

# PATH Consolidated Financial Statements



For the Years Ended  
December 31, 2019 and 2018

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## **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, 2019 and 2018, 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, 2019 and 2018, 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

June 4, 2020

**PATH AND SUBSIDIARIES**

**Consolidated Statements of Financial Position  
December 31, 2019 and 2018  
(In Thousands)**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 26,554	\$ 21,677
Investments	177,558	190,942
Awards and contributions receivable, net	43,347	37,111
Prepaid expenses and other	7,506	5,443
Furniture, equipment and leasehold improvements, net	<u>10,035</u>	<u>11,116</u>
<b>Total Assets</b>	<b><u>\$ 265,000</u></b>	<b><u>\$ 266,289</u></b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 17,930	\$ 18,246
Accrued expenses and other liabilities	25,688	26,126
Deferred revenue	<u>179,438</u>	<u>186,838</u>
<b>Total Liabilities</b>	<b>223,056</b>	<b>231,210</b>
<b>Net Assets:</b>		
Without donor restrictions	21,320	19,841
With donor restrictions	<u>20,624</u>	<u>15,238</u>
<b>Total Net Assets</b>	<b><u>41,944</u></b>	<b><u>35,079</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 265,000</u></b>	<b><u>\$ 266,289</u></b>

See accompanying notes to the consolidated financial statements.

**PATH AND SUBSIDIARIES**

**Consolidated Statement of Activities and Changes in Net Assets  
For the Year Ended December 31, 2019  
(In Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenues:</b>			
Awards and contributions-			
Private foundations	\$ 166,509	\$ -	\$ 166,509
U.S. government	71,817	-	71,817
Other governments	34,392	-	34,392
Other awards and in-kind	12,830	2,277	15,107
Private campaign contributions	1,728	2,904	4,632
	<u>287,276</u>	<u>5,181</u>	<u>292,457</u>
Other income-			
Income and funding from invested funds	7,714	2,665	10,379
Other	353	306	659
	<u>8,067</u>	<u>2,971</u>	<u>11,038</u>
Net assets released from restrictions-			
Satisfaction of program restrictions	2,147	(2,147)	-
Private campaign - pledges released from restriction	619	(619)	-
	<u>2,766</u>	<u>(2,766)</u>	<u>-</u>
<b>Total Operating Revenues</b>	<b>298,109</b>	<b>5,386</b>	<b>303,495</b>
<b>Expenses:</b>			
Program services	252,307	-	252,307
Support services-			
Management and general	36,989	-	36,989
Bid and proposal	2,618	-	2,618
Fundraising	2,535	-	2,535
<b>Total Expenses</b>	<b>294,449</b>	<b>-</b>	<b>294,449</b>
<b>Change in Net Assets From Operations</b>	<b>3,660</b>	<b>5,386</b>	<b>9,046</b>
<b>Non-operating Activity:</b>			
Loss on foreign currency exchange	(2,181)	-	(2,181)
<b>Total Change in Net Assets</b>	<b>1,479</b>	<b>5,386</b>	<b>6,865</b>
Net assets, beginning of year	19,841	15,238	35,079
<b>Net Assets, End of Year</b>	<b>\$ 21,320</b>	<b>\$ 20,624</b>	<b>\$ 41,944</b>

See accompanying notes to the consolidated financial statements.

## PATH AND SUBSIDIARIES

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

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

See accompanying notes to the consolidated financial statements.

## PATH AND SUBSIDIARIES

### Consolidated Statement of Functional Expenses For the Year Ended December 31, 2019 (In Thousands)

	Program Services		
	Essential Medicines	Global Health Programs	Technology, Analytics and Market Innovation
Salaries	\$ 25,753	\$ 37,672	\$ 11,453
Sub-agreements	30,851	18,555	4,676
Fringe benefits and payroll tax	8,974	13,865	3,956
Sub-contracts	15,812	9,187	1,404
Travel	4,701	10,898	1,580
Occupancy	4,835	6,417	2,170
Professional services	1,123	5,111	1,007
Meetings, education and workshops	611	6,874	204
Consultants	194	4,572	205
Supplies and other	279	2,015	662
Direct aid to beneficiaries	-	3,033	2
Equipment rental and maintenance	157	1,059	163
In-kind contributions	18	1,055	450
Printing and copying	140	843	26
Telecommunications	241	647	58
Taxes, licenses and fees	185	375	33
Project procurement	70	503	258
Postage and freight	130	309	130
Insurance	175	75	3
Donations, sponsorships and memberships	80	123	23
	<b>\$ 94,329</b>	<b>\$ 123,188</b>	<b>\$ 28,463</b>

See accompanying notes to the consolidated financial statements.



