



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, 2018 AND 2017**

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

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report | 1 - 2 |
| Management's Discussion and Analysis | 3 - 7 |
| Basic Financial Statements: | |
| Balance Sheets | 8 |
| Statements of Revenues, Expenses and Changes in Net Position | 9 |
| Statements of Cash Flows | 10 |
| Notes to Basic Financial Statements | 11 - 14 |



INDEPENDENT AUDITORS' 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 years ended December 31, 2018 and 2017, 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 these 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.

Auditors' 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 auditors' 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 INK'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.

An Independently Owned Member, RSM US Alliance

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, 2018 and 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 18, 2019
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, 2018 and 2017.

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; developing and maintaining an electronic network for access to public information; exploring and implementing ways and means of expanding the amount and kind of public information available and the base of users for it, along with new technological means for improving citizen and business access to public information and for-profit information and databases; oversight of the network manager in performing these duties; and advising the Secretary of Administration, Office of Information Technology Services and other state agencies regarding the provision of state data to the citizens and businesses of Kansas.

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 executive branch Chief Information Technology Officer
- 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 determines 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 all members serve without compensation. Travel expenses of board members are 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 an 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 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 payment processing for state, county, and local government organizations.

INK Management

INK employed a network manager in 1990. The Kansas Information Consortium LLC (KIC), a for-profit organization, was formed for the sole purpose of operating the network for the board. KIC worked 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, amended in 2018.

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 2002. In 2015, INK hired a project manager to assist in coordinating the effort to build an online destination for Kansas business owners to file required documentation across state agencies. At the end of Q1 2016, the executive director position became vacant, with the principal duties assumed by the project manager. INK leased office space from the Kansas Association of Counties through the end of Q1 2017 at which time the records and business address of INK were moved to an office in Memorial Hall provided by the Secretary of State. The Department of Administration Service Center in conjunction with the Human Resource Department performs the project manager'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 Statements of Revenues, Expenses, and Changes in Net Position present information showing how INK's net position changed during the most recent fiscal year. The Statements of Cash Flows reconcile the change in cash with the activities of INK for the twelve months ended December 31, 2018.

Financial Highlights

- The assets of INK exceeded its liabilities at the close of the most recent fiscal year by \$4,751,701, an amount 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 \$623,743 and \$32,925 for the years ended December 31, 2018 and 2017, respectively. The 2018 increase in net position was attributable to less expenditures for grants, coupled with a significant increase in operating revenues that came primarily from an increase in fees charged for driver history records. The increase also helped offset a loss of revenue from transition of vehicle registration services to a state vendor. The relatively small increase in net position in 2017 was primarily due to significantly larger grant expenditures, while top-line revenue remained flat.

Financial Analysis

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 \$4,751,701 at the close of the most recent fiscal year.

Information Network of Kansas, Inc.'s Net Position

| | 2018 | 2017 | 2016 |
|---|---------------------|---------------------|---------------------|
| Current assets | \$ 9,952,603 | \$ 9,615,115 | \$ 8,265,158 |
| Capital assets, less accumulated depreciation | 3,526 | 4,209 | 4,892 |
| Total assets | <u>\$ 9,956,129</u> | <u>\$ 9,619,324</u> | <u>\$ 8,270,050</u> |
| Current liabilities | <u>\$ 5,204,428</u> | <u>\$ 5,491,366</u> | <u>\$ 4,175,017</u> |
| Total liabilities | <u>5,204,428</u> | <u>5,491,366</u> | <u>4,175,017</u> |
| Net position: | | | |
| Net investment in capital assets | 3,526 | 4,209 | 4,892 |
| Unrestricted | <u>4,748,175</u> | <u>4,123,749</u> | <u>4,090,141</u> |
| Total net position | <u>4,751,701</u> | <u>4,127,958</u> | <u>4,095,033</u> |
| Total liabilities and net position | <u>\$ 9,956,129</u> | <u>\$ 9,619,324</u> | <u>\$ 8,270,050</u> |

The balance of *unrestricted net position* (\$4,748,175 and \$4,123,749 as of December 31, 2018 and 2017, 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, 2018 and 2017, INK is able to report positive balances in both categories of net position.

The increase in *total net position* for 2018 is attributable to less expenditures for grants, coupled with a significant increase in operating revenues that came primarily from an increase in fees charged for driver history records. The increase also helped offset a loss of revenue from transition of vehicle registration services to an external vendor. The small increase in *total net position* for 2017 was largely attributable to stable ongoing revenue generated from both newly deployed and existing applications provided on behalf of county and state entities, significantly lower operating expenses, but significantly increased grant funding for state entities.

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

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Operating revenues | \$ 1,249,285 | \$ 1,065,987 | \$ 1,070,837 |
| Operating expenses | 689,198 | 1,061,832 | 391,817 |
| Operating income | 560,087 | 4,155 | 679,020 |
| Nonoperating revenues: | | | |
| Interest income | 63,656 | 28,770 | 5,009 |
| Change in net position | 623,743 | 32,925 | 684,029 |
| Net position, beginning of year | 4,127,958 | 4,095,033 | 3,411,004 |
| Net position, end of year | \$ 4,751,701 | \$ 4,127,958 | \$ 4,095,033 |

As noted above, the increase in network operating revenue in 2018 came primarily from increases in the fees associated with driver history records, offsetting a significant decrease in revenue associated with the cessation of vehicle registration services. Corresponding operating expenses were lower given a decrease in grant expenditures. The 2017 network operating revenue remained relatively flat, while operating expenses increased significantly due to grant expenditures.

