# THE JOINT COMMISSION ON ACCREDITATION OF HEALTHCARE ORGANIZATIONS AND AFFILIATES

Consolidated Financial Statements and Supplemental Schedules

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

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## Independent Auditors' Report

To the Board of Commissioners
The Joint Commission on Accreditation of
Healthcare Organizations:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Joint Commission on Accreditation of Healthcare Organizations and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Joint Commission on Accreditation of Healthcare Organizations and Affiliates as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member
firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

*Other Matter*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedule of statement of financial position information and the consolidating schedule of statement of activities information – unrestricted net assets are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Chicago, Illinois
April 17, 2018

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidated Statements of Financial Position

December 31, 2017 and 2016

| Assets | | 2017 | 2016 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 36,674,607 | 33,730,307 |
| Accounts receivable – net of allowance for doubtful accounts of $440,435 and $293,710 in 2017 and 2016, respectively | | 18,468,413 | 17,260,223 |
| Inventory – net | | 265,241 | 286,565 |
| Prepaid expenses | | 4,775,923 | 4,055,665 |
| Total current assets | | 60,184,184 | 55,332,760 |
| Investments | | 190,212,921 | 167,057,818 |
| Endowment investments | | 42,603,462 | 40,068,913 |
| Property and equipment: | | | |
| Land | | 4,204,400 | 4,204,400 |
| Building | | 45,154,328 | 45,177,343 |
| Leasehold improvements, office systems, furniture, and equipment | | 54,489,188 | 50,776,513 |
| Total property and equipment | | 103,847,916 | 100,158,256 |
| Less accumulated depreciation and amortization | | (60,756,650) | (54,269,852) |
| Total property and equipment – net | | 43,091,266 | 45,888,404 |
| Total assets | $ | 336,091,833 | 308,347,895 |
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Current maturity of notes payable, net | $ | 4,393,642 | 4,145,000 |
| Accounts payable | | 10,151,172 | 9,147,377 |
| Accrued expenses: | | | |
| Compensation and benefits | | 9,312,744 | 9,159,869 |
| Other expenses | | 1,124,069 | 1,820,859 |
| Deferred revenue: | | | |
| Accreditation fees and deposits | | 4,213,404 | 4,395,256 |
| Publications, educational programs, and other advances | | 6,586,922 | 6,563,820 |
| Current portion of fair value of hedge – interest rate swap | | 48,953 | — |
| Current portion of accrued pension and postretirement benefits | | 1,574,000 | 364,000 |
| Other current liabilities | | 5,192 | — |
| Total current liabilities | | 37,410,098 | 35,596,181 |
| Noncurrent liabilities: | | | |
| Notes payable – less current maturity and unamortized debt issuance costs of $169,039 and $238,419 in 2017 and 2016, respectively | | 12,680,961 | 17,016,581 |
| Accrued pension and postretirement benefits | | 9,316,086 | 13,621,999 |
| Fair value of hedge – interest rate swap | | — | 195,535 |
| Other noncurrent liabilities | | — | 21,347 |
| Total noncurrent liabilities | | 21,997,047 | 30,855,462 |
| Total liabilities | | 59,407,145 | 66,451,643 |
| Net assets: | | | |
| Unrestricted net assets: | | | |
| Board-designated funds functioning as endowment | | 30,749,502 | 29,181,011 |
| Unrestricted | | 235,265,570 | 202,289,846 |
| Temporarily restricted net assets | | 244,221 | — |
| Permanently restricted net assets – endowment | | 10,425,395 | 10,425,395 |
| Total net assets | | 276,684,688 | 241,896,252 |
| Total liabilities and net assets | $ | 336,091,833 | 308,347,895 |

See accompanying notes to consolidated financial statements.

**THE JOINT COMMISSION ON ACCREDITATION
OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidated Statement of Activities

Year ended December 31, 2017

| | 2017 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Revenue and other support: | | | | |
| Annual accreditation subscription fees | $ 78,667,689 | — | — | 78,667,689 |
| On-site survey fees | 92,087,298 | — | — | 92,087,298 |
| Publications and multimedia | 17,756,937 | — | — | 17,756,937 |
| Educational programs | 7,650,729 | — | — | 7,650,729 |
| Consultative technical assistance | 15,919,647 | — | — | 15,919,647 |
| Continuous service readiness | 5,467,187 | — | — | 5,467,187 |
| Performance measurement activities | 3,411,945 | — | — | 3,411,945 |
| Other revenue | 6,509,202 | 1,730,149 | — | 8,239,351 |
| Net assets released from restrictions | 1,730,149 | (1,730,149) | — | — |
| Total revenue and other support | 229,200,783 | — | — | 229,200,783 |
| Expenses: | | | | |
| Salaries and benefits | 147,293,934 | — | — | 147,293,934 |
| Travel costs | 29,191,199 | — | — | 29,191,199 |
| Fees and services | 19,048,349 | — | — | 19,048,349 |
| Office expense | 7,738,261 | — | — | 7,738,261 |
| Publishing and printing | 2,515,161 | — | — | 2,515,161 |
| Depreciation and amortization | 6,746,218 | — | — | 6,746,218 |
| Other operating expenses | 9,760,729 | — | — | 9,760,729 |
| Total expenses | 222,293,851 | — | — | 222,293,851 |
| Excess of revenue and other support over expenses before investment income | 6,906,932 | — | — | 6,906,932 |
| Investment income | 12,872,633 | — | — | 12,872,633 |
| Excess of revenue and other support over expenses | 19,779,565 | — | — | 19,779,565 |
| Other changes in net assets: | | | | |
| Change in net unrealized investment gains and losses | 11,949,249 | 244,221 | — | 12,193,470 |
| Change in fair value of hedge – interest rate swap | 146,582 | — | — | 146,582 |
| Change in unrecognized net defined-benefit plan costs not yet recognized in net periodic benefit expense | 2,668,819 | — | — | 2,668,819 |
| Change in net assets | 34,544,215 | 244,221 | — | 34,788,436 |
| Net assets – beginning of year | 231,470,857 | — | 10,425,395 | 241,896,252 |
| Net assets – end of year | $ 266,015,072 | 244,221 | 10,425,395 | 276,684,688 |

See accompanying notes to consolidated financial statements.

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidated Statement of Activities

Year ended December 31, 2016

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Revenue and other support: | | | | |
| Annual accreditation subscription fees | $ 75,903,181 | — | — | 75,903,181 |
| On-site survey fees | 84,793,528 | — | — | 84,793,528 |
| Publications and multimedia | 16,509,289 | — | — | 16,509,289 |
| Educational programs | 7,220,650 | — | — | 7,220,650 |
| Consultative technical assistance | 15,423,669 | — | — | 15,423,669 |
| Continuous service readiness | 5,196,428 | — | — | 5,196,428 |
| Performance measurement activities | 3,548,360 | — | — | 3,548,360 |
| Other revenue | 5,391,921 | 1,209,160 | — | 6,601,081 |
| Net assets released from restrictions | 1,209,160 | (1,209,160) | — | — |
| Total revenue and other support | 215,196,186 | — | — | 215,196,186 |
| Expenses: | | | | |
| Salaries and benefits | 138,905,248 | — | — | 138,905,248 |
| Travel costs | 26,419,932 | — | — | 26,419,932 |
| Fees and services | 17,724,416 | — | — | 17,724,416 |
| Office expense | 7,436,758 | — | — | 7,436,758 |
| Publishing and printing | 2,185,490 | — | — | 2,185,490 |
| Depreciation and amortization | 6,187,411 | — | — | 6,187,411 |
| Other operating expenses | 9,053,895 | — | — | 9,053,895 |
| Total expenses | 207,913,150 | — | — | 207,913,150 |
| Excess of revenue and other support over expenses before investment income | 7,283,036 | — | — | 7,283,036 |
| Investment income | 6,400,663 | — | — | 6,400,663 |
| Excess of revenue and other support over expenses | 13,683,699 | — | — | 13,683,699 |
| Other changes in net assets: | | | | |
| Change in net unrealized investment gains and losses | 5,606,172 | — | — | 5,606,172 |
| Change in fair value of hedge – interest rate swap | 227,302 | — | — | 227,302 |
| Change in unrecognized net defined-benefit plan costs not yet recognized in net periodic benefit expense | 2,992,236 | — | — | 2,992,236 |
| Change in net assets | 22,509,409 | — | — | 22,509,409 |
| Net assets – beginning of year | 208,961,448 | — | 10,425,395 | 219,386,843 |
| Net assets – end of year | $ 231,470,857 | — | 10,425,395 | 241,896,252 |

See accompanying notes to consolidated financial statements.

