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INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and *Government Auditing Standards* and Related Information

Year ended April 30, 2020

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and *Government Auditing Standards* and Related Information

Year ended April 30, 2020

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Institute for Healthcare Improvement, Inc. (the Institute), which comprise the statements of financial position as of April 30, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, 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(b) to the financial statements, in 2020, the Institute adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers* and Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2020 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Institute for Healthcare Improvement, Inc.'s internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts
October 13, 2020

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Financial Position

April 30, 2020 and 2019

Assets		**2020**	**2019**
Cash and cash equivalents	$	27,950,190	21,391,819
Accounts receivable, net		5,202,385	10,831,854
Other assets		1,244,901	1,156,033
Investments		78,026,983	83,654,624
Property and equipment, at cost:			
Office furniture and equipment		2,939,421	2,705,321
Software		7,382,031	7,382,030
Leasehold improvements		5,043,682	4,124,187
		15,365,134	14,211,538
Less accumulated depreciation and amortization		(10,257,365)	(9,350,662)
Property and equipment, net		5,107,769	4,860,876
Total assets	$	117,532,228	121,895,206
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	$	2,504,153	4,688,423
Refundable advances-customers		5,854,845	2,381,134
Refundable advance- Paycheck Protection Plan		3,281,766	—
Deferred revenue		6,654,513	6,767,541
Deferred rent		3,541,569	3,590,258
Deferred compensation		1,584,023	1,783,242
Total liabilities		23,420,869	19,210,598
Net assets:			
Without donor restrictions:			
Board designated endowment		78,753,942	82,971,152
Operating reserve fund		9,523,469	13,328,845
Property, plant and equipment replacement fund		5,107,769	4,860,876
Subtotal net assets without donor restricitons		93,385,180	101,160,873
With donor restrictions		726,179	1,523,735
Total net assets		94,111,359	102,684,608
Total liabilities and net assets	$	117,532,228	121,895,206

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.
Statement of Activities
Year ended April 30, 2020
(with comparative totals for the year ended April 30, 2019)

	Net assets without donor restrictions	Net assets with donor restrictions	Total 2020	Total 2019
Operating revenues and other support:				
Grant income	$11,604,569	—	11,604,569	16,051,551
Contract services	17,735,246	—	17,735,246	20,699,036
Participation, meeting and conference fees	14,819,972	—	14,819,972	16,376,323
Contributions	12,236	61,505	73,741	406,251
Membership dues	3,230,854	—	3,230,854	3,690,266
Other	1,527,163	—	1,527,163	1,828,816
Endowment return utilized	3,730,692	—	3,730,692	2,792,215
Net assets released from restriction	879,928	(879,928)	0	0
Total operating revenues and other support	53,540,660	(818,423)	52,722,237	61,844,458
Less donated attendance fees	724,856	0	724,856	979,122
Net operating revenues and other support	52,815,804	(818,423)	51,997,381	60,865,336
Operating expenses:				
Program services	46,231,863	—	46,231,863	51,835,396
Supporting services	10,266,644	—	10,266,644	8,875,265
Total operating expenses	56,498,507	—	56,498,507	60,710,661
Decrease (increase) in net assets from operations	(3,682,703)	(818,423)	(4,501,126)	154,675
Nonoperating activities:				
Net investment return	(362,298)	20,867	(341,431)	5,545,260
Endowment return utilized in operations	(3,730,692)	—	(3,730,692)	(2,792,215)
Total nonoperating activities	(4,092,990)	20,867	(4,072,123)	2,753,045
Decrease (increase) in net assets	(7,775,693)	(797,556)	(8,573,249)	2,907,720
Net assets, beginning of year	101,160,873	1,523,735	102,684,608	99,776,888
Net assets, end of year	$ 93,385,180	726,179	94,111,359	102,684,608

