



BERBERICH TRAHAN & CO., P.A.

Certified Public Accountants

INFORMATION NETWORK OF
KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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(A COMPONENT UNIT OF THE STATE OF KANSAS)

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Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Information Network of Kansas, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Information Network of Kansas, Inc. (INK), a component unit of the State of Kansas, as of and for the year ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise INK's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of INK, as of December 31, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Berberich Trahan & Co., P.A.

October 24, 2014
Topeka, Kansas

Management's Discussion and Analysis

As management of the Information Network of Kansas, Inc. (INK), we offer readers of INK's financial statements this narrative overview and analysis of the financial activities of INK for the years ended December 31, 2013 and 2012.

The Information Network of Kansas Inc., hereinafter referred to as INK, was created by the legislature of the State of Kansas in 1990. Its purposes and duties include providing to the citizens of Kansas electronic access to public information of agencies via a gateway service, to develop a dial-in gateway or electronic network for access to public information, to appropriately oversee and assure fulfillment of terms of contract of any network manager, to explore and where appropriate implement ways and means of expanding the amount and kind of public information, to expand the base of users, to cooperate with the Kansas Office of Information Technology Services (OITS) in seeking to achieve the purposes of INK, to explore and where appropriate implement new technological means for improving citizen and business access to public information and for-profit information and databases.

The statute provides for a managing board of nine members, consisting of

- The Secretary of State
- Two members who are chief executive officers of agencies of the executive branch, appointed by the Governor
- One member of the Kansas Bar Association, appointed by the Governor from a list of three members submitted by the association
- One member from the Kansas Public Libraries Association, appointed by the Governor from a list of three members submitted by the association
- The Director of the Office of Information Technology and Services
- Three members representing user associations of a statewide character, appointed by the Governor from a list of three members for each user association submitted by the INK Board of Directors.

The board decides which services are to be offered to the public, the amount of the user fees, and administers the contract with the network manager. The board meets once a month, board committees meet more often as required, and serve without compensation. Travel expense of board members is reimbursed. No State General Funds are appropriated to fund INK. Portal revenue is generated from user fees and interest bearing accounts.

Financial Support

The INK board of directors met for the first time in November, 1990 and after performing a RFP process, selected a network manager and commenced operations on January 16, 1992. The major source of user fees is paid by vendors that supply insurance companies with Kansas driver license information and vehicle lien records. A second main source of revenue is interactive fees from groups of business users of the network. Main groups of business users include information resellers, commercial banks, lawyers, accountants, and the general public. INK also provides web application development services for professional licensing, transportation registration and licensing, and provides payment processing for state, county and local government organizations.

INK Management

INK employed a network manager in 1990, a for-profit organization named Kansas Information Consortium (KIC), formed for the sole purpose of operating the network for the board. KIC serviced under the original contract, with extensions through December 31, 2002. A Request for Proposal for a network manager was issued by the board in 2002, consideration of vendors followed, and the board subsequently entered into a contract with KIC. Subsequent contracts were executed with KIC in 2008 and again in 2011, and most recently in 2014.

The current contract provides that all gross fees are collected by INK, and after payment of direct costs to agencies in supplying data and shared portal expenses, 85% of such gross profit is to be paid to KIC for operating expense. The network manager, KIC, submits an annual business plan to the INK board for approval, enumerating expected costs of operations and anticipated revenues.

The INK board hired a full-time executive director in April, 2002. In 2013, INK signed a one-year lease for office space from the Kansas Association of Counties. INK makes monthly payments for rent and parking to the Kansas Association of Counties for such costs. The Department of Administration Service Center in conjunction with the Human Resource Department performs the Executive Director's payroll administration. INK provides funds to the Service Center for all salary and benefits on a quarterly basis.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to INK's basic financial statements. INK engages in business-type activities and is reported as a component unit of the State of Kansas. As such, INK prepares these basic financial statements, notes to the financial statements and required supplementary information which includes this management's discussion and analysis.

The Statement of Net Position provides information on the nature and amount of INK's economic resources. The Statement of Cash Flows reconciles the change in cash with the activities of INK for the twelve months ended December 31, 2013.

Financial Highlights

- The assets of INK exceeded its liabilities at the close of the most recent fiscal year by \$2,470,169, which may be used to meet INK's ongoing obligations to participating state and local entities, program development, security, and disaster recovery contingencies.
- INK's total net position increased by \$151,626 and \$529,762 for the years ended December 31, 2013 and 2012 respectively. The key factor for this increase is attributable to new services introduced to the local and county levels of state government; expanded adoption of existing services at the state level, newly developed revenue-generating applications and effective expense management.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. In the case of INK, assets exceeded liabilities by \$2,470,169 at the close of the most recent fiscal year.