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

| | | 2017 | 2016 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Change in net assets | $ | 34,788,436 | 22,509,409 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | |
| Realized investment gains, net | | (9,858,343) | (4,035,546) |
| Change in unrealized investment gains, net | | (12,193,470) | (5,606,172) |
| Change in fair value of hedge – interest rate swap | | (146,582) | (227,302) |
| Change in unrecognized net defined-benefit plan costs not yet recognized in net periodic benefit expense | | (2,668,819) | (2,992,236) |
| Depreciation and amortization | | 6,746,218 | 6,187,411 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | | (1,208,190) | (675,088) |
| Pledges receivable | | — | 300,000 |
| Accounts payable and accrued expenses | | 459,880 | (367,954) |
| Deferred revenue | | (158,750) | 109,839 |
| Accrued pension and postretirement benefits | | (427,094) | (659,783) |
| Other assets and liabilities | | (715,089) | 256,092 |
| Net cash provided by operating activities | | 14,618,197 | 14,798,670 |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (57,100,093) | (72,440,146) |
| Sales and maturities of investments | | 53,462,254 | 59,220,508 |
| Additions to property and equipment | | (3,891,058) | (14,769,956) |
| Net cash used in investing activities | | (7,528,897) | (27,989,594) |
| Cash flows from financing activities: | | | |
| Principal payments of notes payable | | (4,145,000) | (3,830,000) |
| Net cash used in financing activities | | (4,145,000) | (3,830,000) |
| Net increase (decrease) in cash and cash equivalents | | 2,944,300 | (17,020,924) |
| Cash and cash equivalents – beginning of year | | 33,730,307 | 50,751,231 |
| Cash and cash equivalents – end of year | $ | 36,674,607 | 33,730,307 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for interest | $ | 502,932 | 554,680 |
| Cash paid during the year for foreign income taxes | | 50,116 | 31,236 |

See accompanying notes to consolidated financial statements.

## (1) Nature of Organization and Summary of Significant Accounting Policies

### *(a) Nature of the Organization*

The Joint Commission on Accreditation of Healthcare Organizations (The Joint Commission) is a not-for-profit organization that seeks to continuously improve healthcare for the public, in collaboration with other stakeholders, by evaluating healthcare organizations and inspiring them to excel in providing safe and effective care of the highest quality and value. Together, annual accreditation subscription fees and on-site survey fees account for the largest portion of The Joint Commission's total revenue.

### *(b) Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of The Joint Commission and its wholly controlled affiliates, Joint Commission Resources, Inc. (JCR) and The Joint Commission Center for Transforming Healthcare (The Center). JCR is a not-for-profit organization that was established for the purpose of independently assisting healthcare organizations, in the United States and in the international community, to improve the safety and quality of their services. JCR accomplishes this objective through the provision of publications and periodicals, educational programs, consultative technical assistance, contracted evaluation services, subscription readiness services, and international accreditation. The Center, a not-for-profit organization, was established for the purpose of applying robust process improvement methods to transform healthcare into a high-reliability industry. The Center accomplishes this objective by developing and disseminating solutions to healthcare's most critical quality and safety problems through collaboration with healthcare organizations and facilitating their adoption. An additional controlled not-for-profit affiliate, JCAHO Surveyor and QHR Consultant Corporation, administers an employment program for The Joint Commission and is also included in the accompanying consolidated financial statements. All intercompany transactions and balances have been eliminated in the accompanying consolidated financial statements.

### *(c) Basis of Presentation*

The consolidated financial statements of The Joint Commission have been prepared on the accrual basis of accounting. The Joint Commission maintains its accounts in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by the donors.

These consolidated financial statements have been prepared to focus on The Joint Commission as a whole and to present balances and transactions classified according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances into three classes of net assets – unrestricted, temporarily restricted, and permanently restricted. Descriptions of the three net asset categories are as follows:

- *Unrestricted* – net assets that are not subject to donor-imposed restrictions. This category includes board-designated funds functioning as endowment, which represent funds that have been appropriated by the Board of Commissioners of The Joint Commission, the income from which is used in support of the purposes and mission of The Center.
- *Temporarily Restricted* – net assets subject to donor-imposed restrictions that will be met by actions of The Joint Commission or the passage of time.

- *Permanently Restricted* – net assets subject to donor-imposed restriction to be maintained in perpetuity by The Joint Commission. Permanently restricted net assets represent endowment funds received by The Center which must be maintained in perpetuity, the income from which is to be used in support of the purposes and mission of The Center.

Temporarily restricted and permanently restricted net assets consisted of the following at December 31, 2017 and 2016:

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | **Temporarily restricted** | **Permanently restricted** | **Temporarily restricted** | **Permanently restricted** |
| Detail of net assets: | | | | | |
| Endowment | $ | 244,221 | 10,425,395 | — | 10,425,395 |
| Total | $ | 244,221 | 10,425,395 | — | 10,425,395 |

### (d) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

### (e) *Cash and Cash Equivalents*

For purposes of reporting, all cash and investments with a maturity at the date of purchase of three months or less are considered cash and cash equivalents.

### (f) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based primarily on quoted market prices or observable market inputs in the accompanying consolidated statements of financial position. Investments in common and collective trust funds that invest in publicly traded securities are estimated at net asset value (NAV). The NAV reported for each investment is used as the practical expedient to estimate fair value of The Joint Commission's interest therein. Interest and dividend income and realized gains and losses on sales of investments are reported as investment income or loss, while unrealized gains (losses) are reported separately in the accompanying consolidated statements of activities as a component of other changes in net assets. Realized investment return on The Center's endowments is included as other revenue in the accompanying consolidated statements of activities. Long-term investments have maturities of more than one year as of the date of the consolidated statements of financial position.


(Continued)

### *(g) Publications Inventory*

Publications offered for sale or used in educational programs are stated at the lower of cost (first-in, first-out) or market, net of an allowance for excess and obsolete inventory, in the amount of approximately $19,000 and $16,000 at December 31, 2017 and 2016, respectively.

### *(h) Property and Equipment*

Property and equipment are stated at cost and are depreciated over their estimated useful lives using the straight-line method with a half year convention in first and last year, as follows:

| | |
|---|---|
| Building and building improvements | 20–40 years |
| Office systems, furniture, and equipment | 3–15 years |
| Leasehold improvements | Shorter of estimated useful life or lease term |

Betterments, improvements, and repairs that extend the useful life of an asset and exceed $1,000 are capitalized. Routine repairs and maintenance are expensed as incurred.

The Joint Commission reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Joint Commission did not recognize any impairment charges in either 2017 or 2016.

### *(i) System Development Costs*

The Joint Commission capitalizes certain costs of business systems developed or obtained for internal use. Such system development costs, which include external direct costs of materials and services and payroll costs for employees directly associated with system development projects, are amortized over a three-or five-year period using the straight-line method.

### *(j) Debt Issuance Costs*

Financing and other costs incurred in connection with the issuance of long-term debt are amortized over the life of the debt using the effective-interest method.

### *(k) Contributions*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted. Amounts required to be maintained in perpetuity by the donor are reported as permanently restricted net assets.



(Continued)

Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are not recognized until the conditions on which they depend are substantially met. A donor restriction expires when a time restriction ends or when the purpose for which it was intended is attained. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of activities as net assets released from restrictions.

***(l) Derivative Instruments and Hedging Activities***

The Joint Commission has a derivative financial instrument which is an interest rate swap, in which a counterparty agrees to make variable payments based on a market interest rate (index rate). The fair value of the swap is included in current liabilities for 2017 and noncurrent liabilities for 2016 in the accompanying consolidated statements of financial position. The Joint Commission entered into the interest rate swap to hedge its exposure to fluctuations of the variable rate interest payments that relate to The Joint Commission's outstanding variable rate debt. Management reports the change in the fair value of the swap as an other change in unrestricted net assets in the accompanying consolidated statements of activities.

***(m) Revenue***

All organizations agree to pay a fee in those years in which on-site surveys are conducted. On-site survey fees are recognized in the period when the on-site surveys are conducted. In addition, domestic organizations agree to pay an annual subscription fee for their participation in the ongoing services provided by The Joint Commission. Revenue from annual accreditation subscription fees is recognized ratably over the period to which the subscription fees relate. Management has determined that these services do not constitute separate units of accounting as they are part of a single contractual arrangement and cannot be sold separately or resold by the customer. Fees are based upon estimated costs to be incurred to provide services. Fees are nonrefundable and accreditation is not guaranteed.

