



Consolidated Financial Statements and
Independent Auditors' Report

December 31, 2009 and 2008

Table of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Unrestricted Activities	3
Consolidated Statements of Changes in Net Assets	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 20

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, 2009 and 2008, 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, 2009 and 2008, 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
May 6, 2010

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

**Consolidated Statements of Financial Position
(In Thousands of Dollars)**

	<i>December 31,</i>	<u>2009</u>	<u>2008</u>
Assets			
Cash and cash equivalents	\$	72,521	\$ 72,367
Investments		292,808	251,542
Contributions and grants receivable, net		459,288	453,235
Prepaid expenses and other		1,882	1,619
Other receivables		5,533	1,932
Furniture, equipment and leasehold improvements, net		16,861	4,339
Patent, net		941	1,120
Total Assets		<u>\$ 849,834</u>	<u>\$ 786,154</u>
Liabilities and Net Assets			
Accounts payable	\$	17,532	\$ 9,083
Accrued expenses and other liabilities		15,337	5,919
Notes payable		8,296	1,183
Total Liabilities		41,165	16,185
Net Assets:			
Unrestricted		17,476	14,381
Temporarily restricted		787,828	752,225
Permanently restricted		3,365	3,363
Total Net Assets		<u>808,669</u>	<u>769,969</u>
Total Liabilities and Net Assets		<u>\$ 849,834</u>	<u>\$ 786,154</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>2009</u>	<u>2008</u>
Revenues, Gains and Other Support:		
Contributions and grants - government, international, agencies and foundations:		
Contributions and grants released from restriction	\$ 250,018	\$ 184,604
Unrestricted private contributions	<u>2,448</u>	<u>2,061</u>
	252,466	186,665
Other income:		
Investment income	3,396	32
Program service revenue	80	100
License and royalty income	67	60
Other	<u>583</u>	<u>518</u>
	<u>4,126</u>	<u>710</u>
Total Revenues, Gains and Other Support	256,592	187,375
Expenses:		
Program services:		
Vaccines and immunizations	128,143	86,140
Emerging and epidemic diseases	42,383	33,762
Reproductive health	21,905	18,368
Health technologies	16,773	13,083
Maternal and child health	16,539	12,179
Cross program	<u>267</u>	<u>124</u>
	226,010	163,656
Support services:		
Fundraising	1,258	1,311
Bid and proposal	2,109	2,475
Management and general	<u>24,078</u>	<u>21,744</u>
	<u>27,445</u>	<u>25,530</u>
Total Expenses	253,455	189,186
Change in Unrestricted Net Assets	<u>\$ 3,137</u>	<u>\$ (1,811)</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>2009</u>	<u>2008</u>
Unrestricted Net Assets:		
Contributions and grants released from restrictions	\$ 250,018	\$ 184,604
Total unrestricted revenue, gains, and other support	6,574	2,771
Total unrestricted expenses	<u>(253,455)</u>	<u>(189,186)</u>
Change in Unrestricted Net Assets	3,137	(1,811)
Temporarily Restricted Net Assets:		
Contributions and grants	277,762	265,049
Investment income	7,817	6,606
Contributions and grants released from restrictions	<u>(250,018)</u>	<u>(184,604)</u>
Change in Temporarily Restricted Net Assets	35,561	87,051
Permanently Restricted Net Assets:		
Contributions	<u>2</u>	<u>21</u>
Change in Permanently Restricted Net Assets	2	21
Total Change in Net Assets	38,700	85,261
Net assets, beginning of year	<u>769,969</u>	<u>684,708</u>
Net Assets, End of Year	<u>\$ 808,669</u>	<u>\$ 769,969</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>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 38,700	\$ 85,261
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,385	2,022
Unrealized (gain) loss on investments	(5,012)	3,697
(Gain) Loss on sale of equipment	(4)	8
Contributions restricted for endowment	(2)	(21)
Changes in assets and liabilities:		
Contributions and grants receivable	(6,053)	(61,377)
Other receivables	(3,601)	(52)
Prepaid expenses and other	(263)	(285)
Accounts payable	6,123	2,520
Accrued expenses and other liabilities	9,418	836
Net Cash Provided by Operating Activities	41,691	32,609
Cash Flows from Investing Activities:		
Purchases of furniture, equipment and leasehold improvements	(12,432)	(1,046)
Proceeds from sale of equipment	34	
Purchases of investments	(96,695)	(66,731)
Proceeds from maturity/sales of investments	60,441	45,331
Net Cash Used by Investing Activities	(48,652)	(22,446)
Cash Flows from Financing Activities:		
Payments on notes payable	(387)	(330)
Proceeds from borrowings on notes payable	7,500	
Proceeds from contributions restricted for endowment	2	21
Net Cash Provided (Used) by Financing Activities	7,115	(309)
Net Change in Cash and Cash Equivalents	154	9,854
Cash and cash equivalents, beginning of year	72,367	62,513
Cash and Cash Equivalents, End of Year	\$ 72,521	\$ 72,367
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 27	\$ 57
Supplemental Disclosure of Noncash Investing Activities:		
Leasehold improvement purchases included in accounts payable	\$ 2,326	\$ -

