INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Financial Statements

April 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Financial Statements

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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Directors
Institute for Healthcare Improvement, Inc.:

We have audited the accompanying financial statements of the Institute for Healthcare Improvement, Inc. (the Institute), which comprise the statements of financial position as of April 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 audit 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 auditors' 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 organization'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 organization'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of April 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
October 31, 2018

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Financial Position

April 30, 2018 and 2017

Assets		**2018**	**2017**
Cash and cash equivalents	$	24,328,881	16,581,986
Accounts receivable, net		8,186,717	6,013,237
Other current assets		2,157,920	1,755,053
Investments		81,018,251	87,546,414
Property and equipment, at cost:			
Office furniture and equipment		2,410,188	1,320,624
Software		7,382,030	7,382,030
Leasehold improvements		4,102,432	472,368
		13,894,650	9,175,022
Less accumulated depreciation and amortization		(8,258,390)	(7,899,574)
Property and equipment, net		5,636,260	1,275,448
Total assets	$	121,328,029	113,172,138
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	5,369,973	4,782,483
Lease-related liabilities		2,423,166	—
Deferred revenue		6,361,553	3,657,307
Refundable advances		5,892,309	7,809,093
Deferred compensation		1,504,140	2,079,268
Total liabilities		21,551,141	18,328,151
Net assets:			
Unrestricted:			
Board designated endowment		80,510,629	63,264,839
Operating reserve fund		11,686,839	29,300,595
Property, plant and equipment replacement fund		5,636,260	—
Total unrestricted net assets		97,833,728	92,565,434
Temporarily restricted net assets		1,943,160	2,278,553
Total net assets		99,776,888	94,843,987
Total liabilities and net assets	$	121,328,029	113,172,138

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Activities

Year ended April 30, 2018
(with comparative totals for the year ended April 30, 2017)

	Unrestricted	Temporarily restricted	Total 2018	Total 2017
Operating revenues and other support:				
Grant income	$ 13,587,837	—	13,587,837	10,095,363
Contract services	18,438,605	—	18,438,605	18,305,540
Participation, meeting and conference fees	16,022,175	—	16,022,175	13,249,431
Contributions	931,464	478,889	1,410,353	581,493
Membership dues	3,687,931	—	3,687,931	2,250,741
Other	1,697,329	—	1,697,329	1,686,073
Endowment return utilized	2,372,004	—	2,372,004	1,470,000
Net assets released from restriction	1,194,517	(1,194,517)	—	—
Total operating revenues and other support	57,931,862	(715,628)	57,216,234	47,638,641
Less donated attendance fees	861,780	—	861,780	981,380
Net operating revenues and other support	57,070,082	(715,628)	56,354,454	46,657,261
Operating expenses:				
Program services	47,614,194	—	47,614,194	38,506,719
Supporting services	9,652,257	—	9,652,257	7,458,787
Total operating expenses	57,266,451	—	57,266,451	45,965,506
Increase (decrease) in net assets from operations	(196,369)	(715,628)	(911,997)	691,755
Nonoperating activities:				
Net investment return	7,094,374	97,853	7,192,227	7,881,439
Endowment return utilized in operations	(2,372,004)	—	(2,372,004)	(1,470,000)
Loss on disposal of fixed assets	(123,701)	—	(123,701)	—
Total nonoperating activities	4,598,669	97,853	4,696,522	6,411,439
Increase (decrease) in net assets before effects of merger	4,402,300	(617,775)	3,784,525	7,103,194
Effects of merger (note 1)	865,994	282,382	1,148,376	—
Increase (decrease) in net assets	5,268,294	(335,393)	4,932,901	7,103,194
Net assets, beginning of year	92,565,434	2,278,553	94,843,987	87,740,793
Net assets, end of year	$ 97,833,728	1,943,160	99,776,888	94,843,987

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statement of Activities

Year ended April 30, 2017

	Unrestricted	Temporarily restricted	Total 2017
Operating revenues and other support:			
Grant income	$ 10,095,363	—	10,095,363
Contract services	18,305,540	—	18,305,540
Participation, meeting and conference fees	13,249,431	—	13,249,431
Contributions	149,379	432,114	581,493
Membership dues	2,250,741	—	2,250,741
Other	1,686,073	—	1,686,073
Endowment return utilized	1,470,000	—	1,470,000
Net assets released from restriction	769,712	(769,712)	—
Total operating revenues and other support	47,976,239	(337,598)	47,638,641
Less donated attendance fees	981,380	—	981,380
Net operating revenues and other support	46,994,859	(337,598)	46,657,261
Operating expenses:			
Program services	38,506,719	—	38,506,719
Supporting services	7,458,787	—	7,458,787
Total operating expenses	45,965,506	—	45,965,506
Increase (decrease) in net assets from operations	1,029,353	(337,598)	691,755
Nonoperating activities:			
Net investment return	7,597,917	283,522	7,881,439
Endowment return utilized in operations	(1,470,000)	—	(1,470,000)
Total nonoperating activities	6,127,917	283,522	6,411,439
Increase (decrease) in net assets	7,157,270	(54,076)	7,103,194
Net assets, beginning of year	85,408,164	2,332,629	87,740,793
Net assets, end of year	$ 92,565,434	2,278,553	94,843,987

