KHIE Vision

Improving the health of Kansans through trusted exchange of health information

KHIE Mission

Orchestrating the exchange of health information to transform healthcare

2012-2013 Focus Areas

1) Integration with State and Local Agencies/Population Health
2) Recognized quality outcome measures
3) Interoperability
4) Infrastructure
5) Governance and Oversight
6) Consumer Education and Engagement
7) Sustainability
8) Participation and Engagement
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Executive Summary

The Kansas Health Information Exchange Inc. (KHIE) was formed in late 2010 by Executive Order 10-06, issued by then Governor Mark Parkinson. KHIE has been instrumental in leading Health Information Exchange (HIE) developments in the state since that time. KHIE provides this report on the status of HIE developments in Kansas to the Governor and the Legislature as required under EO 10-06.

1. Background

HIE goals were established by the Bush Administration in 2004 including the creation of an Electronic Medical Record (EMR) for every American by the year 2014 and the creation of a national Health Information Exchange infrastructure that would facilitate the exchange of EMRs among medical providers involved in the diagnosis and treatment of patients.

Wide-ranging interest in the use of Health Information Technology (HIT) and HIE as tools which can help Kansas achieve better medical outcomes and reduce the rate of increase of health care service costs has existed since Governor Sebelius formed the Health Care Cost Containment Commission (H4C) in 2004 under Executive Order 04-14. The H4C, the HIT/HIE Policy Initiative, the Kansas Health Information Exchange Commission and the e-Health Advisory Commission (eHAC) that succeeded H4C all recognized the necessity for widespread public/private collaboration in policy making and direction setting for HIT and HIE to succeed in Kansas. Thus, eHAC stakeholders recommended, and the Kansas Department of Health and Environment (KDHE) endorsed, the creation of an independent not-for-profit corporation to guide the creation and development of Electronic Health Information Exchange in Kansas.

Similarities in terminology have created confusion regarding Kansas Health “Information” Exchange initiative and the Health “Insurance” Exchange. While both are supported by Federal grant funding, KHIE is not a component of the Affordable Care Act and the two concepts are unrelated.

Kansas is well-positioned to participate in HIE. The Kansas Regional Extension Center (REC) reports that as of July 2012, 1,462 physicians and 95 hospitals have agreed to install Electronic Medical Record (EMR) systems as a result of the federal incentive programs falling under the American Reconstruction and Recovery Act (ARRA). Four hundred sixty three (463) professional providers and thirty one (31) hospitals are known to be active participants in the state Medicaid Program, and have received incentive funds under ARRA to assist with the installation of EMR software. HIE services will allow these EMR systems to be connected, thereby allowing medical providers to improve their ability to diagnose, treat and
coordinate care for those patients who seek care across a continuum of medical service providers.

2. Authority

KHIE was formed as a result of Executive Order 10-06 issued by Governor Mark Parkinson. KHIE is a public/private collaborative, and takes the corporate form of a not-for-profit 501c(3) Corporation. KHIE was formed in late 2010 for the purpose of assuring statewide HIE in Kansas. Executive Order 10-06 and the Kansas Health Information Technology Exchange Act (KSA 65-6821 through 65-6834, “KHITE”), delegated certain responsibilities and conferred the following powers to KHIE:

**Executive Order 10-06**  
**KHITE (KSA 65-6821 et. Seq)**

- Accept grants, gifts, money  
- Establish accounting procedures  
- Pay costs of operation of committees  
- Enter into contracts  
- Employ staff  
- Promulgate standards for HIE’s  
- Assure that statewide HIE is created/maintained  
- Exercise other powers as necessary  
- Facilitate implementation of State Plan  
- Approve HIEs  
- Provide access to aggregated/de-identified data

<table>
<thead>
<tr>
<th>Executive Order 10-06</th>
<th>KHITE (KSA 65-6821 et. Seq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accept grants, gifts, money</td>
<td>Establish standards for approval and operation of HIEs</td>
</tr>
<tr>
<td>Establish accounting procedures</td>
<td></td>
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<tr>
<td>Pay costs of operation of committees</td>
<td></td>
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<tr>
<td>Enter into contracts</td>
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<tr>
<td>Employ staff</td>
<td></td>
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<tr>
<td>Promulgate standards for HIE’s</td>
<td>Establish HIE participation agreement requirements</td>
</tr>
<tr>
<td>Assure that statewide HIE is created/maintained</td>
<td>Participation in outreach activities</td>
</tr>
<tr>
<td>Exercise other powers as necessary</td>
<td>Establish HIO review/approval process</td>
</tr>
<tr>
<td>Facilitate implementation of State Plan</td>
<td></td>
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<tr>
<td>Approve HIEs</td>
<td></td>
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<tr>
<td>Provide access to aggregated/de-identified data</td>
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As specified by EO 10-06, KHIE has a 17 member Board of Directors, appointed by the Governor, representing state and local agencies and major stakeholders in the delivery and financing of health care services in Kansas. In the short time since it has been in existence, KHIE has fulfilled the major goals set for it by the Executive Order 10-06 and KHITE. Specific accomplishments are detailed in the following section.

3. Accomplishments

a. Organizational Activities

The Board appointed by the Governor held its first organizational meeting on October 18, 2010 and selected temporary officers. Pursuant to EO 10-06, Articles of Incorporation were filed by the Secretary of KDHE on November 5, 2010. Initial Bylaws were approved by the Board on December 17, 2010, and Board officers and standing committees were selected. Amended and Restated Articles of Incorporation were filed by the Secretary of State on January 5, 2011. The Corporate Governance, Risk Management, and Compliance Program was adopted by the Board on September 20, 2011. Revised Bylaws were approved by the Board on November 9, 2011. An Executive Director was hired
on October 12, 2011, and a Program Manager and Executive Assistant were hired in January and February, 2012 respectively.

b. Legislative and Policy Initiatives
The KHIE Board, committee members and stakeholders lobbied to get the draft Kansas Health Information Technology Exchange Act introduced to, and accepted by the 2011 Kansas Legislature. The KHITE act harmonized Kansas law with Federal law pertaining to the electronic exchange of patient health information and superseded numerous anachronistic Kansas laws, many of which conflicted with each other. KHITE legislation established that health information related to patients who received services from health care providers who participate in an approved Health Information Organization (HIO) would be included in the exchange unless a patient took action to “opt-out” of the exchange.

