



INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Financial Statements

April 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Financial Statements
April 30, 2019 and 2018

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4–5
Statements of Functional Expenses	6–7
Statements of Cash Flows	8
Notes to Financial Statements	9–23



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, 2019 and 2018, 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, 2019 and 2018, 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.



Emphasis of Matter

As described in note 2(n) to the financial statements, in 2019, the Institute adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Boston, Massachusetts
September 27, 2019

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Financial Position

April 30, 2019 and 2018

Assets	2019	2018
Cash and cash equivalents	\$ 21,391,819	24,328,881
Accounts receivable, net	10,831,854	8,186,717
Other current assets	1,156,033	2,157,920
Investments	83,654,624	81,018,251
Property and equipment, at cost:		
Office furniture and equipment	2,705,321	2,410,188
Software	7,382,030	7,382,030
Leasehold improvements	4,124,187	4,102,432
	14,211,538	13,894,650
Less accumulated depreciation and amortization	(9,350,662)	(8,258,390)
Property and equipment, net	4,860,876	5,636,260
Total assets	\$ 121,895,206	121,328,029
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,688,423	5,369,973
Refundable advances	2,381,134	5,892,309
Deferred revenue	6,767,541	6,361,553
Deferred rent	3,590,258	2,423,166
Deferred compensation	1,783,242	1,504,140
Total liabilities	19,210,598	21,551,141
Net assets:		
Without donor restrictions:		
Board designated endowment	82,971,152	80,510,629
Operating reserve fund	13,328,845	11,686,839
Property, plant and equipment replacement fund	4,860,876	5,636,260
With donor restrictions	1,523,735	1,943,160
Total net assets	102,684,608	99,776,888
Total liabilities and net assets	\$ 121,895,206	121,328,029

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Activities

Year ended April 30, 2019

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

	<u>Net assets without donor restrictions</u>	<u>Net assets with donor restrictions</u>	<u>Total 2019</u>	<u>Total 2018</u>
Operating revenues and other support:				
Grant income	\$ 16,051,551	—	16,051,551	13,587,837
Contract services	20,699,036	—	20,699,036	18,438,605
Participation, meeting and conference fees	16,376,323	—	16,376,323	16,022,175
Contributions	16,986	389,265	406,251	1,410,353
Membership dues	3,690,266	—	3,690,266	3,687,931
Other	1,828,816	—	1,828,816	1,697,329
Endowment return utilized	2,792,215	—	2,792,215	2,372,004
Net assets released from restriction	843,496	(843,496)	—	—
Total operating revenues and other support	<u>62,298,689</u>	<u>(454,231)</u>	<u>61,844,458</u>	<u>57,216,234</u>
Less donated attendance fees	979,122	—	979,122	861,780
Net operating revenues and other support	<u>61,319,567</u>	<u>(454,231)</u>	<u>60,865,336</u>	<u>56,354,454</u>
Operating expenses:				
Program services	51,835,396	—	51,835,396	47,614,194
Supporting services	8,875,265	—	8,875,265	9,652,257
Total operating expenses	<u>60,710,661</u>	<u>—</u>	<u>60,710,661</u>	<u>57,266,451</u>
Increase (decrease) in net assets from operations	<u>608,906</u>	<u>(454,231)</u>	<u>154,675</u>	<u>(911,997)</u>
Nonoperating activities:				
Net investment return	5,510,454	34,806	5,545,260	7,192,227
Endowment return utilized in operations	(2,792,215)	—	(2,792,215)	(2,372,004)
Loss on disposal of fixed assets	—	—	—	(123,701)
Total nonoperating activities	<u>2,718,239</u>	<u>34,806</u>	<u>2,753,045</u>	<u>4,696,522</u>
Increase (decrease) in net assets, before effects of merger	<u>3,327,145</u>	<u>(419,425)</u>	<u>2,907,720</u>	<u>3,784,525</u>
Effects of merger (note 1)	—	—	—	1,148,376
Increase (decrease) in net assets	<u>3,327,145</u>	<u>(419,425)</u>	<u>2,907,720</u>	<u>4,932,901</u>
Net assets, beginning of year	<u>97,833,728</u>	<u>1,943,160</u>	<u>99,776,888</u>	<u>94,843,987</u>
Net assets, end of year	\$ <u>101,160,873</u>	<u>1,523,735</u>	<u>102,684,608</u>	<u>99,776,888</u>