Revenue from consultative technical assistance, educational programs, and continuous service readiness is recognized when the related services are provided. Revenue from the sale of publications is recognized when the related goods have been delivered and risk of loss has passed to the customer, persuasive evidence of an arrangement exists, the sales price is determinable, and collection of the related receivable is reasonably assured. Revenue from the sale of multimedia is recognized over the period to which the customer is granted access to the product. Advance collections and deposits are recorded as deferred revenue in the accompanying consolidated statements of financial position.

***(n) Income Taxes***

The Internal Revenue Service has determined that The Joint Commission and its affiliates are exempt from federal income taxation under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC). The Joint Commission and its affiliates are subject to income taxes on income determined to be unrelated business taxable income.

The Joint Commission continues to evaluate its tax positions pursuant to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall.* As of December 31, 2017 and December 31, 2016, The Joint Commission believes it has taken no significant uncertain tax positions.

JCR's Singapore branch is subject to Singapore taxes on its operations. As of December 31, 2017 and 2016, a tax liability of $63,912 and $45,542 have been recorded in other accrued expenses in the accompanying consolidated statements of financial position, respectively.

The Joint Commission and each of its affiliates have been classified as an organization that is not a private foundation under IRC Section 509(a) and may receive deductible contributions under Section 170(c). Both The Joint Commission and JCR are organizations that normally receive more than 33 1/3% of their support from contributions, membership fees, and gross receipts from activities related to its exempt functions and no more than 33 1/3% of its support from gross investment income and unrelated business taxable income under IRC Section 509(a)(2). JCAHO Surveyor and QHR Consultant Corporation is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purpose of The Joint Commission and JCR under IRC Section 509(a)(3), while The Center is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purpose of The Joint Commission under IRC Section 509(a)(3).

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Joint Commission has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the organization.

### *(o) Foreign Currency*

Transaction gains and losses resulting from settlements in foreign currency are recorded in the period in which the transaction occurs and are recorded as other revenue in the accompanying consolidated statements of activities. Net gains totaling $28,323 and net losses totaling $1,628 were recognized in 2017 and 2016, respectively.

### *(p) New Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard replaces substantially most existing revenue recognition guidance. The core principle is to recognize revenue upon the transfer of goods or services to customers at an amount that reflects the consideration expected to be received. Since its issuance, the FASB has amended several aspects of the new guidance, including provisions that address revenue recognition associated with the licensing of intellectual property and principal versus agent considerations. This guidance, including the amendments, is required to be adopted by not-for-profit organizations for annual periods beginning after December 15, 2018. Early application is permitted beginning with fiscal year 2018. The Joint Commission is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance establishes the principles that lessees and lessors shall apply to report useful information to users of the financial statements about the amount, timing, and uncertainty of cash flows arising from a lease for more transparency and comparability among organizations. The core principle of the new guidance is that a lessee should recognize the assets and liabilities that arise from leases. This guidance becomes effective for The Joint Commission for fiscal years beginning after December 15, 2019, with early adoption permitted. The Joint Commission is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard provides improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about not-for-profit's liquidity, financial performance, and cash flows. This guidance becomes effective for The Joint Commission for fiscal years beginning after December 15, 2017, with early adoption permitted. The Joint Commission is currently assessing the impact that the new guidance will have on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715)*. This guidance is primarily to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the statement of activities. The amendments require that the employer report the service cost component in the same financial statement line item as other current employee compensating costs. The other components of the net benefit cost are required to be presented separately from the service cost component in other changes in net assets on the statement of activities. This guidance becomes effective for The Joint Commission for fiscal years beginning after December 15, 2018, with early adoption permitted. The Joint Commission is evaluating the impact that ASU No. 2017-07 will have on its consolidated financial statements and related disclosures.

### *(q) Reclassifications*

Certain reclassifications have been made to the 2016 notes to the consolidated financial statements to conform to the 2017 presentations.

### *(r) Subsequent Events*

The Joint Commission has performed an evaluation of subsequent events through April 17, 2018, which is the date the financial statements were issued.

## (2) Notes Payable and Interest Rate Swap

In October 1988, The Joint Commission entered into a Financing Agreement (the Agreement) with the City of Elmhurst, Illinois (the City) to finance the acquisition of land and the construction and furnishing of a new office building, as well as costs The Joint Commission might incur in exiting existing long-term lease agreements and in moving its operations to the new facility. Pursuant to the Agreement, the City issued $37,000,000 of its tax-exempt Adjustable Demand Revenue Bonds and used the proceeds to purchase The Joint Commission's Adjustable Demand Note (the Note). The Joint Commission has occupied the office building since April 1990.

Under the terms of the Note, The Joint Commission is required to pay principal and interest in amounts sufficient to cover principal and interest on the bonds issued by the City. As security for the Note and to ensure the City's ability to meet the terms of its related bonds, The Joint Commission provided the City a direct pay letter of credit. In so doing, The Joint Commission agreed to pay the bank issuance fees as well as an annual fee on the unused portion of the letter of credit at a rate of 0.6% in 2017 and 2016. In August 2015, the letter of credit was extended through the maturity of the Note. The rate on the letter of credit was 0.4% through January 2016 and is 0.6% thereafter. At December 31, 2017, the letter of credit stood at $3,394,593.

The Joint Commission and JCR are jointly and severally liable for amounts due to the issuing letter of credit bank. As security for the letter of credit, The Joint Commission had granted the issuing bank a first mortgage and security interest in virtually all of The Joint Commission's assets. In August 2015, the mortgage was released by the bank and replaced by a negative pledge agreement whereby The Joint Commission and JCR agreed to not place any liens on its real property. Further, under the terms of the letter of credit agreement, The Joint Commission and JCR have agreed to meet various covenants on a consolidated basis, including maintenance of certain financial ratios and a minimum level of cash and investments.

Note redemption commenced on July 1, 1994 and will continue pursuant to the terms of the Agreement through maturity on July 1, 2018. Holders of the bonds have the right to put the bonds prior to maturity. The Joint Commission has an agreement with an underwriter to remarket any put bonds. In the event the agent is unable to remarket the bonds, the bonds become a demand note under the letter of credit with the same principal repayment terms as the Note. The Note is also subject to mandatory redemption upon expiration of the letter of credit unless a suitable alternative letter of credit is in place.

The annual maturity of the note is as follows:

| | | |
|---|---|---|
| 2018 | $ | 3,330,000 |
| Total | $ | 3,330,000 |

Interest on the Note is variable and subject to weekly adjustments that parallel fluctuations in the municipal bond market. The effective interest rate on the Note was 0.85% in 2017 and 0.42% in 2016. The interest rate for nonpayment of principal or interest is the prime rate plus 2.00%. Under certain conditions described in the Agreement, The Joint Commission may convert its interest rate on the Note to a fixed interest rate or a floating rate that changes less frequently than weekly.

The Joint Commission utilizes an interest rate swap agreement to reduce the risk associated with the weekly adjustment to the Note's interest rate. The interest rate swap agreement involves a declining notional amount that reflects two-thirds of the remaining principal balance of the Note. The following table summarizes the swap agreement terms in place and fair value during 2017 and 2016:

| | | | Fair value as of December 31 | |
|---|---|---|---|---|
| **Notional amount** | **Expiration** | **Fixed rate** | **2017** | **2016** |
| | | (In millions) | | |
| $6.2 to $2.2 | 2018 | 4.88% | $ (48,953) | (195,535) |

The Joint Commission makes monthly payments to a counterparty at a fixed rate of 4.88%, and in return, receives monthly payments based on 67% of a LIBOR index. Management continually monitors the credit rating of the counterparty, which is a large financial institution. Should nonperformance of the counterparty occur, interest costs would fluctuate with the weekly adjustable interest rate under the Note.

The fair value of the swap agreement is the estimated amount that The Joint Commission would have to pay to terminate the agreement as of the consolidated statements of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. The fair value of the swap is presented as a current liability for 2017 and a noncurrent liability for 2016 in the accompanying consolidated statements of financial position.

In August 2015, The Joint Commission entered into a Bond and Loan Agreement (the Bond Agreement) with the Illinois Finance Authority (the Authority) to finance a portion of the costs to renovate, remodel, and purchase new equipment for The Joint Commission headquarters building, as well as pay costs of issuance of the bonds. Pursuant to the Bond Agreement, the Authority issued a $16,000,000 tax-exempt Revenue Bond, Series 2015 (Joint Commission on Accreditation of Healthcare Organizations) (the Bond). The Bond was sold to one purchaser and the proceeds from this sale were loaned by the Authority to The Joint Commission.