Pursuant to EO 10-06 and KHITE, the KHIE Board of Directors developed policies related to the review, approval and oversight of the HIOs. A total of eleven (11) policies were created for this purpose and are readily accessible on the KHIE website at http://www.khie.org.

c. Operational activities
Under KHIE policies, KHIE is required to accept, vet and convey patient opt-out decisions to approved HIOs that operate HIEs in Kansas. KHIE is further required under EO 10-06 and KHITE to develop a process for accepting concerns and complaints. KHIE has developed computerized data bases that implement these requirements. Because these data bases contain personal identifying information (PII) and because a concern could contain personal health information (PHI), KHIE staff developed and implemented an additional twelve (12) policies to safeguard this data pursuant to federal HIPAA privacy and security laws.

Under KHIE policies, specific procedures were set forth documenting the process that must be followed for the submission of applications to become an approved HIO in Kansas. Two such applications have been received, reviewed and approved on a temporary basis by KHIE. Temporary certificates of authority to provide HIE services have been awarded to the Kansas Health Information Network (KHIN) and the Lewis and Clark Information Exchange (LACIE). It is especially gratifying that these organizations are local, with KHIN being sponsored by the Kansas Medical Society and the Kansas Hospital Association, and LACIE being sponsored by Heartland Health, a St. Joseph Missouri integrated health services delivery organization. Since becoming operational in the 3rd quarter of 2012, approved HIOs have enrolled over 2,400 medical providers and 55 hospitals in HIO services. Initial enrollment and implementation efforts
focused on the center and southeast portions of the state as indicated by the following map. Over 100,000 patient records have been registered in the KHIN database in the Wichita area alone. In late 2012 efforts are expected to shift to the western Kansas and the Kansas City metropolitan areas.

Both HIOs have submitted financial plans that show that they are self-sustaining, primarily through membership fees with some funding occurring through philanthropic grants. In late 2012 and into 2013 both HIOs are expected to apply for and receive federal ONC HIE grant funding which will augment their recurring revenues and strengthen their ability to achieve and maintain financial sustainability.

KHIE has also assisted KDHE with its administration of a multi-year State HIE grant provided by the Office of the National Coordinator (ONC) of the Health and Human Services (HHS) Administration. In February of 2010, ONC awarded KHDE a grant of $9,010,066 to assist in the establishment of HIE services and regulatory functions related thereto. Specific activities involving KHIE staff are assisting in the updating of the Kansas Strategic and Operational Plan; review of the HIE Grant Request for Proposal (RFP); assisting in the preparation of progress reports required by the ONC; attending meetings with ONC staff, etc.

KHIE staff have also been responsible for developing and conducting public outreach activities aimed at informing the public and the provider community of the availability of HIE services, and in some cases, how to participate in those services.
d. **KHIE Financial Status**

The financial status as of June 30, 2012 can be found in the Berberich Trahan Financial Statements Report (see Appendix A).

Additionally, KHIE staff has prepared the following budget for CY 2013 operations:

<table>
<thead>
<tr>
<th>Kansas Health Information Exchange</th>
<th>Draft CY 2013 Cash Budget Forecast as of [12/19/2012] (Full Time Status)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan</td>
</tr>
<tr>
<td>Legal</td>
<td>$2,000</td>
</tr>
<tr>
<td>Policy Consulting</td>
<td>$2,000</td>
</tr>
<tr>
<td>KHIE Services + 15% Overhead</td>
<td>$2,234</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>$4,000</td>
</tr>
<tr>
<td>Other</td>
<td>$245</td>
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<tr>
<td>Annual 900 5013 Tax Reportin</td>
<td>$0</td>
</tr>
<tr>
<td>Payroll/Writing/Printing</td>
<td>$0</td>
</tr>
<tr>
<td>Audit Services (Berberich and T)</td>
<td>$0</td>
</tr>
<tr>
<td>Committee Meeting Expenses</td>
<td>$0</td>
</tr>
<tr>
<td>Office Space + Pharmacy Four</td>
<td>$1,480</td>
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<tr>
<td>Recruiting</td>
<td>$0</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>$0</td>
</tr>
<tr>
<td>Hardware</td>
<td>$0</td>
</tr>
<tr>
<td>Software (SQL Server, Quickbooks, Web Authoring, Content Mgmt.)</td>
<td>$0</td>
</tr>
<tr>
<td>Software Licenses and Renewals</td>
<td>$0</td>
</tr>
<tr>
<td>Software and Equipment Maint</td>
<td>$0</td>
</tr>
<tr>
<td>Telephone/Internet/Other Services</td>
<td>$0</td>
</tr>
<tr>
<td>Travel and conference regist</td>
<td>$0</td>
</tr>
<tr>
<td>Board Meeting Travel Expenses</td>
<td>$0</td>
</tr>
<tr>
<td>Subscriptions</td>
<td>$0</td>
</tr>
<tr>
<td>Supplies</td>
<td>$0</td>
</tr>
<tr>
<td>Postage</td>
<td>$0</td>
</tr>
<tr>
<td>Insurance (HIC, Emp Frac, Gen Liab, etc.)</td>
<td>$0</td>
</tr>
<tr>
<td>Quarterly Totals</td>
<td>$116,441</td>
</tr>
</tbody>
</table>

*HEC market consulting (exempt revenue, reimbursed)*

**Outsourced Service Desk**

**Education/Communication**

$25,000
4. Issues

It is reasonable to expect the emergence of significant issues in any endeavor as complex as the creation of statewide HIE capability; particularly when no such services or relevant policies existed previously. That has certainly been KHIE's experience as issues such as duplication of technical services, lack of services in rural areas, conflicting interstate reciprocity policies, immaturity of technology, evolving roles and responsibilities have surfaced, to name just a few. Key issues confronting KHIE are as follows:

a. Confusion with the Health “Insurance” Exchange

Due to similar terminology and the fact that both are supported by Federal grant funding, some have confused the Kansas Health “Information” Exchange initiative with the Health “Insurance” Exchange component of the Affordable Care Act. The similarities in the terminology is indeed unfortunate and confusing, however, the two concepts are totally unrelated.