Conclusion

Kansas consistently ranks very high among states in the nation in the successful transition to e-government. In 2014, 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, is focused on 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, obtain permits and licenses, and readily access other data to improve their lives. During 2018, INK deployed a first-of-its kind chatbot, Agent Kay, that expands the availability and efficiency of customer service provided by the state. In 2017, significant focus was placed on updating and enhancing existing backend systems that support the solutions provided by INK. During 2016, emphasis was placed on improving the systems that support Amber Alert as well as crash logs for the Kansas Highway Patrol. Financial and other information is readily available on our website at <http://ink.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 Board Chairman.

Aaron Kite
808 McArtor Road, PO Box 22
Dodge City, KS 67801

Phone: 620.255.2673
Email: aaron@kitelawfirm.com

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

BALANCE SHEETS

December 31, 2018 and 2017

| | 2018 | 2017 |
|---------------------------------------|--------------|--------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,471,942 | \$ 6,309,697 |
| Accounts receivable | 3,480,661 | 3,278,512 |
| Prepaid expenses | - | 26,906 |
| | 9,952,603 | 9,615,115 |
| Capital assets: | | |
| Equipment | 18,621 | 18,621 |
| Less accumulated depreciation | 15,095 | 14,412 |
| | 3,526 | 4,209 |
| Total assets | \$ 9,956,129 | \$ 9,619,324 |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 5,204,428 | \$ 5,491,366 |
| Net position: | | |
| Net investment in capital assets | 3,526 | 4,209 |
| Unrestricted | 4,748,175 | 4,123,749 |
| | 4,751,701 | 4,127,958 |
| Total liabilities and net position | \$ 9,956,129 | \$ 9,619,324 |

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 NET POSITION

Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------|----------------|
| Operating revenues: | | |
| Agency fee receipts | \$ 552,842,829 | \$ 601,896,806 |
| Less payments to data providing entities | 544,463,742 | 594,753,394 |
| Less network manager share of network revenue | 7,129,802 | 6,077,425 |
| Total operating revenues | 1,249,285 | 1,065,987 |
| Operating expenses: | | |
| Program development | 488,944 | 873,646 |
| Reimbursed salaries and benefits | 118,425 | 112,148 |
| Telephone | 186 | 762 |
| Travel | 5,052 | 2,176 |
| Contract office services and space | - | 1,506 |
| Professional and consulting contracts | 61,025 | 59,149 |
| Hospitality and meetings | 1,702 | 1,615 |
| Office supplies and other | 13,181 | 10,147 |
| Depreciation | 683 | 683 |
| Total operating expenses | 689,198 | 1,061,832 |
| Operating income | 560,087 | 4,155 |
| Nonoperating revenue: | | |
| Interest income | 63,656 | 28,770 |
| Change in net position | 623,743 | 32,925 |
| Net position, beginning of year | 4,127,958 | 4,095,033 |
| Net position, end of year | \$ 4,751,701 | \$ 4,127,958 |

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, 2018 and 2017

| | 2018 | 2017 |
|---|----------------|----------------|
| Cash flows from operating activities: | | |
| Receipts of agency fees from customers | \$ 552,640,680 | \$ 601,424,459 |
| Payments to data providing entities for share of agency fees | (544,083,760) | (594,778,597) |
| Payments to network manager for share of network revenue | (7,435,156) | (5,262,233) |
| Payments for supplies, grants and other services | (904,750) | (414,054) |
| Payments to contracted employees for reimbursed salaries and benefits | (118,425) | (112,148) |
| Net cash provided by operating activities | 98,589 | 857,427 |
| Cash flows from investing activities: | | |
| Interest received | 63,656 | 28,770 |
| Net increase in cash and cash equivalents | 162,245 | 886,197 |
| Cash and cash equivalents, beginning of year | 6,309,697 | 5,423,500 |
| Cash and cash equivalents, end of year | \$ 6,471,942 | \$ 6,309,697 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 560,087 | \$ 4,155 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 683 | 683 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (202,149) | (472,347) |
| Prepaid expenses | 26,906 | 8,587 |
| Accounts payable and accrued expenses | (286,938) | 1,316,349 |
| Net cash provided by operating activities | \$ 98,589 | \$ 857,427 |

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, 2018 and 2017

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 nine-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 net position presents increases (revenues) and decreases (expenses) in net 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. 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 year-end, the carrying amounts of INK's deposits were \$ 6,471,942 and the bank balances totaled \$ 6,472,769. Of the bank balances, \$ 750,000 were secured by federal deposit insurance, and \$ 5,722,769 were collateralized by pledge securities.

3 - Network Manager Agreement

INK has contracted with Kansas Information Consortium, LLC (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 continues through December 31, 2022 and has two optional two-year extensions, 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

The Kansas Department of Administration's Office of Information Technology Services processes INK's payroll. INK provides reimbursements to the Office of Information Technology Services for salaries and benefits, including contributions to the Kansas Public Employees Retirement System, on a quarterly basis. Salaries and benefits reimbursed were \$ 118,425 and \$ 112,148 for the years ended December 31, 2018 and 2017, respectively.

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 - Subsequent Events

Subsequent events have been evaluated for INK through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

6 - 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.