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
For the Years Ended December 31, 2009 and 2008**

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 offices in 29 cities in 20 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. 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 years ended December 31, 2009 and 2008. All intercompany 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, 2009 and 2008, were donor-restricted for 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
For the Years Ended December 31, 2009 and 2008***

Note 1 - Continued

Fair Value Measurements - U.S. generally accepted accounting principles 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 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.

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, and model-derived valuations whose inputs are observable. Assets and liabilities classified as Level 3 have fair values based on value drivers that are unobservable.

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

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
For the Years Ended December 31, 2009 and 2008***

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 and recorded as expense totaled \$125,486,508 and \$79,900,742 in 2009 and 2008, 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 the original 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, 2009 and 2008, 60% and 58%, respectively, of the Organization's total unrestricted contribution revenue is from one organization and 74% and 84%, respectively, of gross contributions and grants receivable are from one organization. For the years ended December 31, 2009 and 2008, 22% and 22%, respectively, of the Organization's total unrestricted contribution revenue consists of awards from the United States government, and 16% and 11%, 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 and changes in net assets. 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 values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized if the services received (i) create or enhance 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 \$11,449,347 and \$8,598,035 for the years ended December 31, 2009 and 2008, respectively, and are included in program services expense.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

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.

Subsequent Events - The Organization has evaluated subsequent events through May 6, 2010, the date on which the financial statements were available to be issued. There were no material subsequent events to report as of May 6, 2010.

Note 2 - Cash and Cash Equivalents

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

	<u>(in thousands)</u>	
	<u>2009</u>	<u>2008</u>
Money market accounts and other cash equivalents	\$ 69,448	\$ 67,879
Cash	<u>3,073</u>	<u>4,488</u>
	<u>\$ 72,521</u>	<u>\$ 72,367</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 \$3,210,016 and \$4,523,626 at December 31, 2009 and 2008, respectively.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 3 - Investments

Investments consisted of the following at December 31:

	<i>(in thousands)</i>	
	<u>2009</u>	<u>2008</u>
Corporate bonds	\$ 149,081	\$ 111,709
U.S. and state government securities	67,638	19,345
Government guaranteed corporate securities	33,931	
Asset-backed securities	28,281	33,032
Repurchase agreements	9,300	
Equity securities	3,888	2,783
Money market investment funds	<u>689</u>	<u>84,673</u>
	<u>\$ 292,808</u>	<u>\$ 251,542</u>

Fair values of investments at December 31, 2009 and 2008, 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, 2009:				
Government and corporate debt	\$ -	\$ 216,719	\$ -	\$ 216,719
Government guaranteed corporate securities		33,931		33,931
Asset-backed securities		28,281		28,281
Repurchase agreements		9,300		9,300
Equity securities	3,888			3,888
Money market investment funds	<u>689</u>			<u>689</u>
	<u>\$ 4,577</u>	<u>\$ 288,231</u>	<u>\$ -</u>	<u>\$ 292,808</u>
Fair value measurements at December 31, 2008:				
Government and corporate debt	\$ -	\$ 131,054	\$ -	\$ 131,054
Money market investment funds	84,673			84,673
Asset-backed securities		33,032		33,032
Equity securities	<u>2,783</u>			<u>2,783</u>
	<u>\$ 87,456</u>	<u>\$ 164,086</u>	<u>\$ -</u>	<u>\$ 251,542</u>

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 3 - Continued

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.