Health Information Exchange goals were established by the Bush Administration in 2004. These goals include the creation of an electronic health record (EHR) for every American by the year 2014, and the creation of a national Health Information Exchange infrastructure that would facilitate the exchange of electronic health records among medical providers involved in the diagnosis and treatment of patients. The ability of a medical provider to create an electronic health record for a patient and to exchange that record with other providers involved in the treatment of that same patient are two critical pre-requisites to a provider's achieving the status of “meaningful use” of health information technology. The achievement of a meaningful use status is key to the attainment of improved quality and treatment outcomes for all Kansans.

b. Role of KHIE

Initially those involved with the formative stages of KHIE expected that KHIE would assume the role of regulator and a supplier of shared statewide technical services. Later it became apparent that most of the shared technical services needed for statewide HIE were readily available from local service providers, thereby obviating the need for KHIE to provide these services. The Board of Directors, therefore, decided to scale back KHIE's role to that of a regulator, which ultimately raised concerns whether KHIE’s operational costs could be sustained as an independent regulatory agency. Faced with cost pressures, the KHIE Board of Directors voted on September 12, 2012 to support a recommendation to transition regulatory and operational responsibilities to KDHE.
c. Governance
   The eventual transfer of regulatory and operational responsibilities to KDHE will maintain the diverse public-private composition of the Board but will transition the authority of the Board to that of an advisory versus a decision making role.

d. Board Composition
   Since its inception the KHIE Board has been extremely active, holding monthly Board meetings with more frequent committee meetings. This has placed time pressures upon Board members and as a result six (6) of the original seventeen (17) Board members have resigned. Requests to the Governor to replace those Board members have gone unanswered.

e. Conflict of Interest
   One of the KHIE Board members is also the Chairman of one of the approved HIOs. While this individual has recused himself from voting on decisions which might affect his HIO, some stakeholders perceive this individual’s presence on the Board as a potential conflict-of-interest.

f. Patient participation in Health Information Exchange (“Opt-in”/”Opt-out”)
   KHITE legislation is widely regarded as forward thinking and a pre-requisite to the creation and operation of a robust statewide HIE capability. Early on, the legislature recognized that the decision to require patients to either consciously “opt-out” or “opt-in” in order to have their health records included in a HIE was a critical element that would significantly influence the adoption rate and acceptance of HIE in Kansas. The Kansas legislature crafted KHITE language to include health records within approved HIEs for those patients who are diagnosed and/or treated by health care providers who participate in approved HIEs unless those patients consciously “opt-out”. Therefore, Kansas is considered an “opt-out” state. This concept appears to be well-received by the public owing to the fact that to-date only two hundred eleven (211) patients have chosen to opt-out of HIE services.

   However, there are two issues with the current “opt-out” provision in KHITE: First, as written, KHITE language indicates that health records for a patient who has opted out will not be included in an HIE. However, current technology does not allow for this, so the language in KHITE needs to be changed to indicate that an exchange will not allow a third party to access a patient’s records within the exchange if he/she has opted out of HIE. Second, KHIE has received a handful of letters from patients who object to the obligation placed upon them by KHITE to “opt-out” if they do not want to have their records included in a health information exchange. These patients believe the appropriate public policy
would be that patients records would be excluded from an HIE unless the patient takes action to explicitly “opt-in”.

g. **“Break-the-glass”**
KHITE legislation allows providers to “break-the-glass” to access a patient’s health records when there is suspicion of abuse or the existence of a reportable medical condition (e.g. aids, TB, etc.). However, KHITE does not permit a provider to break-the-glass if a patient is non-responsive and there is legitimate concern that a patient has a life threatening condition. Consideration should be given to extending break-the-glass situations allowed under KHITE to cover non-responsive patients.

h. **Interstate Reciprocity**
There are a considerable number of patients who receive care across state borders. In the absence of a standardized nationwide approach, states are left to promulgate their own laws and policies related to HIE. It is common to see conflicting laws and policies adopted in adjacent states which complicate the free exchange of patient health records. In many cases patient health records are stored in a single computer system that supports provider facilities operating on both sides of a state line. A patient who receives care in a provider’s facility in one state may not have to take action to have their records included in an exchange (Kansas) but may have to explicitly opt-in to have their records included in another exchange (Missouri). This creates an untenable situation for providers and patients who have to comply with conflicting state laws and policies.

Likewise, there are conflicting approaches among various HIEs in other states regarding whether fees should be charged for the exchange of patient health records between exchanges located within those states and across state borders.

The KHIE Policy Committee has adopted principles stating that Kansas HIEs should not have to pay to send or receive patient records between approved Kansas HIOs or between Kansas HIOs and exchanges that operate in other states.

i. **Secondary Data Use**
There is keen interest among stakeholders in the extent to which HIEs can provide meaningful information that would improve public health. Currently, technology available from approved HIOs limit the retrieval of health records to records belonging to an individual patient. Thus it is currently not possible for either of the approved HIOs to aggregate data across patients who share common clinical and/or demographic circumstances. Both of the approved
HIOs acknowledge that the capability of providing aggregated data is vital to the goal of improving public health and are engaged in conversations with their technology vendors aimed at fulfilling these needs.