Program Services			Support Services			
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total	
\$ 2,478	\$ 77,356	\$ 17,806	\$ 1,114	\$ 1,418	\$ 97,694	
207	54,289	(1)	-	-	54,288	
899	27,694	6,060	406	413	34,573	
428	26,831	116	-	7	26,954	
614	17,793	1,222	27	201	19,243	
499	13,921	4,625	222	226	18,994	
415	7,656	2,499	312	239	10,706	
465	8,154	51	57	14	8,276	
65	5,036	956	48	93	6,133	
38	2,994	350	252	1	3,597	
-	3,035	-	-	-	3,035	
43	1,422	1,172	3	1	2,598	
-	1,523	739	-	-	2,262	
55	1,064	178	33	2	1,277	
54	1,000	197	11	2	1,210	
28	621	552	29	1	1,203	
-	831	-	-	-	831	
6	575	50	11	-	636	
-	253	270	-	-	523	
33	259	147	10	-	416	
<b>\$ 6,327</b>	<b>\$ 252,307</b>	<b>\$ 36,989</b>	<b>\$ 2,535</b>	<b>\$ 2,618</b>	<b>\$ 294,449</b>	

## PATH AND SUBSIDIARIES

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

	Program Services		
	Essential Medicines	Global Health Programs	Technology, Analytics and Market Innovation
Salaries	\$ 26,042	\$ 39,861	\$ 10,921
Sub-agreements	42,542	15,895	4,951
Fringe benefits and payroll tax	9,239	14,744	3,903
Sub-contracts	21,813	9,833	1,107
Travel	5,280	12,246	1,655
Occupancy	4,666	6,475	1,970
Professional services	1,698	4,273	703
Meetings, education and workshops	447	7,017	203
Consultants	122	7,405	334
Supplies and other	445	3,030	979
Direct aid to beneficiaries	-	4,664	-
Equipment rental and maintenance	113	1,343	167
In-kind contributions	3	71	-
Printing and copying	98	1,213	8
Telecommunications	310	843	99
Taxes, licenses and fees	248	581	10
Project procurement	-	532	10
Postage and freight	235	322	116
Insurance	188	31	5
Donations, sponsorships and memberships	161	166	25
	<b>\$ 113,650</b>	<b>\$ 130,545</b>	<b>\$ 27,166</b>

See accompanying notes to the consolidated financial statements.

Program Services		Support Services				
Other	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total	
\$ 2,703	\$ 79,527	\$ 21,119	\$ 1,472	\$ 1,120	\$ 103,238	
9	63,397	15	-	-	63,412	
963	28,849	7,018	539	418	36,824	
320	33,073	1,081	48	25	34,227	
544	19,725	1,123	63	209	21,120	
534	13,645	3,845	275	239	18,004	
426	7,100	6,569	168	227	14,064	
427	8,094	291	40	19	8,444	
92	7,953	461	27	8	8,449	
65	4,519	521	219	2	5,261	
-	4,664	-	-	-	4,664	
80	1,703	944	3	-	2,650	
2	76	13	-	-	89	
31	1,350	171	4	7	1,532	
61	1,313	268	18	2	1,601	
40	879	385	45	-	1,309	
-	542	-	-	-	542	
19	692	47	2	1	742	
-	224	303	-	-	527	
24	376	304	36	2	718	
<b>\$ 6,340</b>	<b>\$ 277,701</b>	<b>\$ 44,478</b>	<b>\$ 2,959</b>	<b>\$ 2,279</b>	<b>\$ 327,417</b>	

