



BERBERICH TRAHAN & CO., P.A.

*Certified Public Accountants*

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

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FINANCIAL STATEMENTS  
EIGHTEEN MONTHS ENDED DECEMBER 31, 2008

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

FINANCIAL STATEMENTS

Eighteen Months Ended December 31, 2008

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Information Network of Kansas, Inc.:

We have audited the accompanying balance sheet of Information Network of Kansas, Inc. (INK), a component unit of the State of Kansas, as of and for the eighteen month period ended December 31, 2008, and the related statements of revenue, expenses and changes in net assets and cash flows for the period then ended. These financial statements are the responsibility of INK'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. 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.

As discussed in Note 1, the financial statements of INK are intended to present the financial position and the results of its operations and cash flows of INK. They do not purport to, and do not present fairly, the financial position of the State of Kansas as of December 31, 2008 and results of operations and its cash flows, where applicable, for the eighteen month period then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of INK, as of December 31, 2008, and the results of its operations and cash flows for the eighteen month period then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 - 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Berberich Trahan & Co., P.A.*

Topeka, Kansas  
February 11, 2010

RSM McGladrey Network  
An Independently Owned Member

## **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 eighteen months ended December 31, 2008. In 2008, the INK Board of Directors elected to change its fiscal year ending to December. Previously, INK's financials were based upon a fiscal year ending June 30.

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 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 served 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.

Kansas, Inc. has supplied office space, most furnishings, equipment and supplies, and personnel support services for INK since inception. Payment is made quarterly 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.

## **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 sheet provides information on the nature and amount of INK's economic resources at December 31, 2008. The Statement of Revenues, Expenses and Changes in Net Assets reflects the operating revenues and expenses and the change in net assets for the eighteen months ended December 31, 2008. The Statement of Cash Flows reconciles the change in cash with the activities of INK for the eighteen months ended December 31, 2008.

## **Financial Highlights**

- The assets of INK exceeded its liabilities at December 31, 2008 by \$ 1,727,834. Of this amount \$ 1,726,680 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 \$ 47,393. The key factor for this increase is attributable to increased adoption of existing services and newly developed revenue generating applications.

## **Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of INK, assets exceeded liabilities by \$ 1,727,834 at December 31, 2008.

A portion of INK's net assets (.06 percent) reflects its investment in capital assets (e.g., equipment). INK uses these capital assets to provide services to the citizens, businesses and other government organizations; consequently, these assets are not available for future spending.

**Information Network of Kansas, Inc.'s Net Assets**

	2008	2007
Current and other assets	\$ 4,174,405	\$ 4,539,259
Capital assets	1,154	2,113
Total assets	4,175,559	4,541,372
Long-term liabilities outstanding	-	-
Other liabilities	2,447,725	2,860,931
Total liabilities	2,447,725	2,860,931
Net assets:		
Invested in capital assets	1,154	2,113
Restricted	-	-
Unrestricted	1,726,680	1,678,328
Total net assets	\$ 1,727,834	\$ 1,680,441

The remaining balance of *unrestricted net assets* (\$ 1,726,680) may be used to meet INK's ongoing grant obligations, disaster recovery contingencies and to support existing and new program initiatives.

At December 31, 2008, 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 and newly developed applications created during the year on behalf of state entities.

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

	Eighteen Months Ended December 31, 2008	Year Ended June 30, 2007
Revenues:		
Operating network revenue, net	\$ 1,235,497	\$ 707,301
Interest income	110,015	136,091
Total revenues	1,345,512	843,392
Operating expenses	1,298,119	1,125,901
Change in net assets	47,393	(282,509)
Net assets, beginning of period	1,680,441	1,962,950
Net assets, end of period	\$ 1,727,834	\$ 1,680,441

The increase in operating net revenue is largely attributable to the comparison of the current audit covering eighteen months compared to the operating net revenue for the year ending June 30, 2007 covering a 12 month period. 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. 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](http://www.Kansas.gov) or in our office. We welcome attendance at 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.  
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BALANCE SHEET

December 31, 2008

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,039,851
Accounts receivable	2,113,442
Prepaid expenses	<u>21,112</u>
Total current assets	<u>4,174,405</u>
Capital assets:	
Equipment	11,791
Less accumulated depreciation	<u>10,637</u>
	<u>1,154</u>
Total assets	<u>\$ 4,175,559</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	<u>\$ 2,447,725</u>
Net assets:	
Invested in capital assets	1,154
Unrestricted	<u>1,726,680</u>
	<u>1,727,834</u>
Total liabilities and net assets	<u>\$ 4,175,559</u>

See accompanying notes to the basic financial statements.



