



**JOHNSON COUNTY
EDUCATION RESEARCH TRIANGLE AUTHORITY**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

AND

INDEPENDENT AUDITOR'S REPORT

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JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

FINANCIAL STATEMENTS

Year ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Johnson County Education Research Triangle Authority
Olathe, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Johnson County Education Research Triangle Authority (Authority), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of June 30, 2013, and the respective changes in financial position for the year 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 the management's discussion and analysis 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.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 4, 2013
Wichita, KS

REQUIRED SUPPLEMENTARY INFORMATION

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

Management's Discussion and Analysis

This annual financial report of the Johnson County Education Research Triangle Authority (Authority) consists of two sections: management's discussion and analysis and basic financial statements. This section of the report presents management's discussion and analysis of the financial position and changes in financial position for the year ended June 30, 2013. This analysis should be read in conjunction with the independent auditor's report, audited financial statements, and accompanying notes.

The Johnson County Education Research Triangle Authority ("JCERTA") was created by affirmative vote of the voters of Johnson County, Kansas on November 4, 2008 at the election held on such date pursuant to the provisions of the JCERTA Act. The Board of Directors of JCERTA consists of seven voting members who are elected officials of Johnson County and who are appointed as follows: (a) one member appointed by the Governor of Kansas, (b) one member appointed by the Kansas Board of Regents, (c) one member appointed by majority vote of the Board of Commissioners of Johnson County, (d) one member appointed by the Board of Trustees of Johnson County Community College, (e) two members appointed by the Chancellor of the University of Kansas, and (f) one member appointed by the President of Kansas State University. The chancellor of the University of Kansas or the Chancellor's designee, the President of Kansas State University or the President's designee, the President of Johnson County Community College or the President's designee and the Executive Vice Chancellor of the University of Kansas Medical Authority or the Vice Chancellor's designee serve as ex officio, non-voting members of the Board of Directors.

FINANCIAL HIGHLIGHTS

- The Authority's total net position decreased from 2012 by \$19,301 due to the drawdown of existing cash balances to pay for administrative expenses (see more on page 4). Funds have been invested in cash; which makes up \$256,012 of the total assets. Sales taxes receivable of \$2.7 million is the other significant amount of the total assets.
- The Authority has initiated the programs called for under its enabling statutes aimed at supporting undergraduate and graduate programs at the Edwards campus of the University of Kansas, the research and education programs in animal health and food safety and security at the Johnson County location of Kansas State University, and the medical education and life sciences and cancer research programs at the University of Kansas Medical Center's Johnson County locations. The Authority has received the financial resources over the past fiscal years to fund the programs.
- Revenues are derived from a one-eighth percent (0.125%) countywide retailers sales tax levied by the Board of Commissioners of Johnson County, effective from and after April 1, 2009, pursuant to the voter referendum passed on November 4, 2008 and the JCERTA Act, and the related countywide compensating use tax imposed by K.S.A. 12-198. Revenues from the transfers were \$15.1 million for the period.
- The Authority expended \$15.1 million to the three university programs approved by the Board of Directors.
- The Authority's operating expenses for the period other than university program support were \$20,941.

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS

The *governmental fund balance sheet and statement of net position* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities of the Authority. The General Fund balance sheet uses the modified accrual basis of accounting and current resources measurement focus, and the statement of net position uses the accrual basis of accounting and economic resources measurement focus. For the current period, there are no differences between these two bases of accounting. The resulting net position presented in the statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as legal agreements or statutes. Net positions falling outside this category are characterized as unrestricted. Over time, changes in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

All of the current year's revenues and expenditures of the Authority are accounted for in the *governmental fund revenues, expenditures, and changes fund balance and statement of activities*. This statement measures the activities of the Authority's operations for the year ended June 30, 2013, and presents the excess of revenues over expenditures/expenses and change in fund balance/net position. The General Fund and statement of activities are presented using the two bases of accounting noted in the first paragraph above. It can be used to determine whether the Authority has successfully recovered all of its costs through externally funded programs and other revenue sources. This statement helps answer the question, "Is the Authority as a whole better off or worse off as a result of the year's activities?"