However, there are numerous policy challenges that accompany the subject of secondary data use: For example, does current Kansas state law require that universities be given access to patient record for research purposes? Should that access be free or come at a price? Should patients be required to give consent to the use of their data for research purposes as a by-product of their records being included in as HIE? Should commercial organizations be prohibited from accessing this information, or should they be required to pay for the data if they are permitted to access it? Who owns aggregated information that is derived from patient data? All of these questions, and others, have yet to be addressed.

j. Participation by Ancillary Health Care Providers
Initial enrollment of providers by the two approved Kansas HIOs has focused on doctors (including osteopaths, nurse practitioners, etc.) and hospitals in both rural and urban settings. These efforts are viewed as essential, and have enabled the HIOs to achieve the minimum scale necessary to ensure continuity of services. However the HIE financial models are still somewhat speculative, and will be considerably strengthened once ancillary medical providers (pharmacies, long-term care facilities, diagnostic imaging centers, labs, etc.) are enrolled.

k. Status of Federal ARRA ONC Grant Funds
The original ONC grant funds in the amount of $9,010,066 have been spent as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Planning</td>
<td>$471,182.12</td>
</tr>
<tr>
<td>KHIE</td>
<td>$704,082.50</td>
</tr>
<tr>
<td>Other</td>
<td>$230,280.94</td>
</tr>
<tr>
<td>Remaining ONC Funds</td>
<td>$7,604,520.44</td>
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</table>

l. Electronic Prescribing
Despite best efforts to promote electronic prescribing (“e-Rx”, or “e-prescribing”) in all areas of the state, a plateau appears to have been reached. Several pharmacies in underserved areas of the state have the ability to participate in electronic prescribing but to-date have resisted market pressures to do so. Thus, according to Surescripts data supplied by the Federal Government, Kansas only 88% of pharmacies accept electronic prescriptions. E-prescribing systems have the ability to ensure that medications prescribed for the patient are compatible with the patient’s allergies, other medical conditions
and other medications that the patient might be receiving. Thus, the ability to accept electronic prescriptions is a key tool in the quest to reduce avoidable adverse drug events related expenses which arise as a result of medication “errors”. It is possible that policy makers may need to consider measures to incent or require pharmacies that do not accept electronic prescriptions to participate in these programs.

5. Summary

a. Conclusions
i. **HIE has gotten off to a good start** in Kansas. Over 2,400 medical professionals and 55 hospitals are currently enrolled and beginning to exchange patient information through two HIOs which have been approved by KHIE to provide HIE services in Kansas. The HIOs that provide these HIE services are working cooperatively to develop interfaces which will facilitate the free exchange of information between them.

ii. Collaborative public-private **HIE governance has been successful to-date**, but the consensus of the KHIE Board and stakeholders is that governance, regulatory and operational functions should be transferred from KHIE to KDHE.

iii. KHIE **policies are considered leading-edge** and should be maintained, improved and eventually incorporated within KDHE rules and regulations.

iv. **KHITE legislation** is also viewed as leading-edge, but needs to be amended to provide for:
   a. transfer of HIE governance responsibilities from KHIE to KDHE
   b. the continuation of public-private input to HIE governance through the establishment of a permanent advisory committee reporting to KDHE
   c. expansion of circumstances under which medical providers can “break-the-glass”
   d. the recognition that health records for individuals who “opt-out” of an exchange may be contained within that exchange as long as the exchange does not allow 3rd parties to view those records.

v. The **lack of nationwide laws, policies and standards** around the exchange of information across state borders hinders the adoption of HIE on the part of providers that have facilities in multiple states.

vi. **The state’s ability to monitor and improve public health has been enhanced** by early HIE efforts. Automated immunization reporting through HIEs is already occurring. Further efforts are underway to automate patient registration within selected disease registries (e.g.
cancer, diabetes); to improve automated syndromic disease reporting; and to integrate the Prescription Management Program (PMP) with the approved HIOs.

However, the immaturity of current HIE technologies to aggregate information across patients with common clinical and/or demographic characteristics, their limited ability to generate secondary data research, and lack of relevant policies will impede the ability of HIEs to further enhance the state's efforts to improve population health outcomes for some time to come.

vii. Financial sustainability is an issue to the HIOs. Future efforts to enroll ancillary care providers are expected to reduce risks of financial insolvency.

b. Recommendations
i. KHIE responsibilities should be transferred to KDHE for the purpose of reducing administrative costs associated with running an independent regulatory agency.
ii. The Governor should act to replace current Board vacancies.
iii. Consider providing grant funds to technology providers that can provide meaningful secondary data query capabilities.
iv. Consider providing grant funds to HIOs that can enroll ancillary health care providers as participants in HIEs.
v. Consider policy measures that will increase the number of pharmacies who participate in e-prescribing.

6. Board of Directors
- Dr. Joe Davison, M.D. West Wichita Family Physicians
- Dr. Michael Atwood, M.D. Chief Medical Officer, BCBS of Kansas
- Dr. Robert Moser, M.D. Secretary, KDHE
- Dr. Jen Brull, M.D. Prairie Star Family Practice
- Helen Connors, R.N., P.H.D. Director, KU School of Informatics
- Karen Braman, RPh, M.S. Express Scripts
- Jonalan Smith, Pharm D Genoa Healthcare
- Kenneth Mishler, Pharm D, RPh Kansas Foundation for Medical Care
- Cindy Chrisman-Smith, R.N. Kingman County Health Department
- Jerry Slaughter, Exec. Director Kansas Medical Society
- Jackie John, Vice President Great Plains Health Alliance
- Consumer Representative Vacant
- Consumer Representative Vacant
- Medicaid Director Vacant
- Hospital Representative Vacant
7. **Audit Letter**

   See Appendix B

- **Hospital Representative**  Vacant
- **Employer Representative**  Vacant
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<td>Notes to Schedule of Expenditures of Federal Awards</td>
<td>10</td>
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<td>Summary Schedule of Prior Year Audit Findings</td>
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<td>Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133</td>
<td>17-18</td>
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Kansas Health Information Exchange, Inc.:

We have audited the accompanying statement of financial position of Kansas Health Information Exchange, Inc. (the Organization) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 that our audit provides 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 the Organization as of June 30, 2012, 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.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2012 on our consideration of the Organization’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the accompanying table of contents, including the schedule of expenditures of federal awards as required by OMB Circular A-133, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Berberich Travis & Co., P.A.