Under the terms of the Bond Agreement, The Joint Commission is required to pay principal and interest. Principal payments are payable on August 1 of each year and are subject to any optional redemption, mandatory redemption, mandatory tender, or other prepayment of the Bond. The Bond matures on August 1, 2030. The Bond shall bear interest at the Bank Purchase Rate from the closing date to and including the earlier of the day preceding its redemption date, its prepayment date, and the maturity date. The initial Bank Purchase Rate is the fixed rate of 1.94% and shall be effective for the period August 25, 2015 through and including July 31, 2022.

The loan is a seven-year loan through July 31, 2022; however, the principal is paid annually based on a 15-year straight-line amortization schedule. At the end of seven years, The Joint Commission may retain the loan with the purchaser at a new interest rate and term, cause the Bond to be sold to a new purchaser, or purchase the loan itself. Under the terms of the loan, The Joint Commission has agreed to meet various covenants on a consolidated basis, including maintenance of certain financial ratios and a minimum level of cash and investments.

The annual maturities of the Bond are as follows:

| | | |
|---|---|---|
| 2018 | $ | 1,075,000 |
| 2019 | | 1,075,000 |
| 2020 | | 1,075,000 |
| 2021 | | 1,070,000 |
| 2022 | | 1,070,000 |
| 2023 through 2030 | | 8,560,000 |
| Total | $ | 13,925,000 |

Interest expense totaled $451,390 in 2017 and $555,268 in 2016, inclusive of interest rate swap monthly settlement payments of $119,176 and $211,405 in 2017 and 2016, respectively. Interest expense is included in other operating expenses in the accompanying consolidated statements of activities. The fair value of the interest rate swap decreased by $146,582 in 2017 and $227,302 in 2016. The change in the fair value of the interest rate swap is included in other changes in net assets in the accompanying consolidated statements of activities.

Long-term notes payable as of December 31, 2017 and 2016 consisted of the following:

| | | Principal | Unamortized debt issuance costs | Long-term note payable, net |
|---|---|---|---|---|
| December 31, 2017: | | | | |
| Series 2015 note payable, 1.94% fixed note | | 12,850,000 | 169,039 | 12,680,961 |
| Total | $ | 12,850,000 | 169,039 | 12,680,961 |
| December 31, 2016: | | | | |
| 1988 note payable, adjustable demand note | $ | 3,330,000 | 33,319 | 3,296,681 |
| Series 2015 note payable, 1.94% fixed note | | 13,925,000 | 205,100 | 13,719,900 |
| Total | $ | 17,255,000 | 238,419 | 17,016,581 |

## (3) Leases

The Joint Commission primarily leases office space, printers, and copiers under operating lease arrangements. Lease terms generally range from three to six years and contain renewal or purchase options. The Joint Commission also leases office space in Washington, DC. During 2004, in connection with the relocation of its headquarters, JCR entered into a 10 and one-half year operating lease for office space that includes a renewal option and scheduled rent increases. In late 2007, the agreement was expanded to include additional office space and extended the current lease through early 2019. Rent expense is recognized over the life of the lease using the straight-line method. There are no leases that contain restrictions on The Joint Commission’s ability to incur additional debt or engage in further leasing activities. JCR also leases office space in Dubai, Singapore, and Beijing. Obligations in foreign currency are reflected in U.S. dollars as of December 31, 2017. Such obligations are subject to foreign currency exchange risk.

Rent expense related to operating lease agreements was $1,727,578 in 2017 and $1,756,338 in 2016. Rent expense is recorded as other operating expenses in the accompanying consolidated statements of activities.

In the first quarter of 2018, The Joint Commission entered into new lease agreements for copiers and office space in Washington, DC. The obligations under these leases are reflected in the following table.

Obligations under operating leases having initial terms in excess of one year at current rates are as follows:

| | | |
|---|---|---|
| 2018 | $ | 1,650,903 |
| 2019 | | 384,971 |
| 2020 | | 442,703 |
| 2021 | | 446,410 |
| 2022 | | 453,798 |
| Thereafter | | 2,069,297 |
| Total | $ | 5,448,082 |

## (4) Investments

The following table summarizes the types of investments and total return on investments as of and for the years ended December 31, 2017 and 2016:

| | | 2017 | 2016 |
|---|---|---|---|
| Type of investments: | | | |
| Common and collective trust funds | $ | 39,912,503 | 34,068,445 |
| Corporate bonds and bond funds | | 88,125,768 | 82,167,150 |
| Common stock and stock funds | | 104,778,112 | 90,891,136 |
| Total investments | $ | 232,816,383 | 207,126,731 |
| Reported as: | | | |
| Investments | $ | 190,212,921 | 167,057,818 |
| Endowment investments | | 42,603,462 | 40,068,913 |
| Total investments | $ | 232,816,383 | 207,126,731 |
| Return on investments: | | | |
| Interest income and dividends | $ | 3,014,290 | 2,365,117 |
| Interest on endowment investments | | 1,068,913 | 846,772 |
| Realized gains on sale of investments, net | | 9,858,343 | 4,035,546 |
| Unrealized gains, net | | 12,193,470 | 5,606,172 |
| Total return on investments | $ | 26,135,016 | 12,853,607 |
| Reported as: | | | |
| Other revenue | $ | 1,068,913 | 846,772 |
| Investment income | | 12,872,633 | 6,400,663 |
| Net unrealized investment gains | | 12,193,470 | 5,606,172 |
| Total return on investments | $ | 26,135,016 | 12,853,607 |

## (5) Fair Value of Financial Instruments

The Joint Commission accounts for its financial instruments in accordance with the fair value disclosure requirements of U.S. generally accepted accounting principles, which requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels: quoted market prices in active markets for identical assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for an asset or liability (Level 3).

The Joint Commission's financial instruments, including cash equivalents, accounts receivable, accounts payable, accrued expenses, and deferred revenues, are carried at historical cost, which approximates their fair values because of the short-term nature of these instruments.

The following methods and assumptions are used to estimate the fair value of The Joint Commission's financial instruments:

*Cash equivalents* are money market funds carried at cost as an approximation of fair value.

*Corporate bond and bond funds and common stock and stock funds* are carried at fair value, based upon quoted market prices on nationally recognized securities exchanges (Level 1 inputs) or on quoted market prices of similar securities by relying on these securities' relationship to other benchmark quoted prices (Level 2 inputs). These techniques make use of assumptions that market participants would use in pricing the respective asset and may require some degree of judgment.

*Common and collective trust funds* that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1).

*Interest rate swap liability* is carried at the estimated fair value, based upon the good faith estimate of the mid-market value of the position, which is based on estimated or actual bids and offers for the position.

*Net asset value (NAV) investments* consist of the following:

- Common and collective trust fund – The fund consists of investments that are not readily marketable. The NAV reported for each investment is used as the practical expedient to estimate fair value of The Joint Commission's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. The values assigned to these investments are based upon available information including, but not limited to, original and subsequent transaction prices and third-party transactions. Under this approach, certain attributes for the investment, such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions, are not considered in measuring the fair value of an investment.
- Global long/short equity hedge fund – The hedge fund portfolio assets are valued based on observable data such as ongoing redemption and subscription activity in which the investment manager used published NAV to estimate fair value. The fund's other investments include limited liquidity investments, external third-party investment funds, and investment funds managed by the investment manager through segregated portfolio companies, which hold restricted securities and where less observable data are visible.



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- High income plus hedge (Master) fund – The fund records its investments at fair value and based on NAV per share of the Master fund. Credit default and interest rate swaps are valued using a vendor pricing and/or broker quoted prices. The fund values foreign currency options using vendor pricing. The fund values investments in securities for which there is no ready market at fair value as determined by the fund's investment manager. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment and involves significant estimates.