## PATH AND SUBSIDIARIES

### Consolidated Statements of Cash Flows For the Years Ended December 31, 2019 and 2018 (In Thousands)

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 6,865	\$ (3,984)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation and amortization	3,227	2,992
Unrealized loss (gain) on investments	(2,722)	266
Loss on hedging activity	1,103	1,122
Loss on sale and disposal of equipment	150	1
Contributions restricted for endowment	(2)	(1)
Changes in assets and liabilities:		
Contributions and awards receivable	(6,236)	15,004
Prepaid expenses and other	(2,063)	(39)
Accounts payable	(330)	(5,870)
Accrued expenses and other liabilities	(274)	(2,819)
Deferred revenue	(7,400)	(25,724)
<b>Net Cash Used by Operating Activities</b>	<b>(7,682)</b>	<b>(19,052)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of furniture, equipment and leasehold improvements	(2,320)	(2,106)
Proceeds from sale of equipment	38	547
Net purchases from hedging activity	(1,073)	(580)
Purchases of investments	(124,093)	(140,453)
Proceeds from maturity/sales of investments	140,199	169,823
<b>Net Cash Provided by Investing Activities</b>	<b>12,751</b>	<b>27,231</b>
<b>Cash Flows From Financing Activities:</b>		
Payments on notes payable	(194)	(383)
Proceeds from contributions restricted for endowment	2	1
<b>Net Cash Used by Financing Activities</b>	<b>(192)</b>	<b>(382)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>4,877</b>	<b>7,797</b>
Cash and cash equivalents, beginning of year	21,677	13,880
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 26,554</b>	<b>\$ 21,677</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 2	\$ 9
Property and equipment purchases included in accounts payable	\$ 14	\$ -

See accompanying notes to the consolidated financial statements.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Organization and Summary of Accounting Policies

**Organization** - PATH, along with its Subsidiaries (collectively, the Organization) is a global non-profit accelerating health equity and access to good health so people and communities can thrive. PATH advises and partners with public institutions, businesses, grassroots groups and investors to solve the world's most pressing health challenges. Headquartered in Seattle, PATH has close to 1,400 employees that work in more than 70 countries and with 20 offices worldwide, PATH delivers through a model that is both global and local. With leading global capabilities in primary health care, malaria, vaccines and data and digital solution development, its team of professionals that includes scientists, health professionals, business leaders, advocate and experts from dozens of specialties, transform bold ideas into sustainable solutions that improve health and well-being.

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

**Basis of Presentation** - The 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; Program for Appropriate Technology in Health (PATH - Kenya), an organization registered under the Non-Governmental Organizations Co-ordination Act, 1990 in Kenya; and Organization for Appropriate Technologies in Health - Nigeria (OATH - Nigeria), a non-political, not-for-profit Registered Trust under the Federal Republic of Nigeria Companies and Allied Matters Act. OATH - Nigeria supports PATH's activities in Nigeria in the areas of development of health technologies for vaccine development as well as emerging and epidemic disease prevention, detection, and treatment, and is registered at a federal level with the Federal Inland Revenue Service. All inter-entity accounts and transactions have been eliminated in consolidation.

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

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

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

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

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

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

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

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

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

Contributions and awards receivable are stated at the amount management expects to collect from outstanding balances. Awards receivable represents expenditures made in accordance with the terms of the awards not yet reimbursed in cash. Deferred revenue represents funding received in advance of the incurrence of project expenditures. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to awards contributions receivable.

**Furniture, Equipment and Leasehold Improvements** - The Organization capitalizes furniture, equipment and leasehold improvements with a cost of \$5,000 or greater. The cost of furniture and equipment is depreciated over the estimated useful life of the asset and is computed using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Maintenance and repairs are charged to expense as incurred. Computer software purchases of \$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, 2019 and 2018, total revenues, gains and other support of 57% were from one private foundation and 24% were from agencies of the United States government (54% and 25%, respectively in 2018). Management is aware of the related vulnerabilities but does not anticipate material losses in connection with these concentrations. The Organization actively pursues a broad based of donors and funding sources.

**Donated Goods and Services** - Donations of goods, including property and equipment and software licenses, are recorded as support at their estimated fair values at the date of donation. Such donations are reported as support without restrictions unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance nonfinancial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation.

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 1 - Continued

**Operating and Non-Operating Activities** - Operating activities represent all sources of revenue and expenses except those designated as non-operating. Non-operating activities are the gains and losses related to foreign currency exchange.

**Sub-Agreements and Sub-Contracts** - In connection with projects funded through awards and contributions, the Organization works with collaborating partners to assess health problems, identify and implement solutions and evaluate results. Accordingly, the Organization enters into funding agreements and cooperative agreements with these collaborating partners including international agencies, ministries of health, nongovernmental organizations, commercial entities and universities. Subagreements and subcontracts awarded from these projects are funded by contributions with conditions from other organizations and recorded as expense, which totaled \$81.2 million and \$97.6 million for the years ended December 31, 2019 and 2018, respectively.

