



Consolidated Financial Statements and
Report of Independent Auditors

December 31, 2008 and 2007

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Independent Auditors' Report***Board of Directors
Program for Appropriate Technology
in Health (PATH) and Subsidiaries
Seattle, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying consolidated statements of financial position of Program for Appropriate Technology in Health (PATH) and Subsidiaries (collectively the "Organization") as of December 31, 2008 and 2007, and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2008 and 2007, 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.

Certified Public Accountants
April 9, 2009

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**
Consolidated Statements of Financial Position
(In Thousands of Dollars)

	<i>December 31,</i>	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents		\$ 72,367	\$ 62,513
Investments		251,542	233,839
Contributions and grants receivable, net		453,235	391,858
Prepaid expenses and other		1,619	1,334
Other receivables		1,932	1,880
Furniture, equipment and leasehold improvements, net		4,339	5,144
Patent, net		<u>1,120</u>	<u>1,299</u>
Total Assets		<u>\$ 786,154</u>	<u>\$ 697,867</u>
Liabilities and Net Assets			
Accounts payable		\$ 9,083	\$ 6,563
Accrued expenses		5,919	5,083
Note payable		<u>1,183</u>	<u>1,513</u>
Total Liabilities		16,185	13,159
Net Assets:			
Unrestricted		14,381	16,192
Temporarily restricted		752,225	665,174
Permanently restricted		<u>3,363</u>	<u>3,342</u>
Total Net Assets		<u>769,969</u>	<u>684,708</u>
Total Liabilities and Net Assets		<u>\$ 786,154</u>	<u>\$ 697,867</u>

The accompanying notes are an integral part of the financial statements.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**
Consolidated Statements of Unrestricted Activities
(In Thousands of Dollars)

	<i>For the Years Ended December 31,</i>	<u>2008</u>	<u>2007</u>
Revenues, Gains and Other Support:			
Contributions and grants - government, international, agencies and foundations:			
Contributions and grants released from restriction		\$ 184,604	\$ 149,965
Unrestricted private contributions		<u>2,061</u>	<u>1,129</u>
		186,665	151,094
Other income:			
Investment income		32	3,034
Program service revenue		100	57
License and royalty income		60	78
Other		<u>518</u>	<u>257</u>
		<u>710</u>	<u>3,426</u>
Total Revenues, Gains and Other Support		187,375	154,520
Expenses:			
Program services:			
Vaccines and immunizations		86,140	69,895
Emerging and epidemic diseases		33,762	30,079
Reproductive health		18,368	10,157
Health technologies		13,083	10,068
Maternal and child health		12,179	9,835
Cross program		<u>124</u>	<u>283</u>
Total program services		<u>163,656</u>	<u>130,317</u>
Support services:			
Fundraising		1,311	683
Bid and proposal		2,475	2,010
Management and general		<u>21,744</u>	<u>19,665</u>
Total support services		<u>25,530</u>	<u>22,358</u>
Total Expenses		189,186	152,675
Change in Unrestricted Net Assets		<u>\$ (1,811)</u>	<u>\$ 1,845</u>

The accompanying notes are an integral part of the financial statements.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**
Consolidated Statements of Changes in Net Assets
(In Thousands of Dollars)

<i>For the Years Ended December 31,</i>	<u>2008</u>	<u>2007</u>
Unrestricted Net Assets:		
Contributions and grants released from restrictions	\$ 184,604	\$ 149,965
Total unrestricted revenue, gains, and other support	2,771	4,555
Total unrestricted expenses	<u>(189,186)</u>	<u>(152,675)</u>
Change in Unrestricted Net Assets	(1,811)	1,845
Temporarily Restricted Net Assets:		
Contributions and grants	265,049	275,391
Investment income	6,606	11,465
Contributions and grants released from restrictions	<u>(184,604)</u>	<u>(149,965)</u>
Change in Temporarily Restricted Net Assets	87,051	136,891
Permanently Restricted Net Assets:		
Contributions	<u>21</u>	<u>9</u>
Change in Permanently Restricted Net Assets	21	9
Total Change in Net Assets	85,261	138,745
Beginning of year net assets	<u>684,708</u>	<u>545,963</u>
End of Year Net Assets	<u>\$ 769,969</u>	<u>\$ 684,708</u>

The accompanying notes are an integral part of the financial statements.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
(In Thousands of Dollars)

