

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
INFORMATION NETWORK OF KANSAS, INC.
JUNE 30, 2004 AND 2003

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Information Network of Kansas Inc. Management Discussion and Analysis

This discussion and analysis relates to the financial statements and footnotes referred to in the Report of Independent Certified Public Accountants (following) for the period ended June 30, 2004 of the Information Network of Kansas Inc., a component unit of the State of Kansas.

General

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 Division of Information Systems and Communications (DISC) 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 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 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, appointed 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. All revenue is from user fees.

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 downloaded through the

**Information Network of Kansas Inc.
Management Discussion and Analysis**

Department of Revenue daily. 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 hunting and fishing licenses, professional licenses, transportation registration and licensing, legislative services, and identification of all real estate parcels in Kansas.

Financial Analysis

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, 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. The remaining 15% is retained by INK.

Kansas Inc. has supplied space, most furnishings, equipment and supplies, and personnel support services for INK since inception. Payment is performed on a monthly basis by INK to Kansas, Inc. for such costs. The INK board hired a full-time executive director in April, 2002, who occupies an office within Kansas, Inc., and is compensated through Kansas, Inc, which is reimbursed as aforesaid by INK.

Balance Sheets

The fund equity of \$1,438,331, at July 1, 2003, increased by \$87,927 to \$1,526,258 at June 30, 2004.

In keeping with purposes and duties as set out in the statute, the board has invested funds in such new initiatives as the development of digital signatures, the development of an online database to capture Kansas economy indicators as a part of the Kansas Business Center, and the development of a customer tracking system to be used by the Center for Entrepreneurship in order to better facilitate entrepreneur training and business startup. This training opportunity will also become an addition to the Kansas Business Center, In addition the INK Board has invested in the extension of a legislative initiative to provide internet access to Senate and House Legislative Committee meetings, called the Virtual Committee, the ongoing development of geospatial data representation through the Data Access and Support Center (DASC), and the ability for the Historical Society to develop a methodology to store electronic documents for the Kansas enterprise. Some \$244,875 was advanced in fiscal 2004 toward such projects.

**Information Network of Kansas Inc.
Management Discussion and Analysis**

Of the ending fund equity of \$1,526.258, \$454,510 has been designated by the board for specific purposes, as itemized in Note C of the financial statements. The largest of such amounts, \$300,000 is reserved for the purchase of the equipment of the network manager in the event such became necessary or recommendable.

Statements of Revenue, Expenses and Changes in Fund Equity

The increase in network revenue in fiscal 2004 resulted from the continued expansion of available services, a rate increase from the Kansas Department of Revenue and increased consumer adoption of the Kansas Secretary of State and Kansas Bureau of Investigation applications. The rate increase was passed directly to the Kansas Department of Revenue. The INK office expenses in fiscal 2004 decreased slightly due to a decrease in professional consulting and contracts, to a decrease in the contract office services and space and to an increase in program development, as mentioned supra.

Conclusion

Kansas consistently ranks high among states in the nation in the successful transition to e-government. 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, pay for the registration of their vehicles, and readily access other data to make their lives better. Financial and other information is readily available on our website accessKansas or in our office. We welcome attendance to our board meetings, public notice of which is given in accordance with state law.

Information Network of Kansas Inc.

By _____

Todd Thompson
Chairman



Certified Public Accountants
and Management Consultants

John R. Helms, CPA
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Information Network of Kansas, Inc.

We have audited the accompanying balance sheets and related statements of revenues, expenses and changes in fund equity and cash flows of the Information Network of Kansas, Inc., a component unit of the State of Kansas, as of June 30, 2004 and 2003, and for the years then ended. These financial statements are the responsibility of Information Network of Kansas, Inc., management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Information Network of Kansas, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Information Network of Kansas, Inc., as of June 30, 2004 and 2003, and the results of its operations, changes in its fund equity and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 29, 2004, except
for Note A5, for which
the date is June 6, 2005

INFORMATION NETWORK OF KANSAS, INC.