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Activities
Year ended April 30, 2018

	Net assets without donor restrictions	Net assets with donor restrictions	Total 2018
Operating revenues and other support:			
Grant income	\$ 13,587,837	—	13,587,837
Contract services	18,438,605	—	18,438,605
Participation, meeting and conference fees	16,022,175	—	16,022,175
Contributions	931,464	478,889	1,410,353
Membership dues	3,687,931	—	3,687,931
Other	1,697,329	—	1,697,329
Endowment return utilized	2,372,004	—	2,372,004
Net assets released from restriction	<u>1,194,517</u>	<u>(1,194,517)</u>	<u>—</u>
Total operating revenues and other support	57,931,862	(715,628)	57,216,234
Less donated attendance fees	<u>861,780</u>	<u>—</u>	<u>861,780</u>
Net operating revenues and other support	<u>57,070,082</u>	<u>(715,628)</u>	<u>56,354,454</u>
Operating expenses:			
Program services	47,614,194	—	47,614,194
Supporting services	<u>9,652,257</u>	<u>—</u>	<u>9,652,257</u>
Total operating expenses	<u>57,266,451</u>	<u>—</u>	<u>57,266,451</u>
Increase (decrease) in net assets from operations	<u>(196,369)</u>	<u>(715,628)</u>	<u>(911,997)</u>
Nonoperating activities:			
Net investment return	7,094,374	97,853	7,192,227
Endowment return utilized in operations	(2,372,004)	—	(2,372,004)
Loss on disposal of fixed assets	<u>(123,701)</u>	<u>—</u>	<u>(123,701)</u>
Total nonoperating activities	<u>4,598,669</u>	<u>97,853</u>	<u>4,696,522</u>
Increase (decrease) in net assets, before effects of merger	4,402,300	(617,775)	3,784,525
Effects of merger (note 1)	<u>865,994</u>	<u>282,382</u>	<u>1,148,376</u>
Increase (decrease) in net assets	5,268,294	(335,393)	4,932,901
Net assets, beginning of year	<u>92,565,434</u>	<u>2,278,553</u>	<u>94,843,987</u>
Net assets, end of year	\$ <u><u>97,833,728</u></u>	<u><u>1,943,160</u></u>	<u><u>99,776,888</u></u>

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Functional Expenses

Year ended April 30, 2019

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

	<u>Courses and other programs</u>	<u>Grants</u>	<u>Strategic partners and contracts</u>	<u>National forum</u>	<u>Innovation</u>	<u>Total program services</u>	<u>Supporting services</u>	<u>Total 2019 operating expenses</u>	<u>Total 2018 operating expenses</u>
Salaries, payroll taxes and fringe benefits	\$ 7,074,370	8,657,175	6,234,065	1,390,954	767,004	24,123,568	6,344,059	30,467,627	27,170,301
Consulting	1,028,689	3,846,311	3,028,023	133,818	171,550	8,208,391	402,570	8,610,961	7,681,406
Meetings	1,996,067	396,573	185,089	2,067,500	8,762	4,653,991	142,725	4,796,716	5,067,052
Grants	11,910	1,135,155	—	—	—	1,147,065	8,802	1,155,867	2,187,241
Travel and lodging	610,522	1,359,687	1,659,048	528,805	26,123	4,184,185	328,114	4,512,299	4,207,429
Occupancy/office related	681,303	713,748	433,532	172,502	38,432	2,039,517	367,656	2,407,173	2,771,824
Technology	511,180	517,694	245,313	91,538	22,229	1,387,954	232,656	1,620,610	1,261,557
Depreciation and amortization	235,411	392,655	217,884	83,002	18,510	947,462	150,011	1,097,473	924,110
Marketing	412,295	98,540	4,712	187,838	2	703,387	277,635	981,022	886,284
Professional fees	1,162,047	1,247,105	780,004	222,699	37,326	3,449,181	558,385	4,007,566	4,189,025
Miscellaneous expense	204,078	646,084	103,228	32,099	5,206	990,695	62,652	1,053,347	920,222
Total functional expenses	\$ <u>13,927,872</u>	<u>19,010,727</u>	<u>12,890,898</u>	<u>4,910,755</u>	<u>1,095,144</u>	<u>51,835,396</u>	<u>8,875,265</u>	<u>60,710,661</u>	<u>57,266,451</u>