December 4, 2012
KANSAS HEALTH INFORMATION EXCHANGE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

**ASSETS**

Current assets:
- Cash $8,475
- Grant receivable 59,138
- Prepaid expenses 8,624

Total current assets 76,237

Computers and software, less accumulated depreciation of $8,439 51,432

$127,669

**LIABILITIES AND NET ASSETS**

Current liabilities:
- Accounts payable $35,411
- Due to related party 28,202
- Accrued vacation 8,254

Total liabilities 71,867

Net assets:
- Unrestricted 55,802

$127,669

See accompanying notes to financial statements.

-3-
KANSAS HEALTH INFORMATION EXCHANGE, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Revenue:
- Grant revenue $622,900
- Application fees 4,000

Total revenue 626,900

Expenses:
- Salaries 174,626
- Fringe benefits 31,647
- Depreciation 8,439
- Rent and utilities 15,381
- Legal fees 98,178
- Outside contract services 186,156
- Travel 12,009
- Supplies 3,073
- Telephone and telecommunications 5,029
- Insurance 13,967
- Printing 333
- Postage 483
- Advertising 1,027
- Conferences, conventions, and meetings 6,085
- Miscellaneous 14,665

Total expenses 571,098

Change in net assets 55,802

Net assets, beginning of year -

Net assets, end of year $55,802

See accompanying notes to financial statements.
KANSAS HEALTH INFORMATION EXCHANGE, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

Cash flows from operating activities:
Change in net assets $ 55,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:
Depreciation 8,439
Change in assets and liabilities:
  Grants receivable (59,138)
  Prepaid expenses (8,624)
  Accounts payable 35,411
  Due to related party 28,202
  Accrued vacation 8,254
  Deferred grant revenue (59,755)

  Net cash provided by operating activities 8,591

Cash flows from investing activities:
  Purchase of equipment (59,871)

  Net decrease in cash and cash equivalents (51,280)

Cash, beginning of year 59,755
Cash, end of year $ 8,475

See accompanying notes to financial statements.
KANSAS HEALTH INFORMATION EXCHANGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. Organization and Summary of Significant Accounting Policies

Organization

Kansas Health Information Exchange, Inc. (the Organization) was constituted by Governor Mark Parkinson and legally incorporated on January 5, 2011. The Organization is a nonprofit orchestrator of health information exchanges in the State of Kansas. The Organization’s mission is to assure the availability of statewide health information exchanges in the State of Kansas and to certify and regulate those exchanges. In that capacity, the Organization works with governmental agencies, patients, and health care providers.

Property and Equipment

Property and equipment are carried at cost. Property and equipment with a cost of more than $500 and an estimated useful life of more than three years are capitalized. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets which is 3 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Accrued Vacation

Under the terms of the Organization’s personnel policies, employees are granted vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated leave. Accrued compensated absences are included in accrued vacation on the statement of financial position.

Income Tax Matters

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code), is exempt from federal income taxes pursuant to Section 501(a) of the Code and has been classified as other than a private foundation.

The Organization’s policy is to evaluate uncertain tax positions annually. Management has evaluated the Organization’s tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements.
Income Tax Matters (Continued)

Forms 990 and 990T are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. There are no returns filed by the Organization that are not subject to examination.

Grant Revenue

The Organization receives a substantial portion of its revenues from a grant from the Kansas Department of Health and Environment. This grant is governed by rules and regulations of the grantor agency. Costs charged to the grant program are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refund of any money received may be required. In the opinion of the Organization, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Grant revenues are recorded when the conditions on which they depend are substantially met. If a significant reduction in the level of these revenues or delay in the timing of receipts were to occur, it could have an effect on the Organization's programs and activities.

Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
2 - Lease Commitments

The Organization has an operating lease for office space in Topeka, Kansas. The lease is a two-year lease which expires in January 2014. The Organization has the option to renew the lease for additional one-year time periods if certain conditions are met. Rent expense incurred under the lease for the year ended June 30, 2012 was $15,381. Future annual minimum rental payments are as follows:

<table>
<thead>
<tr>
<th>Year Ended June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$17,249</td>
</tr>
<tr>
<td>2014</td>
<td>10,062</td>
</tr>
<tr>
<td></td>
<td>$27,311</td>
</tr>
</tbody>
</table>

3 - Related-Party Transactions

The Organization has entered into a management agreement with Kansas Health Institute (the Institute) whereby the Institute provides administrative assistance to the Organization. The Organization incurred expense of $217,648 related to this administrative assistance. At June 30, 2012, the Organization owed the Institute $28,202 for payroll and related costs.

4 - Subsequent Events

Subsequent events have been evaluated by management of the Organization through the date of the independent auditor’s report, which is the date the financial statements were available to be issued.

On September 12, 2012, the Board of Directors of the Organization unanimously approved to transfer its duties to the Kansas Department of Health and Environment by October 2013 provided that the Legislature approves the transfer.
SUPPLEMENTARY INFORMATION
KANSAS HEALTH INFORMATION EXCHANGE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

<table>
<thead>
<tr>
<th>Federal Grant/Program Title</th>
<th>Federal CFDA Number</th>
<th>Award</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Health and Human Services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed through Kansas Department of Health and Environment:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARRA - Kansas Health Information Exchange Project</td>
<td>93.719</td>
<td>$700,000</td>
<td>$576,938</td>
</tr>
</tbody>
</table>

See accompanying notes to schedule of expenditures of federal awards.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

1 - General

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of Kansas Health Information Exchange, Inc. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies, are included on the schedule.

