PATH

Consolidated Financial Statements

For the Years Ended December 31, 2017 and 2016

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
PATH

We have audited the accompanying consolidated financial statements of PATH and Subsidiaries (collectively, the Organization) which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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, 2017 and 2016, 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 31, 2018

PATH AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2017 and 2016
(In Thousands)

	2017	2016
Assets		
Cash and cash equivalents	$ 13,881	$ 103,682
Investments	220,578	182,197
Contributions and awards receivable, net	276,954	248,430
Prepaid expenses and other	5,404	7,291
Furniture, equipment and leasehold improvements, net	12,550	13,626
Total Assets	**$ 529,367**	**$ 555,226**
Liabilities and Net Assets		
Accounts payable	$ 24,116	$ 26,081
Accrued expenses and other liabilities	28,209	27,293
Notes payable	577	1,525
Total Liabilities	**52,902**	**54,899**
Net Assets:		
Unrestricted	25,861	26,051
Temporarily restricted	447,207	470,882
Permanently restricted	3,397	3,394
Total Net Assets	**476,465**	**500,327**
Total Liabilities and Net Assets	**$ 529,367**	**$ 555,226**

See accompanying notes.

PATH AND SUBSIDIARIES

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:				
Grants, contracts and contributions-				
U.S. government	$ -	$ 107,332	$ -	$ 107,332
Other government		39,939		39,939
Private foundations		170,156		170,156
Other awards and in-kind		7,136		7,136
Private campaign contributions	6,921	3,559	3	10,483
	6,921	328,122	3	335,046
Other income-				
Investment income	968	3,227		4,195
Other	493			493
	1,461	3,227		4,688
Net assets released from restrictions-				
Satisfaction of program restrictions	339,858	(339,858)		
Private campaign - pledges released from restriction	1,420	(1,420)		
	341,278	(341,278)		
Total Operating Revenues	**349,660**	**(9,929)**	**3**	**339,734**
Expenses:				
Program services	280,533			280,533
Support services-				
Fundraising	5,373			5,373
Bid and proposal	3,441			3,441
Management and general	60,070			60,070
Total Expenses	**349,417**			**349,417**
Change in Net Assets From Operations	**243**	**(9,929)**	**3**	**(9,683)**
Nonoperating Activity:				
Loss on foreign currency exchange	(205)			(205)
Loss on sale of assets	(228)			(228)
Loss on uncollectible pledges receivable		(2,475)		(2,475)
Refund of unused project funds (Note 16)		(11,271)		(11,271)
Total Change in Net Assets	**(190)**	**(23,675)**	**3**	**(23,862)**
Net assets, beginning of year	26,051	470,882	3,394	500,327
Net Assets, End of Year	**$ 25,861**	**$ 447,207**	**$ 3,397**	**$ 476,465**

See accompanying notes.

PATH AND SUBSIDIARIES

Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016
(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenues:				
Grants, contracts and contributions-				
U.S. government	$ -	$ 105,877	$ -	$ 105,877
Other government		22,473		22,473
Private foundations		117,148		117,148
Other awards and in-kind		26,848		26,848
Private campaign contributions	8,328	4,007	4	12,339
	8,328	276,353	4	284,685
Other income-				
Investment income	811	3,199		4,010
Other	399			399
	1,210	3,199		4,409
Net assets released from restrictions-				
Satisfaction of program restrictions	321,182	(321,182)		
Private campaign - pledges released from restriction	1,204	(1,204)		
	322,386	(322,386)		
Total Operating Revenues	**331,924**	**(42,834)**	**4**	**289,094**
Expenses:				
Program services	265,778			265,778
Support services-				
Fundraising	4,143			4,143
Bid and proposal	3,667			3,667
Management and general	51,673			51,673
Total Expenses	**325,261**			**325,261**
Change in Net Assets From Operations	**6,663**	**(42,834)**	**4**	**(36,167)**
Nonoperating Activity:				
Loss on foreign currency exchange	(2,107)			(2,107)
Refund of unused project funds (Note 16)		(32,904)		(32,904)
Total Change in Net Assets	**4,556**	**(75,738)**	**4**	**(71,178)**
Net assets, beginning of year	21,495	546,620	3,390	571,505
Net Assets, End of Year	**$ 26,051**	**$ 470,882**	**$ 3,394**	**$ 500,327**

See accompanying notes.

