



Report of Independent Auditors and
Financial Statements for

**Patient Safety Movement
Foundation**

March 31, 2017 and 2016

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Patient Safety Movement Foundation

Report on Financial Statements

We have audited the accompanying financial statements of Patient Safety Movement Foundation, which comprise the statements of financial position as of March 31, 2017 and 2016, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 audits 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 auditor's 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

MOSS ADAMS_{LLP}

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Patient Safety Movement Foundation as of March 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
August 23, 2017

PATIENT SAFETY MOVEMENT FOUNDATION
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 594,044	\$ 779,553
Sponsorships receivable	-	135,000
Prepaid expenses	26,980	26,980
Total assets	\$ 621,024	\$ 941,533
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 77,444	\$ 211,607
Total liabilities	77,444	211,607
Net Assets		
Net assets, unrestricted	543,580	729,926
Total liabilities and net assets	\$ 621,024	\$ 941,533

PATIENT SAFETY MOVEMENT FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED MARCH 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED REVENUES AND SUPPORT		
Contributions	\$ 2,066,249	\$ 2,862,220
Conference and other income	339,643	344,545
In-kind contributions	192,105	90,000
Total revenues and support	<u>2,597,997</u>	<u>3,296,765</u>
EXPENSES		
Program:		
Conference	2,204,761	1,558,046
Other	283,835	643,038
Management and general	295,747	162,658
Total expenses	<u>2,784,343</u>	<u>2,363,742</u>
CHANGE IN UNRESTRICTED NET ASSETS	(186,346)	933,023
UNRESTRICTED NET ASSETS (DEFICIT)		
Beginning of year	<u>729,926</u>	<u>(203,097)</u>
End of year	<u>\$ 543,580</u>	<u>\$ 729,926</u>

**PATIENT SAFETY MOVEMENT FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED MARCH 31, 2017 AND 2016**

	Years Ended March 31,							
	2017				2016			
	Conference	Other Programs	Management and General	Total	Conference	Other Programs	Management and General	Total
Production expense	\$ 815,896	\$ 7,019	\$ 2,991	\$ 825,906	\$ 625,229	\$ -	\$ -	\$ 625,229
Venue	476,382	-	-	476,382	302,850	-	-	302,850
Travel	375,942	69,916	-	445,858	195,993	81,123	-	277,116
Publicity	55,424	173,173	-	228,597	71,559	293,237	7,230	372,026
Payroll and benefits	63,238	104,835	26,703	194,776	94,974	139,362	43,165	277,501
In-kind contributions	183,505	-	8,600	192,105	70,829	-	19,171	90,000
Website	-	-	148,936	148,936	-	-	24,702	24,702
Grants	85,000	-	-	85,000	85,000	-	-	85,000
Supplies	74,635	372	873	75,880	61,969	-	13,881	75,850
Outside contract services	-	69,330	5,631	74,961	-	116,405	4,560	120,965
Conference, convention, and meetings	44,012	15,414	-	59,426	10,350	11,211	-	21,561
Other	14,558	2,623	33,207	50,388	3,531	1,700	13,097	18,328
Printing	7,339	852	36,183	44,374	10,550	-	1,817	12,367
Accounting fees	-	-	16,750	16,750	-	-	15,000	15,000
Legal	-	-	9,581	9,581	-	-	6,729	6,729
Entertainment	6,637	-	-	6,637	7,098	-	-	7,098
Management fees	-	-	6,000	6,000	-	-	8,000	8,000
Consulting	1,800	-	-	1,800	5,971	-	-	5,971
Meals	393	21	292	706	12,143	-	5,306	17,449
Insurance Reimbursement	-	(159,720)	-	(159,720)	-	-	-	-
Total expenses	\$ 2,204,761	\$ 283,835	\$ 295,747	\$ 2,784,343	\$ 1,558,046	\$ 643,038	\$ 162,658	\$ 2,363,742

See accompanying notes.