2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

3 - Difference in Presentation

The accompanying schedule of expenditures of federal awards presents fixed asset acquisitions and prepaid rent as expenses under the definition of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The financial statements present fixed asset acquisitions and prepaid rent as assets in accordance with accounting principles generally accepted in the United States of America. The financial statements also include expenses for accrued vacation and depreciation which were not included for the purposes of the schedule of expenditures of federal awards.
Section I - Summary of Independent Auditor’s Results:

Financial Statements:

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

   Material weaknesses identified: None

   Significant deficiencies identified that are not considered to be material weaknesses 2012-1

Noncompliance material to financial statements: None

Federal Awards

Internal control over major programs:

   Material weaknesses identified None

   Significant deficiencies identified that are not considered to be material weaknesses: 2012-2

Type of auditor’s report issued on compliance for major programs:

   Unqualified – ARRA – Kansas Health Information Exchange Project

Any audit findings that are required to be reported in accordance with Section 510(a) of Circular A-133:

Finding 2012-2

Identification of major programs:

   CFDA Number
   93.719

   Name of Federal Program
   ARRA – Kansas Health Information Exchange Project
Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as a low-risk auditee: No

Section II – Financial Statement Findings

Finding 2012-1 – Significant Deficiency

Condition – During the course of the audit, we identified significant misstatements in the trial balance that were not initially identified by the Organization’s internal control.

Criteria – Correctly identifying entries that need to be made is an important part of an effective internal control structure.

Cause – Inappropriate application of generally accepted accounting principles.

Effect – Some accounts were materially misstated.

Recommendation – Controls should be implemented to ensure that year-end accrual entries related to accounts payable, accounts receivable, etc. are made.

Management’s Response (Unaudited) – Controls have been initiated to ensure that year-end accrual entries are made. Per Berberich Trahan & Co., P.A. recommendation, adjustment entries will be made for the fiscal year ending June 30, 2012. Ongoing accrual processing procedures are being implemented and documented.

Section III – Federal Award Findings and Questioned Costs

Finding 2012-2 – Significant Deficiency

Federal Program – ARRA – Kansas Health Information Exchange Project (CFDA No. 93.719), U.S. Department of Health and Human Services, Kansas Department of Health and Environment

Compliance Requirement – Procurement, Suspension and Debarment

Condition – During the procurement process, the Organization did not verify that the vendor selected for testwork and awarded a contract was not on the Excluded Parties List System, nor did it retain supporting documentation for a sole source determination.
Finding 2012-2 – Significant Deficiency (Continued)

Criteria – One of the objectives of internal control pertaining to compliance requirements for Federal programs is that transactions are properly recorded and accounted for to demonstrate compliance with laws, regulations, and other compliance requirements. Therefore, supporting documentation needs to be maintained to demonstrate compliance. As well, according to 2 CFR 180, procurement transactions expected to equal or exceed $25,000 require that the recipient of the federal funding must verify that the entity in the next lower tier that it is contracting with is not suspended or debarred.

Cause – Supporting documentation was not retained for sole source determination. As well, the Organization was not aware of the requirement to verify if vendors were suspended or debarred parties.

Effect – The Organization could enter into a contract or vendor relationship with a suspended or debarred party. Without supporting documentation for sole-source documentation, the entity cannot prove compliance with procurement activity.

Questioned Costs – Unknown

Recommendation – The Organization should implement controls that would verify that entities with whom the Organization contracts for equal to or greater than $25,000 are not suspended or debarred. The Organization also should retain supporting documentation for the reasoning behind procurement decisions.

Management’s Response/Corrective Action Plan (Unaudited) – Procedures concerning the vendor procurement process are being documented and will be implemented prior to any future vendor negotiations. These procedures include controls to verify that potential vendors of contract greater than or equal to $25,000 are not included in the Excluded Parties List System. Also included are vendor selection and procurement documentation retention policies.
KANSAS HEALTH INFORMATION EXCHANGE, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended June 30, 2012

None.
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Kansas Health Information Exchange, Inc.:

We have audited the financial statements of Kansas Health Information Exchange, Inc. (the Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the schedule of findings and questioned costs as Finding No. 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of finding and questioned costs as item 2012-1.

We noted certain matters that we reported to management of the Organization in a separate letter dated [DATE].

The Organization’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization’s response, and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity and the federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

December 4, 2012
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Kansas Health Information Exchange, Inc.:

Compliance
We have audited Kansas Health Information Exchange, Inc.’s (the Organization) compliance with the
types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that
could have a direct and material effect on each of the Organization’s major federal program for the year
ended June 30, 2012. The Organization’s major federal program is identified in the summary of
auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance
with the requirements of laws, regulations, contracts and grants applicable to its major federal program
is the responsibility of the Organization’s management. Our responsibility is to express an opinion on
the Organization’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the
United States of America; the standards applicable to financial audits contained in Government Auditing
Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of
States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133
require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance
with the types of compliance requirements referred to above that could have a direct and material effect
on a major federal program occurred. An audit includes examining, on a test basis, evidence about the
Organization’s compliance with those requirements and performing such other procedures as we
considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our
opinion. Our audit does not provide a legal determination of the Organization’s compliance with those
requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements
referred to above that could have a direct and material effect on its major federal program for the year
ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of
noncompliance with those requirements, which is required to be reported in accordance with OMB
Circular A-133 and which is described in the accompanying schedule of findings and questioned costs
as item 2012-2.
Internal Control Over Compliance
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity and the federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

December 4, 2012
To the Board of Directors of  
Kansas Health Information Exchange, Inc.  
Topeka, Kansas  

We are pleased to present this letter related to our audit of the financial statements of Kansas Health Information Exchange, Inc. (the Organization) for the year ended June 30, 2012. Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

1. **The Auditor’s Responsibility under Professional Standards**

   Our responsibility under auditing standards generally accepted in the United States of America; Government Auditing Standards issued by the Comptroller General of the United States; the provisions of the Single Audit Act; OMB Circular A-133; and OMB’s Compliance Supplement has been described to you in our arrangement letter dated September 6, 2012.