<i>For the Years Ended December 31,</i>	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 85,261	\$ 138,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,022	2,039
Unrealized loss (gain) on investments	3,697	(1,236)
Loss (Gain) on sale of equipment	8	(14)
Contributions restricted for endowment	(21)	(9)
Changes in assets and liabilities:		
Contributions and grants receivable	(61,377)	(125,489)
Other receivables	(52)	940
Prepaid expenses and other	(285)	(128)
Accounts payable	2,520	(511)
Accrued liabilities	836	1,466
Net Cash Provided by Operating Activities	32,609	15,803
Cash Flows from Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(1,046)	(1,755)
Proceeds from sale of equipment		23
Purchases of investments	(66,731)	(43,519)
Proceeds from maturity/sales of investments	45,331	50,177
Net Cash (Used) Provided by Investing Activities	(22,446)	4,926
Cash Flows from Financing Activities:		
Payments on note payable	(330)	(330)
Proceeds from contributions restricted for endowment	21	9
Net Cash Used by Financing Activities	(309)	(321)
Net Change in Cash and Cash Equivalents	9,854	20,408
Cash and cash equivalents, beginning of year	62,513	42,105
Cash and Cash Equivalents, End of Year	\$ 72,367	\$ 62,513
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 57	\$ 118

The accompanying notes are an integral part of the financial statements.

***PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES***

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Accounting Policies

Organization - Program for Appropriate Technology in Health (PATH) and its Subsidiaries (collectively, the "Organization") is a 501(c)(3) nonprofit, nongovernmental organization incorporated in the State of Washington. PATH creates sustainable, culturally relevant solutions, enabling communities worldwide to break longstanding cycles of poor health. By collaborating with diverse public- and private-sector partners, PATH helps provide appropriate health technologies and vital strategies that change the way people think and act. PATH's work improves global health and well-being.

Headquartered in Seattle, PATH has 33 offices in 19 countries. PATH currently works in more than 70 countries in the areas of emerging and epidemic diseases, health technologies, maternal and child health, reproductive health, and vaccines and immunization. For more information, please visit www.path.org.

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under United States Generally Accepted Accounting Principles (US GAAP). The consolidated financial statements include the accounts of PATH and PATH's wholly-owned subsidiaries, PACTEC, Inc. (PACTEC), a 501(c)(2) title-holding organization, and PATH Vaccine Solutions (PVS), a 501(c)(3) nonprofit corporation formed to advance the development of vaccines to improve the health of children worldwide. PACTEC's operations were not significant for the year ended December 31, 2008. All inter-company accounts and transactions have been eliminated in consolidation.

Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Temporarily restricted net assets as of December 31, 2008 and 2007 were donor-restricted to various specific program activities.

Permanently restricted net assets - Net assets restricted by donor-imposed stipulations to be invested in perpetuity. The 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 statement of activities as contributions and grants released from restrictions.

***PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES***

Notes to Consolidated Financial Statements

Note 1 - Continued

Fair Value Measurements - In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Statement ("SFAS") No. 157, *Fair Value Measurements*. SFAS 157 establishes a new framework for measuring fair value and expands related disclosures. To increase consistency and comparability in fair value measurements, the SFAS 157 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.

SFAS 157 uses a three-level valuation hierarchy based on observable and non-observable inputs. Observable inputs consist of data obtained from independent sources. Non-observable inputs reflect market assumptions. These two types of inputs are used to create the fair value hierarchy, giving preference to observable inputs.

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

Effective January 1, 2008, the Organization adopted SFAS 157 for all financial instruments recorded at fair value on a recurring basis, primarily the securities held in the Organization's investment portfolio.

Financial instruments not reflected at fair value on a recurring basis include receivables, accounts payable and a note payable. The carrying amount of these financial instruments approximates fair value.

Cash and Cash Equivalents - For purposes of the consolidated statement 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 debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last business day of the fiscal year (Level 1 inputs); securities traded on the over-the-counter market are valued at the last reported bid price (Level 2 inputs). Unrealized and realized gains and losses on these investments are reported in the statement 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 - Investment return consists primarily of income earned on cash, cash equivalents and investments, and is recorded as earned. Where directed by donor or grantor, interest earned on award advances is credited to a specific restricted fund 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.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 1 - Continued

Collaborations - Grants, 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 and universities, et cetera. Subagreements and subcontracts awarded from these projects funded by temporarily restricted contributions to other organizations totaled \$79,900,741 and \$61,936,853 in 2008 and 2007, respectively.

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.

Patent - The donated patent is stated at assessed value less amortization computed on the straight-line method over eighteen and one quarter years, the life of the patent.

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 held by financial institutions at times exceed federally insured limits.