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Functional Expenses

Year ended April 30, 2018
(with comparative totals for the year ended April 30, 2017)

	Courses and other programs	Grants	Strategic partners and contracts	National forum	Innovation	Total program services	Supporting services	Total 2018 operating expenses	Total 2017 operating expenses
Salaries, payroll taxes and fringe benefits	$ 6,529,255	6,989,230	5,498,799	1,330,138	501,125	20,848,547	6,321,754	27,170,301	22,349,856
Consulting	1,197,844	3,268,044	2,313,603	172,239	203,415	7,155,145	526,261	7,681,406	8,100,070
Meetings	2,054,770	612,594	215,764	2,034,061	4,367	4,921,556	145,496	5,067,052	3,808,532
Grants	20,000	2,122,241	45,000	—	—	2,187,241	—	2,187,241	1,369,392
Travel and lodging	769,091	1,079,074	1,591,057	357,414	25,937	3,822,573	384,856	4,207,429	3,992,049
Occupancy/office related	531,257	670,807	382,854	158,942	28,436	1,772,296	999,528	2,771,824	1,743,995
Technology	389,352	344,024	188,533	70,781	12,551	1,005,241	256,316	1,261,557	934,381
Depreciation and amortization	209,632	310,316	171,828	72,394	12,524	776,694	147,416	924,110	977,039
Marketing	342,973	87,553	13,705	321,401	329	765,961	120,323	886,284	987,241
Professional fees	1,518,198	1,155,317	709,518	143,865	24,909	3,551,807	637,218	4,189,025	825,894
Miscellaneous expense	163,588	438,252	120,021	78,841	6,431	807,133	113,089	920,222	877,057
Total functional expenses	$ 13,725,960	17,077,452	11,250,682	4,740,076	820,024	47,614,194	9,652,257	57,266,451	45,965,506

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statement of Functional Expenses

Year ended April 30, 2017

	Courses and other programs	Grants	Strategic partners and contracts	National forum	Innovation	Total program services	Supporting services	Total 2017 operating expenses
Salaries, payroll taxes and fringe benefits	$ 4,314,339	4,841,680	6,204,485	1,014,859	744,651	17,120,014	5,229,842	22,349,856
Consulting	1,684,324	3,026,271	2,197,030	205,648	184,803	7,298,076	801,994	8,100,070
Meetings	1,380,519	368,062	156,612	1,783,414	3,668	3,692,275	116,257	3,808,532
Grants	25,800	1,343,592	—	—	—	1,369,392	—	1,369,392
Travel and lodging	679,871	1,312,204	1,366,840	355,762	31,801	3,746,478	245,571	3,992,049
Occupancy/office related	386,307	480,188	401,952	134,162	39,426	1,442,035	301,960	1,743,995
Technology	190,162	313,841	167,710	60,963	15,929	748,605	185,776	934,381
Depreciation and amortization	199,484	287,858	230,325	84,266	21,966	823,899	153,140	977,039
Marketing	483,756	18,289	5,772	333,113	42	840,972	146,269	987,241
Professional fees	142,455	250,283	174,824	61,052	15,119	643,733	182,161	825,894
Miscellaneous expense	228,991	156,241	312,569	70,972	12,467	781,240	95,817	877,057
Total functional expenses	$ 9,716,008	12,398,509	11,218,119	4,104,211	1,069,872	38,506,719	7,458,787	45,965,506