The Organization invests some of its temporary surplus of cash on hand in repurchase agreements on a daily basis to earn a higher rate of return. The repurchase agreements have short-term maturities, usually overnight, and are collateralized by government securities.

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

	<i>(in thousands)</i>	
	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 6,126	\$ 9,736
Unrealized gains (losses)	5,012	(3,697)
Realized gains	<u>75</u>	<u>599</u>
	<u>\$ 11,213</u>	<u>\$ 6,638</u>

Note 4 - Contributions and Grants Receivable

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

	<i>(in thousands)</i>	
	<u>2009</u>	<u>2008</u>
Due in less than one year	\$ 257,889	\$ 184,779
Due in one to five years	<u>211,023</u>	<u>285,787</u>
	468,912	470,566
Less present value discount (0.9% - 4.8%)	(9,522)	(17,180)
Less allowance for doubtful accounts	<u>(102)</u>	<u>(151)</u>
	<u>\$ 459,288</u>	<u>\$ 453,235</u>

Grants from the U.S. Government and certain non-government organizations are recorded as revenue when obligated, which may not reflect the full amount awarded. The total amount of un-obligated awards pending was \$257,721,272 and \$117,014,077 at December 31, 2009 and 2008, respectively.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

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>2009</u>		
	<i>Capital Fund</i>	<i>Project Funds</i>	<i>Total</i>
Furniture	\$ 580	\$ 224	\$ 804
Equipment	3,825	3,762	7,587
Leasehold improvements	7,142		7,142
Construction in progress	<u>13,103</u>		<u>13,103</u>
	24,650	3,986	28,636
Less accumulated depreciation and amortization	<u>(8,817)</u>	<u>(2,958)</u>	<u>(11,775)</u>
	<u>\$ 15,833</u>	<u>\$ 1,028</u>	<u>\$ 16,861</u>

	<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>

Note 6 - Patent

The Organization holds a patent for the UltraRice Technology for fortified rice originally valued at \$3,270,000. The patent was issued in March 1995 and expires in March 2015. The patent is being amortized over its expected useful life of 18.25 years. Accumulated amortization totaled \$2,329,315 and \$2,150,137 as of December 31, 2009 and 2008, respectively.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

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 December 31, 2010. Interest on the line is at LIBOR plus 1.50%. No amounts were outstanding under the line of credit at December 31, 2009 or 2008. The line of credit is secured by the Organization's personal property.

Note 8 - Notes Payable

Long-term notes payable consisted of the following at December 31,

	<i>(in thousands)</i>	
	<u>2009</u>	<u>2008</u>
Note payable to a commercial bank maturing December 2014. Interest payments fluctuate based on the one-month LIBOR rate plus 1.65% (1.88% at December 31, 2009). Principal is payable in monthly installments of \$14,667. The note is secured by the Organization's personal property. The note includes certain restrictive covenants including the requirement for the Organization to maintain certain financial ratios.	\$ 5,000	\$ -
Program-related investment from a private foundation in the form of a note payable maturing November 2019. Interest is paid at a 2% fixed rate. Quarterly principal and interest payments of \$69,114 are required. The note is secured by the Organization's trade fixtures, equipment and furnishings. The note includes certain restrictive covenants including the requirement for the Organization to maintain certain financial ratios.	2,443	
Note payable to a commercial bank maturing July 2012. Interest payments fluctuate based on the one-month LIBOR rate plus 0.95% (1.19% and 2.85% at December 31, 2009 and 2008, respectively). The note was repaid in full in January 2010.	<u>853</u>	<u>1,183</u>
	<u>\$ 8,296</u>	<u>\$ 1,183</u>

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 8 - Continued

Maturities of notes payable are as follows:

Year Ending December 31, (in thousands)

2010	\$ 1,582
2011	734
2012	739
2013	743
2014	748
Thereafter	<u>3,750</u>
	<u>\$ 8,296</u>

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, 2009, \$2,242,500 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.