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statement of Activities

Year ended April 30, 2019

	Net assets without donor restrictions	Net assets with donor restrictions	Total 2019
Operating revenues and other support:			
Grant income	$ 16,051,551	—	16,051,551
Contract services	20,699,036	—	20,699,036
Participation, meeting and conference fees	16,376,323	—	16,376,323
Contributions	16,986	389,265	406,251
Membership dues	3,690,266	—	3,690,266
Other	1,828,816	—	1,828,816
Endowment return utilized	2,792,215	—	2,792,215
Net assets released from restriction	879,952	(879,952)	—
Total operating revenues and other support	62,335,145	(490,687)	61,844,458
Less donated attendance fees	979,122	—	979,122
Net operating revenues and other support	61,356,023	(490,687)	60,865,336
Operating expenses:			
Program services	51,835,396	—	51,835,396
Supporting services	8,875,265	—	8,875,265
Total operating expenses	60,710,661	—	60,710,661
Increase (decrease) in net assets from operations	645,362	(490,687)	154,675
Nonoperating activities:			
Net investment return	5,510,454	34,806	5,545,260
Endowment return utilized in operations	(2,792,215)	—	(2,792,215)
Total nonoperating activities	2,718,239	34,806	2,753,045
Increase (decrease) in net assets	3,363,601	(455,881)	2,907,720
Net assets, beginning of year	97,833,728	1,943,160	99,776,888
Net assets, end of year	$ 101,197,329	1,487,279	102,684,608

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statement of Functional Expenses (With Comparative Information)

Year ended April 30, 2020

	Courses and other programs	Grants	Strategic partners and contracts	National forum	Innovation	Total program services	Supporting services	Total 2020 operating expenses	Total 2019 operating expenses
Salaries, payroll taxes and fringe benefits	$ 7,445,887	7,242,515	5,741,896	1,490,821	857,553	22,778,672	7,850,587	30,629,259	30,467,627
Consulting	1,275,142	2,275,163	2,549,997	104,989	157,200	6,362,490	347,364	6,709,854	8,610,961
Meetings	1,501,764	305,325	457,827	2,244,945	2,990	4,512,852	102,674	4,615,526	4,796,716
Grants	30,071	882,971	—	—	—	913,042	21,996	935,038	1,155,867
Travel and lodging	666,777	544,981	1,104,444	483,746	2,233	2,802,181	227,085	3,029,266	4,512,299
Occupancy/office related	738,599	706,374	544,025	245,570	55,490	2,290,059	569,934	2,859,993	2,407,173
Technology	450,197	352,927	239,688	148,575	25,193	1,216,580	303,856	1,520,436	1,620,610
Depreciation and amortization	240,464	221,706	188,384	89,285	19,108	758,947	168,538	927,485	1,097,473
Marketing	215,406	11,894	9,710	382,148	103	619,261	136,266	755,527	981,022
Professional fees	1,948,451	592,545	536,077	175,561	35,848	3,288,482	450,676	3,739,158	4,007,566
Miscellaneous expense	135,307	369,018	103,531	73,204	8,238	689,298	87,667	776,965	1,053,347
Total functional expenses	$ 14,648,065	13,505,419	11,475,580	5,438,845	1,163,955	46,231,863	10,266,644	56,498,507	60,710,661

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statement of Functional Expenses

Year ended April 30, 2019

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

See accompanying notes to financial statements.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Statements of Cash Flows

Years ended April 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Decrease in net assets	$	(8,573,249)	2,907,721
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Net unrealized and realized (gains) losses on investments		2,513,367	(3,362,601)
Depreciation and amortization		927,485	1,097,473
Changes in assets and liabilities:			
Accounts receivable, net		5,629,469	(2,645,137)
Other current assets		(88,868)	1,001,887
Accounts payable and accrued expenses		(2,184,270)	(599,886)
Deferred revenue		(113,028)	405,988
Refundable advances-customers		3,473,711	(3,511,175)
Refundable Advance- Paycheck Protection Plan		3,281,766	—
Deferred compensation		(199,219)	279,102
Deferred rent		(48,689)	1,167,092
Net cash provided by (used in) operating activities		4,618,475	(3,259,536)
Cash flows from investing activities:			
Proceeds from sales of investments		5,196,753	15,781,375
Purchases of investments		(2,082,479)	(15,055,147)
Additions to property and equipment		(1,174,378)	(403,754)
Net cash provided by investing activities		1,939,896	322,474
Cash flows from financing activities			
Drawdown on line of credit		2,000,000	—
Repayments on line of credit		(2,000,000)	—
Net cash provided by financing activities		—	—
Net increase (decrease) in cash and cash equivalents		6,558,371	(2,937,062)
Cash and cash equivalents, beginning of year		21,391,819	24,328,881
Cash and cash equivalents, end of year	$	27,950,190	21,391,819

See accompanying notes to financial statements.

(1) Organization

For more than 25 years, Institute for Healthcare Improvement (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, have continued since the merger. The Certified Professional in Patient Safety credentialing program continues and is overseen by the Certification Board for Professionals in Patient Safety.