PATH AND SUBSIDIARIES

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

	Program Services			
	Essential Medicines	Public Health	International Development	Technology Development and Introduction
Salaries	$ 25,096	$ 24,838	$ 11,157	$ 6,851
Fringe benefits and payroll tax	7,822	8,057	3,508	2,130
Sub-agreements	49,307	11,543	11,502	4,290
Sub-contracts	27,005	3,754	2,107	693
Professional services	1,404	2,581	840	553
Consultants	152	790	6,844	272
Occupancy	4,015	3,633	1,764	1,235
Relocation and moving	101	291	195	19
Travel	4,124	9,232	4,945	1,093
Meetings, education and workshops	399	5,359	2,541	94
Printing and copying	28	359	679	3
Telecommunications	308	555	318	44
Postage and freight	215	490	128	92
Supplies	394	3,798	2,719	723
Equipment rental and maintenance	141	1,121	751	83
Project procurement	88	1,225	453	5
In-kind contributions				
Insurance	187	6	5	2
Other	313	416	1,482	24
	$ 121,099	**$ 78,048**	**$ 51,938**	**$ 18,206**

See accompanying notes.

		Support Services			
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
$ 4,598	$ 72,540	$ 26,860	$ 2,016	$ 1,813	$ 103,229
1,439	22,956	8,571	631	584	32,742
388	77,030				77,030
1,003	34,562	2,673	1,219	11	38,465
490	5,868	7,304	123	286	13,581
111	8,169	717	83	10	8,979
728	11,375	4,478	339	293	16,485
2	608	85	15	3	711
1,042	20,436	2,540	76	398	23,450
300	8,693	770	431	11	9,905
56	1,125	192	31		1,348
90	1,315	348	16	9	1,688
21	946	71	26	1	1,044
41	7,675	428	3		8,106
53	2,149	1,347	88		3,584
793	2,564				2,564
		2,128			2,128
	200	265			465
87	2,322	1,293	276	22	3,913
$ 11,242	**$ 280,533**	**$ 60,070**	**$ 5,373**	**$ 3,441**	**$ 349,417**

PATH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(In Thousands)

	Program Services			
	Essential Medicines	Public Health	International Development	Technology Development and Introduction
Salaries	$ 20,690	$ 23,278	$ 9,033	$ 8,422
Fringe benefits and payroll tax	6,433	7,892	2,879	2,625
Sub-agreements	38,166	14,704	18,819	4,907
Sub-contracts	17,440	5,143	3,147	1,145
Professional services	1,837	2,430	809	742
Consultants	90	727	5,163	452
Occupancy	3,497	3,747	1,514	1,610
Relocation and moving	73	284	112	80
Travel	4,533	9,482	4,959	1,243
Meetings, education and workshops	575	5,637	3,320	176
Printing and copying	32	1,150	506	37
Telecommunications	301	612	209	58
Postage and freight	116	421	95	153
Supplies	124	4,161	857	772
Equipment rental and maintenance	100	891	716	293
Project procurement		1,480	668	15
In-kind contributions		5		
Insurance	145	25	3	7
Other	18	436	1,797	80
	$ 94,170	**$ 82,505**	**$ 54,606**	**$ 22,817**

See accompanying notes.

		Support Services			
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total
$ 4,359	$ 65,782	$ 23,358	$ 1,872	$ 1,855	$ 92,867
1,352	21,181	7,271	585	595	29,632
400	76,996				76,996
1,069	27,944	1,408	427	23	29,802
1,029	6,847	4,817	126	293	12,083
70	6,502	1,092	84	14	7,692
740	11,108	4,378	332	314	16,132
34	583	98		2	683
1,052	21,269	2,150	92	498	24,009
286	9,994	605	354	47	11,000
51	1,776	208	24	1	2,009
81	1,261	280	7	7	1,555
16	801	82	15	1	899
67	5,981	352	8	1	6,342
112	2,112	1,138	29	2	3,281
950	3,113				3,113
	5	3,239	6		3,250
	180	239			419
12	2,343	958	182	14	3,497
$ 11,680	**$ 265,778**	**$ 51,673**	**$ 4,143**	**$ 3,667**	**$ 325,261**

PATH AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(In Thousands)