The Joint Commission's cash equivalents, investments, and interest rate swap liability are accounted for at December 31, 2017 and 2016 using the fair value hierarchy as shown in the following tables. The tables reflect the adoption of ASU No. 2015-07 – *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. In accordance with the ASC subtopic 820-10, certain investments that are measured at fair value using NAV per share, or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amount of investments presented in the consolidated statements of financial position.

| | | Fair value measurements at the end of December 31, 2017 | | | Total December 31, 2017 |
|---|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** | |
| Description: | | | | | |
| Cash equivalents | $ | — | 3,688,332 | — | 3,688,332 |
| Investments: | | | | | |
| Common and collective trust funds: | | | | | |
| Hedge funds | $ | 418,809 | — | — | 418,809 |
| Corporate bonds and bond funds: | | | | | |
| Fixed income bond funds | | 86,934,599 | 1,191,169 | — | 88,125,768 |

| | Fair value measurements at the end of December 31, 2017 | | | Total December 31, 2017 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Common stock and stock funds: | | | | |
| U.S. small-mid cap equity fund | $ 7,362,631 | — | — | 7,362,631 |
| U.S. large cap equity fund | 39,697,823 | — | — | 39,697,823 |
| Global equity funds | 28,337,894 | — | — | 28,337,894 |
| International equity funds | 29,379,764 | — | — | 29,379,764 |
| Investments in the fair value hierarchy | 192,131,520 | 1,191,169 | — | 193,322,689 |
| Investments measured at net asset value | | | | 39,493,694 |
| Total investments | $ 192,131,520 | 1,191,169 | — | 232,816,383 |
| Interest rate swap liability | $ — | 48,953 | — | 48,953 |

| | Fair value measurements at the end of December 31, 2016 | | | Total December 31, 2016 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | |
| Description: | | | | |
| Cash equivalents | $ — | 4,043,433 | — | 4,043,433 |
| Investments: | | | | |
| Common and collective trust funds: | | | | |
| Hedge funds | $ 337,452 | — | — | 337,452 |
| Corporate bonds and bond funds: | | | | |
| Fixed income bond funds | 81,142,512 | 1,024,638 | — | 82,167,150 |

| | Fair value measurements at the end of December 31, 2016 | | | Total December 31, |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | 2016 |
| Common stock and stock funds: | | | | |
| U.S. small-mid cap equity fund | $ 6,169,018 | — | — | 6,169,018 |
| U.S. large cap equity fund | 35,829,779 | — | — | 35,829,779 |
| U.S. mid cap equity fund | 116,565 | — | — | 116,565 |
| Global equity funds | 23,988,151 | — | — | 23,988,151 |
| International equity funds | 24,787,623 | — | — | 24,787,623 |
| Investments in the fair value hierarchy | 172,371,100 | 1,024,638 | — | 173,395,738 |
| Investments measured at net asset value | | | | 33,730,993 |
| Total investments | $ 172,371,100 | 1,024,638 | — | 207,126,731 |
| Interest rate swap liability | $ — | 195,535 | — | 195,535 |

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or change in circumstance that caused the transfer. During 2017 and 2016, there were no transfers between levels of the fair value hierarchy.

In accordance with the fair value measurements and disclosures guidance, the following table presents the category, fair value, redemption frequency, and redemption notice period for The Joint Commission investments, the fair values of which are estimated using the NAV per share as of December 31, 2017 and 2016. The Joint Commission has no open commitments related to the below investments.

| | 2017 | 2016 | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|
| Common and collective trust funds: | | | | |
| Long/short equity fund | $ 25,603,915 | 21,989,828 | Monthly | 90 days |
| Opportunistic fixed income fund | 6,356,579 | 4,168,064 | Quarterly | 45 days |
| U.S. small cap equity fund | 7,533,200 | 7,573,101 | Monthly | 40 days |
| Total | $ 39,493,694 | 33,730,993 | | |

Long/short equity fund investment philosophy is to preserve capital, while achieving the risk and return targets in a manner that is independent of broad, traditional market moves. The portfolio has constraints on manager maximums, at 15%, and strategy maximums, at 25%. A factor analysis process is used to model the exposures an individual manager might have to a certain factor (e.g., interest rates). The goal is to combine managers in such a way that minimizes the aggregate portfolio factor exposures, or at least contain them within a "risk budget", while maximizing returns.

Opportunistic fixed income fund is a multistrategy fixed income fund focused on exploiting structural and technical inefficiencies in the market, especially in the short-end of yield curves around the world. The Fund pursues a value-oriented total return strategy, examining investment opportunities in mortgage-backed securities, asset-backed securities, corporate bonds, convertible bonds, preferred stocks, bank debt, currencies, secured debt, government bonds, and emerging market debt. The Fund also seeks to identify situations of extreme volatility and/or price discounting, and will shift its investments between these markets based on perceived relative investment merits.

U.S. small cap equity fund invests in high quality, small cap companies that are conservatively valued in an attempt to produce long-term returns in excess of the Russell 2000 Value Index. Securities are selected through bottom-up research that utilizes fund manager's proprietary, fundamental research to find securities that are trading at a deep discount and have the potential for outsized longer term returns.

## (6) Retirement Plans and Other Postretirement Benefits

The Joint Commission has a noncontributory account based defined-benefit pension plan (the Pension Plan) that covers substantially all of its employees. The Joint Commission's funding policy is to contribute to the Pension Plan an annual amount necessary to meet or exceed the minimum funding standards under the Employee Retirement Income Security Act.

The Joint Commission also sponsors nonqualified supplemental defined-benefit retirement plans for certain key executives (the Supplemental Plans). Benefit cost under the Supplemental Plans is accrued based on actuarial estimates over the expected service period of key executives. The Supplemental Plans are not funded; however, marketable securities totaling $4,445,290 and $3,514,023 at December 31, 2017 and 2016, respectively, were designated for the payment of benefits under the Supplemental Plans when due. These amounts are included in Investments in the accompanying consolidated statements of financial position. Management expects to contribute amounts sufficient to pay benefits when due under the Supplemental Plans. The Joint Commission also provides certain executives with defined benefit postretirement healthcare benefits on an unfunded basis. The amounts included in "Other benefits" in the following tables include the Supplemental Plans and the defined benefit postretirement healthcare benefits.

The following tables set forth information on the funded status, amounts recognized in the accompanying consolidated financial statements, and weighted average assumptions related to The Joint Commission's Pension Plan and other postretirement defined-benefit plans for the years ended December 31, 2017 and 2016:

| | Pension Plan | | Other benefits | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | $ 84,220,969 | 84,181,128 | 5,138,701 | 4,188,530 |
| Service cost | 2,748,561 | 2,022,582 | 1,140,667 | 1,029,842 |
| Interest cost | 3,290,610 | 3,304,889 | 198,915 | 156,832 |
| Actuarial loss | 6,886,384 | 1,287,506 | 579,579 | 542,358 |
| Benefits paid | (5,061,403) | (6,575,136) | (371,223) | (778,861) |
| Projected benefit obligation at end of year | $ 92,085,121 | 84,220,969 | 6,686,639 | 5,138,701 |

| | Pension Plan | | Other benefits | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Change in fair value of plan assets: | | | | |
| Fair value of plan assets at beginning of year | $ 75,373,671 | 70,731,639 | — | — |
| Actual gain on plan assets | 13,319,406 | 5,817,168 | — | — |
| Employer contributions | 4,250,000 | 5,400,000 | — | — |
| Benefits paid | (5,061,403) | (6,575,136) | — | — |
| Fair value of plan assets at end of year | $ 87,881,674 | 75,373,671 | — | — |


(Continued)

| | | Pension Plan | | Other benefits | |
|---|---|---|---|---|---|
| | | **2017** | **2016** | **2017** | **2016** |
| Funded status | $ | (4,203,447) | (8,847,298) | — | — |
| Amounts recognized in the consolidated statements of financial position consist of: | | | | | |
| Current liabilities | $ | — | — | (1,574,000) | (364,000) |
| Noncurrent liabilities | | (4,203,447) | (8,847,298) | (5,112,639) | (4,774,701) |
| Accumulated charge to unrestricted net assets | | 21,030,176 | 24,174,878 | 1,656,951 | 1,181,068 |
| | $ | 16,826,729 | 15,327,580 | (5,029,688) | (3,957,633) |

The accumulated charge to unrestricted net assets as of December 31, 2017 and 2016 represents charges arising from the defined-benefit plans, but not yet recognized as components of net periodic benefit expense. The accumulated charge to unrestricted net assets at December 31, 2017 of $22,687,127 represents unrecognized net actuarial losses of $23,201,184 and prior service costs credits of $514,057. During 2018, approximately $1,368,000 is expected to be reclassified from the accumulated charge to unrestricted net assets for defined-benefit plans to pension benefit expense.

The accumulated charge to unrestricted net assets at December 31, 2016 of $25,355,946 represents unrecognized net actuarial losses of $25,937,025 and prior service costs credits of $581,079. During 2017, approximately $1,695,000 was expected to be reclassified from the accumulated charge to unrestricted net assets for defined-benefit plans to pension benefit expense.

The accumulated benefit obligation for the Pension Plan was $90,011,427 and $82,154,800 at December 31, 2017 and 2016, respectively.



