HEALTH CARE INCENTIVES IMPROVEMENT INSTITUTE, INC.

Financial Statements

for the years ended December 31, 2015 and 2014

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of financial position of Health Care Incentives Improvement Institute, Inc. (a nonprofit organization) as of December 31, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United State 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in 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 the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Care Incentives Improvement Institute, Inc. as of December 31, 2015 and 2014 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

April 22, 2016 Actis-Grande, Ronan & Company, LLC

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

		2015		2014
Assets				
Cash and cash equivalents	$	**58,328**	$	594,610
Accounts receivable		**542,564**		66,392
Grants and contracts receivable		-		20,327
Investments		**190,080**		459,663
Property and equipment, net of accumulated depreciation		**17,366**		21,524
Total assets	$	**808,338**	$	1,162,516
Liabilities and Net Assets				
Accounts payable and accrued expenses	$	**297,190**	$	326,392
Deferred license and grant revenue		**465,833**		638,333
Total liabilities		**763,023**		964,725
Net assets:				
Unrestricted		**45,314**		197,791
Restricted		-		-
Total liabilities and net assets	$	**808,337**	$	1,162,516

See notes to financial statements

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

	2015	2014
Unrestricted Net Assets		
Unrestricted revenue and gains:		
License fees	$ **1,631,208**	$ 1,072,417
Grants and contracts	**1,545,182**	942,253
Operational fees	**30,000**	180,000
Investment income	**49,537**	159,501
Recognized change in fair value of investments	**(70,121)**	(90,151)
Honorarium, physician portal and other income	**68,731**	46,971
Net assets released from restrictions	**-**	512,534
Total unrestricted revenue and gains	**3,254,537**	2,823,525
Expenses:		
Program services	**2,503,770**	1,861,318
Supporting services	**903,244**	1,328,980
Total expenses	**3,407,014**	3,190,298
Change in unrestricted net assets	**(152,477)**	(366,773)
Temporarily Restricted Net Assets		
Grants and contracts	**-**	-
Net assets released from restrictions		(512,534)
Change in temporarily restricted net assets	**-**	(512,534)
Change in net assets	**(152,477)**	(879,307)
Net assets, beginning of year	**197,791**	1,077,098
Net assets, end of year	$ **45,314**	$ 197,791

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,

	2015	2014
Cash flows from operating activities:		
Decrease in unrestricted net assets	$ (152,477)	$ (879,307)
Depreciation	15,267	16,935
Unrealized loss on investments	70,121	90,151
Changes in operating assets and liabilities:		
Accounts receivable	(476,172)	233,608
Grants and contracts receivable	20,327	168,027
Prepaid expenses	-	10,000
Accounts payable and accrued expenses	(29,202)	94,901
Deferred revenue	(172,500)	(91,875)
Net cash used in operating activities	(724,636)	(357,560)
Cash flows from investing activities:		
Net cash proceeds from sale of investments	249,000	812,000
Investment gains and earnings reinvested	(49,537)	(159,499)
Capital additions	(11,109)	(5,099)
Net cash provided by investing activities	188,354	647,402
Net (decrease) increase in cash and cash equivalents	(536,282)	289,842
Cash and cash equivalents, beginning of year	594,610	304,768
Cash and cash equivalents, end of year	$ 58,328	$ 594,610

See notes to financial statements

1. Summary of Significant Accounting Policies

Nature of Activities:

The Health Care Incentives Improvement Institute, Inc. ("HCI3") is a tax-exempt (501 (c) (3)), nonprofit organization that creates, pilot tests, implements and refines programs that are designed to improve the affordability and quality of health care in the United States. HCI3 works with a variety of stakeholders, such as public payers including state Medicaid agencies and public employee health plans, as well as commercial payers, employers, consumer groups, physicians, hospitals and health systems, to develop these programs and determine their effectiveness. For example, thousands of clinicians throughout the United States are recognized for the quality of care they deliver through HCI3's Bridges To Excellence programs.

In addition, HCI3 has developed the PROMETHEUS Analytics, which is an industry-leading health care analytics software application that leverages "big data" to provide unique insights on the cost and quality of health care, and helps physicians and hospitals develop interventions to improve the quality and affordability of the care they deliver. The PROMETHEUS Analytics are also used to power alternative payment models that are being field-tested in different parts of the country. The Analytics are built on HCI3's Evidence-informed Case Rates (ECRs), which are the only open source episode definitions available in the United States. As part of its mission, HCI3 is committed to maintaining these open source definitions to help payers and providers develop applications that can quantify costs of episodes of care and design mechanisms to improve quality of care.

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, 2015 and 2014 was $299,193 and $326,853, respectively. It is HCI3's policy to capitalize expenditures for software and equipment that cost in excess of $500.

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

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 2015 and 2014.

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.

Cash and Cash Equivalents:

Cash and cash equivalents consist of cash in bank accounts which are principally maintained at one financial institution. Accounts maintained at commercial banks are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000 per financial institution. At times throughout the year, the account balances may exceed the FDIC insured limits.

Concentration Risks:

At certain times, the Organization has amounts on deposit with financial institutions in excess of the FDIC insured limit. The Organization has not experienced any loses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2014, the aggregate cash balances at a financial institution used by HCI3 exceeded the federally insured limit of $250,000 by $344,610.

Revenue Recognition:

Recognition of revenues from licenses are deferred and recognized ratably over the period to which the license applies. Recognition of revenues from grants are recognized as the conditions of the grants are met. Revenue from operational fees, physician portal and other income is recognized as earned.

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

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.

Investments and Investment Income:

Investments with readily determinable fair values are measured at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenue and other support over expenses unless the income or loss is restricted by donor or law.

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.

Income Taxes:

Management annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In general, HCI3 is no longer subject to tax examinations for the tax years ending before December 31, 2012.

Subsequent Events:

The Organization evaluated the effect subsequent events would have on the financial statements through April 22, 2016, which is the date the financial statements were available to be issued.

2. Fair Value Measurements

The Organization has established a framework for measuring fair value, based on a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures.

This hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels, as follows:

- Level 1 – Inputs to the valuation methodology based on unadjusted quoted market prices in active markets that are accessible at the measurement date.
- Level 2 - Inputs to the valuation methodology that include quoted market prices that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At December 31, 2015 and 2014, HCI3's investments consisted of Level 1 investments of holdings in Fidelity Investments Blended Funds.

The Organization's investment securities are subject to exposure to various risks such as interest rate risk, financial market risk, and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the value of investment securities reported in the Organization's financial statements.

3. 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 $52,811 and $51,993 to the Plan during the years ended December 31, 2015 and 2014, respectively.