INFORMATION NETWORK OF KANSAS, INC.  
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Eighteen Months Ended December 31, 2008

Operating revenues:	
Network revenue	\$ 7,863,002
Less network manager share of network revenue	<u>6,627,505</u>
Total operating revenues	<u>1,235,497</u>
Operating expenses:	
Program development	845,109
Salary and benefits	195,845
Telephone	2,060
Printing and advertising	37,133
Mileage	2,413
Airfare	285
Meals and lodging	533
Registration and other travel	302
Contract office services and space	35,264
Professional and consulting contracts	120,329
Program maintenance contract	34,117
Dues and sponsorships	1,190
Hospitality and meetings	3,404
Office supplies and other	19,176
Depreciation	<u>959</u>
Total operating expenses	<u>1,298,119</u>
Operating loss	(62,622)
Non-operating revenue:	
Interest income	<u>110,015</u>
Change in net assets	47,393
Net assets, beginning of period	<u>1,680,441</u>
Net assets, end of period	<u><u>\$ 1,727,834</u></u>

See accompanying notes to the basic financial statements.

INFORMATION NETWORK OF KANSAS, INC.  
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STATEMENT OF CASH FLOWS

Eighteen Months Ended December 31, 2008

Cash flows from operating activities:	
Receipts of network revenue from customers, net of payments to data providing entities for share of network revenue	\$ 6,910,574
Payments to network manager for share of network revenue	(6,161,093)
Payments for supplies, grants and other services	(942,119)
Payments to or on behalf of employees	<u>(195,845)</u>
Net cash used in operating activities	<u>(388,483)</u>
Cash flows from investing activities:	
Interest received	<u>110,015</u>
Net decrease in cash and cash equivalents	(278,468)
Cash and cash equivalents, beginning of period	<u>2,318,319</u>
Cash and cash equivalents, end of period	<u>\$ 2,039,851</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (62,622)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	959
Changes in operating assets and liabilities:	
Accounts receivable	53,740
Prepaid expenses	32,646
Accounts payable and accrued expenses	<u>(413,206)</u>
Net cash used in operating activities	<u>\$ (388,483)</u>

See accompanying notes to the basic financial statements.

INFORMATION NETWORK OF KANSAS, INC.  
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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2008

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.

In 2007, INK changed its fiscal year end from June 30 to December 31.

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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed by INK to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. INK has elected not to follow subsequent private-sector guidance.

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.

INFORMATION NETWORK OF KANSAS, INC.  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

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

Basis of Accounting (Continued)

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 net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how INK meets the cash flow needs of its activities.

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.

INFORMATION NETWORK OF KANSAS, INC.  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

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

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.

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, 2008, INK's deposits were not exposed to custodial credit risk.

INFORMATION NETWORK OF KANSAS, INC.  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

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, 2012 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.

4 - Related Parties

Kansas statutes provide that the president of Kansas, Inc. be a board member of INK. Also under Kansas statutes, 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 \$ 35,264 for the eighteen months ended December 31, 2008.

Under the terms of a contract between INK, Kansas, Inc. and the Executive Director of INK, the Executive Director is deemed, for purposes of compensation and benefits, to be an employee of Kansas, Inc. The Executive Director's compensation and benefits are paid by Kansas, Inc. and reimbursed by INK.

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.

INFORMATION NETWORK OF KANSAS, INC.  
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NOTES TO BASIC FINANCIAL STATEMENTS  
(Continued)

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, purchased by KIC under which INK is listed as an additional insured, is for claims arising from such matters other than those related to employee health benefits. INK has not had claims in any of the three preceding years.