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Independent Auditor's Report

Board of Directors
Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC
Chicago, Illinois

We have audited the accompanying consolidated statements of financial position of **Healthcare Information and Management Systems Society and its Wholly Owned Subsidiary, HIMSS Analytics, LLC** as of June 30, 2005 and 2004, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Healthcare Information and Management Systems Society and its Wholly Owned Subsidiary, HIMSS Analytics, LLC** as of June 30, 2005 and 2004, and 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.

Blackman Kallick Bartelstein, LLP

August 17, 2005

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Consolidated Statements of Financial Position

June 30, 2005 and 2004

	<u>Assets</u>	
	2005	2004
Cash	\$ 1,904,133	\$ 3,968,832
Funds Held in Escrow	49,048	474,209
Investments	17,510,816	18,528,906
Receivables		
Exhibitor and other	2,798,293	2,800,196
Interest receivable	72,003	70,124
Affiliate	7,064	2,302
Inventories	58,284	46,634
Prepaid Expenses	143,235	191,602
Other Assets	151,949	112,658
Property and Equipment (Net of accumulated depreciation and amortization)	3,931,594	2,382,425
Intellectual Property	6,183,161	-
	\$ 32,809,580	\$ 28,577,888
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable	\$ 1,295,987	\$ 1,364,096
Accrued expenses	988,771	460,078
Deferred gain on sale/leaseback of building	2,199,512	2,529,439
Deferred revenue	10,287,520	7,731,694
Note payable	500,000	-
Total Liabilities	15,271,790	12,085,307
Net Assets, Unrestricted	17,537,790	16,492,581
	\$ 32,809,580	\$ 28,577,888

The accompanying notes are an integral part of the consolidated financial statements.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Consolidated Statements of Activities

Years Ended June 30, 2005 and 2004

	2005	2004
Revenues		
Exhibits	\$ 8,297,485	\$ 8,102,056
Data resources and research	2,393,427	438,469
Government relations	4,000	4,000
Industry issues	459,167	401,699
Electronic health record	366,187	10,000
Annual conference	6,115,881	5,503,542
Other education and certification	884,692	495,190
Publishing and communications	229,243	190,332
Community affiliations	3,665,746	2,722,433
Information technology	191,528	58,357
Finance and administration	137,690	545,389
Total Revenues	22,745,046	18,471,467
Operating Expenses		
Exhibits	1,180,101	1,355,915
Data resources and research	4,110,870	1,689,328
Government relations	183,669	296,378
Industry issues	1,552,528	1,177,133
Electronic health record	551,941	228,041
Annual conference	2,697,128	2,532,970
Other education and certification	861,697	732,030
Publishing and communications	1,100,044	788,811
Community affiliations	1,152,825	1,066,821
Information technology	2,102,362	1,132,397
Finance and administration	4,367,443	4,630,785
Executive offices	1,664,301	1,319,438
Business support	1,152,627	838,828
Total Operating Expenses	22,677,536	17,788,875

The accompanying notes are an integral part of the consolidated financial statements.

Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC

Consolidated Statements of Activities

Years Ended June 30, 2005 and 2004

	2005	2004
Other Income (Expenses)		
Loss on disposal of property and equipment	\$ (125,644)	\$ -
Gain on sale of building	329,927	109,976
Interest expense	(29,745)	-
Total Other Income	174,538	109,976
Revenues Over Expenses Before Investment Income	242,048	792,568
Investment Income		
Interest and dividends	341,597	286,470
Realized losses	(147,085)	(680,136)
Unrealized gains	593,037	1,633,634
Total Investment Income	787,549	1,239,968
Change in Net Assets	1,029,597	2,032,536
Net Assets, Beginning of Year	16,492,581	14,286,586
Transfer of Assets	15,612	173,459
Net Assets, End of Year	\$ 17,537,790	\$ 16,492,581

The accompanying notes are an integral part of the consolidated financial statements.

Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC

Consolidated Statements of Cash Flows

Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Change in net assets	\$ 1,029,597	\$ 2,032,536
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	2,465,691	842,230
Gain on sale of building	(329,927)	(109,976)
Loss on disposal of assets	125,644	-
Net realized and unrealized gain on investments	(445,952)	(953,498)
Provision for bad debt	-	16,605
(Increase) decrease in		
Receivables	(4,738)	335,615
Inventories	(11,650)	(12,899)
Other assets	(39,291)	(84,129)
Prepaid expenses and deposits	48,367	161,967
Increase (decrease) in		
Accounts payable	(68,109)	784,045
Accrued liabilities	528,693	(424,752)
Deferred revenue	2,555,826	465,762
Security deposits	-	(69,549)
Total Adjustments	4,824,554	951,421
Net Cash Provided by Operating Activities	5,854,151	2,983,957
Cash Flows from Investing Activities		
Purchases of property and equipment	(2,757,375)	(2,213,708)
Intellectual property expenditures	(7,066,290)	-
Purchases of investments	(2,251,982)	(16,093,910)
Proceeds from sales of investments	3,716,024	9,955,360
Cash balance transferred from MANI	15,612	-
Cash balance transferred from MS-HUG	-	173,459
Proceeds from sale of building	-	6,458,165
Net Cash Used in Investing Activities	(8,344,011)	(1,720,634)

The accompanying notes are an integral part of the consolidated financial statements.

Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC

Consolidated Statements of Cash Flows

Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Net (Decrease) Increase in Cash	\$ (2,489,860)	\$ 1,263,323
Cash, Beginning of Year	<u>4,443,041</u>	<u>3,179,718</u>
Cash, End of Year	<u>\$ 1,953,181</u>	<u>\$ 4,443,041</u>

Supplemental Disclosure of Cash Flow Information:

Noncash activities:

A note payable of \$500,000 was issued to finance the remaining balance of the purchase of intellectual property.

The accompanying notes are an integral part of the consolidated financial statements.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 1 - Industry Operations

Healthcare Information and Management Systems Society (HIMSS) is an Illinois not-for-profit corporation founded on September 10, 1993. HIMSS is the healthcare industry's membership organization exclusively focused on providing leadership for the optimal use of healthcare information technology and management systems for the betterment of human health. With offices in Chicago, Washington D.C. and other locations across the country, HIMSS represents more than 17,000 individual members and some 275-member corporations that employ more than one million people. HIMSS shapes and directs healthcare public policy and industry practices through its advocacy, educational and professional development initiatives designed to promote information and management systems' contributions to quality patient care.

HIMSS Analytics, LLC was established in May 2004 as a Delaware limited liability corporation. HIMSS Analytics, LLC supports improved decision-making for healthcare organizations, and healthcare IT companies and consulting firms by delivering high quality data and analytical expertise. HIMSS Analytics, LLC collects and analyzes healthcare organization data relating to IT processes and environments, products, IS department composition and costs, IS department management metrics, healthcare delivery trends and purchasing related decisions.

HIMSS Analytics, LLC is a wholly owned subsidiary of the Healthcare Information and Management Systems Society (HIMSS).

For purposes of the financial statements, the Company refers to both HIMSS and HIMSS Analytics, LLC.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements included the accounts of HIMSS and HIMSS Analytics, LLC. All intercompany transactions have been eliminated. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Aspects of Limited Liability Company

In Delaware, a limited liability company (LLC) retains the corporate characteristics of limited liability for its managers and members.

The LLC is treated as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by, or provided for, the LLC. Members are taxed individually on their shares of the LLC's earnings. The LLC's net income or loss is allocated to its members in accordance with the LLC's operating agreement. Accordingly, the consolidated financial statements do not reflect a provision for income taxes.

The term of HIMSS Analytics, LLC shall be perpetual unless the LLC is dissolved. HIMSS is the sole member of HIMSS Analytics, LLC.

Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk.

Receivables

Accounts receivable are uncollateralized customer obligations with signed contracts with predetermined payment deadlines. Accounts receivable are stated at the invoice amount. Account balances with invoices over 90 days past due date are considered delinquent.

Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices. Management reviews accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current credit worthiness, estimates the portion, if any, of the balance that will not be collected. All accounts or portions thereof deemed to be uncollectible, if any, or to require an excessive collection cost are written off to the allowance for losses. All accounts were deemed collectible as of June 30, 2005.

Investments

HIMSS carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statement of activities.

HIMSS' investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and will materially affect the amounts reports in the financial statements.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Depreciation and Amortization

The Company's policy is to depreciate or amortize the cost of furniture and equipment over the estimated useful lives of the assets by use of the straight-line method. The cost of leasehold improvements is amortized over their useful lives, or the applicable lease term, if shorter.

	<u>Years</u>
Computer equipment	3
Software development	3
Furniture and fixtures	5-7
Leasehold improvements	life of lease

Intellectual Property

Intellectual property consists of a database acquired on July 16, 2004 as well as additional costs incurred to expand the database and keep the information current. Intangible assets with definite useful lives are amortized over their respective estimated useful lives, using the straight-line method. The estimated useful life of the database is five years (Note 6).

HIMSS Analytics, LLC annually evaluates the remaining useful life of the above assets to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Revenue Recognition

Individual member dues revenues are initially deferred when received and then amortized over a 12-month period based upon the individual member's renewal month, or 18 months if renewed during the Annual Conference. Corporate member dues are also initially deferred when received and then amortized over a 12-month period based upon the corporate member's renewal month. All individual and corporate member dues are recognized as community affiliations revenue.