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Functional Expenses

Year ended April 30, 2018

	Courses and other programs	Grants	Strategic partners and contracts	National forum	Innovation	Total program services	Supporting services	Total 2018 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
Consulting	1,197,844	3,268,044	2,313,603	172,239	203,415	7,155,145	526,261	7,681,406
Meetings	2,054,770	612,594	215,764	2,034,061	4,367	4,921,556	145,496	5,067,052
Grants	20,000	2,122,241	45,000	—	—	2,187,241	—	2,187,241
Travel and lodging	769,091	1,079,074	1,591,057	357,414	25,937	3,822,573	384,856	4,207,429
Occupancy/office related	531,257	670,807	382,854	158,942	28,436	1,772,296	999,528	2,771,824
Technology	389,352	344,024	188,533	70,781	12,551	1,005,241	256,316	1,261,557
Depreciation and amortization	209,632	310,316	171,828	72,394	12,524	776,694	147,416	924,110
Marketing	342,973	87,553	13,705	321,401	329	765,961	120,323	886,284
Professional fees	1,518,198	1,155,317	709,518	143,865	24,909	3,551,807	637,218	4,189,025
Miscellaneous expense	163,588	438,252	120,021	78,841	6,431	807,133	113,089	920,222
Total functional expenses	<u>\$ 13,725,960</u>	<u>17,077,452</u>	<u>11,250,682</u>	<u>4,740,076</u>	<u>820,024</u>	<u>47,614,194</u>	<u>9,652,257</u>	<u>57,266,451</u>

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Cash Flows

Years ended April 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	\$ 2,907,721	4,932,901
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net unrealized and realized (gains) losses on investments	(3,362,601)	(5,306,757)
Loss on disposal of fixed assets	—	123,701
Depreciation and amortization	1,097,473	924,110
Effects of merger	—	(1,148,376)
Changes in assets and liabilities:		
Accounts receivable, net	(2,645,137)	(2,100,695)
Other current assets	1,001,887	(229,406)
Accounts payable and accrued expenses	(599,886)	66,842
Deferred revenue	405,988	336,884
Refundable advances	(3,511,175)	(1,916,784)
Deferred compensation	279,102	(575,128)
Deferred rent	1,167,092	2,423,166
Net cash used in operating activities	(3,259,536)	(2,469,542)
Cash flows from investing activities:		
Cash acquired from merger	—	1,197,840
Proceeds from sales of investments	15,781,375	28,847,665
Purchases of investments	(15,055,147)	(14,860,936)
Additions to property and equipment	(403,754)	(4,968,132)
Drawdown on line of credit	—	1,500,000
Repayments on line of credit	—	(1,500,000)
Net cash provided by investing activities	322,474	10,216,437
Net (decrease) increase in cash and cash equivalents	(2,937,062)	7,746,895
Cash and cash equivalents, beginning of year	24,328,881	16,581,986
Cash and cash equivalents, end of year	\$ 21,391,819	24,328,881

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(1) Organization

For more than 25 years, Institute for Healthcare Improvement, Inc. (IHI or the Institute) has used improvement science to advance and sustain better outcomes in health and health systems across the world. We bring awareness of safety and quality to millions, accelerate learning and the systematic improvement of care, develop solutions to previously intractable challenges, and mobilize health systems, communities, regions, and nations to reduce harm and deaths. We work in collaboration with the growing IHI community to spark bold, inventive ways to improve the health of individuals and populations. We generate optimism, harvest fresh ideas, and support anyone, anywhere who wants to profoundly change health and health care for the better. Learn more at ihi.org.