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Cash Flows

Years ended April 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Increase in net assets	$	4,932,901	7,103,194
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:			
Net unrealized and realized (gains) losses on investments		(5,306,757)	(6,350,053)
Loss on disposal of fixed assets		123,701	—
Depreciation and amortization		924,110	977,039
Effects of merger		(1,148,376)	—
Changes in assets and liabilities:			
Accounts receivable, net		(2,100,695)	599,133
Other current assets		(229,406)	(162,413)
Accounts payable and accrued expenses		66,842	805,468
Deferred revenue		336,884	697,038
Refundable advances		(1,916,784)	1,737,507
Deferred compensation		(575,128)	(1,275,333)
Lease – related liabilities		2,423,166	—
Net cash (used in) provided by operating activities		(2,469,542)	4,131,580
Cash flows from investing activities:			
Cash acquired from merger		1,197,840	—
Proceeds from sales of investments		28,847,665	88,210,586
Purchases of investments		(14,860,936)	(86,017,432)
Additions to property and equipment		(4,968,132)	(721,434)
Drawdown on line of credit		1,500,000	—
Repayments on line of credit		(1,500,000)	—
Net cash provided by investing activities		10,216,437	1,471,720
Net increase in cash and cash equivalents		7,746,895	5,603,300
Cash and cash equivalents, beginning of year		16,581,986	10,978,686
Cash and cash equivalents, end of year	$	24,328,881	16,581,986

See accompanying notes to financial statements.

(1) Organization

The Institute for Healthcare Improvement (IHI) is a leader in health and health care improvement worldwide. For more than 25 years, we have partnered with visionaries, leaders, and frontline practitioners around the globe to spark bold, inventive ways to improve the health of individuals and populations. Recognized as an innovator, convener, trustworthy partner, and driver of results, we are the first place to turn for expertise, help, and encouragement for anyone, anywhere who wants to change health and health care profoundly for the better.

On May 1, 2017, IHI merged with National Patient Safety Foundation and IHI is the surviving organization. The merger involves significant new investment from IHI in patient safety. The merged patient safety teams will combine existing NPSF and IHI patient safety programs and reflect an enhanced commitment to achieve patient safety around the world. NPSF programs, including the NPSF Lucian Leape Institute are expected to continue. The Certified Professional in Patient Safety credentialing program, will continue and will be overseen by the Certification Board for Professionals in Patient Safety. By joining forces, IHI and NPSF will be more effective in helping leaders and frontline clinicians meet all of today's challenges while ensuring that patient safety remains a priority along the way.

IHI.org (www.ihi.org) is the online authority for anyone, anywhere whose aim is to improve health and health care. With more than 8,500 visitors per day on average, the site contains a wealth of helpful improvement ideas, tools, and resources to support change efforts in any health care setting. In addition, the Institute's electronic newsletter, This Week at IHI, is sent to more than 350,000 subscribers each week, providing updates on improvement activities and featuring the variety and breadth of IHI's work and collaboration with others. WIHI is a free online "talk show" program from IHI reaching 280,000 listeners since 2009. The program is designed to help dedicated legions of health care improvers worldwide keep up with some of the freshest and most robust thinking and strategies for improving patient care.

Following are the primary programs conducted by the Institute:

(a) Grant Funded Programs

The Institute received and expended funds for a variety of purposes in the pursuit of its mission. These included programs to provide patient self management skills, improve care at the bedside, disseminate medical best practices, improve chronic care, and reduce mortality and unnecessary hospitalizations. These efforts contribute to IHI's growing knowledge of optimal system designs that can dramatically improve patient care.

- *Africa Region*

  The Institute's work in Africa focuses on reducing neonatal and maternal mortality in Ethiopia and Malawi; reducing morbidity and mortality in children under five in Ghana; reducing the gaps in clinical care for Tuberculosis in South Africa; and using improvement methods to improve patient safety in hospital settings across the continent of Africa. IHI also supports a learning network to support African, European, and Middle Eastern countries as they work to develop and implement National Quality Strategies. To ensure that teams can effectively implement quality improvement initiatives, the Africa region offers quality improvement training for leaders and implementers. The Institute's work in these countries and other low and middle income countries aims to broadly spread efficient and effective models of health care with the goal of reducing suffering and saving thousands of lives.

- *The Conversation Project*

  The Conversation Project, co founded by Pulitzer Prize winner Ellen Goodman and launched in collaboration with IHI, is a public engagement campaign with a goal that is both simple and transformative: to have every person’s end of life wishes expressed and respected. The Conversation Project offers people the tools, guidance and resources they need to begin talking with their loved ones and their clinicians about their wishes and preferences.

- *Spreading Community Accelerators through Learning and Evaluation (SCALE)*

  SCALE is an initiative made possible by the support of the Robert Wood Johnson Foundation (RWJF) for communities in the United States to substantially accelerate their health improvement journey. SCALE recognizes and values that communities hold the solutions to improve their health. Therefore, the goal of SCALE is to equip communities with skills and resources to unlock their potential and achieve significant results.