HIMSS records a receivable for the full amount of exhibit space contracted for in advance of its next Annual Conference. Exhibitor revenues are deferred at the time the contract is entered into and then recognized when the Annual Conference is held.

HIMSS Analytics, LLC recognizes revenue on a straight-line basis over the life of the contract. Revenues from consulting and research activities are recognized at the completion of the services performed.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 2 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue

Deferred revenue for HIMSS Analytics, LLC represents payments received from contracts paid in advance to be recognized as revenue in the future over the life of the contract as services are provided. Total contracts signed during the year ended June 30, 2005 were \$6,395,382. Total payments received on these contracts for the year ended June 30, 2005 were \$3,007,222 and revenue recognized was \$2,007,084, resulting in deferred revenue of \$1,000,138 for HIMSS Analytics, LLC.

Income Taxes

HIMSS is a tax-exempt organization as defined by Section 501(c)(6) of the Internal Revenue Code.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Acquisition

On July 16, 2004 HIMSS Analytics, LLC acquired certain assets of Sheldon I. Dorenfest & Associates, Ltd. for the aggregate purchase price of \$6,265,000. The purchase price represents the estimated fair value of the intellectual property acquired as of the date of acquisition. \$5,765,000 was paid in cash with the remaining \$500,000 in the form of a note payable as described in Note 8. As a result of the acquisition, HIMSS Analytics, LLC expects to generate revenue by providing high quality data and analytical expertise to healthcare organizations. On July 16, 2004, HIMSS Analytics, LLC also entered into a two year consulting agreement with Sheldon I. Dorenfest for \$125,000 a year to provide consulting advice.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 4 - Investments

Investments consist of the following:

	2005			2004		
	Cost	Market	Unrealized Appreciation (Depreciation)	Cost	Market	Unrealized Appreciation (Depreciation)
Money market funds	\$ 242,407	\$ 242,407	\$ -	\$ 1,080,227	\$ 1,080,227	\$ -
Corporate bonds	103,483	99,815	(3,668)	861,128	887,381	26,253
Certificates of deposit	2,491,413	2,481,179	(10,234)	3,152,643	3,135,433	(17,210)
Mutual funds	2,140,192	2,168,777	28,585	1,433,345	1,275,075	(158,270)
Common stock	5,720,919	5,765,615	44,696	6,140,755	5,761,121	(379,634)
U.S. Government holdings	6,248,835	6,236,774	(12,061)	6,009,183	5,999,398	(9,785)
Total	\$ 16,947,249	16,994,567	\$ 47,318	\$ 18,677,281	18,138,635	\$ (538,646)
Investment in MedTech, LLC under the equity method		466,249			390,271	
Investment in CCHIT, LLC under the equity method		50,000			-	
Total Investments		\$ 17,510,816			\$ 18,528,906	

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 4 - Investments (Continued)

On October 1, 2003, HIMSS entered into an agreement with a publishing venture, in order to provide diversification of income and to reposition the HIMSS newsletter within a more widely distributed periodical, giving it a broader audience. The HIMSS's investment of \$466,249 and \$390,271 for the years ended June 30, 2005 and 2004, respectively, represents a minority ownership in the new venture. The HIMSS's investment in MedTech, LLC is accounted for by use of the equity method.

On April 25, 2005, HIMSS entered into an agreement to form a limited liability company to establish and operate a business developing, maintaining and administering criteria for the purpose of certifying healthcare information technology software products. The HIMSS's investment of \$50,000 for the year ended June 30, 2005 represents a minority ownership in the new company. The HIMSS's investment in The Certification Commission for Healthcare Information Technology, LLC (CCHIT, LLC) is accounted for by use of the equity method.

Note 5 - Property and Equipment

	2005	2004
Computer equipment	\$ 4,249,446	\$ 2,610,168
Software development	311,642	-
Furniture and fixtures	1,076,753	719,414
Leasehold improvements	1,444,644	1,490,878
	7,082,485	4,820,460
Accumulated depreciation and amortization	(3,150,891)	(2,438,035)
	\$ 3,931,594	\$ 2,382,425

HIMSS Analytics, LLC accounts for software development costs in conformity with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Software development costs consist of upgrades to improve the navigation of the intellectual property. Unamortized computer software development costs were \$259,702 as of June 30, 2005. Total software development amortization for the year ended June 30, 2005 was \$51,940.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 6 - Intellectual Property

Intellectual property acquired	\$ 6,265,000
Additional costs for upgrades	1,301,290
Accumulated amortization	<u>(1,383,129)</u>
	<u><u>\$ 6,183,161</u></u>

The amortization expense for the year ended June 30, 2005 was \$1,383,129.