**Tax Exempt Status** - The Internal Revenue Service has determined that PATH and PVS 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 Switzerland 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. PATH - Kenya, is a not-for profit organization registered under the Non-Governmental Organizations Co-ordination Act, 1990 in Kenya.

**Foreign Currency Translation** - Substantially all assets and liabilities of the Organization that are held in foreign currencies are translated at year end exchange rates. Revenues and expenses are translated using a rate based upon the funding rate the Organization receives from banks when transferring money between currencies, which approximates the exchange rate at the transaction date. Gains and losses from foreign currency translation for the year are included in the consolidated statements of activities and changes in net assets.

**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 2018 amounts to conform to the 2019 presentation.

**Subsequent Events** - The Organization has evaluated subsequent events through June 4, 2020, the date on which the consolidated financial statements were available to be issued.



## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 2 - Cash and Cash Equivalents

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

	(In Thousands)	
	2019	2018
Cash	\$ 9,036	\$ 7,660
Money market accounts and other cash equivalents	17,518	14,017
	<u>\$ 26,554</u>	<u>\$ 21,677</u>

Cash and cash equivalents held in bank accounts outside of the United States totaled \$8.1 million and \$7.1 million at December 31, 2019 and 2018, 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)	
	2019	2018
Corporate bonds	\$ 88,047	\$ 81,475
U.S., state and foreign government securities	48,918	77,017
Asset-backed securities	4,412	8,449
Equity mutual funds	6,740	5,612
Money market investment funds	29,441	18,389
	<u>\$ 177,558</u>	<u>\$ 190,942</u>

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 3 - Continued

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

	(In Thousands)	
	2019	2018
Interest and dividends	\$ 3,792	\$ 2,770
Unrealized gains (losses)	2,722	(266)
Realized gains	751	75
Investment management services	(244)	(282)
Investment return	7,021	2,297
Investment return added to deferred revenues	(3,163)	(2,125)
Use of investment return from deferred revenues	6,521	3,254
<b>Income and Funding from Invested Funds Reported on the Consolidated Statement of Activities and Changes in Net Assets</b>	<b>\$ 10,379</b>	<b>\$ 3,426</b>

#### Note 4 - Fair Value Measurements

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

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

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### 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, 2019 and 2018.

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

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

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

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

Assets and liabilities recorded at fair value on a recurring basis were as follows at December 31, 2019:

	(In Thousands)		
	Level 1	Level 2	Total
Debt securities and debt mutual funds-			
U.S., state and foreign government securities	\$ 48,918	\$ -	\$ 48,918
Corporate	88,047	-	88,047
Asset-backed securities	4,412	-	4,412
Total debt securities and debt mutual funds	141,377	-	141,377
Equity mutual funds	6,740	-	6,740
Money market investment funds	29,441	-	29,441
Total investments	177,558	-	177,558
Foreign exchange derivative contracts	-	(119)	(119)
<b>Total Assets and Liabilities at Fair Value</b>	<b>\$ 177,558</b>	<b>\$ (119)</b>	<b>\$ 177,439</b>

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 4 - Continued

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

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

#### Note 5 - Awards and Contributions Receivable

Awards and contributions receivable consisted of amounts due in less than one year and are recorded net of an allowance for doubtful accounts of \$297,000 and \$162,000, respectively, at December 31, 2019 and 2018.

Awards from the United States government and certain nongovernmental organizations are recorded as revenue when costs are incurred, which may not reflect the full amount awarded. The total amount of unrecognized awards pending for active projects was \$1.107 billion and \$1.185 billion at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, 65% and 69% of the Organization's unrecognized awards were from one private foundation and 13% and 22% of the Organization's unobligated awards were from the United States government, respectively.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 6 - Furniture, Equipment and Leasehold Improvements

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

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

	2019 (In Thousands)		
	Without Donor Restrictions	Project Funds	Total
Furniture	\$ 3,712	\$ -	\$ 3,712
Equipment	3,944	6,763	10,707
Software	1,548	-	1,548
Leasehold improvements	20,423	67	20,490
Assets not yet in service	837	-	837
	30,464	6,830	37,294
Less accumulated depreciation and amortization	(22,446)	(4,813)	(27,259)
	<u>\$ 8,018</u>	<u>\$ 2,017</u>	<u>\$ 10,035</u>