- *Age Friendly Health Systems*

  Older adults in the US deserve safe, effective, and patient centered care in the settings in which they receive their care. To achieve this aim, The John A. Hartford Foundation and IHI are partnering on the Age Friendly Health Systems initiative. The goal of the initiative is to develop an Age Friendly Health Systems model and rapidly spread the model to 20% of US hospitals and health systems by 2020.

- *Scaling Implementation of Obstetric Safety Bundles in the U.S.*

  Supported by a grant from Merck for Mothers, this initiative aims to scale up evidence based obstetric safety bundles in an effort to reduce maternal mortality in the US. The work has two tracks: (1) a dissemination network to accelerate existing national efforts to scale up four validated best practice “care bundles” for expectant mothers; and (2) a Collaborative to support intensive improvement and scale up of maternal care in ten US states with above average maternal mortality rates and a higher proportion of African American women.

(b) Strategic Partners and Contracts

IHI maintains a variety of closely aligned, strategic relationships with organizations in regions around the world, including the United States, the United Kingdom, Europe, Middle East, Asia, and Latin America. Contracted services are focused on achieving strategic objectives, system level improvement, and capability building.

(c) Courses and Other Programs

- *Professional Development Programs*

  Professional development programs and shorter two day seminars are offered to help organizations develop their internal capacity and infrastructure for safety and improvement. IHI’s seminars offer health care professionals many opportunities to learn the latest improvement ideas, connect with like minded colleagues, and generate momentum for change in their organizations.

- *National Forum on Quality Improvement in Health Care*

Held each December, this major US conference on improvement in health care draws nearly 6,000 participants from around the world who attend hundreds of workshops, plenary sessions, and special interest meetings. Thousands more join the conference via satellite broadcast.

- *IHI Summit on Improving Patient Care*

  This annual world class conference features top faculty who bring the best ideas on areas that are ripe for improvement within the office practice and community based care settings. Office practice staff and community care organizations come together to share their growing knowledge and build new partnerships to deliver reliable, patient centered, evidence based care for every patient, every time.

- *IHI Patient Safety Congress*

  The IHI Patient Safety Congress brings together people who are passionate about ensuring safe care equitably for all. This annual meeting is designed for committed health care professionals who continue to shape smarter, safer care for patients wherever it's provided – from the hospital to outpatient settings to the home.

- *Global Forums on Quality and Safety in Healthcare*

  IHI partners with organizations in different regions of the world to bring large conferences to health care leaders, clinicians, and improvers. IHI, in partnership with local organizations, currently holds Forums in Africa, Europe, the Middle East, Asia, and Latin America. Participants of global forums take part in a multitude of sessions that range from the basic disciplines of quality improvement to the latest thinking on how to improve quality and safety.

- *IHI Open School for Health Professions*

  The IHI Open School is an interprofessional educational community that provides students and professionals with the skills to become change agents in health care. The IHI Open School has more than 900 Chapters in more than 90 countries around the world, and a growing catalog of online courses in quality improvement; patient safety; leadership; person and family centered care; Triple Aim for populations; and quality, cost, and value. Select courses have been translated into Spanish and Portuguese and have been integrated into more than 1,000 university and health care organizational training programs around the world.

- *100 million Healthier Lives*

  IHI is a convener and partner in a global, multi sector movement to create better health, well being, and equity for 100 million people by 2020. IHI's vision is to transform the way the world thinks and acts to improve health. To facilitate this effort, we work alongside IHI's partners to engage individuals and communities in the work of health improvement; co develop and share useful tools to support action; and teach empowering skills in leadership and improvement. IHI's goal is to make it easy, inspiring, and joyful for anyone to begin or accelerate their journey towards improving health.

- *Pursuing Equity*

  This initiative, launched in April 2017, aims to reduce inequities and outline a blueprint for how health care can advance equity. Eight health care organizations are working with IHI to deepen their existing efforts to reduce health inequities, using the framework outlined in the Achieving Health Equity IHI White Paper as the foundation of their work.

- *IHI Leadership Alliance*

  An exclusive leadership initiative for ambitious health care systems and their teams, the Alliance aims to deliver great health care and high value today, and innovate for the emerging health and health care models of tomorrow.

- *Lucian Leape Institute*

  Composed of international thought leaders with a common interest in patient safety, the Lucian Leape Institute functions as a think tank to identify new approaches to improving patient safety and encourage the innovation necessary to expedite progress. Recent work includes development of a resource to help leaders create and sustain safety cultures in their organizations and research into the public's view of patient safety.

- *IHI Virtual Trainings*

  IHI offers a variety of virtual training opportunities for anyone who wants to improve health and health care. These range from one off webcasts to multi month "Expeditions" (team based, action oriented programs for teams around the world). The Institute offers more than 15 Expeditions each calendar year.