IHI.org (www.ihi.org) is the online authority for anyone, anywhere whose aim is to improve health and health care. With more than 9,517 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 219,000 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 newsletters to constituents in Africa and Latin America. WIHI is a free online "talk show" and podcast program from IHI reaching over 355,139 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:

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:

Regionally Based Projects

- *Africa Region*
  The Bill and Melinda Gates Foundation continued to provide substantial support: reduction of neonatal and maternal mortality in Ethiopia; scale up of tuberculosis care in South Africa; and bringing to conclusion our work in Ghana on institutionalizing quality improvement in health systems. The Margaret A. Cargill Philanthropies also lent significant support to the work in Ethiopia. Several new projects in Fiscal Year 2020 were funded by USAID including building quality improvement capacity in Mozambique.

- *Middle East/Asia Pacific Region*
  Hamad Medical Corporation (Qatar) remained IHI's largest funded in the region, followed by a new strategic partnership with Safer Care Victoria (Australia). IHI continued working on a multi-year grant-funded project in collaboration with Save the Children and funded by USAID to improve maternal and newborn care in Bangladesh.

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

  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 the end of calendar 2020.

  Scaling Implementation of Obstetric Safety Bundles in the US

  – 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 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.

  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 the end of calendar 2020. 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.

- *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. In Fiscal Year 2020, IHI also embarked on work in Mexico with the St. Jude health system to improve care of pediatric cancer patients.

- *Europe:*
  IHI maintains a vibrant portfolio of leadership and improvement-focused work with a range of health trusts within the English National Health Service. Additional UK-based work is occurring in Scotland, Wales, and Northern Ireland. Smaller amounts of project work are occurring in Denmark and Sweden.

(Continued)

Strategic Partners and Contracts

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

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 programs 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, 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;

(Continued)

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.

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.

IHI Virtual Trainings

- IHI offers a variety of virtual training opportunities for anyone who wants to improve health and health care.

Other IHI Initiatives

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.

Certification Program for Professionals in Patient Safety

- Credential to recognize expertise in patient safety. In addition to the exam, interested participants can obtain information about the exam, practice tests, self-paced and synchronous review courses.

The Conversation Project

- Providing guidance to health professionals and laypeople alike on how to articulate and express ones preferences for care and support at the end of life, or during serious illness.

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.

COVID-19

- In March 2020, the broader US economy was affected by the COVID-19 pandemic. The ultimate impact on the Institute's operations cannot be determined; although the Institute continues to experience lower volumes of revenue as a result. The US financial markets have also suffered as a result of the COVID-19 pandemic, resulting in negative changes in fair value of financial investments held as of April 30, 2020.

(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.

(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) Statement of Activities

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(c) Revenue Recognition

Revenue from Contracts with Customers

Effective May 1, 2019 with the adoption of the Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*.

The Institute recognizes revenue when it satisfies performance obligations under the terms of its contracts in an amount that reflects the consideration the Institute expects to receive from its customers in exchange for those services. This process involves identifying the customer contract, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in the contract when it (a) provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and (b) is separately identified in the contract. The Institute considers a performance obligation to be satisfied once it has provided the service specified in the contract.

Contracts with customers generally state the terms of the sales. Payment terms and conditions may vary by contract; although terms generally include a requirement of payment within a range of 30 to 60 days after the performance obligation has been satisfied. As a result, the contracts do not include a significant financing component. Due to the nature of the Institute's billing arrangements, IHI has no contract assets or liabilities. In addition, contracts typically do not contain variable consideration as contracts include stated prices.

Prior to the adoption of ASC 606, the Institute recognized revenue when services were performed, collection of the relevant receivable was probable, persuasive evidence of an arrangement existed, and the sales price was fixed and determinable.

Contributions

Effective May 1, 2019 with the adoption of Accounting Standards Update (ASU) No. 2018-18, *Not-for-Profit Entities (Topic 958)-Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* Contributions are either conditional or unconditional based on the agreement terms. A contribution is considered conditional if the award contains both a specific barrier that must be overcome for the Institute to be entitled to the funds and a right-of-return to the grantor's obligation to provide the promised funds. If both conditions are not present, the award is unconditional. An unconditional contribution is recognized as either without donor restriction or with donor restriction, based on the terms of the gift. Contracts that include both a barrier and a right-of-return (or right of release) are considered conditional contributions and revenue is recognized once the conditions are met. Indirect costs related to certain grants and contracts are reimbursed at negotiated rates.

(d) 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.

(e) 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.

(f) 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 $248,981 and $179,900 as of April 30, 2020 and 2019, respectively.

(g) 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.

(h) 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.

(i) Software

Cloud based software that is purchased as a service, without a license to the software, is expensed as incurred. 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.

(j) 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.