Information Network of Kansas, Inc.'s Net Position

	2013	2012	2011
Current and other assets	\$ 6,306,873	\$ 8,571,525	\$ 4,715,357
Capital assets, less accumulated depreciation	1,514	1,718	1,922
Total assets	\$ 6,308,387	\$ 8,573,243	\$ 4,717,279
Other liabilities	\$ 3,838,218	\$ 6,254,700	\$ 2,928,498
Total liabilities	3,838,218	6,254,700	2,928,498
Net position:			
Net investment in capital assets	1,514	1,718	1,922
Unrestricted	2,468,655	2,316,825	1,786,859
Total net position	2,470,169	2,318,543	1,788,781
Total liabilities and net position	\$ 6,308,387	\$ 8,573,243	\$ 4,717,279

The balance of *unrestricted net position* (\$2,468,655 and \$2,316,825) as of December 31, 2013 and 2012, respectively, may be used to meet INK's ongoing grant obligations, disaster recovery contingencies and to support existing and new program initiatives.

At December 31, 2013 and 2012, INK is able to report positive balances in both categories of net position.

The increase in *total net position* is largely attributable to revenue generated from newly developed applications created during the year on behalf of county and state entities and the reinstatement of grant requests from state sponsored entities.

Information Network of Kansas, Inc.'s Changes in Net Position

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Revenues:			
Operating network revenue, net	\$ 950,245	\$ 983,001	\$ 837,154
Operating expenses	802,936	458,911	831,653
Operating gain	147,309	524,090	5,501
Non-operating revenues:			
Interest income	4,317	5,672	22,814
Change in net position	151,626	529,762	28,315
Net position, beginning of period	2,318,543	1,788,781	1,760,466
Net position, end of period	\$ 2,470,169	\$ 2,318,543	\$ 1,788,781

The decrease in operating network revenue in 2013 is largely attributable to the reduction in transactional revenue generated from services which transitioned from the agency absorbing the transaction fee to the fee being paid by the customer. The increase in operating expenses was largely influenced by a grant award of \$500,000 in 2013. Newly developed applications created during the year on behalf of state and local entities mitigated the net effect of the transition.

The increase in operating net revenue in 2012 is largely contributable to revenue generated from the introduction of new services at the local and county levels of state government and increased adoption of existing services and newly developed applications created during the year on behalf of state entities.

Conclusion

Kansas consistently ranks very high among states in the nation in the successful transition to e-government. In 2012, the state of Kansas earned an award as a top ten-finalist position from the Center of Digital Government for the annual Best of the Web competition for the state's internet home page. The INK board, in cooperation with state agencies and others, remains committed to creating a system of business and government as paperless as possible, and to make it ever easier for Kansans to use state of the art technology to pay their taxes, register their vehicles, and readily access other data to make their lives better. Financial and other information is readily available on our website www.Kansas.gov or in our office. INK board meetings are open to the public and visitors are welcome. Public notice of the meetings is provided in accordance with state law.

Requests for Information

This financial report is designed to provide a general overview of INK's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the INK Executive Director.

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INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

BALANCE SHEETS

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 3,703,112	\$ 5,204,161
Accounts receivable	2,504,550	3,251,162
Prepaid expenses	99,211	116,202
	<u>6,306,873</u>	<u>8,571,525</u>
Total current assets		
Capital assets:		
Equipment	13,832	13,832
Less accumulated depreciation	12,318	12,114
	<u>1,514</u>	<u>1,718</u>
Total assets	<u>\$ 6,308,387</u>	<u>\$ 8,573,243</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,838,218	\$ 6,254,700
Net position:		
Net investment in capital assets	1,514	1,718
Unrestricted	2,468,655	2,316,825
	<u>2,470,169</u>	<u>2,318,543</u>
Total liabilities and net position	<u>\$ 6,308,387</u>	<u>\$ 8,573,243</u>

See accompanying notes to the basic financial statements.

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Agency fee receipts	\$ 436,082,825	\$ 369,681,718
Contract penalty income	20,000	101,000
Less payments to data providing entities	429,906,470	364,034,452
Less network manager share of network revenue	5,246,110	4,765,265
Total operating revenues	950,245	983,001
Operating expenses:		
Program development	374,753	39,809
Salary and benefits	139,241	129,441
Telephone	2,394	2,755
Printing and advertising	14,621	4,574
Travel	7,889	1,362
Contract office services and space	6,061	6,856
Professional and consulting contracts	132,112	218,947
Program maintenance contract	123,172	54,000
Dues and sponsorships	460	689
Hospitality and meetings	1,456	-
Office supplies and other	573	274
Depreciation	204	204
Total operating expenses	802,936	458,911
Operating income	147,309	524,090
Non-operating revenue:		
Interest income	4,317	5,672
Change in net position	151,626	529,762
Net position, beginning of year	2,318,543	1,788,781
Net position, end of year	\$ 2,470,169	\$ 2,318,543