(d) Research & Development

At the center of IHIs work is the creation and testing of new ideas – novel concepts for improving patient care. Here, IHI works intensely with cutting edge organizations to test and prototype unique models and new solutions to old problems. This is the innovation engine that fuels much of IHI's content development work.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Revenue is reported as an increase in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Net assets and changes therein are classified as follows:

(i) Unrestricted

These net assets are not subject to donor imposed stipulations. The Board of Directors has discretionary control over these resources and can designate such net assets for particular purposes.

(Continued)

(ii) Temporarily Restricted

These net assets are subject to donor imposed stipulations that may or will be satisfied by the actions of the Institute and/or the passage of time.

(iii) Permanently Restricted

These net assets are subject to donor imposed stipulations that they be maintained in perpetuity and generally only the income thereon can be expended for specific or general purposes. IHI has no permanently restricted net assets.

(b) Revenue Recognition

Revenue is recognized as follows:

(i) Grants

Revenue from grants made by governments and certain other organizations that are conditioned upon the Institute incurring certain qualifying costs are recognized as those costs are incurred. Cash received prior to meeting grant conditions is recorded as a refundable advance.

(ii) Contract Services

Contract services revenues are recognized based upon the contract terms generally as the related services are performed.

(iii) Participation, Meeting and Conference Fees

Participation, meeting, and conference fees are recognized as revenue in the year in which the events are held.

(iv) Contributions

Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues at fair value in the period received. Those that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows using appropriate risk free interest rates established in the year in which the promise was made. Based on accounting standards for fair value measurements, an additional discount rate is applied based on an estimated credit risk interest rate assigned by management. This credit risk interest rate is determined using a variety of factors including an analysis of the financial statements of the funding organization, its past payment history and the prime lending rate at the time of contribution. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

(Continued)

(v) *Membership Dues*

Membership dues received from the members of Passport Hospital membership, Triple Aim, Cost and Quality and other collaboratives, and various membership programs are recognized as revenue ratably over the membership period.

(vi) *Donated Attendance Fees*

Donated attendance fees are equal to the amount of attendance fees waived for the Institute's programs and activities in accordance with policy, and are reflected as a reduction of operating revenues and other support.

(c) Expense Allocations

Directly identifiable expenses are charged to programs and supporting services, as applicable. Expenses related to more than one function are charged to programs and supporting services using an allocation method based on program direct expenses in relation to total direct expenses. Supporting services include those expenses that are not directly identifiable with any other specific function, but provide the overall support and direction of the Institute.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flow, the Institute considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable are stated at net realizable value. An allowance for doubtful accounts is provided based upon historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts was $185,000 and $167,000 as of April 30, 2018 and 2017, respectively.

(f) Investments

All investments are stated at fair value, as described further in note 5(c). Investment income is credited to unrestricted net assets unless otherwise restricted by the donor.

(g) Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair value at the date of the donation. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the related assets, which are three to five years for office furniture and equipment, and the shorter of the life of the lease or the asset for leasehold improvements.

(h) Software

Software purchased from a third party is capitalized and amortized on a straight line basis. Internally produced software is developed to be utilized for the Institute's operations. Software developed and utilized consists primarily of the Institute's website, events registration system, learning management system and other operations support systems. Costs of the application development stage are capitalized while training and maintenance costs are expensed. When upgrades and enhancements

(Continued)

provide additional functionality, they are capitalized. Amortization is computed using the straight line method over the estimated useful life of the related assets, which is three years.

(i) Deferred Revenue

Contract services, course fees, participation fees, and membership dues collected in advance have been included in deferred revenue in the accompanying statements of financial position, and are recognizable within one year.

(j) Refundable Advances

Grant payments collected in advance have been included in refundable advances in the accompanying statements of financial position, and are recognized as conditions of the related grants are met.

(k) Designation of Unrestricted Net Assets

IHI believes that a strong financial position is essential to its ability to achieve its mission, improving health care for patients all over the world. It is the policy of the Board of Directors of the Institute to review its plans for future operating needs and strategic initiatives from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing for these purposes.

The Board Designated Endowment Fund was established to support IHI programmatic “investments” that are deemed as critical to achieving IHI’s long term strategic plan. The Board Designated Endowment Fund is a board approved quasi endowment fund consisting of a voluntary segregation of unrestricted net assets. The Board Designated Endowment Fund is more fully described in note 6.

The Operating Reserve Fund was established to provide an estimated six to twelve months of operating reserves for the Institute to support the future viability of the organization.

The Property, Plant, and Equipment Replacement Fund was established to provide for capital replacement and future capital needs.