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Net periodic benefit cost, which is calculated using the projected unit credit method, for the years ended December 31, 2017 and 2016 included the following components:

| | | Pension Plan | | Other benefits | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| Components of net periodic benefit cost: | | | | | |
| Service cost | $ | 2,748,561 | 2,022,582 | 1,140,667 | 1,029,842 |
| Interest cost | | 3,290,610 | 3,304,889 | 198,915 | 156,832 |
| Expected return on plan assets | | (5,184,732) | (4,874,431) | — | — |
| Net amortization of actuarial losses and prior service cost | | 1,896,412 | 2,084,239 | 103,696 | 25,894 |
| Settlements | | — | 1,769,230 | — | — |
| Net periodic benefit cost | $ | 2,750,851 | 4,306,509 | 1,443,278 | 1,212,568 |

| | Pension Plan | | Other benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Weighted average assumptions: | | | | |
| Discount rate used to determine obligations at year-end | 3.40% | 3.90% | 3.40% | 3.90% |
| Discount rate used to determine net periodic benefit cost | 3.90 | 4.00 | 3.90 | 4.00 |
| Rate of compensation increase | 4.00 | 4.00 | 4.00 | 4.00 |
| Expected return on plan assets | 7.00 | 7.00 | — | — |

The assumed healthcare trend rates for the postretirement medical benefits were not applicable in 2017 as a result of a capped cost structure and 6.5% grading to 5.0% for 2016. A one-percentage point change in the healthcare cost trend rate assumptions would have no effect on either the projected benefit obligations as of January 1, 2017, or on cost for fiscal year 2017. Actuarial gains and losses, calculated as the difference between estimates and actual amounts of plan assets and the projected benefit obligation, are



(Continued)

amortized over the expected future service period. Prior service cost is amortized over the expected future service period.

The Pension Plan's assets are invested according to target allocations, as outlined in the table below. Management seeks to maximize return with a minimal amount of risk by diversifying the risks of the portfolio over different industries and sectors. Management reviews this investment policy on an ongoing basis.

| Asset category | Target allocation | Percentage of plan assets at December 31 2017 | 2016 |
|---|---|---|---|
| Equity securities | 40%–70% | 58% | 60% |
| Long-duration fixed income | 30–55 | 36 | 34 |
| Real estate | 0–7 | 5 | 6 |
| Cash equivalents | — | 1 | — |
| Total | | 100% | 100% |

The expected return on plan assets, using a rate assumption of 7.0%, is based upon the average income that management anticipates a portfolio allocated according to The Joint Commission's target asset allocation will earn. Management monitors this assumption on an ongoing basis.

For the year ended December 31, 2017, there is no minimum funding requirement for the Pension Plan; however, management has committed to contribute at least $2,400,000 to the Pension Plan during 2018. Estimated future benefit payments from the Pension Plan are as follows:

| | |
|---|---|
| 2018 | $ 5,100,000 |
| 2019 | 5,400,000 |
| 2020 | 5,500,000 |
| 2021 | 5,700,000 |
| 2022 | 6,200,000 |
| 2023 through 2027 | 33,800,000 |
| Total | $ 61,700,000 |

The following methods and assumptions are used to estimate the fair value of the Pension Plan's investments:

*Mutual and common stock funds and equity real estate investment trusts* are carried at fair value, based upon quoted market prices on nationally recognized securities exchanges (Level 1 inputs) or on quoted market prices of similar securities by relying on these securities' relationship to other benchmark quoted prices (Level 2 inputs). These techniques make use of assumptions that market participants would use in pricing the respective asset and may require some degree of judgment.

*Common and collective trust funds* that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1). For common and collective trust funds that are not readily marketable, the NAV reported for each investment is used as the practical expedient to estimate fair value of The Joint Commission's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. The values assigned to these investments are based upon available information including, but not limited to, original and subsequent transaction prices and third-party transactions. Under this approach, certain attributes for the investment, such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions, are not considered in measuring the fair value of an investment. Classification in Level 2 or 3 is based on The Joint Commission's ability to redeem its interest at or near the date of the balance sheets, and if the interest can be redeemed in the near term, the investment is classified as Level 2.

The following tables summarize the Pension Plan's investments accounted for at fair value at December 31, 2017 and 2016 using the fair value hierarchy as described in note 5. In accordance with the ASC subtopic 820-10, certain investments that are measured at fair value using NAV per share, or its equivalent, have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amount of investments in the Pension Plan.

| | | Assets at fair value as of December 31, 2017 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $ | — | 1,095,025 | — | 1,095,025 |
| Investments: | | | | | |
| Mutual funds: | | | | | |
| U.S. small-mid cap fund | $ | 3,495,253 | — | — | 3,495,253 |
| U.S. large cap equity fund | | 14,131,998 | — | — | 14,131,998 |
| Global equity fund | | 13,487,017 | — | — | 13,487,017 |
| International equity funds | | 16,275,918 | — | — | 16,275,918 |
| Real estate fund | | | | | |
| Equity real estate investment trusts | | 4,249,183 | — | — | 4,249,183 |
| Common and collective trust funds: | | | | | |
| Long-duration fixed income fund | | — | 31,424,322 | — | 31,424,322 |
| Investments in the fair value hierarchy | | 51,639,369 | 31,424,322 | — | 83,063,691 |
| Investments measured at net asset value | | | | | 3,722,958 |
| Total investments | | 51,639,369 | 31,424,322 | — | 86,786,649 |
| Total plan assets | $ | 51,639,369 | 32,519,347 | — | 87,881,674 |

| | Assets at fair value as of December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $ — | 104,103 | — | 104,103 |
| Investments: | | | | |
| Mutual funds: | | | | |
| U.S. small-mid cap fund | $ 2,924,145 | — | — | 2,924,145 |
| U.S. large cap equity fund | 13,585,809 | — | — | 13,585,809 |
| Global equity fund | 11,350,271 | — | — | 11,350,271 |
| International equity funds | 13,126,553 | — | — | 13,126,553 |
| Real estate fund | 4,680,347 | — | — | 4,680,347 |
| Common and collective trust funds: | | | | |
| Long-duration fixed income fund | — | 25,560,423 | — | 25,560,423 |
| Investments in the fair value hierarchy | 45,667,125 | 25,560,423 | — | 71,227,548 |
| Investments measured at net asset value | | | | 4,042,020 |
| Total investments | 45,667,125 | 25,560,423 | — | 75,269,568 |
| Total plan assets | $ 45,667,125 | 25,664,526 | — | 75,373,671 |

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or change in circumstance that caused the transfer. During 2017 and 2016, there were no transfers between levels of the fair value hierarchy.

In accordance with the fair value measurements and disclosures guidance, the following table presents the category, fair value, redemption frequency, and redemption notice period for the Pension Plan investments, the fair values of which are estimated using the NAV per share as of December 31, 2017 and 2016. The Joint Commission has no open commitments related to the below investments.

| | 2017 | 2016 | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|
| Common and collective trust funds: | | | | |
| U.S. small cap equity fund | $ 3,722,958 | 4,042,020 | Monthly | 40 days |
| Total | $ 3,722,958 | 4,042,020 | | |

U.S. small cap equity fund invests in high quality, small cap companies that are conservatively valued in an attempt to produce long-term returns in excess of the Russell 2000 Value Index. Securities are selected through bottom-up research that utilizes fund manager's proprietary, fundamental research to find securities that are trading at a deep discount and have the potential for outsized longer term returns.

The Joint Commission expects to designate an additional $1,574,000 in marketable securities during 2018 for the Supplemental Plans. Estimated annual future benefit payments from the Supplemental Plans are anticipated to range from $262,700 to $1,903,100 during the period from 2018 through 2022 and are expected to total $5,052,300 during the period from 2023 through 2027. The benefit payments during 2018 are expected to total $1,574,000 and are classified as current liabilities in the accompanying 2017 consolidated statement of financial position.

The Joint Commission also sponsors a 401(k) Smart Saver Plan whereby employees may contribute a portion of current earnings, up to certain limits established by the Internal Revenue Service, to the plan and The Joint Commission makes a matching contribution equal to 50% of the first 6% of annual salary contributed by the employee. The Joint Commission's expense under this plan includes its contributions and administrative fees, which were $2,284,035 in 2017 and $2,169,500 in 2016. The Joint Commission funds this plan on a current basis.

## (7) Permanent Endowment Funds

Endowment fund agreements are between The Center and various donors. The Center and its endowment funds are managed by The Joint Commission. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by The Joint Commission's Board of Commissioners to function as endowment funds, are classified and reported based on the existence of donor-imposed restrictions.