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts of agency fees from customers	\$ 436,849,437	\$ 368,732,678
Payments to data providing entities for share of agency fees	(429,623,176)	(361,831,880)
Payments to network manager for share of network revenue	(7,606,607)	(3,986,520)
Payments for supplies, grants and other services	(985,779)	(43,270)
Payments to or on behalf of employees	(139,241)	(129,441)
Net cash provided by (used in) operating activities	(1,505,366)	2,741,567
Cash flows from investing activities:		
Interest received	4,317	5,672
Net increase (decrease) in cash and cash equivalents	(1,501,049)	2,747,239
Cash and cash equivalents, beginning of year	5,204,161	2,456,922
Cash and cash equivalents, end of year	\$ 3,703,112	\$ 5,204,161
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 147,309	\$ 524,090
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	204	204
Changes in operating assets and liabilities:		
Accounts receivable	746,612	(1,050,041)
Prepaid expenses	16,991	(58,888)
Accounts payable and accrued expenses	(2,416,482)	3,326,202
Net cash provided by (used in) operating activities	\$ (1,505,366)	\$ 2,741,567

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2013 and 2012

1 - Organization and Summary of Significant Accounting Policies

Reporting Entity

The Information Network of Kansas, Inc. (INK) was created in 1990 by the State of Kansas legislature to provide electronic access for members of the public to public information of agencies by means of a centralized electronic information system, to develop and expand the system and to provide oversight of the network manager. INK is governed by a ten-member Board of Directors with membership on the board established by statute. INK is a component unit of the State of Kansas.

Basis of Presentation

INK is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges or where the periodic determination of net income is considered appropriate.

Basis of Accounting

The financial statements of INK have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of accounting refers to when revenues, expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred. With the economic resources measurement focus, all assets and all liabilities are included on the balance sheet. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how INK meets the cash flow needs of its activities.

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1 - Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

INK distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with INK's principal ongoing operations. Operating revenues include revenue from providing network services, net of transaction fees due to data providing entities when services are provided. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents

For purposes of the statement of cash flows, INK considers all highly liquid investments with an original maturity of less than three months to be cash equivalents.

Accounts Receivable

Accounts receivable represent amounts to be collected from network users under the terms of a contract with INK's network manager. INK considers the amounts to be fully collectible and, accordingly, no allowance for doubtful accounts is necessary.

Capital Assets

Capital assets, which include equipment, are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Depreciation is computed on the straight-line basis using estimated useful lives of three to seven years.

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 disclosures 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 estimates.

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2 - Cash

Kansas statutes provide for all moneys received by INK to be deposited in the State Treasury or maintained in interest bearing accounts in Kansas banks or Kansas savings and loan associations until expended or otherwise disposed of pursuant to statute.

Custodial credit risk is the risk that in the event of a bank failure INK's deposits may not be returned to it. Kansas statutes require that deposits be collateralized, and that collateral pledged must have a fair market value equal to 100% of the deposits and investments, less insured amounts, and must be assigned for the benefit of INK. At December 31, 2013 and 2012, INK's deposits were not exposed to custodial credit risk.

3 - Network Manager Agreement

INK has contracted with Kansas Information Consortium, Inc. (KIC) to serve as INK's network manager to develop, operate, maintain and expand the network for electronic access to public information. The terms of the contract which expires on December 31, 2013 with renewal options for two additional two-year periods, provide that KIC on behalf of INK will negotiate and obtain contracts with state agencies for electronic access and subscribers for services. The terms of the contract provide for KIC to receive 85 percent of the gross network revenue net of the data providing entities' share of network revenues.

In addition, the terms of the contract provide that upon termination of the contract all network and manager records, work papers and operations documentation shall become the property of INK and that application software, documentation and source codes and related updates and revisions are considered during the life of the contract and perpetually thereafter, to be licensed for use to the state of Kansas through INK or any successor to be used in operation and expansion of the network or any successor network.

INFORMATION NETWORK OF KANSAS, INC.
(A COMPONENT UNIT OF THE STATE OF KANSAS)

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4 - Related Parties

INK signed a one-year lease on July 1, 2013 and 2012 for office space and office administrative services at a rate of \$ 346 per month from the Kansas Association of Counties. INK makes biannual payments for rent to the Kansas Association of Counties for such costs. Rent paid was \$ 4,693 for the years ended December 31, 2013 and 2012, respectively. The Service Center division of the Department of Administration in conjunction with the Human Resource Department performs the Executive Director's payroll administration. INK provides funds to the Service Center for salary and benefits on a quarterly basis.

Also, certain members of INK's Board of Directors, as provided for by statute, are employed as management with agencies for which INK has service contracts. These contracts are administered by KIC.

5 - Risk Management

INK is exposed to various risks of loss related to torts; that is, damage to and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage, which, except for employee health benefits, is purchased by KIC under which INK is listed as an additional insured. INK has not had any reductions in insurance coverage or amounts of settlements exceeding insurance coverage in any of the three preceding years.