For the years ended December 31, 2008 and 2007, 58% and 61%, respectively, of the Organization's total unrestricted contribution revenue is from one organization and 84% and 81%, respectively, of gross contributions and grants receivable are from one organization. For the years ended December 31, 2008 and 2007, 22% and 22%, respectively, of the Organization's total unrestricted contribution revenue consists of awards from the United States government, and 11% and 9%, respectively, of gross contributions and grants receivable are from the United States government. Management is aware of the related vulnerabilities but does not anticipate any losses in connection with these concentrations. Management continues to seek improved diversification from donors and funding sources.

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

Donated Goods and Services - Donations of goods, including property and equipment, are recorded as support at their estimated fair value 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 non-financial assets or (ii) require specialized skills, are provided by individuals possessing those skills and would need to be purchased if not provided by donation. In-kind donations totaled \$8,598,035 and \$2,396,413 for the years ended December 31, 2008 and 2007, respectively, and are included in program expense.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 1 - Continued

Tax Exempt Status - The IRS has determined that PATH is exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. It is classified as an organization that is not a private foundation under 501(a) of the Code. PACTEC is exempt from federal income taxes under provisions of Section 501(c)(2) of the Internal Revenue Code. PATH Vaccine Solutions is a supporting 501(c)(3) organization to PATH.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts on the 2007 financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications had no effect on the change in net assets or net asset balances as previously reported.

Note 2 - Cash and Cash Equivalents

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

	<i>(in thousands)</i>	
	<u>2008</u>	<u>2007</u>
Cash	\$ 4,488	\$ 3,505
Money market accounts and other cash equivalents	<u>67,879</u>	<u>59,008</u>
	<u>\$ 72,367</u>	<u>\$ 62,513</u>

When specified by funding agreement, the Organization holds project-related funds in separate bank accounts. Cash and cash equivalents held in bank accounts outside of the United States totaled \$4,523,626 and \$3,733,334 at December 31, 2008 and 2007, respectively.

Note 3 - Investments

Investment securities consisted of the following at December 31:

	<i>(in thousands)</i>	
	<u>2008</u>	<u>2007</u>
Money market	\$ 84,673	\$ 77,272
U.S. and state government securities	19,345	13,890
Corporate bonds	111,709	78,432
Equity securities	2,783	4,054
Asset-backed securities	<u>33,032</u>	<u>60,191</u>
	<u>\$ 251,542</u>	<u>\$ 233,839</u>

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 3 - Continued

Fair values of investments at December 31, 2008 and 2007 were as follows:

	<i>(in thousands)</i>			
	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
Fair value measurements at December 31, 2008:				
Money market investment funds	\$ 84,673	\$ -	\$ -	\$ 84,673
Government and corporate debt		131,054		131,054
Equity securities	2,783			2,783
Asset-backed securities		33,032		33,032
Total	<u>\$ 87,456</u>	<u>\$ 164,086</u>	<u>\$ -</u>	<u>\$ 251,542</u>
Fair value measurements at December 31, 2007:				
Money market investment funds	\$ 77,272	\$ -	\$ -	\$ 77,272
Government and corporate debt		92,322		92,322
Equity securities	4,054			4,054
Asset backed securities		60,191		60,191
Total	<u>\$ 81,326</u>	<u>\$ 152,513</u>	<u>\$ -</u>	<u>\$ 233,839</u>

Asset-backed securities are securities that are based on underlying pools of assets. A special purpose trust or instrument is set up which takes title to the assets and the cash flows are "passed through" to the investors in the form of an asset-backed security. The types of assets that can be "securitized" range from residential mortgages to credit card receivables.

Investment return was comprised of the following for the years ended December 31:

	<i>(in thousands)</i>	
	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 9,736	\$ 13,238
Realized gains	599	23
Unrealized (losses) gains	<u>(3,697)</u>	<u>1,238</u>
	<u>\$ 6,638</u>	<u>\$ 14,499</u>

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 4 - Contributions and Grants Receivable

Contributions and grants receivable at December 31, consisted of the following:

	<i>(in thousands)</i>	
	<u>2008</u>	<u>2007</u>
Due in less than one year	\$ 184,779	\$ 164,109
Due in one to five years	<u>285,787</u>	<u>247,642</u>
	470,566	411,751
Less present value discount (2% - 4.8%)	(17,180)	(19,821)
Less allowance for doubtful accounts	<u>(151)</u>	<u>(72)</u>
	<u>\$ 453,235</u>	<u>\$ 391,858</u>

Grants from the U.S. Government are recorded as obligated when awarded, which may not reflect the full amount awarded. The total amount of un-obligated awards pending was \$117,014,077 and \$130,544,383 at December 31, 2008 and 2007, respectively.