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ (23,862)	$ (71,178)
Adjustments to reconcile change in net assets to		
net cash used by operating activities-		
Depreciation and amortization	2,828	3,217
Unrealized gain on investments	(159)	(897)
Loss (gain) on hedging activity	4,120	(1,407)
Loss on sale and disposal of equipment	228	81
Contributions restricted for endowment	(3)	(4)
Changes in assets and liabilities:		
Contributions and awards receivable	(28,524)	30,089
Prepaid expenses and other	1,448	2,042
Accounts payable	(2,609)	4,842
Accrued expenses and other liabilities	916	2,049
Net Cash Used by Operating Activities	**(45,617)**	**(31,166)**
Cash Flows From Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(2,126)	(1,417)
Proceeds from sale of equipment	99	45
Net (purchases) proceeds from hedging activity	(2,990)	968
Purchases of investments	(418,198)	(65,968)
Proceeds from maturity/sales of investments	379,976	84,062
Net Cash (Used) Provided by Investing Activities	**(43,239)**	**17,690**
Cash Flows From Financing Activities:		
Payments on notes payable	(948)	(942)
Proceeds from contributions restricted for endowment	3	4
Net Cash Used by Financing Activities	**(945)**	**(938)**
Net Change in Cash and Cash Equivalents	**(89,801)**	**(14,414)**
Cash and cash equivalents, beginning of year	103,682	118,096
Cash and Cash Equivalents, End of Year	**$ 13,881**	**$ 103,682**
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 19	$ 41
Property and equipment purchases included in accounts payable	$ 47	$ 22

See accompanying notes.

Note 1 - Organization and Summary of Accounting Policies

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

For 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 over 1,500 employees and offices in more than 20 countries. PATH receives support from foundations, governments, multilateral agencies, nongovernmental organizations, universities, corporations and individuals. Learn more at www.path.org.

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of PATH and PATH's controlled subsidiaries, including: PATH Vaccine Solutions (PVS), a 501(c)(3) nonprofit corporation formed to advance the development of vaccines to improve the health of children worldwide; Foundation for Appropriate Technologies in Health - Switzerland (FATH), a Swiss Foundation; PATH Drug Solutions (PDS), a 501(c)(3) nonprofit corporation that advances the development of medicines to improve the health of children worldwide; and Organization for Appropriate Technologies in Health - Nigeria (OATH - Nigeria), a non-political, not-for-profit Registered Trust under the Federal Republic of Nigeria Companies and Allied Matters Act. OATH - Nigeria supports PATH's activities in Nigeria in the areas of development of health technologies for vaccine development as well as emerging and epidemic disease prevention, detection, and treatment; and is registered at a federal level with the Federal Inland Revenue Service. OATH - Nigeria had no activity during the years ended December 31, 2017 or 2016. 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:

> <u>Unrestricted Net Assets</u> - Net assets that are not subject to donor-imposed stipulations.
>
> <u>Temporarily Restricted Net Assets</u> - 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.
>
> <u>Permanently Restricted Net Assets</u> - 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 activities and changes in net assets as net assets 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.

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 purchases of $25,000 or greater are capitalized and depreciated. Internally developed software and internally developed enhancements and modifications to existing or purchased software that result in additional functionality with a total development cost in excess of $500,000 are capitalized and depreciated.

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

For the years ended December 31, 2017 and 2016, total revenues, gains and other support of 55% and 50%, respectively, and gross contributions and awards receivable of 43% were from one private foundation for both 2017 and 2016.

Note 1 - Continued

For the years ended December 31, 2017 and 2016, 29% and 31%, respectively, of the Organization's total revenues, gains and other support consists of awards from agencies of the United States government, and 22% and 24%, respectively, of gross contributions and awards receivable is from agencies of the United States government.

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

Contributions and Awards Revenue Recognition - Unconditional contributions and awards from United States 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 and software licenses, 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 received were immaterial for the years ended December 31, 2017 and 2016.

In 2015, two-year software licenses valued at $6.4 million were recorded as temporarily restricted in-kind contributions and are being released from restrictions over the two-year time period. The licenses were recorded as prepaid expense and are amortized over the two years. Amortization and release from restriction totaled $2.1 million and $3.2 million for the years ended December 31, 2017 and 2016, respectively. In-kind expenses totaled $2.1 million and $3.3 million during the years ended December 31, 2017 and 2016, respectively.

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 activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

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. Subagreements and subcontracts awarded from these projects are funded by temporarily restricted contributions from other organizations and recorded as expense, which totaled $115.5 million and $107.0 million for the years ended December 31, 2017 and 2016, respectively.