Unrestricted net assets consist of the following:

		2018	2017
Board designated endowment	$	80,510,629	63,264,839
Operating reserve fund		11,686,839	29,300,595
Property, plant and equipment replacement fund		5,636,260	—
Total unrestricted net assets	$	97,833,728	92,565,434

(l) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(Continued)

(m) Income Tax Status

The Institute is a tax exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes pursuant to Section 501(a) of the Code. Accordingly, no provision for federal and state income taxes has been made.

GAAP requires the Institute to evaluate uncertain tax positions. Management concluded as of and for the years ended April 30, 2018 and 2017, that the Institute did not have any liabilities for any uncertain tax positions.

(n) Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to current year presentation.

(3) Grants Receivable

Grants receivable totaled $565,674 and $1,147,763 as of April 30, 2018 and 2017, respectively. All grants receivable are due within one year.

(4) Concentration of Credit Risk

The Institute maintains its cash and cash equivalents in accounts held by a bank and an investment company, which at times may exceed insurers' limits. Additionally, accounts receivable, net includes $2,398,000 due from a single customer and $2,569,869 due from two individual customers as of April 30, 2018 and 2017, respectively.

The Institute has not experienced any losses in such accounts.

(5) Investments

(a) Overall Investment Objective

The overall investment objective of the Institute is to invest its assets in a prudent manner that will achieve a long term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The Institute diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Finance Committee, which oversees the Institute's investment program in accordance with established guidelines.

(b) Allocation of Investment Strategies

In addition to traditional stocks and fixed income securities, the Institute may also hold shares or units in traditional institutional funds as well as in alternative investment funds involving hedged strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund

(Continued)

managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. Moreover, the fair values of the Institute's interests in shares or units of these funds, because of liquidity and capital commitment terms that vary depending on the specific fund or partnership agreement, may differ from the fair value of the funds' underlying net assets.

(c) Basis of Reporting

Investments are reported at estimated fair value. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Level 1 includes debt and equity securities that trade in an active exchange market, as well as U.S. Treasury securities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data. This category generally includes certain U.S. governmental and agency mortgage backed securities, corporate debt securities, and some alternative investments; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Institute utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Levels are determined based on the aforementioned hierarchy, except for investments utilizing net asset value (NAV) as a practical expedient to estimate fair value of the Institute's interest therein, as discussed below. Such NAV measured investments are classified in the hierarchy based on whether the investment may be redeemed at or near the statement of financial position date.

If an investment is held directly by the Institute and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. Fixed income securities are primarily valued using market quotations or prices obtained from independent pricing sources which may employee various pricing methods to value the investments including matrix pricing. The Institute's interests in alternative investment funds are generally reported at the NAV reported by the fund managers, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of April 30, 2018 and 2017, the Institute had no plans or intentions to sell investments at amounts different from NAV.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables summarize the Institute's investments by major category in the fair value hierarchy as of April 30, 2018 and 2017, as well as related strategy, liquidity and funding commitments:

	April 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Diversified Emerging Mkts	$ 53,097	—	—	53,097
Foreign Large Blend	22,977,147	—	—	22,977,147
Intermediate-Term Bond	16,247,696	—	—	16,247,696
Large Blend	40,963,541	—	—	40,963,541
Large Growth	367,608	—	—	367,608
Large Value	174,324	—	—	174,324
Mid-Cap Value	101,517	—	—	101,517
Small Value	133,321	—	—	133,321
Total	$ 81,018,251	—	—	81,018,251

	April 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Mutual funds:				
Diversified Emerging Mkts	$ 84,741	—	—	84,741
Foreign Large Blend	18,018,390	—	—	18,018,390
Intermediate-Term Bond	11,338,833	—	—	11,338,833
Large Blend	32,674,971	—	—	32,674,971
Large Growth	488,730	—	—	488,730
Large Value	239,650	—	—	239,650
Mid-Cap Value	238,253	—	—	238,253
Small Value	133,779	—	—	133,779
Total mutual funds	63,217,347	—	—	63,217,347
Money market funds:				
Money market funds	24,329,067	—	—	24,329,067
Total money market funds	24,329,067	—	—	24,329,067
Total	$ 87,546,414	—	—	87,546,414

The Institute has no investments classified in Level 3 for the years ended April 30, 2018 and 2017. There were no transfers of investments between Level 1 and Level 2 during the years ended April 30, 2018 and 2017.