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 combined existing NPSF and IHI patient safety programs and reflect an enhanced commitment to achieve patient safety around the world. Most programs, including the Lucian Leape Institute, are expected to continue. The Certified Professional in Patient Safety credentialing program continues and is overseen by the Certification Board for Professionals in Patient Safety. In joining forces, IHI and NPSF are 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 8,119 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 180,000 subscribers each week, providing updates on improvement activities and featuring the variety and breadth of IHI's work and collaboration with others. IHI also sends out a variety of international newsletters to constituents in Africa and Latin America. WIHI is a free online "talk show" and podcast program from IHI reaching 235,545 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 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 bring about 100 million healthier lives; improve maternal and newborn health services in several regions and across multiple projects; improve the care of older adults; integrate behavioral health services into the continuum of health care; enhance quality improvement skills in various regions of the world; and encourage communication about end-of-life values and preferences. These efforts contribute to IHI's growing knowledge of optimal system designs that can dramatically improve patient care. Some highlights include:

- *Africa Region*

The Institute's work in Africa receives significant support from the Bill and Melinda Gates Foundation to reduce neonatal and maternal mortality in Ethiopia and Malawi, to institutionalize quality improvement practices in the Ghanaian health system, and to scale up work on tuberculosis care in South Africa. In Fiscal 2019 IHI embarked on new work with Abt Associates, funded by USAID focused on improving health financing in Ethiopia.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

- *Middle East/Asia Pacific Region*

IHI embarked on a multi-year grant-funded project in collaboration with Save the Children and funded by USAID to improve maternal and newborn care. Work continued with funding from Care International to improve care quality in the state of Bihar in India.

- *North America*

The three largest grant-funded projects in North America are:

- *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. 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 U.S. 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 U.S. 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 to reduce maternal mortality in the U.S. 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 U.S. states with above-average maternal mortality rates and a higher proportion of African American women.

- *Latin America*

MSD, a charity of the Merck Company, continues to fund IHI’s work to bring about higher rates of natural births (and corresponding lower rates of caesarian section deliveries) in Brazil and this work is now focusing on scale-up of successful approaches.

(b) Strategic Partners and Contracts

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

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(c) *Courses and Other Programs*

- *Professional Development Programs*

Professional development programs, conferences, 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 U.S. conference on improvement in health care draws nearly 6,000 participants from around the world who attend hundreds of workshops, spotlight and keynote sessions, and special interest meetings. Thousands more join the conference via Livestream.

- *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 in a variety of settings, including the office practice and community-based care settings. Nearly 1,000 attendees come together to share their growing knowledge and build new partnerships to transform primary care.

- *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, sometimes 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, wellbeing, and equity for 100 million people by 2020. IHI's vision is to transform the way the world thinks and

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

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.

- *IHI Leadership Alliance*

An exclusive leadership initiative for ambitious health care leaders 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.

(d) Research and Development

At the center of IHI's 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 net assets without donor restrictions unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Net assets and changes therein are classified as follows:

(i) Net Assets without Donor Restrictions

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.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(ii) *Net Assets with Donor Restrictions*

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.

(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 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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets with donor restrictions 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.

(v) *Membership Dues*

Membership dues received from the members of Passport, American Society of Patient Safety Professionals, Patient Safety and Quality Coalition, Leadership Alliance, and Health Improvement Alliance Europe membership, and other collaboratives, and various membership programs are recognized as revenue ratably over the membership period.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(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. These funds are reported as fair value and considered Level 1 in the fair value hierarchy.

(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 \$179,900 and \$185,000 as of April 30, 2019 and 2018, respectively.

(f) Investments

All investments are stated at fair value, as described further in note 5(c). Investment income is credited to net assets without restrictions 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

Cloud based software that is purchased as a service is expensed except for the initial configuration of software, writing of software code to integrate systems or software used to convert data, which are 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 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.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(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 Net Assets without Donor Restrictions

IHI believes that a strong financial position is essential to its ability to achieve its mission to improve 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 net assets without restrictions 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 for an estimated six to twelve months of operating reserves. During fiscal 2019, the Institute changed its policy for the Operating Reserve Fund, which now requires the fund to provide for an adequate reserve to cover what management has deemed annual program revenue risk related to large conferences and major partnerships.