Note 5 - Furniture, Equipment and Leasehold Improvements

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

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

	<i>(in thousands)</i>		
	<u>2008</u>		
	<i>Capital Fund</i>	<i>Project Funds</i>	<i>Total</i>
Furniture	\$ 183	\$ 223	\$ 406
Equipment	3,575	3,280	6,855
Leasehold improvements	<u>7,038</u>	<u>90</u>	<u>7,128</u>
	10,796	3,593	14,389
Less accumulated depreciation and amortization	<u>(7,676)</u>	<u>(2,374)</u>	<u>(10,050)</u>
	<u>\$ 3,120</u>	<u>\$ 1,219</u>	<u>\$ 4,339</u>

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 5 - Continued

	(in thousands)		
	2007		
	<u>Capital Fund</u>	<u>Project Funds</u>	<u>Total</u>
Furniture	\$ 183	\$ 223	\$ 406
Equipment	3,513	3,064	6,577
Leasehold improvements	<u>6,796</u>	<u>62</u>	<u>6,858</u>
	10,492	3,349	13,841
Less accumulated depreciation and amortization	<u>(6,617)</u>	<u>(2,080)</u>	<u>(8,697)</u>
	<u>\$ 3,875</u>	<u>\$ 1,269</u>	<u>\$ 5,144</u>

Note 6 - Patent

The Organization holds a patent for the UltraRice Technology for fortified rice valued at \$3,270,000. The patent was originally issued in March 1995 and expires in March 2015. The patent is being amortized over its expected useful life of 18.25 years. Accumulated amortization totaled \$2,150,137 and \$1,970,959 as of December 31, 2008 and 2007, respectively.

Note 7 - Line of Credit

The Organization has a revolving line of credit for up to \$1,000,000 with a commercial bank for working capital purposes available through August 1, 2009. No amounts were outstanding under the line of credit at December 31, 2008 or 2007. The line of credit is secured by cash held by the bank.

Note 8 - Note Payable

The Organization has a loan secured by equipment and fixtures with a commercial bank. Annual principal payments are \$330,000 with the remaining balance due on July 1, 2012. Interest payments fluctuate based on the one-month LIBOR rate plus 0.95% (2.85% at December 31, 2008). The Organization has the option to convert to a fixed rate at any time at its discretion. Total borrowings at December 31, 2008 and 2007 were \$1,182,500 and \$1,512,500, respectively. The loan carries a covenant requiring the Organization to maintain a certain debt coverage ratio compared to net unrestricted assets as defined by the debt agreement.

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 \$250,000 per incidence and is funded by allocations to programs that are conducting clinical trials involving human subjects. As of December 31, 2008, \$2,231,800 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 also carries an excess insurance policy to cover any potential claims from \$250,000 to \$10,000,000.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 10 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	<i>(in thousands)</i>	
	<u>2008</u>	<u>2007</u>
Capital Fund	\$ 2,000	\$ 2,000
Catalyst Fund	1,353	
FIPI	264	375
Patent	1,120	1,299
Endowment	1,389	3,132
FTT (Operations)	77	77
FTT (Corpus)	2,027	2,027
Self-Insurance Retention reserve	2,232	2,263
Special Project Fund	73	183
Undesignated	<u>3,846</u>	<u>4,836</u>
	<u>\$ 14,381</u>	<u>\$ 16,192</u>

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 those donor funds contributed to the Organization that serve as a key source of innovation funding; funds that support new initiatives, leverage major grants and meet critical organizational needs.

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

Patent - Represents the net value of the donated UltraRice Patent (see Note 6).

Endowment - The endowment that is included in unrestricted net assets represents amounts designated by the Board as well as unrestricted earnings on total endowment funds.

FTT (Operations) - The Fund for Technology Transfer (FTT) Operations fund is a reserve generated by net operating earnings of FTT. The reserve is used to supplement funding for operating costs.

FTT (Corpus) - The FTT Corpus fund represents funds available for lending. Funds are either out on loan or are invested in interest bearing accounts. Income on these funds is used for funding FTT Operations.

**PROGRAM FOR APPROPRIATE TECHNOLOGY IN HEALTH (PATH)
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Note 10 - Continued

Self-Insurance 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 (see Note 9).

Special Project Fund - The special project fund is a reserve of unrestricted funding that will be applied to specific programs.