The following summarizes the investment return for all investments for the years ended April 30:

		2018	2017
Investment income	$	1,925,373	1,613,172
Net realized gains		313,109	7,598,787
Net change in unrealized appreciation		4,993,647	(1,248,734)
		7,232,129	7,963,225
Less management fees		39,902	81,786
Total investment return	$	7,192,227	7,881,439

(6) Board Designated Endowment Fund

The Institute's endowment solely consists of unrestricted funds designated by the Board of Directors to function as an endowment. Changes in endowment net assets for the years ended April 30, 2018 and 2017 are as follows:

		2018	2017
Beginning balance of endowment	$	63,264,839	56,107,568
Initial board designation		—	—
Investment return:			
Investment income, net		1,532,288	1,442,914
Net unrealized and realized gains on investment		4,962,279	6,155,003
Total return		6,494,567	7,597,917
Endowment return utilized in operations		(2,372,004)	(1,470,000)
Additional funding designated by board		13,123,227	1,029,354
Ending balance of endowment	$	80,510,629	63,264,839

(a) Return Objectives and Risk Parameters

The Institute 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 preserve the purchasing power of the endowment assets. To achieve these objectives, the Institute's Board of Directors has approved an investment policy whereby endowment assets are invested in a manner that is intended to achieve a return that is reasonable relative to an above average risk tolerance that positions the endowment assets for long term capital appreciation. It has been determined that the investment objective of the endowment fund is "Growth with Income" which is to intended to be competitive in relation to a "blended" benchmark consisting of the Standard & Poors 500 Index, Barclays Aggregate Bond Index, and the money market. Strategies Employed for Achieving Objectives.

(Continued)

To satisfy its long term objectives, the Institute utilizes a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a portfolio consisting of approximately 80% equity, and 20% fixed income and cash equivalents to achieve its long term return objectives within prudent risk constraints.

(b) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Institute has a policy of appropriating for distribution each year a fixed dollar amount to support the strategic program and operational investments. The Board of Directors elected to appropriate distributions for operations of $2,372,004 and $1,470,000 for the years ended April 30, 2018 and 2017, respectively. These amounts are classified as unrestricted operating revenue in the statement of activities. Accordingly, the Institute expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned distributions plus inflation, defined as the Consumer Price Index. Additional real growth will be provided through future additional unrestricted funds designated by the Board of Directors and any excess investment return.

(7) Temporarily Restricted Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets at April 30, 2018 and 2017 have been restricted by donors for the following purposes:

		2018	2017
Kaiser Permanente Fund	$	1,292,841	1,703,843
Denham Fellowships		52,345	52,345
Other		597,974	522,365
	$	1,943,160	2,278,553

As of April 30, 2018 and 2017, respectively, cash and cash equivalents includes $1,233,428 and $2,278,553, and investments includes $709,732 and $0, related to these funds.

(i) Kaiser Permanente Fund

In fiscal 2005, Kaiser Permanente (Kaiser) established a fund at the Institute for scholarships to be provided over 15 years for teams to participate in IHI programs in designated areas of interest. Half of the scholarships will be available for Kaiser teams and half for teams from public hospitals or clinics in the communities that Kaiser serves. The portion of total annual returns not distributed after the annual spending distribution has been made is reinvested in the fund. Net assets are released from restrictions as scholarship recipients enroll in programs.

(ii) Net Assets Released from Restrictions

All of the Institute’s temporarily restricted net assets in fiscal 2018 and 2017 were purpose restricted by funders for IHI fellowship programs, attendance at IHI events, and the Conversation Project. Net assets released from donor restrictions during the years ended April 30, 2018 and

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2017 of $1,194,517 and $769,712, respectively, were released by incurring expenses or providing services satisfying the restricted purposes specified by the donors.

(8) Lease Commitments

(a) Operating Lease Commitments

The Institute relocated its headquarters in 2018 from Cambridge to Boston, Massachusetts. On June 29, 2017, IHI entered into a lease agreement for a twelve year term at a fixed annual rental payment, not including operating costs related to the office space. The lease includes an extension option for an additional five years. As part of the lease agreement the landlord offered a leasehold improvement allowance amounting to $2,172,150 which is included in lease related liabilities and is being amortized as a reduction to rent expense on a straight line basis over the life of the lease. To facilitate moving to their new headquarters, IHI entered into a lease termination agreement in June 2017 for $581,000 for the former headquarters in Cambridge, Massachusetts as of January 30, 2018.

As a result of the merger with the National Patient Safety Foundation on May 1, 2017, IHI acquired a lease agreement for 4,930 square feet of office space in Boston, Massachusetts. This lease is for five years and seven months with an additional five year renewal option. Lease payments consist of a fixed annual base rent plus additional charges for the proportionate share (initially 3.79%) of the increase over the landlord's base year 2016 real estate taxes and operating expenses. In acquiring the new space, the Institute entered into a sublease agreement in which the Institute will receive escalating rent payments from its subtenant until July 2023. The sublease payments are not included in the minimum lease payment schedule below.