BALANCE SHEETS

June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash and invested cash	\$ 889,878	\$ 849,694
U.S. Treasury Bills and Notes		142,243
Accounts receivable	1,486,072	969,642
Interest receivable		1,096
Total current assets	<u>2,375,950</u>	<u>1,962,675</u>
ASSETS WHOSE USE IS LIMITED BY BOARD OF DIRECTORS		
	<u>454,510</u>	<u>606,884</u>
EQUIPMENT - AT COST		
Less accumulated depreciation	11,791	8,595
	<u>7,391</u>	<u>6,887</u>
	<u>4,400</u>	<u>1,708</u>
Total assets	<u>\$2,834,860</u>	<u>\$2,571,267</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$1,308,602</u>	<u>\$1,132,936</u>
FUND EQUITY		
Designated	454,510	606,884
Undesignated	<u>1,071,748</u>	<u>831,447</u>
	<u>1,526,258</u>	<u>1,438,331</u>
Total liabilities and fund equity	<u>\$2,834,860</u>	<u>\$2,571,267</u>

The accompanying notes are an integral part of these statements.

INFORMATION NETWORK OF KANSAS, INC.
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND EQUITY
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenues		
Network revenue		
Gross network revenue	\$14,658,577	\$5,751,788
Less data providing entities' share of network revenue	<u>11,226,623</u>	<u>4,107,423</u>
	3,431,954	1,644,365
Less KIC share of network revenue	<u>2,917,715</u>	<u>1,397,710</u>
	<u>514,239</u>	<u>246,655</u>
Other revenues		
KIC revenue at 2 percent of revenue		93,840
KIC revenue at 33 1/3 percent of income		308,879
Interest earned	2,073	15,496
Other income		<u>250</u>
	<u>2,073</u>	<u>418,465</u>
Total revenues	<u>516,312</u>	<u>665,120</u>
Expenses		
Salary and benefits	116,515	109,983
Telephone	1,115	50
Printing and advertising	150	285
Mileage	1,580	2,544
Airfare	315	1,348
Meals and lodging	1,933	1,276
Registration and other travel	250	1,262
Contract office services and space	24,466	60,000
Professional and consulting contracts	31,448	91,879
Dues and sponsorships	337	1,687
Hospitality and meetings	1,982	888
Office supplies and other	2,915	1,794
Depreciation	504	634
Program development	<u>244,875</u>	<u>161,015</u>
Total expenses	<u>428,385</u>	<u>434,645</u>
Net income	87,927	230,475
Fund equity at beginning of year	<u>1,438,331</u>	<u>1,207,856</u>
Fund equity at end of year	<u>\$ 1,526,258</u>	<u>\$1,438,331</u>

The accompanying notes are an integral part of these statements.

INFORMATION NETWORK OF KANSAS, INC.

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Receipts of network revenue from customers	\$14,141,912	\$4,782,381
Revenue received from KIC	235	423,618
Payments to data providing entities for share of network revenue	(10,847,990)	(3,469,849)
Payments to KIC for share of network revenue	(3,031,697)	(998,509)
Payments for supplies and other services	(396,761)	(305,003)
Payments to or on behalf of employees	<u>(120,105)</u>	<u>(105,228)</u>
Net cash provided by (used for) operating activities	<u>(254,406)</u>	<u>327,410</u>
Cash flows from investing activities		
Purchase of U.S. Treasury obligations		(2,669,133)
Maturities of U.S. Treasury obligations	749,127	3,141,724
Interest received	<u>3,169</u>	<u>17,234</u>
Net cash provided by investing activities	<u>752,296</u>	<u>489,825</u>
Cash flows from capital and related financing activities		
Purchase of equipment	<u>(3,196)</u>	<u>(360)</u>
Net cash used for capital and related financing activities	<u>(3,196)</u>	<u>(360)</u>
Net increase in cash and cash equivalents	494,694	816,875
Cash and cash equivalents at beginning of year	<u>849,694</u>	<u>32,819</u>
Cash and cash equivalents at end of year	<u>\$ 1,344,388</u>	<u>\$ 849,694</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and invested cash	\$ 889,878	\$ 849,694
Assets whose use is limited by Board of Directors	<u>454,510</u>	<u> </u>
Total cash and cash equivalents	<u>\$ 1,344,388</u>	<u>\$ 849,694</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 87,927	\$ 230,475
Interest earned considered investing activities	(2,073)	(15,496)
Adjustments to reconcile net income to net cash provided by (used for) operating activities		
Depreciation	504	634
Changes in		
Increase in accounts receivable	(516,430)	(952,251)
Increase in accounts payable and accrued expenses	<u>175,666</u>	<u>1,064,048</u>
Net cash provided by (used for) operating activities	<u>\$ (254,406)</u>	<u>\$ 327,410</u>

The accompanying notes are an integral part of these statements.