PATIENT SAFETY MOVEMENT FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2017 AND 2016

	Years Ended March 31,	
	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ (186,346)	\$ 933,023
Reconciliation to net cash from operating activities:		
Decrease (increase) in operating assets:		
Sponsorships receivable	135,000	(135,000)
Prepaid expenses	-	(1,980)
(Decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(134,163)	(256,868)
Net cash provided by (used in) operating activities	<u>837</u>	<u>(393,848)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(185,509)	539,175
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>779,553</u>	<u>240,378</u>
End of year	<u>\$ 594,044</u>	<u>\$ 779,553</u>

PATIENT SAFETY MOVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Operations

The Patient Safety Movement Foundation (the "Foundation") was established on April 30, 2013, as a Delaware nonprofit corporation. The Foundation was established to connect hospitals, medical device companies, and other medical technology companies to confront the large scale problem of over 200,000 preventable patient deaths in U.S. hospitals each year. The goal is to develop a platform of companies and hospitals – all working together to create actionable ideas and innovations that can transform the process of care, dramatically improve patient safety and ultimately, get to zero preventable deaths by 2020.

Income tax status – The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundation is recognized by the Franchise Tax Board as having tax exempt status under Section 23701(d) of the California Revenue and Taxation Code. The Foundation had no unrecognized tax benefits or liabilities as of March 31, 2017 and 2016.

Note 2 - Significant Accounting Policies

Financial statement presentation – The financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and activities are presented as unrestricted, temporarily restricted, and permanently restricted based on related donor restrictions or lack of such restrictions. As of March 31, 2017 and 2016, there were no temporarily or permanently restricted net assets.

The costs of providing program services and other activities are summarized on a functional expense basis in the statements of activities.

Cash and cash equivalents – The Foundation considers all short-term investments with a maturity from date of purchase of 90 days or less to be cash equivalents.

Sponsorships receivable – Sponsorships receivable are generally expected to be collected in less than one year. Management evaluates the need for an allowance. There was no allowance for sponsorships receivable at March 31, 2017.

Concentration of credit risk – At times, the cash balances exceed the federally insured limits. No losses have been experienced related to cash in such accounts.

Concentration of support and sponsorships receivable – For the years ended March 31, 2017 and 2016, contributions from one donor accounted for 77 and 86 percent, respectively, of total support. For the year ended March 31, 2017, there were no receivables outstanding. As of March 31, 2016, a receivable from a related party accounted for 74 percent of the total sponsorships receivable.

PATIENT SAFETY MOVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 – Significant Accounting Policies (continued)

Revenue recognition:

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are either reported as temporarily or permanently restricted, depending on the nature of the donor’s restriction. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions with donor restrictions which are met in the same reporting period are reported as unrestricted revenue.

Conference income – Conference income is recognized at the time of the related event. Conference income includes sponsorships and entrance fees paid by attendees.

In-kind contributions – In-kind contributions include contributed rent and contributed services. Contributed rent is reflected for space provided to the Foundation as an in-kind donation. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets; or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. The Foundation records in-kind contributions at their fair value based on the estimated costs incurred by the contributor.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. There was no impact on net assets.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements – In August 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU 2014-15 defines management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. The guidance in ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016. The Foundation adopted this ASU in 2016 and the impact on the financial disclosures as a result of the adoption was not material.

PATIENT SAFETY MOVEMENT FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are issued. The Foundation recognizes in the financial statements the effects of all significant subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date, and before the financial statements are available to be issued.

The Foundation has evaluated subsequent events through August 23, 2017, which is the date the financial statements were available to be issued.

Note 3 - Related Party-Transactions

The Foundation's Chairman is also the Chairman of its sister foundation, the Masimo Foundation for Ethics, Innovation and Competition in Healthcare. The Foundation received contributions from the Masimo Foundation for Ethics, Innovation, and Competition in Healthcare of \$0 and \$2,850,000 for the years ended March 31, 2017 and 2016, respectively. In addition, the Foundation recorded conference revenue in the form of sponsorships from the Masimo Corporation, whom the Foundation's Chairman is also an owner of, totaling \$100,821 and \$100,000 for the years ended March 31, 2017 and 2016, respectively. Further, the Foundation's Chairman is also the Chairman of Cercacor Laboratories, Inc., and the Foundation received contributions from Cercacor Laboratories, Inc. in the amount of \$25,000 for the year ended March 31, 2017.

The Masimo Corporation provided in-kind personnel services and office space to the Foundation valued at \$114,600 and \$90,000 for the years ended March 31, 2017 and 2016, respectively. The services are included in conference, convention, and meeting expenses and management fees in the statements of functional expenses.