	2018 (In Thousands)		
	Without Donor Restrictions	Project Funds	Total
Furniture	\$ 3,700	\$ -	\$ 3,700
Equipment	3,496	7,634	11,130
Software	1,548	-	1,548
Leasehold improvements	20,413	67	20,480
	29,157	7,701	36,858
Less accumulated depreciation and amortization	(20,323)	(5,419)	(25,742)
	<u>\$ 8,834</u>	<u>\$ 2,282</u>	<u>\$ 11,116</u>

#### Note 7 - Line of Credit, Note Payable and Standby Letters of Credit

The Organization had a revolving line of credit for up to \$1 million with a commercial bank for working capital purposes that was available through July 1, 2019. There was no outstanding balance on the line at December 31, 2018. The line expired in July 2019 and was not renewed.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 7 - Continued

The Organization had a program-related investment from a private foundation in the form of a note payable. The note had an outstanding balance of \$194,000 at December 31, 2018 and was repaid in full during 2019.

The Organization has Standby Letters of Credit (SBLC) associated with its lease commitments, with total available credit of \$263,000 at December 31, 2019 and 2018. There were no outstanding balances owed on the SBLCs as of December 31, 2019 and 2018.

#### Note 8 - 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, 2019 and 2018, \$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 9 - Net Assets Without Donor Restrictions

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

	<u>2019</u>	<u>2018</u>
Capital fund	\$ 4,400	\$ 4,400
Catalyst fund	5,410	6,337
Board designated quasi-endowment fund	3,670	3,246
Self-insured retention reserve	2,166	2,140
Undesignated	<u>5,674</u>	<u>3,718</u>
	<u><u>\$ 21,320</u></u>	<u><u>\$ 19,841</u></u>

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

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

Catalyst Fund - donor contributions without restriction have been designated as flexible funding to augment other funding sources in support of our most impactful work and mission critical projects, also known as *One Billion Lives Fund*. By pooling individual donations, individual donor contributions provide catalytic support to accelerate some of PATH's most innovative projects.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 9 - Continued

Board Designated Quasi-Endowment Fund - amounts designated to function as an endowment which provide general support for the Organization (Note 11).

Self-Insured Retention Reserve - a reserve set aside for the uninsured portion of claims resulting from settlement or judgment of actions as a result of clinical trials (Note 8).

#### Note 10 - Net Assets With Donor Restrictions

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

	(In Thousands)	
	2019	2018
Project equipment	\$ 2,017	\$ 2,460
Private campaign - donor-restricted	10,173	6,413
Donor-restricted endowment funds	6,618	5,851
Prepaid licenses	1,816	514
	<u>\$ 20,624</u>	<u>\$ 15,238</u>

Restricted funds are available primarily for global health initiatives.

#### Note 11 - Endowment

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

The Board of Directors of the Organization has interpreted the Washington Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Organization to track fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization considers the value of a fund to be deficient if the fair value of the fund is less than the sum of (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 11 - Continued

The remaining portion of the donor-restricted endowment fund is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization and the investment policies of the Organization.

Endowment net assets consisted of the following at December 31:

	2019 (In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated quasi-endowment funds	\$ 3,670	\$ -	\$ 3,670
Donor-restricted endowment funds-			
Original donor-restricted gift amount and amounts required to be retained by donor	-	3,400	3,400
Accumulated investment return	-	3,218	3,218
	<u>\$ 3,670</u>	<u>\$ 6,618</u>	<u>\$ 10,288</u>

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



## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

#### Note 11 - Continued

Changes to endowment net assets were as follows for the years ended December 31, 2019 and 2018:

	(In Thousands)		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ 3,588	\$ 6,468	\$ 10,056
Endowment investment return	(342)	(151)	(493)
Contributions	-	1	1
Earnings appropriated for expenditure	-	(467)	(467)
<b>Endowment Net Assets, December 31, 2018</b>	<b>3,246</b>	<b>5,851</b>	<b>9,097</b>
Endowment investment return	604	1,088	1,692
Contributions	-	2	2
Earnings appropriated for expenditure	(180)	(323)	(503)
<b>Endowment Net Assets, December 31, 2019</b>	<b>\$ 3,670</b>	<b>\$ 6,618</b>	<b>\$ 10,288</b>