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

Net assets without restrictions consist of the following:

	<u>2019</u>	<u>2018</u>
Board designated endowment	\$ 82,971,152	80,510,629
Operating reserve fund	13,328,845	11,686,839
Property, plant and equipment replacement fund	<u>4,860,876</u>	<u>5,636,260</u>
Total net assets without restrictions	<u>\$ 101,160,873</u>	<u>97,833,728</u>

(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.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(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, 2019 and 2018, that the Institute did not have any liabilities for any uncertain tax positions.

(n) Recent Accounting Pronouncements

Not-for-Profit Financial Statement Presentation

In 2019, the Institute adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include presentation of two classes of net assets versus the previously required three and enhances disclosures for the board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>2018</u>
Net assets classification:			
Unrestricted and board designated:			
Board designated endowment	\$ 80,510,629	—	80,510,629
Operating reserve fund	11,686,839	—	11,686,839
Property, plant and equipment replacement fund	<u>5,636,260</u>	<u>—</u>	<u>5,636,260</u>
Total unrestricted net assets	97,833,728	—	97,833,728
Temporarily restricted net assets	<u>—</u>	<u>1,943,160</u>	<u>1,943,160</u>
Total net assets	<u>\$ 97,833,728</u>	<u>1,943,160</u>	<u>99,776,888</u>

(o) Reclassifications

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

(3) Grants Receivable

Grants receivable, which is included in accounts receivable, net in the accompanying statements of financial position, totaled \$1,871,968 and \$565,674 as of April 30, 2019 and 2018, respectively. All grants receivable are due within one year.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(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 approximately \$2,660,000 and \$2,398,000 due from a single customer as of April 30, 2019 and 2018, 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 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;

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

- 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 employ 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, 2019, and 2018, 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, 2019 and 2018, as well as related strategy. All holdings are Level 1 and may be liquidated on a daily basis.

	<u>2019</u>	<u>2018</u>
International stock	\$ 25,652,389	22,705,533
Bond market index funds	25,481,231	16,247,696
Stock market index	31,339,898	40,963,541
Equity mutual funds	<u>1,181,106</u>	<u>1,101,481</u>
	<u>\$ 83,654,624</u>	<u>81,018,251</u>

The Institute has no investments classified in Level 3 for the years ended April 30, 2019 and 2018. There were no transfers of investments between Level 1 and Level 2 during the years ended April 30, 2019 and 2018.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>
Investment income	\$ 2,257,634	1,925,373
Net realized gains	3,268,396	313,109
Net change in unrealized appreciation	<u>94,274</u>	<u>4,993,647</u>
	5,620,304	7,232,129
Less management fees	<u>75,044</u>	<u>39,902</u>
Total investment returns	<u>\$ 5,545,260</u>	<u>7,192,227</u>

(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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 80,510,629	63,264,839
Investment return:		
Investment income, net	1,874,714	1,532,288
Net unrealized and realized gains on investment	<u>3,378,025</u>	<u>4,962,279</u>
Total return	5,252,739	6,494,567
Endowment return utilized in operations	(2,792,215)	(2,372,004)
Additional funding designated by board	<u>—</u>	<u>13,123,227</u>
Ending balance of endowment	<u>\$ 82,971,153</u>	<u>80,510,629</u>

(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 & Poor's 500 Index, Barclays Aggregate Bond Index, and the money market. Strategies Employed for Achieving Objectives.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

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 \$2,792,215 and \$2,372,004 for the years ended April 30, 2019 and 2018, respectively. These amounts are classified as 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 funds designated by the Board of Directors and any excess investment return.