2. **Adoption of, or Change in, Accounting Policies**

   Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Organization. The Organization did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

3. **Significant or Unusual Transactions**

   We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

4. **Alternative Treatments Discussed with Management**

   We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
5. **Management’s Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management’s current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates.

6. **Audit Adjustments**

Audit adjustments recorded by the Organization are attached with the representation letter attached to this letter.

7. **Disagreements with Management**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management’s judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

8. **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

9. **Significant Issues Discussed with Management**

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

10. **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management during the audit.

11. **Communication of Significant Deficiencies**

We have separately communicated the significant deficiencies identified during our audit of the financial statements, and this communication is attached to this letter and included within the compliance section of the Organization’s financial report for the year ended June 30, 2012.

12. **Certain Written Communications Between Management and Our Firm**

Copies of certain written communications between our firm and management of the Organization are attached to this letter.

This report is intended solely for the information and use of the Board of Directors and is not intended to be and should not be used by anyone other than the specified parties. We would be pleased to respond to any questions you have regarding this letter. We appreciate the opportunity to be of service to the Organization.

December 4, 2012
December 4, 2012

To the Board of Directors and Management  
Kansas Health Information Exchange, Inc.  
Topeka, Kansas

In planning and performing our audit of the financial statements of Kansas Health Information Exchange, Inc. (the Organization) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following control deficiencies to be significant deficiencies:

**Significant Journal Entries**

During the course of the audit, we identified significant misstatements related to the proper booking of accrual entries into the correct time period in accordance with generally accepted accounting principles in the trial balance that were not initially identified by the Organization’s internal control.
Procurement, Suspension and Debarment

During the procurement process, the Organization did not verify that the vendor selected for testwork and awarded a contract was not on the Excluded Parties List System, nor did it retain supporting documentation for a sole source determination.

The Organization’s written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Following is a description of an identified control deficiency that we determined did not constitute a significant deficiency or material weakness.

Bank reconciliations should be performed at least monthly. They should be reviewed and approved by an authorized person independent of the reconciliation process.

This communication is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Finally, we wish to express our appreciation to the Organization’s personnel for their assistance and cooperation during our audit, and we look forward to working with you on future engagements.

Very truly yours,

BERBERICH TRAHAN & CO., P.A.

Brad T. Koehn
Director

BTK:tls
December 4, 2012

Berberich Trahan & Co., P.A.
3630 SW Burlingame Road
Topeka, Kansas 66611-2050

In connection with your audit of the statement of financial position of Kansas Health Information Exchange, Inc. (the Organization) as of June 30, 2012 and the related statements of activities and cash flows for the year then ended, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of activities and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of the date of the auditor’s report, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We have made available to you all:
   a. Financial records and related data.
   b. Minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. We have no knowledge of fraud or suspected fraud affecting the entity involving:
   a. Management.
   b. Employees who have significant roles in the internal control.
   c. Others where the fraud could have a material effect on the financial statements.

4. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

5. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, analysts, regulators or others.

6. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Organization’s ability to record, process, summarize and report financial data.

7. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

improving the health of Kansans through trusted exchange of health information.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets.

9. The following have been properly recorded and/or disclosed in the financial statements:
   a. Related-party relationships, transactions and related amounts receivable or payable including sales, purchases, loans, transfers, leasing arrangements and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
   b. All leases and material amounts of rental obligations under long-term leases.
   c. All significant estimates and material concentrations known to management which are to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the financial statement date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply or markets for which events could occur which would significantly disrupt normal finances within the next year.
   d. Concentrations of credit risk.
   e. Allocations of functional expenses based on reasonable basis.
   f. Tax status. All current and deferred assets and liabilities related to the accounting for income taxes. Additionally, we have evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Taxes Topic of the FASB Accounting Standards Codification.

10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.

11. There are no:
   a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
   b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

d. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

e. Lines of credit or similar arrangements.

f. Guarantees, whether written or oral, under which the Organization is contingently liable.

g. Agreements to repurchase assets previously sold.

h. Security agreements in effect under the Uniform Commercial Code.

i. Liens or encumbrances on assets or all other pledges of assets.

j. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.

k. Investments in debt and equity securities.

l. Liabilities which are subordinated to any other actual or possible liabilities of the Organization.

m. Contributions.

n. Conditional promises to give.

o. Reclassifications between net asset classes.

p. Donor restrictions.

q. Deferred revenue from exchange transactions.

r. Refundable advances.

s. Assets or liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

t. Board designated unrestricted net assets.

12. We are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance the Contingencies Topic of the FASB Accounting Standards Codification and we have not consulted a lawyer concerning litigation, claims or assessments.

13. The Organization has satisfactory title to all owned assets.

14. We have complied with all aspects of contractual agreements, grants and donor restrictions that would have a material effect on the financial statements in the event of noncompliance.

15. With respect to supplementary information presented in relation to the financial statements as a whole:

a. We acknowledge our responsibility for the presentation of such information.
We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.

When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor’s report thereon.

16. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.

17. We are responsible for determining that significant events or transactions that have occurred since the financial statement date and through the date of management’s evaluation as disclosed in the financial statements have been recognized or disclosed in the financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the financial statement date and through the date of management’s evaluation as disclosed in the financial statements that would require recognition or disclosure in the financial statements. We further represent that as of the date of management’s evaluation as disclosed in the financial statements, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

18. During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

19. We agree with the adjusting journal entries as proposed in the attachment. Furthermore, we intend to record these entries into our trial balance as of June 30, 2012.

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

1. We are responsible for:
   a. Compliance with laws, regulations and provisions of contracts and grant agreements applicable to the Organization.
b. Establishing and maintaining effective internal control over financial reporting.

2. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.

3. There are no violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

4. We have a process to track the status of audit findings and recommendations.

5. There are no previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken.

6. We have provided you with our views on your reported findings, conclusions and recommendations, as well as our planned corrective action for the report.