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements follow the basic financial statements.

CONDENSED FINANCIAL INFORMATION

Statement of Net Position

The following table presents condensed balances at June 30:

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$ 256,012	\$ 275,313
Sales tax receivable	2,703,642	2,568,042
Total assets	<u>\$ 2,959,654</u>	<u>\$ 2,843,355</u>
Liabilities		
Current liabilities	<u>\$ 2,703,300</u>	<u>\$ 2,567,700</u>
Total liabilities	<u>2,703,300</u>	<u>2,567,700</u>
Net position		
Unrestricted	256,354	275,655
Total net position	<u>256,354</u>	<u>275,655</u>
Total liabilities and net position	<u>\$ 2,959,654</u>	<u>\$ 2,843,355</u>

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

Management's Discussion and Analysis

Statement of Activities

The following table presents condensed balances for the years ended June 30.

Revenues	<u>2013</u>	<u>2012</u>
Sales tax revenue	\$ 15,112,717	\$ 14,756,491
Interest income	223	168
Total revenues	<u>15,112,940</u>	<u>14,756,659</u>
Expenses		
University program support	15,111,300	14,754,810
Authority administration	20,941	23,810
Total expenses	<u>15,132,241</u>	<u>14,778,620</u>
Change in net position	(19,301)	(21,961)
Total net position, beginning of period	<u>275,655</u>	<u>297,616</u>
Total net position, end of period	<u>\$ 256,354</u>	<u>\$ 275,655</u>

Assets, liabilities and changes in net position:

The Authority's net position decreased to \$256,354 for the year ended June 30, 2013. The \$19,301 decrease in net position resulted primarily from the drawdown of existing cash balances to pay for administrative expenses, rather than using sales tax revenues received in fiscal 2013. Net position was also reduced by operating expenses. See the financial highlights on page 3 for additional information.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide stakeholders in the Authority with a general overview of the Authority's finances and to show the Authority's accountability for the resources it receives, invests, and expends. If you have questions about this report, or need additional financial information, please contact Mr. Jim Hubbard, Hubbard, Ruzicka, Kreamer & Kincaid, L.C., 130 North Cherry Street, Olathe, KS 66051.

BASIC FINANCIAL STATEMENTS

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

Governmental Fund Balance Sheet and
Statement of Net Position

June 30, 2013

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and cash equivalents	\$ 256,012	\$ --	\$ 256,012
Sales tax receivable	<u>2,703,642</u>	<u>--</u>	<u>2,703,642</u>
Total assets	<u>\$ 2,959,654</u>	<u>\$ --</u>	<u>\$ 2,959,654</u>
LIABILITIES			
Due to universities	\$ 2,703,300	\$ --	\$ 2,703,300
Total liabilities	<u>2,703,300</u>	<u>--</u>	<u>2,703,300</u>
FUND BALANCE/NET POSITION			
Fund balances:			
Unassigned	<u>256,354</u>	<u>--</u>	<u>--</u>
Total fund balances	<u>256,354</u>	<u>--</u>	<u>--</u>
Total liabilities and fund balances	<u>\$ 2,959,654</u>	<u>\$ --</u>	
Net position:			
Unrestricted			<u>256,354</u>
Total net position			<u>\$ 256,354</u>

The accompanying footnotes are an integral
part of these financial statements.

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

Governmental Fund Revenues, Expenditures and
Changes in Fund Balance and Statement
of Activities

Year Ended June 30, 2013

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
University program support	\$ 15,111,300	\$ --	\$ 15,111,300
Authority administration	20,941	--	20,941
Total expenditures/expenses	<u>15,132,241</u>	<u>--</u>	<u>15,132,241</u>
General revenues:			
Sales taxes	15,112,717	--	15,112,717
Interest income	223	--	223
Total general revenues	<u>15,112,940</u>	<u>--</u>	<u>15,112,940</u>
Excess of revenues over expenditures	(19,301)	--	(19,301)
Change in net position	<u>(19,301)</u>	<u>--</u>	<u>(19,301)</u>
Fund balance/net position:			
Beginning of the year	<u>275,655</u>	<u>--</u>	<u>275,655</u>
End of the year	<u>\$ 256,354</u>	<u>\$ --</u>	<u>\$ 256,354</u>

The accompanying footnotes are an integral
part of these financial statements.