(k) Refundable Advances

Customer 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.

Paycheck Protection Plan

On April 22, 2020, the Institute received loan proceeds in the amount of $3,990,800 under the Paycheck Protection Plan (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the business uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during period the funds are being used. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. The Institute intends to use the proceeds for purposes consistent with the PPP. Payments received are recognized as revenue when the conditions are met. As of April 30, 2020, the Institute has recognized approximately $709,000 in revenue, which is included in grants income in the accompanying statement of activities.

(l) 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 nets 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 Year 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.

(m) 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.

(n) 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, 2020 and 2019, that the Institute did not have any liabilities for any uncertain tax positions.

(3) Grants Receivable

Grants receivable, which is included in accounts receivable, net in the accompanying statements of financial position, totaled $945,585 and $1,871,968 as of April 30, 2020 and 2019, respectively. All grants receivable are due within one year.

(Continued)

(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 $635,000 and $2,660,000 due from a single customer as of April 30, 2020 and 2019, 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;

- 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, 2020, and 2019, 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, 2020 and 2019, as well as related strategy. All holdings are Level 1 and may be liquidated on a daily basis.

		2020	2019
International stock	$	24,548,755	25,652,389
Bond market index funds		21,843,975	25,281,364
Stock market index		30,257,304	31,339,898
Bond funds		212,762	199,867
Equity mutual funds		1,164,187	1,181,106
	$	78,026,983	83,654,624

The Institute has no investments classified in Level 3 for the years ended April 30, 2020 and 2019. There were no transfers of investments between Level 1 and Level 2 during the years ended April 30, 2020 and 2019.

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

		2020	2019
Investment income	$	2,231,665	2,257,634
Net realized gains		980,695	3,268,396
Net change in unrealized appreciation		(3,494,062)	94,274
		(281,702)	5,620,304
Less management fees		59,729	75,044
Total investment returns	$	(341,431)	5,545,260

(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, 2020 and 2019 are as follows:

		2020	2019
Beginning balance	$	82,971,153	80,510,629
Investment return:			
Investment income, net		1,933,474	1,874,714
Net unrealized and realized gains on investment		(2,419,992)	3,378,025
Total return		(486,518)	5,252,739
Endowment return utilized in operations		(3,730,692)	(2,792,215)
Ending balance of endowment	$	78,753,943	82,971,153

(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.

(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 $3,730,692 and $2,792,215 for the years ended April 30, 2020 and 2019, 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, 2020 and 2019 have been restricted by donors for the following purposes:

		2020	2019
Kaiser Permanente Fund	$	488,395	847,441
Denham Fellowship		52,345	52,345
Other		185,439	623,949
	$	726,179	1,523,735

As of April 30, 2020 and 2019, respectively, cash and cash equivalents include $908,231 and $1,482,265, and investments includes $0 and $0, 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 2020 and 2019 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, 2020 and 2019 of $879,928 and $843,496, 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 2020 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, 2020, 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		13,748,705
Minimum lease payments	$	25,569,524

Rent expense under these leases was $2,196,993 and $1,741,083 for each of the years ended April 30, 2020 and 2019, 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 $367,000 and $333,000 for the years ended April 30, 2020 and 2019, 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, 2020 and 2019 related to the capital accumulation accounts was approximately $30,132 and $560,000, respectively. The capital accumulation accounts investments are invested with the Institute's investments. As of April 30, 2020 and 2019, the related deferred compensation liability was approximately $1,584,000 and $1,783,000, respectively.

(10) Line of Credit

On December 9, 2019, IHI renewed a $3,000,000 revolving line of credit agreement with Citizens Bank including borrowing capacity of $5,588,000 to be used for working capital purposes and for providing a performance bond as required under specific service contracts. The agreement is subject to an annual credit check. The loan bears a variable interest rate of 2.25% plus LIBOR which equated to 2.57963% as of April 30, 2020. Funds in the amount of $2,000,000 and $0 were advanced to IHI during the years ended April 30, 2020 and 2019, respectively. The $2,000,000 was paid back on April 30, 2020.

(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) Letter of Credit – Performance Bond

As of December 9, 2019, the performance bond is now pledged against the IHI line of credit as described above. The deposit account was released as collateral and utilized for general operating purposes.