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

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 11 - Continued

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

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

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

#### Note 12 - Department for International Development Project Awards

The Organization has received several awards from The Department for International Development (DFID), United Kingdom of Great Britain and Northern Ireland, to support specific projects. DFID requires separate disclosure of revenue recognized in the Organization's financial statements. Revenue recognized, for each of these projects was as follows for the year ended December 31, 2019:

	<u>(In Thousands)</u>
Technical Assistance for Nutrition 2016 to 2020	\$ 4,301
Product Development Partnership Programme 2017 to 2021	11,990
Strengthening Supply: shaping markets and supply chains for quality reproductive health for quality reproductive health commodities for the poorest and the most marginalized	1,812
New Health Technologies (MAPS)	1,067
Development of New Health Technologies (DAWN)	2,214
Integrating Human Milk Banking into Newborn Care	192
	<u>\$ 21,576</u>

## **PATH AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018**

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#### **Note 12 - Continued**

As disclosed in footnote 1, revenue for these awards is recognized as related allowable project costs are incurred and is included in award and contribution revenue on the consolidated statements of activities and changes in net assets.

#### **Note 13 - 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 \$8.3 million, respectively, and total global pension costs totaled \$10.3 million for the years ended December 31, 2019 and 2018.

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 14 - Private Campaign Contributions

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

	(In Thousands)	
	2019	2018
Contributions without donor restrictions	\$ 1,728	\$ 1,755
Contributions with donor restrictions-		
Time restricted	2,506	761
Purpose restricted	396	100
Endowment	2	1
Total contributions with donor restrictions	2,904	862
	<u>\$ 4,632</u>	<u>\$ 2,617</u>

#### Note 15 - Derivative Instruments and Hedging Activities

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

The Organization had in place foreign currency contracts for purchases of U.S. dollars (USD) with notional amounts totaling \$6.3 million and \$24.6 million, respectively, and sales of USD for foreign currencies with notional amounts totaling \$3.6 million and \$19.3 million, respectively, for the years ended December 31, 2019 and 2018. At December 31, 2019 and 2018, the fair value of FX contracts recognized in the consolidated statement of financial position is a liability of \$0.1 million. The currencies being hedged are the Euro and British Pound Sterling.

#### Note 16 - Liquidity and Availability of Financial Assets

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

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 16 - Continued

The Organization has Catalyst and undesignated funds within its net assets without donor restrictions, which serve as operating reserves. The Catalyst fund had a balance of \$5.4 million and \$6.3 million at December 31, 2019 and 2018 respectively. The undesignated fund had a balance of \$5.3 million and \$3.7 million at December 31, 2019 and 2018 respectively. These funds can be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. Additionally, the Organization has a quasi-endowment of \$3.7 million and \$3.2 million at December 31, 2019 and 2018, respectively. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

The following reflects the Organization's financial assets as of the date of the consolidated statement of financial position, reduced by amounts not available for general use within one year of the date of the consolidated statement of financial position because of contractual or donor-imposed restrictions.

	(In Thousands)	
	<u>2019</u>	<u>2018</u>
Financial assets, at year end-		
Cash and cash equivalents	\$ 26,554	\$ 21,677
Investments	177,558	190,942
Contributions and awards receivable	<u>43,347</u>	<u>37,111</u>
Total financial assets	247,459	249,730
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions-		
Restricted by donor with time or purpose restrictions	(16,791)	(12,264)
Deferred revenue subject to meeting award conditions	<u>(179,438)</u>	<u>(186,838)</u>
<b>Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year</b>	<b><u>\$ 51,230</u></b>	<b><u>\$ 50,628</u></b>

## PATH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Years Ended December 31, 2019 and 2018

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#### Note 17 - Commitments and Contingencies

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

For the Year Ending December 31,	<u>(In Thousands)</u>
2020	\$ 10,073
2021	9,516
2022	9,112
2023	9,141
2024	9,150
Thereafter	<u>26,020</u>
	<u><u>\$ 73,012</u></u>

Rental expense was \$10.6 million and \$10.9 million for the years ended December 31, 2019 and 2018, respectively.

**Awards** - PATH participates in several federal and other grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that PATH has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2019 and 2018 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to noncompliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**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.