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Johnson County Education Research Triangle Authority's (Authority) enabling statutes are found in K.S.A. 19-5001 et seq. as amended and supplemented. The Authority was created on July 1, 2007, with the passage of the Johnson County Education Research Triangle Authority Act (JCERTA). The Authority was created for the purpose of supporting, in equal shares, the undergraduate and graduate programs at the Edwards campus of the University of Kansas, the research and education programs in animal health and food safety and security at the Johnson County location of Kansas State University, and the medical education and life sciences and cancer research programs at the University of Kansas Medical Authority's Johnson County locations.

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading.

K.S.A. 19-5002 provided a funding mechanism through Johnson County to impose a sales tax in an amount not to exceed .2%, or levy an annual tax at the rate of not more than two mills on the dollar on all real property within such county, or a combination of both with any such combination not to exceed the lesser of .2% sales tax or the two mills of property tax. A voter referendum in Johnson County, Kansas on November 4, 2008 approved a one-eighth (0.125%) countywide retailers sales tax, effective from and after April 1, 2009. Revenues that accrue belong exclusively to the Authority and are not part of the state treasury. The Johnson County Commission has not authorized any additional funding mechanism by a public vote of an additional sales tax or property tax levy.

Basis of Accounting

For financial reporting purposes, the Authority presents combined government-wide and fund financial statements. The government-wide column is prepared using the economic resources measurement focus and the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred. Expenses are specifically associated with a service or program, and are therefore identifiable to a particular function. Program revenues include charges for services and contributions restricted to meeting the requirements of a particular program; revenues not classified as program revenues are presented as general revenues.

The general fund column is prepared on a flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as they are both measurable and available to finance the Authority's current operations. "Measurable" means the amount of the transaction that can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related liability is both measurable and incurred.

The reconciliation between the fund and the government-wide columns is included in the adjustments column.

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

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 disclosure 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 those estimates.

Revenue Recognition and Receivables

Revenues generated under the Johnson County Education Research Triangle Authority Act from retailers' sales taxes as described under "Reporting Entity" above are considered derived tax revenues. As such, revenue is recognized by the Authority in the time period in which the sales taxes are collected by the retailers. Receivables consist of amounts owed to the Authority from Johnson County. Given the nature of the receivables, no amounts are considered uncollectible by management.

Accounts Payable

The Authority is required to distribute in equal shares to the universities the sales tax received under the Johnson County Education Research Triangle Authority Act as described under "Reporting Entity" above. As such, expenditures are recognized by the Authority in the same time period in which the sales taxes are recorded by the Authority. Payables consist of amounts owed to the universities from the Authority.

Equity Classifications

In the government-wide column, equity is shown as net position and classified as unrestricted. Unrestricted net position consist of residual amounts retained by the Authority for operations.

In the general fund column, equity is shown as fund balance and classified as unassigned. Unassigned fund balance consists of residual net resources.

Effective July 1, 2012, the Authority implemented the provisions of GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and GASB No. 65 *Items Previously Reported as Assets and Liabilities*. GASB 63 provides guidance for reporting deferred outflows and deferred inflows of resources and GASB 65 provides additional guidance on reclassifying, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. A deferred outflow of resources is the consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The Authority does not have any financial statement balances under current GAAP that meet the definition of a deferred outflow or a deferred inflow. As such, other than replacing the term "net assets" with the term "net position," the adoption of this standard had no impact on the Authority's financial statements.

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – CASH

As of June 30, 2013, the Authority had a balance of \$256,012 included in cash.

Deposit and Investment Policies. The Authority does not have formal deposit and investment policies.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. At June 30, 2013, the Authority was not exposed to custodial credit risk.