Estimated amortization expense for the next five years is as follows:

Year Ending June 30:	
2006	\$ 1,513,258
2007	1,513,258
2008	1,513,258
2009	1,513,258
2010	<u>130,129</u>
	<u><u>\$ 6,183,161</u></u>

Note 7 - Related Party Transactions

HIMSS makes grants and provides administrative support to the Healthcare Information and Management Systems Society Foundation. The Foundation is a separately incorporated 501(c)(3) organization that supports the research and educational activities of HIMSS by providing scholarships that will benefit people in the areas of healthcare and information management. HIMSS and the Foundation have certain common board members. For the years ended June 30, 2005 and 2004, HIMSS did not make any grants to the Foundation. There was \$7,064 and \$2,302 due from the Foundation as of June 30, 2005 and 2004, respectively.

Note 8 - Note Payable

The \$500,000 note payable to seller is associated with the purchase of intellectual property. (See Note 3.) The note is payable in two installments of \$250,000 each on July 16, 2005 and 2006. Interest is payable annually at the prime rate plus 1%, compounded quarterly. The note is secured by the intellectual property.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 9 - Rental Income

HIMSS owned the land and building in Chicago, Illinois where its corporate offices are located and subleased units in the building to unrelated third parties prior to the sale of the land and building on March 8, 2004. Rental income recognized under these lease agreements was \$537,636 for the year ended June 30, 2004 and is included in finance and administration in the statement of activities. Rental income also included the tenant's share of allocated real estate taxes and other costs in accordance with the individual lease agreements.

Note 10 - Operating Leases

HIMSS has entered into leases for its office facilities. (See Note 15.) Rent expense for the years ended June 30, 2005 and 2004 was \$481,969 and \$180,461, respectively. The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year, as of June 30, 2005:

Year Ending June 30:		
2006	\$	548,005
2007		490,170
2008		458,967
2009		470,441
2010		482,202
Thereafter		<u>829,207</u>
Total Minimum Payments Required	\$	<u>3,278,992</u>

Note 11 - Retirement Plans

Employees of HIMSS and HIMSS Analytics, LLC are eligible to participate in HIMSS's 401(k) plan after six months of service and attaining age 21. HIMSS matches the salary reduction elected by the employee to a maximum of 6% of salary. HIMSS also provides a 3% money purchase defined contribution pension plan. Employees are eligible after completing one year of service and attaining age 21. Expense recognized by HIMSS under the two employee benefit plans was \$477,386 and \$305,270 for the years ended June 30, 2005 and 2004, respectively.

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 12 - Affiliation Agreement

HIMSS has an agreement with another organization designed to further each other's complementary purposes in the field of healthcare information and management systems.

This agreement was entered into with the College of Healthcare Information Management Executives (CHIME) and extends through September 30, 2005. Under the agreement, HIMSS provides an annual stipend to CHIME that is paid monthly based upon a stipulated formula. The agreement provides for shared membership and benefits, co-sponsorship of conferences and seminars and access to each other's services. Expense recognized under the agreement for the years ended June 30, 2005 and 2004 was \$170,562 and \$197,390, respectively.

A new agreement was signed November 16, 2004, effective October 1, 2005 and expiring September 2008. The agreement provides for shared membership and benefits, co-sponsorship of conferences and seminars and access to each other's services.

Note 13 - Concentrations

Accounting principles generally accepted in the United States of America require disclosure of information about current vulnerabilities due to certain concentrations. These matters include the following:

Approximately 71% and 74% of total revenues for the years ended June 30, 2005 and 2004, respectively, were provided by the HIMSS Annual Conference.

Note 14 - Transfer of Assets

On September 29, 2003, the assets of Microsoft Healthcare Users Group ("MS-HUG") were transferred to HIMSS. The net effect of the transfer was as follows:

Cash	<u>\$ 173,459</u>
Change in net assets	<u>\$ 173,459</u>

On July 30, 2004, the assets of Midwest Alliance for Nursing Informatics ("MANI") were transferred to HIMSS. The net effect of the transfer was as follows:

Cash	<u>\$ 15,612</u>
Change in net assets	<u>\$ 15,612</u>

**Healthcare Information and Management Systems Society
and its Wholly Owned Subsidiary, HIMSS Analytics, LLC**

Notes to Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

Note 15 - Sale and Leaseback of Building

Effective March 8, 2004, HIMSS sold the land and building in Chicago, Illinois, where its corporate office is located. The sales price was \$6,800,000 resulting in a gain of \$2,639,415 for the year ended June 30, 2004. HIMSS then entered into a lease for its office facilities on March 8, 2004. (See Note 9.) The leaseback of the office space resulted in a deferred gain on sale of \$2,639,415, which will be recognized over the eight-year life of the lease. As of June 30, 2005 and 2004, the balances of the deferred gain were \$2,199,512 and \$2,529,439, respectively.