Note 1 - Continued

Tax Exempt Status - The Internal Revenue Service has determined that PATH, PVS and PDS are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). They are classified as organizations that are not private foundations under Section 501(a) of the IRC. FATH, as an independent nonprofit foundation within the meaning of Articles 80 et seq of the Swiss Civil Code, has been granted tax exemption by the Department of Finance. OATH - Nigeria is a non-political, not-for-profit Registered Trust under the Federal Republic of Nigeria Companies and Allied Matters Act.

Foreign Currency Translation - Substantially all assets and liabilities of the Organization that are held in foreign currencies are translated at year end exchange rates. Revenues, 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 activities and changes in net assets.

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

Reclassifications - Certain reclassifications have been made to 2016 amounts to conform to the 2017 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets, or change in net assets for 2016.

Subsequent Events - The Organization has evaluated subsequent events through May 31, 2018, 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) 2017	2016
Money market accounts and other cash equivalents	$ 10,493	$ 1,335
Cash	3,388	102,347
	$ 13,881	**$ 103,682**

Cash and cash equivalents held in bank accounts outside of the United States totaled $4.1 million and $11.3 million at December 31, 2017 and 2016, 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) 2017	(In Thousands) 2016
Corporate bonds	$ 132,622	$ 120,140
U.S., state and foreign government securities	52,976	32,270
Asset-backed securities	12,174	21,912
Equity mutual funds	6,034	5,496
Money market investment funds	16,772	2,379
	$ 220,578	**$ 182,197**

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

	(In Thousands) 2017	(In Thousands) 2016
Interest and dividends	$ 3,764	$ 2,889
Unrealized gains	159	897
Realized gains	272	224
	$ 4,195	**$ 4,010**

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, 2017 and 2016.

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.

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

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

	(In Thousands)		
	Level 1	Level 2	Total
Equity mutual funds-			
Equity mutual funds:			
Biopharmaceuticals	$ 6,034	$ -	$ 6,034
Debt securities and debt mutual funds-			
Debt securities:			
U.S. government	33,552	19,424	52,976
Corporate		132,622	132,622
Asset-backed securities		12,174	12,174
Total debt securities and debt mutual funds	33,552	164,220	197,772
Money market investment funds	16,772		16,772
Total investments	56,358	164,220	220,578
Foreign exchange derivative contracts		(691)	(691)
Total Assets and Liabilities at Fair Value	**$ 56,358**	**$ 163,529**	**$ 219,887**

Note 4 - Continued

Assets recorded at fair value on a recurring basis were as follows at December 31, 2016:

	(In Thousands)		
	Level 1	Level 2	Total
Equity securities and equity mutual funds-			
Equity securities:			
Biopharmaceuticals	$ 14	$ -	$ 14
Equity mutual funds:			
Large blend	3,973		3,973
Large value	1,509		1,509
Total equity securities and equity mutual funds	5,496		5,496
Debt securities and debt mutual funds-			
Debt securities:			
U.S. government	29,070		29,070
Foreign government		3,200	3,200
Corporate		116,729	116,729
Asset-backed securities		21,912	21,912
Debt mutual funds:			
Multi-sector bond	3,411		3,411
Total debt securities and debt mutual funds	32,481	141,841	174,322
Money market investment funds	2,379		2,379
Total investments	40,356	141,841	182,197
Foreign exchange derivative contracts		439	439
Total Assets at Fair Value	**$ 40,356**	**$ 142,280**	**$ 182,636**

Note 5 - Contributions and Awards Receivable

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

	(In Thousands)	
	2017	2016
Due in less than one year	$ 174,297	$ 188,767
Due in one to five years	105,315	61,384
	279,612	250,151
Less present value discount (0.3% - 4.8%)	(1,852)	(836)
Less allowance for doubtful accounts	(806)	(885)
	$ 276,954	**$ 248,430**

Awards from the United States government and certain nongovernmental 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 $609.7 million and $466.7 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, 58% and 59%, respectively, of the Organization’s unobligated awards were from one private foundation. At December 31, 2017 and 2016, 39% and 25%, respectively, of the Organization’s unobligated awards were from one agency of the United States government.

