HEALTH CARE INCENTIVES IMPROVEMENT INSTITUTE, INC.

Financial Statements
for the years ended December 31, 2010 and 2009

Actis-Grande, Ronan & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Health Care Incentives Improvement Institute, Inc.:

We have audited the accompanying statement of financial position of Health Care Incentives Improvement Institute, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Care Incentives Improvement Institute, Inc. as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Actis-Grande, Ronan & Company, LLC

May 31, 2011

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Health Care Incentives Improvement Institute, Inc.
Statements of Financial Position
as of December 31,

	2010	2009
Assets		
Cash and cash equivalents	$ 1,022,362	$ 644,039
Accounts receivable	510,949	348,146
Grants and contracts receivable	247,984	124,169
Property and equipment, net of accumulated depreciation	36,526	57,924
Total assets	$ 1,817,821	$ 1,174,278
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 121,772	$ 169,416
Deferred license and grant revenue	881,042	836,719
Total liabilities	1,002,814	1,006,135
Net assets:		
Unrestricted	801,682	168,143
Restricted	13,325	-
Total liabilities and net assets	$ 1,817,821	$ 1,174,278

See notes to financial statements

Health Care Incentives Improvement Institute, Inc.
Statements of Activities
for the years ended December 31,

	2010	2009
Unrestricted Net Assets		
Unrestricted revenue and gains:		
Grants and contracts	$ 773,659	$ 1,692,203
License fees	941,458	865,001
Operational fees	225,953	369,156
Honorarium, physician portal and other income	22,760	51,157
Net assets released from restrictions	1,857,318	-
Total unrestricted revenue and gains	3,821,148	2,977,517
Expenses:		
Program services	2,814,731	2,426,216
Supporting services	372,878	528,327
Total expenses	3,187,609	2,954,543
Change in unrestricted net assets	633,539	22,974
Temporarily Restricted Net Assets		
Grants and contracts	1,870,643	-
Net assets released from restrictions	(1,857,318)	-
Change in temporarily restricted net assets	13,325	-
Change in net assets	646,864	22,974
Unrestricted net assets, beginning of year	168,143	145,169
Unrestricted net assets, end of year	$ 815,007	$ 168,143

See notes to financial statements

Health Care Incentives Improvement Institute, Inc.
Statements of Cash Flows
Representing Increases (Decreases) in Cash
for the years ended December 31,

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	**$ 646,864**	$ 22,974
Depreciation	**56,303**	53,180
Changes in operating assets and liabilities:		
Accounts receivable	**(162,803)**	68,134
Grants and contracts receivable	**(123,815)**	(124,169)
Accounts payable and accrued expenses	**(47,644)**	(62,224)
Deferred revenue	**44,323**	219,088
Net cash provided by operating activities	**413,228**	176,983
Cash flows from investing activities:		
Capital additions	**(34,905)**	(8,330)
Net increase in cash	**378,323**	168,653
Cash and cash equivalents, beginning of year	**644,039**	475,386
Cash and cash equivalents, end of year	**$ 1,022,362**	$ 644,039

See notes to financial statements

1. Summary of Significant Accounting Policies

Nature of Activities

Health Care Incentives Improvement Institute, Inc. ("HCI3"), (formerly Bridges To Excellence, Inc.), is a tax-exempt (501 (c) (3)), nonprofit organization that designs and creates programs that encourage physicians and physician practices to deliver safer, more effective and efficient care to patients with certain chronic conditions by giving them financial and other incentives to do so. HCI3 works with purchasers, including health plans and providers across the country, to create the mechanisms to improve the health care system. HCI3 programs provide purchasers and their employees with the information they need to make better health care decisions and obtain cost effective care. Thousands of physicians throughout the country participate in HCI3's programs, including *The Physician Office Link, Diabetes Care Link, Cardiac Care Link, Spine Care Link and HCI3 Medical Home Programs.*

Effective on October 15, 2009, HCI3 merged the operations of Prometheus Payment, Inc. ("PPI") into HCI3. PPI is a non-profit non-stock corporation incorporated in the Commonwealth of Massachusetts. As of the effective date of the merger, the separate existence of PPI ceased, and the name of the surviving entity was changed from Bridges to Excellence, Inc. to Health Care Incentives Improvement Institute, Inc.

