



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, 2012 AND 2011**

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

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

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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, 2012 and 2011, 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.

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, 2012 and 2011, 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 – 7 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.

September 9, 2013
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, 2012 and 2011.

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 ten members, consisting of

- The President of Kansas Inc.
- The Secretary of State
- Two members who are chief executive offices 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 such association
- Three members representing other user associations of a statewide character, appointed by the Governor from a list of not less than nine
- One member from the Kansas Public Libraries Association, appoint by the Governor from a list submitted by the President of such association
- The Director of DISC serves on the board as a nonvoting member

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 general fund taxes support INK. Portal revenue is generated from user fees and interest bearing accounts.

Financial Support

The board of INK met for the first time in November, 1990, with no funds, and after selecting a network manager, commenced operations on January 16, 1992. The major source of user fees is paid by a few vendors supplying insurance companies with all Kansas driver and vehicle lien records, which are provided on behalf of the Department of Revenue. A second main source of revenue is interactive fees from a wide group of users of the network. Some of the main users now include commercial banks engaged in filing and retrieving UCC documents, lawyers accessing court and other records, other interactive uses include professional licenses, transportation registration and licensing, and legislative services.

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 another contract with KIC.

The 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. INK signed a one-year lease for office space from the Kansas Association of Counties in 2012. INK makes monthly payments for rent and parking to the Kansas Association of Counties for such costs. 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 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 Balance Sheets provide information on the nature and amount of INK's economic resources. The Statement of Revenues, Expenses and Changes in Fund Net Position reflect the operating revenues and expenses and the change in net position for the years ended December 31, 2012 and 2011. The Statement of Cash Flows reconciles the change in cash with the activities of INK for the years ended December 31, 2012 and 2011.

Financial Highlights

- The assets of INK exceeded its liabilities at the close of the most recent fiscal year by \$ 2,318,543, 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 assets increased by \$ 529,762 and \$ 28,315 for the years ended December 31, 2012 and 2011, respectively. The key factors for these increases is attributable to new services introduced to the local and county levels of state government, increased adoption of existing services, newly developed revenue-generating applications and expense management.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of INK, assets exceeded liabilities by \$ 2,318,543 at the close of the most recent fiscal year.

Information Network of Kansas, Inc.'s Net Position

	2012	2011	2010
Current and other assets	\$ 8,571,525	\$ 4,715,357	\$ 4,433,103
Capital assets, less accumulated depreciation	1,718	1,922	-
Total assets	<u>8,573,243</u>	<u>4,717,279</u>	<u>4,433,103</u>
Other liabilities	<u>6,254,700</u>	<u>2,928,498</u>	<u>2,672,637</u>
Total liabilities	<u>6,254,700</u>	<u>2,928,498</u>	<u>2,672,637</u>
Net position:			
Net investment in capital assets	1,718	1,922	-
Unrestricted	<u>2,316,825</u>	<u>1,786,859</u>	<u>1,760,466</u>
Total net position	<u>2,318,543</u>	<u>1,788,781</u>	<u>1,760,466</u>
Total liabilities and net position	<u><u>\$ 8,573,243</u></u>	<u><u>\$ 4,717,279</u></u>	<u><u>\$ 4,433,103</u></u>

The remaining balance of *unrestricted net position* (\$ 2,316,825 and \$ 1,786,859) as of December 31, 2012 and 2011, 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, 2012, INK is able to report positive balances in both categories of net assets.

The increase in total net assets is largely attributable to revenue generated from the increased adoption of existing services, newly developed applications created during the year on behalf of county and state entities and the suspension of grant requests from state sponsored entities.

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

	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended December 31, 2010
Revenues:			
Operating network revenue, net	\$ 983,001	\$ 837,154	\$ 783,890
Operating expenses	458,911	831,653	787,308
Operating gain (loss)	524,090	5,501	(3,418)
Non-operating revenues:			
Interest income	5,672	22,814	28,592
Change in net position	529,762	28,315	25,174
Net position, beginning of period	1,788,781	1,760,466	1,735,292
Net position, end of period	\$ 2,318,543	\$ 1,788,781	\$ 1,760,466

The increase in operating net revenue in 2012 is largely attributable 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. In addition, the increase in operating expenses is a function of the increase in operating network revenue as the network manager's remuneration is contractually based as a percentage of the net revenue.