Note 6 - Furniture, Equipment and Leasehold Improvements

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

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

	2017 (In Thousands)		
	Capital Fund	Project Funds	Total
Furniture	$ 3,643	$ -	$ 3,643
Equipment	4,226	7,535	11,761
Leasehold improvements	20,568	66	20,634
	28,437	7,601	36,038
Less accumulated depreciation and amortization	(18,416)	(5,692)	(24,108)
	10,021	1,909	11,930
Construction in process	620		620
	$ 10,641	**$ 1,909**	**$ 12,550**

Note 6 - Continued

	2016 (In Thousands)		
	Capital Fund	Project Funds	Total
Furniture	$ 3,589	$ -	$ 3,589
Equipment	4,180	6,994	11,174
Leasehold improvements	20,681	67	20,748
	28,450	7,061	35,511
Less accumulated depreciation and amortization	(16,735)	(5,325)	(22,060)
	11,715	1,736	13,451
Construction in process	175		175
	$ 11,890	**$ 1,736**	**$ 13,626**

Note 7 - Line of Credit

The Organization has a revolving line of credit for up to $1 million with a commercial bank for working capital purposes available through June 30, 2019. Interest on the line is at LIBOR plus 1.0%. The line of credit is secured by the Organization's personal property. The credit facility available to the Organization is reduced by Standby Letters of Credit (SBLC) associated with its lease commitments. PATH has a SBLC for $234,300 at December 31, 2017 and 2016. No amounts were outstanding under the line of credit or SBLC at December 31, 2017 and 2016.

Note 8 - Notes Payable

Notes payable consisted of the following at December 31:

	(In Thousands) 2017	2016
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.	$ 113	$ 797
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.	464	728
	$ 577	**$ 1,525**

Maturities of notes payable are as follows:

For the Year Ending December 31,	(In Thousands)
2018	$ 382
2019	195
	$ 577

Interest expense on notes payable totaled $19,000 and $41,000 for the years ended December 31, 2017 and 2016, respectively.

Note 9 - Self-Insurance Reserve

The Organization maintains a research insurance program made up of a Self-Insured Retention (SIR) reserve fund and an excess insurance policy. The Organization's SIR program covers claims up to $125,000 per incident and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2017 and 2016, $2.1 million has been funded and set aside in the reserve. It is anticipated that additional planned annual allocations and interest income will add to the reserve going forward. Additionally, the Organization carries an excess insurance policy to cover any potential claims from $125,000 to $10 million.

Note 10 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	(In Thousands)	
	2017	2016
Capital fund	$ 4,400	$ 4,000
Catalyst fund	9,927	10,562
Board designated quasi-endowment fund	3,588	3,334
Self-insured retention reserve	2,107	2,115
Undesignated	5,839	6,040
	$ 25,861	**$ 26,051**

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

Self-Insured Retention Reserve - The amount funded to date to pay the Organization's share of any claims resulting from settlement or judgment of actions as a result of clinical trials (Note 9).

Note 11 - Temporarily Restricted Net Assets

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

	(In Thousands) 2017	2016
Privately funded projects	$ 293,469	$ 347,205
U.S. government funded projects	58,824	52,512
International government funded projects	44,463	21,536
Project funds generated from interest earnings	29,872	28,698
International bi-lateral funded projects	8,438	6,343
Private campaign - donor restricted	3,244	4,344
Endowment earnings	3,071	2,612
Unpaid private campaign pledges	3,070	3,445
Project equipment	2,054	1,771
Prepaid licenses (Note 1)	702	2,416
	$ 447,207	**$ 470,882**

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

Note 12 - Endowment

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

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

Note 12 - Continued

Endowment net assets consisted of the following at December 31:

	2017 (In Thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 3,071	$ 3,397	$ 6,468
Board designated quasi-endowment funds	3,588			3,588
	$ 3,588	**$ 3,071**	**$ 3,397**	**$ 10,056**

	2016 (In Thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 2,612	$ 3,394	$ 6,006
Board designated quasi-endowment funds	3,334			3,334
	$ 3,334	**$ 2,612**	**$ 3,394**	**$ 9,340**

Note 12 - Continued

Changes to endowment net assets were as follows for the years ended December 31, 2017 and 2016:

	(In Thousands)			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 3,477	$ 2,030	$ 3,390	$ 8,897
Endowment investment return-				
Interest and dividends	38	181		219
Realized and unrealized gains (losses)	(181)	871		690
Total endowment investment return	(143)	1,052		909
Contributions			4	4
Earnings appropriated for expenditure		(470)		(470)
Endowment Net Assets, December 31, 2016	**3,334**	**2,612**	**3,394**	**9,340**
Endowment investment return-				
Interest and dividends	72	130		202
Realized and unrealized gains	182	774		956
Total endowment investment return	254	904		1,158
Contributions			3	3
Earnings appropriated for expenditure		(445)		(445)
Endowment Net Assets, December 31, 2017	**$ 3,588**	**$ 3,071**	**$ 3,397**	**$ 10,056**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in mutual funds to ensure a broad diversification among investment styles, sectors, industries, market capitalizations and credit quality. These vehicles offer the advantages of economies of scale, greater liquidity, broader diversification, cost efficiency, lower transaction costs and low minimum investment requirements not available through separate account management.