As of April 30, 2018, the noncancelable lease commitments under operating lease arrangements with initial or remaining terms of one year or more are as follows:

Fiscal year ending April 30:		
2019	$	850,323
2020		1,730,501
2021		1,890,471
2022		1,664,315
2023		1,821,816
Thereafter		11,360,189
Minimum lease payments	$	19,317,615

Rent expense under these leases was $1,502, 824 and $735,250 for each of the years ended April 30, 2018 and 2017, respectively.

(9) Employee Benefits

(a) Retirement Plan

The Institute has a 401(k) plan, which covers substantially all full time employees. The plan requires the Institute to make certain matching contributions in relation to employee voluntary contributions and also allows for an additional contribution to be made at the discretion of management. The Institute's matching and discretionary contributions to the plan totaled approximately $372,000 and $297,000 for the years ended April 30, 2018 and 2017, respectively.

(b) Management Team Benefits

The Institute provides certain executives benefits under its Management Team Flexible Benefit Plan. Covered executives are provided with a percentage of their salary as a flexible benefit allowance. The percentage of their salary allocated is determined by the Board of Directors of the Institute and can vary by executive level. This flexible benefit allowance can be used to select among various benefits, including a capital accumulation account. The capital accumulation accounts are maintained by the Institute.

The executives are unsecured creditors of the Institute for the amount of their capital accumulation accounts once they have vested after being employed by the Institute for five years. The amount expensed by the Institute for the years ended April 30, 2018 and 2017 related to the capital accumulation accounts and supplemental catch up retirement benefits was approximately $149,000 and $91,000, respectively. The capital accumulation accounts investments are invested with the Institute's investments. At April 30, 2018 and 2017, the related deferred compensation liability was approximately $1,504,000 and $2,079,000, respectively.

(10) Line of Credit

On March 24, 2018, IHI renewed a revolving line of credit agreement with Citizens Bank for $3,000,000 to be used for working capital purposes. The agreement expires on March 24, 2019. The loan bears a variable interest rate of 2.25% plus LIBOR which equated to 4.16% at April 30, 2018. Funds in the amount of $1,500,000 and $0 were advanced to IHI during the years ended April 30, 2018 and 2017, respectively. Interest paid was $4,065 related to the advance in the year ended April 30, 2018.

(11) Letter of Credit

(a) Letter of Credit – Security Deposit

On June 27, 2017, IHI entered into $943,670 unconditional, irrevocable, transferable letter of credit agreement with a commercial bank for the purpose of providing a security deposit as required under the new office lease. Beginning on February 1, 2021, and on each two (2) year anniversary of such date up to and including February 1, 2027, IHI shall have the right to reduce the then current amount of the Letter of Credit by $134,810 in each instance; provided, that certain criteria are met by IHI per the lease agreement. The amount of the Letter of Credit shall never be reduced below $404,430.

(b) Line of Credit – Performance Bond

On June 1, 2017, IHI entered into collateralized revolving line of credit agreement with a commercial bank for the purpose of providing a performance bond as required under specific service contracts. The $2,588,000 letter of credit authorizes the bank to secure the pledged collateral of a deposit account held with the bank in the event the line is drawn or of a default. The agreement is subject to annual review for renewal by the commercial bank. See note 13.

(12) Related Party Transactions

Following is a summary of related party transactions during the years ended April 30, 2018 and 2017:

		2018	2017
The Institute paid an organization that employs a Board member of the Institute for services rendered on various projects.	$	375,000	291,976
The Institute paid for services rendered to the Institute by an organization which employs a Board member of the Institute. These services were provided on various projects by other staff at the organization.		—	16,782
The Institute earned revenues from an organization which employs a Board member of the Institute. (1)		143,836	212,510

(1) At April 30, 2018 and 2017, $4,596 and $52,570, receivable from the organization to the Institute is included in accounts receivable.

(13) Subsequent Events

Management has evaluated subsequent events through October 31, 2018, the date on which the financial statements were available for issuance.

(a) Line of Credit – Performance Bond

On June 1, 2018, IHI renewed a collateralized revolving line of credit agreement with a commercial bank for the purpose of providing a performance bond as required under specific service contracts. The $2,588,000 letter of credit authorizes the bank to secure the pledged collateral of a deposit account held with the bank in the event the line is drawn or of a default. The agreement is subject to review for renewal by the commercial bank in November 2018.