Note 10 - Unrestricted Net Assets

Unrestricted net assets consisted of the following at December 31:

	<i>(in thousands)</i>	
	<u>2009</u>	<u>2008</u>
Capital Fund	\$ 2,000	\$ 2,000
Catalyst Fund	2,223	1,353
FIPI	88	264
Patent	941	1,120
Board-designated endowment	1,827	1,389
FTT (Operations)	77	77
FTT (Corpus)	2,027	2,027
Self-Insurance Retention reserve	2,243	2,232
Special Project Fund	62	73
Undesignated	<u>5,988</u>	<u>3,846</u>
	<u>\$ 17,476</u>	<u>\$ 14,381</u>

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

***Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008***

Note 10 - Continued

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).

Board-designated Endowment - The endowment that is included in unrestricted net assets represents amounts designated by the Board. In 2008, this also included unrestricted earnings on total endowment funds. Due to new UPMIFA reporting rules this balance was transferred to temporarily restricted net assets in 2009 (see Note 11).

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.

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 a number of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as an endowment (quasi-endowment). As required by 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.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 11 - Continued

The Board of Directors of the Organization adopted provisions of the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) during the year ended December 31, 2009. The Organization has interpreted the law 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. The remaining portion of the donor-restricted endowment fund that is not classified in the permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence described by UPMIFA.

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

As of December 31, 2009 and 2008, endowment net assets consisted of the following:

	<u>(in thousands)</u>			
	<u>2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 752	\$ 3,365	\$ 4,117
Board designated quasi-endowment funds	<u>1,827</u>			<u>1,827</u>
	<u>\$ 1,827</u>	<u>\$ 752</u>	<u>\$ 3,365</u>	<u>\$ 5,944</u>

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

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 11 - Continued

Changes to endowment net assets are as follows for the years ended December 31:

	<i>(in thousands)</i>			
	<u>2009</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2008	\$ 1,389	\$ -	\$ 3,363	\$ 4,752
Endowment investment return -				
Interest and dividends	64	93		157
Realized and unrealized gains and losses	<u>416</u>	<u>617</u>		<u>1,033</u>
Total endowment investment return	480	710		1,190
Contributions			2	2
Transfer to comply with UPMIFA	<u>(42)</u>	<u>42</u>		
Endowment Net Assets, December 31, 2009	<u>\$ 1,827</u>	<u>\$ 752</u>	<u>\$ 3,365</u>	<u>\$ 5,944</u>
	<i>(in thousands)</i>			
	<u>2008</u>			
	<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>

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

***Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008***

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. There was no appropriation in 2009. 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.

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

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008**

Note 12 - Employee 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 are eligible to enter the Plan on the first of the month after completing three months of employment. PATH also offers an optional Roth 401(k) plan.

Employer contributions for both U.S.-based plans totaled \$4,137,945 and \$3,412,449 for the years ended December 31, 2009 and 2008, respectively. Total global pension costs totaled \$4,688,731 and \$3,925,067 for the years ended December 31, 2009 and 2008, respectively.

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)

2010	\$ 7,774
2011	5,968
2012	3,436
2013	3,452
2014	3,656
Thereafter	<u>43,209</u>
	<u>\$ 67,495</u>

Rental expense was \$5,129,491 and \$4,554,393 in 2009 and 2008, respectively.

The Organization entered into a lease agreement to relocate its headquarters office to a new location in January 2010. The new lease has a lease term of 15 years beginning in January 2010, with 2 five-year extension options available. The future minimum annual rental payments are subject to escalations of the base rent and are included in the commitments schedule above. Additional rent will be paid for the Organization's pro rata share of property tax, common area maintenance and insurance costs. The lease agreement provides for certain lease incentives and leasehold improvements to be provided to the Organization by the landlord.

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

***Notes to Consolidated Financial Statements
For the Years Ended December 31, 2009 and 2008***

Note 13 - Continued

The leases related to the Organization's offices located at 1455 NW Leary Way, Seattle, Washington have terms that end in December, 2011. The Organization has subleased this office space to various tenants. Payments to be received under these subleases will total \$2,015,343 and \$2,063,622 for the years ending December 31, 2010 and 2011, respectively.

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.