(11) Related Party Transactions

Following is a summary of related party transactions during the years ended April 30, 2020 and 2019:

		2020	2019
The Institute paid an organization that employs a Board member of the Institute for services rendered on various projects.	$	308,333	325,000
The Institute earned revenues from an organization which employs a Board member of the Institute.		354,846	191,500
The Institute has receivables from an organization which employs a Board member of the Institute.		27,544	27,829

(12) Financial Assets and Liquidity Resources

As of April 30, 2020, 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	$	27,950,190
Accounts receivable, net		4,256,800
Receivables due for costs incurred on grants and contracts		945,585
Total financial assets available within one year		33,152,575
Liquidity resources:		
Bank line of credit		5,588,000
Total financial assets and liquidity resources available within one year	$	38,740,575

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, 2020. The Institute has $79 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.

(13) Subsequent Events

Management has evaluated subsequent events through October 13, 2020, the date on which the financial statements were available for issuance.

SUPPLEMENTARY INFORMATION

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Supplementary Schedule of Expenditures of Federal Awards

Year ended April 30, 2020

Federal grantor/pass-through grantor	Program title	Federal CFDA number	Pass-through entity identification number	Passed through to subrecipients	2020 expenditures
Research and Development Cluster:					
U.S. Department of Health and Human Services:					
Health Resources and Services Administration:					
Pass-through awards:					
Educational Development Center	Home Visiting Collaboration Improvement and Innovation Network	93.110	UFAMC26525	$ —	28,982
	Total Health Resources and Services Administration			—	28,982
USAID:					
Pass-through awards:					
Abt Associates, Inc.	USAID/Ethiopia Health Financing Improvement Program	98.001	72066319CA00001		169,631
Save the Children	MaMoni – Maternal and Newborn Care Strengthening Project – Bangladesh	98.001	72038818CA00002		962,230
	Momentum 2A	98.001	7200AA20CA00002		50,504
University Research Company, LLC	Applying Science to Strengthen and Improvement Systems	98.001	AID-OAA-A-12-00101		47,733
	Total USAID			—	1,230,098
Total Expenditures of Federal Awards				$ —	1,259,080

See accompanying independent auditors' report and notes to supplementary schedule of expenditures of federal awards.

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Notes to Supplementary Schedule of Expenditures of Federal Awards

April 30, 2020

(1) Reporting Entity

The accompanying Supplementary Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of Institute for Healthcare Improvement, Inc. (the Institute), as described in note 1 to the basic financial statements.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule has been prepared using the accrual basis of accounting and in accordance Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The purpose of the Schedule is to present a summary of those activities of the Institute for the year ended April 30, 2020, which have been financed by the U.S. Government (federal awards). For purposes of the Schedule, federal awards include all federal assistance entered into directly between the federal government and the Institute and federal funds awarded to the Institute by a primary recipient. Because the Schedule presents only a selected portion of the activities of the Institute, it is not intended to and does not present the consolidated financial position, results of operation, changes in net assets, and cash flows of the Institute.

(3) Summary of Facilities and Administrative Costs

The Institute recovers facilities and administrative costs (indirect costs) associated with expenditures pursuant to arrangements with the federal government. During fiscal year 2020, the Institute was awarded a provisional rate of 45.2% for the year ended April 30, 2020, based on modified total direct costs, for its research and development grant expenditures. The Institute has elected not to use the 10-percent de minimis indirect cost rate under the Uniform Guidance.

(4) Subrecipient Awards

The Institute did not pass through any Federal Awards to subrecipient organizations during the year ended April 30, 2020.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Institute for Healthcare Improvement, Inc. (the Institute), which comprise the statement of financial position as of April 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon October 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Institute's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Institute's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts
October 13, 2020

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**Independent Auditors' Report on Compliance for Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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

Report on Compliance for Major Federal Program

We have audited Institute for Healthcare Improvement, Inc.'s (the Institute) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Institute's major federal program for the year ended April 30, 2020. The Institute's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance*). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2020.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Institute for Healthcare Improvement, Inc. as of and for the year ended April 30, 2020, and have issued our report thereon dated October 13, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Boston, Massachusetts
October 13, 2020

INSTITUTE FOR HEALTHCARE IMPROVEMENT, INC.

Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether financial statements were prepared in accordance with U.S. GAAP: Unmodified

Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weakness(es) identified? _____ yes __X__ no

Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes __X__ none reported

Noncompliance material to the financial statements noted? _____ yes __X__ no

Federal Awards

Internal control deficiencies over major program:

- Material weakness(es) identified? _____ yes __X__ no
- Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes __X__ none reported

Type of auditors' report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of The Uniform Guidance? _____ yes __X__ no

Identification of Major Program

Name of federal program or cluster	CFDA No.
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? _____ yes __X__ no

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

(3) Federal Award Findings and Questioned Costs

None noted**.**