INFORMATION NETWORK OF KANSAS, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

1. 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 system 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.

2. Basis of presentation

A proprietary type fund is used to account for the activities of INK. Proprietary funds are used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise. A proprietary type fund is used to account for activities that are financed and operated in a manner similar to private business enterprises: (1) where the costs of providing goods and services to the general public on a continuing basis are to be financed through user charges; or, (2) where the periodic determination of net income is considered appropriate.

3. Basis of accounting

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. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting," INK has implemented all applicable GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

4. U.S. Treasury Bills and Notes

U.S. Treasury Bills and Notes are recorded at cost. Interest is accrued over the term of the securities. The cost and accrued interest are equivalent to amortized cost.

5. Accounts receivable

Accounts receivable represent amounts to be collected from network users and 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.

INFORMATION NETWORK OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2004 and 2003

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Equipment

Equipment is stated at cost. Depreciation is computed on the straight-line method over the assets' estimated useful lives which range from 3 to 7 years.

7. Income taxes

INK is organized and operated as an entity exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

8. Cash equivalents

INK considers all highly liquid debt instruments with an original maturity of less than three months to be cash equivalents.

9. Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

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.

The carrying amount of INK's deposits with financial institutions was \$1,344,388 and the bank balances were \$1,344,402 at June 30, 2004. The bank balances are categorized as follows at June 30, 2004:

Amount insured by the F.D.I.C., or collateralized with securities held by INK or by its agent in INK's name	\$ 200,284
Uncollateralized (amount collateralized with securities held by the pledging financial institution's trust department or agent, but not in INK's name)	1,126,272
Uncollateralized (no securities pledged)	<u>17,846</u>
	<u>\$1,344,402</u>

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF DIRECTORS

Assets whose use is limited by Board of Directors consist of deposits in an interest bearing account with a Kansas bank at June 30, 2004, and U.S. Treasury Bills and Notes at June 30, 2003, and are to be used for designated purposes. The funds may be used for other purposes by action of the Board of Directors.

INFORMATION NETWORK OF KANSAS, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2004 and 2003

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF DIRECTORS - Continued

The following is a summary of the designated purposes for these funds:

	June 30,	
	2004	2003
Education development program	\$ -	\$ 90,000
Digital signature program	5,895	6,474
Awards program		50,000
Network infrastructure program	300,000	300,000
DASC grant - geographic information systems	53,390	58,790
Kansas Business Center program - Secretary of State	13,355	13,355
Kansas State Historical Society - KSPACE Program	60,095	
Verisign contract	21,775	88,265
	\$454,510	\$606,884

NOTE D - 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, 2005, provide that KIC on behalf of INK will negotiate and obtain contracts with state agencies for electronic access and subscribers for services. Prior to January 1, 2003, the terms of the contract provided for INK to receive the following:

- Two percent of \$3 for each sale of batch driver license records, two percent of \$2.50 for each sale of batch title and registration records and two percent of gross revenue generated by the network operations, excluding revenue from sales of batch driver license, title and registration records.
- One-third of the net income before taxes, if any, of KIC in excess of a twenty-five percent rate of return on KIC risk capital as defined in the agreement.

Effective January 1, 2003, the terms of the contract provide for KIC to receive 85 percent of the gross network revenue less 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.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2004 and 2003

NOTE E - RELATED PARTIES

Kansas Statute provides that the president of Kansas, Inc., be a board member of INK. Also under Kansas Statute, Kansas, Inc., is to provide INK with requested staff and other assistance and to bill the actual cost for such assistance to INK. Kansas, Inc., provided office space and office administrative services to INK and billed INK \$24,286 and \$60,000 for the years ended June 30, 2004 and 2003, respectively.

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