Note 11 - Endowment

The Organization's endowment consists 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 generally accepted accounting principles, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Washington State Management of Institutional Funds Act as requiring the preservation of 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 interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment.

As of December 31, 2008 and 2007, endowment net assets consisted of the following:

	<i>(in thousands)</i>			
	<i>2008</i>			
	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total</i></u>
Donor restricted endowment funds	\$ -	\$ -	\$ 3,363	\$ 3,363
Board designated quasi-endowment funds	<u>1,389</u>	<u> </u>	<u> </u>	<u>1,389</u>
Endowment Net Assets	<u>\$ 1,389</u>	<u>\$ -</u>	<u>\$ 3,363</u>	<u>\$ 4,752</u>

	<i>(in thousands)</i>			
	<i>2007</i>			
	<u><i>Unrestricted</i></u>	<u><i>Temporarily Restricted</i></u>	<u><i>Permanently Restricted</i></u>	<u><i>Total</i></u>
Donor restricted endowment funds	\$ -	\$ -	\$ 3,342	\$ 3,342
Board designated quasi-endowment funds	<u>3,132</u>	<u> </u>	<u> </u>	<u>3,132</u>
Endowment Net Assets	<u>\$ 3,132</u>	<u>\$ -</u>	<u>\$ 3,342</u>	<u>\$ 6,474</u>

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Notes to Consolidated Financial Statements

Note 11 - Continued

Changes to endowment net assets for the years ended December 31, 2008 and 2007 are as follows:

	(in thousands)			
	2008			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2007	\$ 3,132	\$ -	\$ 3,342	\$ 6,474
Endowment investment return				
Interest and dividends	176			176
Realized and unrealized gains and losses	<u>(1,767)</u>			<u>(1,767)</u>
Total endowment investment return	(1,591)			(1,591)
Contributions			21	21
Appropriation of endowment for expenditure	<u>(152)</u>			<u>(152)</u>
Endowment Net Assets, December 31, 2008	<u>\$ 1,389</u>	<u>\$ -</u>	<u>\$ 3,363</u>	<u>\$ 4,752</u>

	(in thousands)			
	2007			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2006	\$ 2,924	\$ -	\$ 3,333	\$ 6,257
Endowment investment return				
Interest and dividends	139			139
Realized and unrealized gains and losses	<u>221</u>			<u>221</u>
Total endowment investment return	360			360
Contributions			9	9
Appropriation of endowment for expenditure	<u>(152)</u>			<u>(152)</u>
Endowment Net Assets, December 31, 2007	<u>\$ 3,132</u>	<u>\$ -</u>	<u>\$ 3,342</u>	<u>\$ 6,474</u>

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Notes to Consolidated Financial Statements

Note 11 - Continued

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

The Organization has a policy of appropriating for maximum distribution each year of up to 5% of the market value of its endowment fund's fair value calculated on an average year end balance for the 3 year period through the current calendar year-end preceding the fiscal year in which the distribution is planned. 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. Accordingly, any spending from endowment earnings must be made from accumulated earnings in excess of a reserve provision. Any earnings in excess of the reserve and payout are reinvested appropriately in the endowment. 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 - Employment Benefits

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

Employer contributions for both U.S.-based plans totaled \$3,412,449 and \$2,803,581 for the years ended December 31, 2008 and 2007, respectively. Total global pension costs totaled \$3,925,067 and \$3,226,918 for the years ended December 31, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements

Note 13 - Commitments and Contingencies

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

Years Ending December 31, (in thousands)

2009	\$	4,464
2010		3,960
2011		3,057
2012		112
2013		<u>51</u>
	\$	<u>11,644</u>

The Organization is responsible for a pro rata share of future increases in maintenance, property tax and insurance costs applicable to leased premises. Rental expense incurred amounted to approximately \$4,554,393 and \$4,095,000 in 2008 and 2007, respectively.

On April 2, 2009, the Organization signed a letter of intent to relocate its headquarters office, currently in north Seattle, to a new location in central Seattle by January 2010.

Granting Agencies - Expenses incurred under certain programs are subject to audit by the granting 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.

Guarantee - The Organization entered into an agreement whereby it agreed to participate as a guarantor in a microcredit loan guarantee program. Losses realized on the microcredit loans will be allocated pro rata to each guarantor in the program; however, the Organization's maximum commitment and obligation to the program will not exceed \$1 million. The obligation under this program is with full recourse to the Organization. Under the terms of the agreement, the Organization will remain in the program until it provides advance written notice of withdrawal. Commitment may then be withdrawn after 18 months following the Organization's notice.