Note 12 - Continued

The performance objective for the total endowment investment portfolio is to achieve an annualized investment return, net of fees, which will exceed a composite index composed of 40% Barclays Capital U.S. Aggregate Index and 60% MSCI All Country World IMI Net Total Return Index. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount based on current market conditions.

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

The Organization has established an endowment spending policy for appropriating a maximum distribution in support of PATH’s programs each year. In establishing this policy, the Organization considered the long-term expected return on its endowment and the need for that return to provide additional protection for any necessary adjustment to the value of the endowment for inflation. In order to sustain the real value of the endowment, the long-term return of the endowment should meet or exceed spending plus inflation as measured by an appropriate benchmark, such as the Consumer Price Index (CPI). To protect the essential value of the endowment against the expected impact of inflation, the Finance Committee sets a payout rate for the endowment’s income that provides a prudent rate of real growth of endowment funds while also providing a relatively constant funding stream in support of PATH’s current expenditures for programs.

In determining each year’s level of distribution, PATH will be governed by a spending policy which seeks to distribute up to 5% of the market value of the endowment investment portfolio, calculated based on the prior year’s ending balance. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 13 - Project Revenue

The Organization has received several awards from The Department for International Development (DFID), United Kingdom of Great Britain and Northern Ireland, to support specific projects. DFID requires separate disclosure of revenue recognized in the Organization's financial statements. Revenue recognized, including releases of restriction, for each of these projects was as follows for the year ended December 31, 2017:

	(In Thousands)
Product Development Partnership Programme 2013 to 2018	$ 2,944
Technical Assistance for Nutrition 2016 to 2020	2,048
Product Development Partnership Programme 2017 to 2021	1,052
Product Development Partnership (PDP) Arrangement for 2010-2015- Meningococcal Conjugate Vaccines	977
Nutrition Embedding Evaluation Project (NEEP)	855
Strengthening Supply: shaping markets and supply chains for quality reproductive health for quality reproductive health commodities for the poorest and the most marginalized	789
	$ 8,665

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 14 - Employee Benefits

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

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

Employer contributions for both U.S.-based plans totaled $8.0 million and $7.8 million for the years ended December 31, 2017 and 2016, respectively. Total global pension costs totaled $9.9 million and $9.3 million for the years ended December 31, 2017 and 2016, respectively.

Note 15 - Commitments and Contingencies

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

For the Year Ending December 31,	(In Thousands)
2018	$ 9,086
2019	8,502
2020	8,221
2021	7,111
2022	5,425
Thereafter	11,140
	$ 49,485

Rental expense was $10.2 million and $9.8 million for the years ended December 31, 2017 and 2016, respectively.

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

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

Note 16 - Refund of Unused Project Funds

From time to time, unspent award funds may be returned to a funder for a variety of reasons including, but not limited to, early termination of a project by a funder, or a reduction in funds required to accomplish a project's scope of work. Project funds were returned to funders as follows for the years ended December 31:

	(In Thousands)	
	2017	2016
Early terminations of projects	$ 2,600	$ 10,577
Reductions in funds needed to accomplish the scope of work	8,671	22,327
	$ 11,271	**$ 32,904**

Note 17 - Private Campaign Contributions

Private campaign contributions consist of both unrestricted and donor restricted contributions and pledges. 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)	
	2017	2016
Unrestricted contributions	$ 6,921	$ 8,328
Temporarily restricted contributions:		
Time restricted	2,269	1,937
Purpose restricted	1,290	2,070
Total temporarily restricted	3,559	4,007
Permanently restricted contributions	3	4
	$ 10,483	$ 12,339

Note 18 - Derivative Instruments and Hedging Activities

Beginning in 2016, 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 $84.6 million and $67.3 million, respectively, and sales of USD for foreign currencies with notional amounts totaling $47.1 million and $32.8 million, respectively, for the years ended December 31, 2017 and 2016. Additionally, the Organization had sales of USD for foreign currencies with notional amounts totaling $47.1 million and $32.8 million for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the fair values of FX contracts held recognized in the consolidated statement of financial position are a liability of $0.7 million, and an asset of $0.4 million, respectively. The currencies being hedged are Euros and Great Britain Pounds.