In the investment and handling of funds, The Joint Commission is subject to the law of Illinois, *The Uniform Prudent Management of Institutional Funds Act* (UPMIFA), which became effective June 30, 2009. The Board of Commissioners of The Joint Commission has interpreted UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of donor-restricted endowment contributions absent explicit donor stipulations to the contrary. As a result of this interpretation, The Joint Commission classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The endowment fund was established with the intent of maintaining the fund permanently to fund the activities of The Center. However, if such permanent status becomes impractical or unwise, the fund may be more expeditiously used in total to further the purposes of The Center. Any expenditure of permanent endowment must be approved by The Center's Board of Directors. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The uses, benefits, purposes, and duration for which the endowment fund was established

(2) The duration and preservation of the fund

(3) The purposes of the organization and the donor-restricted endowment fund

(4) General economic conditions

(5) The possible effect of inflation and deflation

(6) The expected total return from income and the appreciation of investments

(7) Other resources of the organization

(8) The investment policies of the organization.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that UPMIFA requires The Center to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions. Any deficiencies of this nature are reported in unrestricted net assets. There were $0 and $288,792 of such deficiencies as of December 31, 2017 and 2016, respectively. Gains and losses generated by the endowment assets are also classified as temporarily restricted until they are appropriated for expenditure. If the fair value of the assets of the donor-restricted endowment fund is less than the amount required to be maintained permanently, the deficit or unrealized loss is classified as unrestricted net assets in the consolidated statement of activities.



(Continued)

The Center has adopted an investment policy for endowment assets that attempts to provide a reasonably predictable stream of funding to support its activities while seeking to preserve capital. Endowment assets include those assets of donor-restricted funds that The Center must hold in perpetuity and for a term-specified period. The Center's policy requires assets to be invested in a manner that strives to produce results that exceed a passively invested benchmark composed of 70% Barclays Global Aggregate Index and 30% MSCI ACWI over a complete market cycle. The Center expects that its endowment assets, under the current strategy, will produce an average rate of return of 3%–4% annually. Actual returns in any given year may vary from this amount.

To satisfy its current rate of return objective, The Center relies on a strategy in which investment returns are achieved primarily through interest income and modest capital appreciation through investment in equity securities.

The Center has established the objective of using the realized appreciation and investment income on endowment assets to fund The Center's activities. Any return that is not required to meet spending shall be retained in the endowment funds and invested in accordance with the investment guidelines, until its expenditure is needed. However, the level of assets as of December 31, 2017 coupled with the current return objectives are insufficient to generate the level of income needed to fully fund the planned activities. As a consequence, The Center has begun to offer education and training on a fee for service basis to provide for an expanded base of funding. The Center may also receive funds from The Joint Commission.

The Center received no donor-restricted endowment pledges in 2017. The Center received installment payments on total pledges in the amount of $0 in 2017 and $300,000 in 2016. There are no remaining installments expected in 2018.

The Joint Commission has provided equity capital of $30,000,000 to The Center through December 31, 2017, which is reported as board-designated funds functioning as endowment in the accompanying consolidated statements of financial position. Furthermore, The Joint Commission has provided $20,575,000 of unrestricted funding to The Center used to support its operating deficit and future operations. The Joint Commission has committed an additional unrestricted funding of $1,350,000 to be paid in 2018.

Changes in the fair value of The Center's endowment investments and net assets by type of fund were as follows for the year ended December 31, 2017:

| | 2017 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ 1,057,312 | 367,416 | — | 1,424,728 |
| Unrealized gains on investments | 1,568,491 | 545,050 | — | 2,113,541 |
| Total investment activity | 2,625,803 | 912,466 | — | 3,538,269 |
| Net assets released from restrictions | 668,245 | (668,245) | | — |
| Investment interest transfer to operating cash | (1,441,000) | — | — | (1,441,000) |
| Net investment return | 1,853,048 | 244,221 | — | 2,097,269 |
| Other changes in endowment investments: | | | | |
| Transfers to create funds functioning as endowment and other changes | 437,280 | — | — | 437,280 |
| Total other changes in endowment investments | 437,280 | — | — | 437,280 |
| Net change in endowment investments | 2,290,328 | 244,221 | — | 2,534,549 |
| Endowment investments at: | | | | |
| Beginning of year | 29,643,913 | — | 10,425,000 | 40,068,913 |
| End of year | $ 31,934,241 | 244,221 | 10,425,000 | 42,603,462 |
| Net assets by type of fund: | | | | |
| Donor-restricted endowment | $ — | — | 10,425,000 | 10,425,000 |
| Investment return | 1,574,598 | 244,221 | — | 1,818,819 |

| | 2017 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Board-designated funds functioning as endowment | $ 30,359,643 | — | — | 30,359,643 |
| Total – as above | 31,934,241 | 244,221 | 10,425,000 | 42,603,462 |
| Other donor-designated gifts | — | — | 395 | 395 |
| Classification as cash equivalents | (359,643) | — | — | (359,643) |
| Transfer to unrestricted operating fund | (825,096) | — | — | (825,096) |
| Total net assets | $ 30,749,502 | 244,221 | 10,425,395 | 41,419,118 |

Changes in the fair value of The Center's endowment investments and net assets by type of fund were as follows for the year ended December 31, 2016:

| | 2016 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily restricted** | **Permanently restricted** | **Total** |
| Investment return: | | | | |
| Endowment yield (interest and dividends) | $ 685,420 | 237,435 | — | 922,855 |
| Unrealized gains on investments | 885,234 | 315,252 | — | 1,200,486 |
| Total investment return | 1,570,654 | 552,687 | — | 2,123,341 |
| Net assets released from restrictions | 552,687 | (552,687) | — | — |
| Investment interest transfer to operating cash | (1,150,000) | — | — | (1,150,000) |
| Net investment return | 973,341 | — | — | 973,341 |
| Other changes in endowment investments: | | | | |
| Gifts and pledge payments received in cash | — | — | 500,000 | 500,000 |
| Transfers to create funds functioning as endowment and other changes | 258,202 | — | — | 258,202 |
| Total other changes in endowment investments | 258,202 | — | 500,000 | 758,202 |
| Net change in endowment investments | 1,231,543 | — | 500,000 | 1,731,543 |



(Continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| Endowment investments at: | | | | |
| Beginning of year | $ 28,412,370 | — | 9,925,000 | 38,337,370 |
| End of year | $ 29,643,913 | — | 10,425,000 | 40,068,913 |
| Net assets by type of fund: | | | | |
| Donor-restricted endowment | $ — | — | 10,425,000 | 10,425,000 |
| Investment return, net | (278,450) | — | — | (278,450) |
| Board-designated funds functioning as endowment | 29,922,363 | — | — | 29,922,363 |
| Total – as above | 29,643,913 | — | 10,425,000 | 40,068,913 |
| Other donor-designated gifts | — | — | 395 | 395 |
| Classification as cash equivalents | 77,637 | — | — | 77,637 |
| Transfer to unrestricted operating fund | (540,539) | — | — | (540,539) |
| Total net assets | $ 29,181,011 | — | 10,425,395 | 39,606,406 |

## (8) Functional Expenses

The Joint Commission provides services and products that promote patient safety and quality in the delivery of healthcare services. Expenses related to providing these services and products approximated 81% of total expenses in 2017 and 2016. Expenses incurred were for the following:

| | Program services | | Management and general | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Salaries and benefits | $ 120,979,049 | 113,343,739 | 26,314,885 | 25,561,509 | 147,293,934 | 138,905,248 |
| Travel costs | 28,754,470 | 25,872,720 | 436,729 | 547,212 | 29,191,199 | 26,419,932 |
| Fees and services | 14,237,423 | 13,536,444 | 4,810,926 | 4,187,972 | 19,048,349 | 17,724,416 |
| Office expense | 3,044,309 | 3,518,622 | 4,693,952 | 3,918,136 | 7,738,261 | 7,436,758 |
| Publishing and printing | 2,301,340 | 1,892,379 | 213,821 | 293,111 | 2,515,161 | 2,185,490 |
| Depreciation and amortization | 4,075,833 | 3,579,754 | 2,670,385 | 2,607,657 | 6,746,218 | 6,187,411 |
| Other operating expenses | 6,006,481 | 5,604,335 | 3,754,248 | 3,449,560 | 9,760,729 | 9,053,895 |
| Total expenses | $ 179,398,905 | 167,347,993 | 42,894,946 | 40,565,157 | 222,293,851 | 207,913,150 |

**(9) Commitments and Contingencies**

The Joint Commission is subject to legal proceedings and regulatory investigations arising in the course of its normal business activities. In the opinion of management, any such matters will be resolved without material adverse effect on The Joint Commission’s financial position or results of operations.

