

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

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

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

Note 12 - Temporarily Restricted Net Assets

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

	(In Thousands)	
	2014	2013
Privately funded projects	$ 484,481	$ 460,402
U.S. government funded projects	30,730	42,322
Project funds generated from interest earnings	29,392	35,454
International government funded projects	31,723	50,094
International bi-lateral funded projects	11,927	12,596
Project equipment	2,234	2,416
Endowment earnings	2,518	2,415
	$ 593,005	**$ 605,699**

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

Note 13 - Endowment

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

The Board of Directors of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA.

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

Endowment net assets consisted of the following at December 31:

	2014 (In Thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 2,518	$ 3,387	$ 5,905
Board designated quasi-endowment funds	3,499			3,499
	$ 3,499	**$ 2,518**	**$ 3,387**	**$ 9,404**

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

Note 13 - Continued

Changes to endowment net assets were as follows for the years ended December 31, 2014 and 2013:

	(In Thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2013	$ 2,792	$ 1,640	$ 3,375	$ 7,807
Endowment investment return-				
Interest and dividends	54	134		188
Realized and unrealized gains	378	937		1,315
Total endowment investment return	432	1,071		1,503
Contributions			3	3
Earnings appropriated for expenditure		(296)		(296)
Endowment Net Assets, December 31, 2013	**3,224**	**2,415**	**3,378**	**9,017**
Endowment investment return-				
Interest and dividends	74	133		207
Realized and unrealized gains	201	361		562
Total endowment investment return	275	494		769
Contributions			9	9
Earnings appropriated for expenditure		(391)		(391)
Endowment Net Assets, December 31, 2014	**$ 3,499**	**$ 2,518**	**$ 3,387**	**$ 9,404**

Note 13 - Continued

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

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

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

Note 14 - Project Revenue

The Organization has received several awards from The Department for International Development (DFID), United Kingdom of Great Britain and Northern Ireland, to support specific projects. DFID requires separate disclosure of revenue recognized in the Organization's financial statements. Revenue recognized, including releases of restriction, for each of these projects was as follows for the year ended December 31, 2014:

	(In Thousands)
Nutrition Embedding Evaluation Project (NEEP)	$ 916
Product Development Partnership (PDP) Arrangement for 2010-2015- Meningococcal Conjugate Vaccines	741
Reproductive Health Supplies Coalition: Developing Affordable, Quality Reproductive Health Commodities- Purchase Order 40068171	2,383
Reproductive Health Supplies Coalition: Quality Reproductive Health Medicines- Product Component Code 202825-101	967
Maximizing the Quality of Scaling up Nutrition Programmes	3,125
Product Development Partnership (PDP) Arrangement for 2009-2014	3,098
Product Development Partnership Programme 2013 to 2018	5,101
	$ 16,331

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

Note 15 - 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 2:1 for the next 4%, with a maximum employer contribution equal to 4% of pre-tax salary. Employer matching contributions to the Plan are fully vested after one year of completed service. Employee optional contributions in the Plan vest immediately. In addition, the Organization may make a voluntary employer contribution of up to 8% of employees' base compensation. Voluntary employer contributions to the Plan vest at a rate of 20% for each completed year of service. All regular U.S. hire employees are eligible to enter the Plan on the first of the month after completing three months of employment. The Organization also offers an optional Roth 401(k) plan.

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 $6.6 million and $6.0 million for the years ended December 31, 2014 and 2013, respectively. Total global pension costs totaled $7.8 million and $7.3 million for the years ended December 31, 2014 and 2013, respectively.

Note 16 - Commitments and Contingencies

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

For the Year Ending December 31,	(In Thousands)
2015	$ 8,166
2016	7,628
2017	7,390
2018	7,094
2019	7,111
Thereafter	27,987
	$ 65,376

Rental expense was $9.0 million and $8.2 million for the years ended December 31, 2014 and 2013, respectively.

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

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

Note 16 - Continued

Guaranty - The Organization entered into an agreement whereby it agreed to participate as a guarantor in a microcredit loan guaranty program. Losses realized on the microcredit loans will be allocated pro rata to each guarantor in the program; however, the Organization's maximum commitment and obligation to the program will not exceed $1 million. The obligation under this program is with full recourse to the Organization. Under the terms of the agreement, the Organization will remain in the program until it provides advance written notice of withdrawal. Commitment may then be withdrawn after 18 months following the Organization's notice. In 2013, the Organization gave notice of its intention to withdraw as guarantor. The 18 month notice period concluded on February 7, 2015. There were no losses recorded for the year ended December 31, 2014. A loss of $5,000 was recorded for the year end December 31, 2013.

Note 17 - Special Event Revenue

Included in unrestricted private contributions for the year ended December 31, 2014 is net income from a special event totaling $106,000, which is comprised of special event revenue of $153,000, less direct donor benefits of $47,000.