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions at April 30, 2019 and 2018 have been restricted by donors for the following purposes:

	<u>2019</u>	<u>2018</u>
Kaiser Permanente Fund	\$ 847,441	1,292,841
Denham Fellowship	52,345	52,345
Other	<u>623,949</u>	<u>597,974</u>
	<u>\$ 1,523,735</u>	<u>1,943,160</u>

As of April 30, 2019, and 2018, respectively, cash and cash equivalents include \$1,482,265 and \$1,233,428, and investments includes \$0 and \$709,732, related to these funds.

(a) 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.

(b) Net Assets with Donor Restrictions Released from Restrictions

All of the Institute's net assets with donor restrictions in fiscal 2019 and 2018 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, 2019 and 2018 of \$843,496 and \$1,194,517, respectively, were released by incurring expenses or providing services satisfying the restricted purposes specified by the donors.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(8) Lease Commitments

(a) Operating Lease Commitments

The Institute relocated its headquarters in 2019 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 deferred rent and is being amortized as a reduction to rent expense on a straight-line basis over the life of the lease.

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.

On February 1, 2019, IHI amended their lease agreement with 53 State Street adding space on the 18th floor for an eleven-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 \$297,885 which is included in deferred rent and is being amortized as a reduction to rent expense on a straight-line basis over the life of the lease.

As of April 30, 2019, the noncancelable lease commitments under operating lease arrangements with initial or remaining terms of one year or more are as follows:

	Operating leases
Fiscal year ending April 30:	
2020	\$ 2,237,090
2021	2,509,923
2022	2,296,172
2023	2,466,332
2024	2,311,302
Thereafter	<u>13,748,704</u>
Minimum lease payments	<u>\$ 25,569,523</u>

Rent expense under these leases was \$1,741,083 and \$1,502, 824 for each of the years ended April 30, 2019 and 2018, respectively.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(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 \$333,000 and \$372,000 for the years ended April 30, 2019 and 2018, 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, 2019 and 2018 related to the capital accumulation accounts and supplemental catch up retirement benefits was approximately \$560,000 and \$149,000, respectively. The capital accumulation accounts investments are invested with the Institute's investments. At April 30, 2019 and 2018, the related deferred compensation liability was approximately \$1,783,000 and \$1,504,000, 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 automatically renews each year on March 24. The loan bears a variable interest rate of 2.25% plus LIBOR which equated to 4.73% at April 30, 2019. Funds in the amount of \$0 and \$1,500,000 were advanced to IHI during the years ended April 30, 2019 and 2018, respectively.

(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 \$135,000 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 \$404,000.

(b) Line of Credit – Performance Bond

On February 6, 2019 IHI renewed our 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.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Financial Statements

April 30, 2019 and 2018

(11) Related Party Transactions

Following is a summary of related party transactions during the years ended April 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
The Institute paid an organization that employs a Board member of the Institute for services rendered on various projects.	\$ 325,000	375,000
The Institute earned revenues from an organization which employs a Board member of the Institute.	191,500	143,836
The Institute has receivables from an organization which employs a Board member of the Institute.	27,829	4,596

(12) Financial Assets and Liquidity Resources

As of April 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on debt, were as follows:

Financial assets:

Cash and cash equivalents	\$ 13,527,307
Accounts receivable, net	8,959,886
Receivables due for costs incurred on grants and contracts	1,871,202
Board designations:	
Fiscal 2019 endowment payout	<u>(2,792,215)</u>

Total financial assets available within one year 21,566,180

Liquidity resources:

Bank line of credit	<u>3,000,000</u>
---------------------	------------------

Total financial assets and liquidity resources available within one year \$ 24,566,180

The Institute's cash flows have seasonal variations during the year attributable to participation, meeting and conference fee payments and contract billings. To manage liquidity, the Institute maintains a line of credit with a bank (see footnote 10). The Institute has no outstanding borrowings under the line of credit at April 30, 2019. The Institute has \$88 million in other board designated funds, which could be made available to the Institute but are not reflected in the table as they are designated for other purposes. Additionally, as of April 30, 2019, the Institute had \$10 million in institutional funds which are available for general expenditures with Board approval.

(13) Subsequent Events

Management has evaluated subsequent events through September 27, 2019, the date on which the financial statements were available for issuance.