7. We have reviewed, approved, and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

8. We have reviewed, approved, and take full responsibility for all accrual adjustments and acknowledge the auditor's role in the preparation of the adjustments.

In connection with your audit of federal awards conducted in accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, we confirm:

9. We are responsible for complying, and have complied, with the requirements of OMB Circular A-133.

10. We are responsible for establishing and maintaining, and we have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that Organization is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.

11. We have prepared the schedule of expenditures of federal awards in accordance with Circular A-133 and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants,
federal cost-reimbursement contracts, loans, loan guarantees, property (including
donated surplus property), cooperative agreements, interest subsidies, insurance,
food commodities, direct appropriations, and other assistance.

12. We are responsible for understanding and complying with the requirements of
laws, regulations, and the provisions of contracts and grant agreements related to
each of the Organization's federal programs.

13. We have identified and disclosed to you the requirements of laws, regulations,
and the provisions of contracts and grant agreements that are considered to have a
direct and material effect on each major program.

14. We have made available all contracts and grant agreements (including
amendments, if any) and any other correspondence relevant to federal programs
and related activities that have taken place with federal agencies or pass-through
entities.

15. We have identified and disclosed to you all amounts questioned and any known
noncompliance with the direct and material compliance requirements of federal
awards.

16. We believe that we have complied with the direct and material compliance
requirements, except for the noncompliance we have disclosed to you.

17. We have charged costs to federal awards in accordance with applicable cost
principles, other than as disclosed by you.

18. We have made available all documentation related to the compliance with the
direct and material compliance requirements, including information related to
federal program financial reports and claims for advances and reimbursements.

19. Federal program financial reports and claims for advances and reimbursements
are supported by the books and records from which the basic financial statements
have been prepared.

20. The copies of federal program financial reports provided to you are true copies of
the reports submitted, or electronically transmitted, to the federal agency or pass-
through entity, as applicable.

21. We have disclosed to you any communications from grantors and pass-through
entities concerning possible noncompliance with the direct and material
compliance requirements, including communications received from the end of
the period covered by the compliance audit to the date of your report.
22. We are responsible for taking corrective action on audit findings of the compliance audit.

23. We have disclosed the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

24. We have accurately completed the appropriate sections of the data collection form.

25. We are not aware of any known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report.

26. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent of the date as of which compliance is audited.

Very truly yours,

KANSAS HEALTH INFORMATION EXCHANGE, INC.

Bill Wallace
Chief Executive Officer

Date Signed 12/4/2012
# Adjusting Journal Entries

**Year End: June 30, 2012**

**Date: 7/1/2011 To 6/30/2012**

<table>
<thead>
<tr>
<th>Number</th>
<th>Date</th>
<th>Name</th>
<th>Account No</th>
<th>Reference</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6/30/2012</td>
<td>Accounts Payable</td>
<td>800</td>
<td>2010</td>
<td>-35,411.00</td>
<td></td>
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<tr>
<td></td>
<td>6/30/2012</td>
<td>Accrued Payroll</td>
<td>810</td>
<td>2010</td>
<td>-28,202.00</td>
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</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Personnel - KHI</td>
<td>2020</td>
<td>2010</td>
<td>25,448.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Fringe Benefits - KHI</td>
<td>3010</td>
<td>2010</td>
<td>2,756.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Legal Fees</td>
<td>5030</td>
<td>2010</td>
<td>8,000.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Outside Contract Services</td>
<td>5040</td>
<td>2010</td>
<td>21,238.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Conference, Convention, Meeting</td>
<td>6010</td>
<td>2010</td>
<td>558.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Travel-Board Members</td>
<td>6030</td>
<td>2010</td>
<td>1,564.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Rent, Parking, Utilities</td>
<td>8010</td>
<td>2010</td>
<td>1,413.00</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>6/30/2012</td>
<td>Supplies</td>
<td>6080</td>
<td>2010</td>
<td>2,636.00</td>
<td></td>
</tr>
</tbody>
</table>

To record the accounts payable for FY12

63,613.00 -63,613.00

| 2      | 6/30/2012| Unrestricted Net Assets       | 901        | 2010      | 10,451.00 |           |
| 2      | 6/30/2012| Legal Fees                    | 5030       | 2010      | -9,447.00 |           |
| 2      | 6/30/2012| Travel-Board Members          | 6030       | 2010      | -1,004.00 |           |

To remove the FY11 expenses

10,451.00 -10,451.00

| 3      | 6/30/2012| Prepaid Rent                  | 620        | 4011      | 8,624.00  |           |
| 3      | 6/30/2012| Office Lease                  | 8020       | 4011      | -8,624.00 |           |

To adjust the rent expense for FY12 and move the remaining balance to prepaid rent.

8,624.00 -8,624.00

| 4      | 6/30/2012| Deferred Revenue              | 820        | 7510      | -49,304.34|           |
| 4      | 6/30/2012| Unrestricted Net Assets       | 901        | 7510      | 49,304.34 |           |

To reclassify prior year grant funds from net assets to deferred revenue.
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>GL No.</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/30/2012</td>
<td>Grants Receivable</td>
<td>150</td>
<td>1610</td>
<td>59,139.00</td>
</tr>
<tr>
<td>5/30/2012</td>
<td>Deferred Revenue</td>
<td>620</td>
<td>1510</td>
<td>49,304.00</td>
</tr>
<tr>
<td>5/30/2012</td>
<td>State Contracts</td>
<td>1011</td>
<td>1510</td>
<td>49,304.00</td>
</tr>
</tbody>
</table>

To correct and of year deferred revenue.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>GL No.</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/2012</td>
<td>Accrued Vacation</td>
<td>615</td>
<td>8110</td>
<td>-8,254.00</td>
</tr>
<tr>
<td>6/30/2012</td>
<td>Personnel - K-12</td>
<td>2010</td>
<td>8110</td>
<td>8,254.00</td>
</tr>
</tbody>
</table>

To record accrued vacation.