**(10) Joint Venture**

In March 2014, Joint Commission Resources, Inc. (JCR), in furtherance of its mission, entered into a joint venture agreement with a corporation in Hong Kong (joint venture partner) whereby JCR acquired a 49% ownership interest in a newly formed entity. The partnership set up a wholly foreign owned enterprise (WFOE) for the purposes of establishing an education and training institute for improving patient quality and safety in hospitals, and educating the hospital management in the People’s Republic of China (PRC). In accordance with the agreement, the joint venture partner provided the initial capital and operational support for the newly formed entity, and JCR granted the limited use of its trademark and other intellectual property. JCR accounts for its share of the joint venture under the equity method of accounting.

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidating Schedule of Statement of Financial Position Information

December 31, 2017

| Assets | The Joint Commission | Joint Commission Resources, Inc. | The Joint Commission Center for Transforming Healthcare | Intercompany eliminations | Consolidated |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ 14,148,405 | 20,148,979 | 2,377,223 | — | 36,674,607 |
| Accounts receivable – net of allowance for doubtful accounts of $440,435 | 18,170,682 | 8,593,488 | 1,387,144 | (9,682,901) | 18,468,413 |
| Inventory – net | 9,226 | 256,015 | — | — | 265,241 |
| Prepaid expenses | 3,524,309 | 1,612,203 | 2,227 | (362,816) | 4,775,923 |
| Total current assets | 35,852,622 | 30,610,685 | 3,766,594 | (10,045,717) | 60,184,184 |
| Investments | 165,372,440 | 24,840,481 | — | — | 190,212,921 |
| Endowment investments | — | — | 42,603,462 | — | 42,603,462 |
| Property and equipment: | | | | | |
| Land | 4,204,400 | — | — | — | 4,204,400 |
| Building | 45,154,328 | — | — | — | 45,154,328 |
| Leasehold improvements, office systems, furniture, and equipment | 41,291,235 | 11,091,031 | 2,106,922 | — | 54,489,188 |
| Total property and equipment | 90,649,963 | 11,091,031 | 2,106,922 | — | 103,847,916 |
| Less accumulated depreciation and amortization | (50,280,711) | (8,943,442) | (1,532,497) | — | (60,756,650) |
| Total property and equipment – net | 40,369,252 | 2,147,589 | 574,425 | — | 43,091,266 |
| Total assets | $ 241,594,314 | 57,598,755 | 46,944,481 | (10,045,717) | 336,091,833 |
| **Liabilities and Net Assets** | | | | | |
| Current liabilities: | | | | | |
| Current maturity of notes payable | $ 4,405,000 | — | — | — | 4,405,000 |
| Accounts payable | 7,896,895 | 11,780,053 | 157,125 | (9,682,901) | 10,151,172 |
| Accrued expenses: | | | | | |
| Compensation and benefits | 6,931,746 | 2,251,062 | 129,936 | — | 9,312,744 |
| Other expenses | 868,385 | 239,471 | 16,213 | — | 1,124,069 |
| Deferred revenue: | | | | | |
| Accreditation fees and deposits | 2,718,426 | 1,494,978 | — | — | 4,213,404 |
| Publications, educational programs, and other advances | 423,526 | 6,140,136 | 386,076 | (362,816) | 6,586,922 |
| Current portion of fair value of hedge – interest rate swap | 48,953 | — | — | — | 48,953 |
| Current portion of accrued postretirement benefits | 1,562,000 | 12,000 | — | — | 1,574,000 |
| Other current liabilities | 5,192 | — | — | — | 5,192 |
| Total current liabilities | 24,860,123 | 21,917,700 | 689,350 | (10,045,717) | 37,421,456 |
| Noncurrent liabilities: | | | | | |
| Notes payable – less current maturity and unamortized debt issuance costs | 12,669,603 | — | — | — | 12,669,603 |
| Accrued pension and postretirement benefits | 7,009,701 | 2,306,385 | — | — | 9,316,086 |
| Total noncurrent liabilities | 19,679,304 | 2,306,385 | — | — | 21,985,689 |
| Total liabilities | 44,539,427 | 24,224,085 | 689,350 | (10,045,717) | 59,407,145 |
| Net assets: | | | | | |
| Unrestricted net assets: | | | | | |
| Board-designated funds functioning as endowment | — | — | 30,749,502 | — | 30,749,502 |
| Unrestricted | 197,054,887 | 33,374,670 | 4,836,013 | — | 235,265,570 |
| Temporarily restricted net assets | — | — | 244,221 | — | 244,221 |
| Permanently restricted net assets – endowment | — | — | 10,425,395 | — | 10,425,395 |
| Total net assets | 197,054,887 | 33,374,670 | 46,255,131 | — | 276,684,688 |
| Total liabilities and net assets | $ 241,594,314 | 57,598,755 | 46,944,481 | (10,045,717) | 336,091,833 |

See accompanying independent auditors' report.

**THE JOINT COMMISSION ON ACCREDITATION**
**OF HEALTHCARE ORGANIZATIONS AND AFFILIATES**

Consolidating Schedule of Statement of Activities Information – Unrestricted Net Assets

Year ended December 31, 2017

| | The Joint Commission | Joint Commission Resources, Inc. | The Joint Commission Center for Transforming Healthcare | Intercompany eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Annual accreditation subscription fees | $ 78,667,689 | — | — | — | 78,667,689 |
| On-site survey fees | 74,589,448 | 17,497,850 | — | — | 92,087,298 |
| Publications and multimedia | — | 17,756,937 | — | — | 17,756,937 |
| Educational programs | — | 7,628,149 | 22,580 | — | 7,650,729 |
| Consultative technical assistance | — | 16,123,542 | — | (203,895) | 15,919,647 |
| Continuous service readiness | — | 5,467,187 | — | — | 5,467,187 |
| Performance measurement activities | 3,411,945 | — | — | — | 3,411,945 |
| Other revenue | 11,820,185 | 2,961,925 | 2,430,951 | (8,973,710) | 8,239,351 |
| Total revenue | 168,489,267 | 67,435,590 | 2,453,531 | (9,177,605) | 229,200,783 |
| Expenses: | | | | | |
| Salaries and benefits | 112,812,388 | 32,323,845 | 2,157,701 | — | 147,293,934 |
| Travel costs | 25,528,237 | 3,559,069 | 103,893 | — | 29,191,199 |
| Fees and services | 9,025,289 | 17,745,285 | 1,455,380 | (9,177,605) | 19,048,349 |
| Office expense | 5,561,410 | 2,154,687 | 22,164 | — | 7,738,261 |
| Publishing and printing | 912,214 | 1,571,002 | 31,945 | — | 2,515,161 |
| Depreciation and amortization | 4,976,112 | 1,312,670 | 457,436 | — | 6,746,218 |
| Other operating expenses | 6,375,931 | 3,374,306 | 10,492 | — | 9,760,729 |
| Total expenses | 165,191,581 | 62,040,864 | 4,239,011 | (9,177,605) | 222,293,851 |
| Excess (deficiency) of revenue over expenses before investment income | 3,297,686 | 5,394,726 | (1,785,480) | — | 6,906,932 |
| Investment income | 11,368,138 | 1,194,285 | 310,210 | — | 12,872,633 |
| Excess (deficiency) of revenue over expenses | 14,665,824 | 6,589,011 | (1,475,270) | — | 19,779,565 |
| Other changes in unrestricted net assets: | | | | | |
| Change in net unrealized investment gains and losses | 8,312,985 | 1,766,943 | 1,869,321 | — | 11,949,249 |
| Change in fair value of hedge – interest rate swap | 146,582 | — | — | — | 146,582 |
| Change in unrecognized net defined-benefit plan costs not yet recognized in net periodic benefit cost | 2,812,799 | (143,980) | — | — | 2,668,819 |
| Transfer of net assets to parent company | 5,437,039 | (5,437,039) | — | — | — |
| Operating pledge from parent company designated as unrestricted | (1,350,000) | — | 1,350,000 | — | — |
| Change in unrestricted net assets | 30,025,229 | 2,774,935 | 1,744,051 | — | 34,544,215 |
| Unrestricted net assets – beginning of year | 167,029,657 | 30,599,735 | 33,841,465 | — | 231,470,857 |
| Unrestricted net assets – end of year | $ 197,054,886 | 33,374,670 | 35,585,516 | — | 266,015,072 |

See accompanying independent auditors' report.