The increase in operating net revenue in 2011 is largely attributable to revenue generated from the introduction of new services, the increased adoption of existing services and newly developed applications created during the year on behalf of state entities. In addition, the increase in operating expenses is a function of the increase in operating network revenue as the network manager's remuneration is contractually based as a percentage of the net revenue.

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. We welcome attendance to our board meetings, public notice of which is given 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 in INK’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the INK Executive Director.

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

BALANCE SHEETS

December 31, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 5,204,161	\$ 2,456,922
Accounts receivable	3,251,162	2,201,121
Prepaid expenses	116,202	57,314
	8,571,525	4,715,357
Capital assets:		
Equipment	13,832	13,832
Less accumulated depreciation	12,114	11,910
	1,718	1,922
Total assets	\$ 8,573,243	\$ 4,717,279
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,254,700	\$ 2,928,498
Net position:		
Net investment in capital assets	1,718	1,922
Unrestricted	2,316,825	1,786,859
	2,318,543	1,788,781
Total liabilities and net position	\$ 8,573,243	\$ 4,717,279

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, 2012 and 2011

	2012	2011
Operating revenues:		
Agency fee receipts	\$ 369,681,718	\$ 324,095,072
Contract penalty income	101,000	-
Less payments to data providing entities	364,034,452	318,794,179
Less network manager share of network revenue	4,765,265	4,463,739
Total operating revenues	983,001	837,154
Operating expenses:		
Program development	39,809	513,217
Salary and benefits	129,441	136,694
Telephone	2,755	1,717
Printing and advertising	4,574	14,977
Travel	1,362	1,074
Contract office services and space	6,856	16,025
Professional and consulting contracts	218,947	91,942
Program maintenance contract	54,000	54,000
Dues and sponsorships	689	605
Hospitality and meetings	-	423
Office supplies and other	274	860
Depreciation	204	119
Total operating expenses	458,911	831,653
Operating income	524,090	5,501
Non-operating revenue:		
Interest income	5,672	22,814
Change in net position	529,762	28,315
Net position, beginning of year	1,788,781	1,760,466
Net position, end of year	\$ 2,318,543	\$ 1,788,781

See accompanying notes to the basic financial statements.

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts of agency fees from customers	\$ 368,732,678	\$ 323,628,972
Payments to data providing entities for share of agency fees	(361,831,880)	(318,836,111)
Payments to network manager for share of network revenue	(3,986,520)	(4,366,848)
Payments for supplies, grants and other services	(43,270)	(544,596)
Payments to or on behalf of employees	(129,441)	(139,271)
Net cash provided by (used in) operating activities	2,741,567	(257,854)
Cash flows from investing activities:		
Interest received	5,672	22,814
Cash flows from capital and related financing activities:		
Purchase of equipment	-	(2,041)
Net increase (decrease) in cash and cash equivalents	2,747,239	(237,081)
Cash and cash equivalents, beginning of year	2,456,922	2,694,003
Cash and cash equivalents, end of year	\$ 5,204,161	\$ 2,456,922
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 524,090	\$ 5,501
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	204	119
Changes in operating assets and liabilities:		
Accounts receivable	(1,050,041)	(466,100)
Prepaid expenses	(58,888)	(53,235)
Accounts payable and accrued expenses	3,326,202	255,861
Net cash provided by (used in) operating activities	\$ 2,741,567	\$ (257,854)

See accompanying notes to the basic financial statements.

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

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 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, 2012 and 2011, INK's deposits were not exposed to custodial credit risk.

Deposits – INK maintains deposits in banks. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. INK's deposits may have exceeded the FDIC insurance limits during the year ended December 31, 2012.

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, 2011 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 and \$ 16,025 for the years ended December 31, 2012 and 2011, 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.