Prior to the date of the merger, HCI3 had a Services Agreement with PPI whereby HCI3 provided certain services to PPI in connection with a project to develop, implement, refine and operate a health care services payment model ("Prometheus Engine") designed to incorporate payment incentives tied to efficiency and quality of care metrics based on Evidence-informed Case Rates ("ECR's"). Under this system, participating providers are measured against an ECR comprehensive scorecard that provides individual performance measures. Performance bonuses are paid to providers whose care exceeds established performance thresholds. The objective is to improve effectiveness and efficiency of care by holding providers responsible for the cost and quality of services delivered to the patient. The system is designed to create a patient-centered delivery system and activate consumers through quality of care and pricing information on providers.

The Services Agreement had an initial term of 36 months from July 2007 and provided for payments to HCI3 for planning, implementation, and reference data development and refinement, over the initial term. Funding for this project was provided by a grant to PPI from the Robert Woods Johnson Foundation ("Grant"). In 2009, HCI3 received $1,157,310 from PPI for services. Prior to the merger, HCI3 and PPI had two directors who were common to each organization.

On January 15, 2010, HCI3 became the direct beneficiary of the Grant, which had a remaining amount of $2,078,492, and extends through February 14, 2011. For 2010, HCI3 received $1,870,318 under the Grant. The purpose of the Grant is to fund demonstration pilots of the Prometheus Payment system.

1. **Summary of Significant Accounting Policies (continued)**

Trade Accounts Receivable

Trade accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis thus trade receivables do not bear interest. Trade receivables are periodically evaluated for collectability and charged off when they are deemed to be uncollectible.

Property and Equipment

Property and equipment are stated at cost and consist principally of capitalized software and computer equipment. Depreciation is provided using the straight line method over estimated useful lives which range from 3 to 5 years. Accumulated depreciation at December 31, 2010 and 2009 was $264,102 and $207,800, respectively. It is HCI3's policy to capitalize expenditures for software and equipment that cost in excess of $500.

Software Development Costs

Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when the software's technological feasibility has been established and ending when the software is available for general release to customers pursuant to Accounting Standards Codification 985-385-20, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." Technological feasibility is attained when a working model of the software has been completed whose consistency with the overall product design has been confirmed by testing. Costs incurred prior to the establishment of technological feasibility are expensed as incurred. Upon general release of the software product to customers, capitalization ceases and such costs are amortized over a five year period on a straight-line basis. Maintenance related costs are expensed as incurred. In most instances the Organization's software products are released soon after technological feasibility has been established. Therefore costs incurred after technological feasibility are not significant and generally most software development costs are expensed. There were no software development costs capitalized during 2010 and 2009.

Estimates

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

1. **Summary of Significant Accounting Policies (continued)**

Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts and all highly liquid investments purchased with a maturity of three months or less.

Concentration Risks

The Organization has bank deposits in excess of federal deposit insurance.

Revenue Recognition

Recognition of revenues from licenses and grants are deferred and recognized ratably over the periods to which the license and grant agreements apply. Revenue from operational fees, physician portal and other income is recognized as earned.

Fair Value Measurements

The carrying values of current assets and liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

Net Assets

Grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the Grantor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Program services consist of activities related to licensing and implementation support of HCI3 programs to health plans throughout the country, development of ECR data bases, and planning, development, implementation, and operation of the Prometheus Engine.

Supporting services consist of general and administrative expenses.

1. **Summary of Significant Accounting Policies (continued)**

Subsequent Events

The Organization evaluated the effect subsequent events would have on the financial statements through May 31, 2011, which is the date the financial statements were available to be issued.

2. **Employee Benefit Plan**

HCI3 maintains a defined contribution savings plan, qualified under Section 403(b) of the Internal Revenue Code that covers substantially all of its full-time employees. The savings plan allows employees to defer up to 15% of their salary, with the Organization partially matching employee contributions and covering certain administrative expenses of the savings plan. The Organization contributed $29,809 and $29,656 to the Plan during the years ended December 31, 2010 and 2009, respectively.