



Allen, Gibbs & Houlik, L.C.
CPAs & Advisors

Members of the Authority
Johnson County Education Research Triangle Authority

We are pleased to present this report related to our audit of the basic financial statements of Johnson County Education Research Triangle Authority (Authority) for the year ended June 30, 2014. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority's financial reporting process.

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Auditor's Responsibility under Professional Standards

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated April 22, 2014.

Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. The Authority's significant accounting policies are discussed in Note 1 to the financial statements.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit year.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management may wish to monitor throughout the year the process used to compute and record these accounting estimates.

Audit Adjustments

Cash transaction summaries provided by management were reformatted into the basic financial statements. During this process, an adjustment was made to record sales tax receivable owed to the Authority, and corresponding payables to the universities, at June 30, 2014.

Uncorrected Misstatements

There were no uncorrected misstatements accumulated during the audit.

Management Representations

In connection with our audit procedures, we have obtained a written management representation letter. This representation letter constitutes written acknowledgments by management that it has the primary responsibility for the fair presentation of the financial statements in conformity with generally accepted accounting principles. The representation letter also includes the more significant oral representations made by officers and employees during the course of the audit and includes specific representations, is intended to reduce the possibility of misunderstandings between us and the Authority and reminds the signing officers to consider seriously whether all material liabilities, commitments and contingencies or other important financial information have been brought to our attention.

Other Disclosures

- We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements;
- We are not aware of any consultations management had with other accountants about accounting or auditing matters;
- No significant issues arising from the audit were discussed with, or were the subject of correspondence with management; and
- We did not encounter any difficulties in dealing with management relating to the performance of the audit.

Other Recommendations

We have no other recommendations for the Authority, based on our audit of the financial statements for the year ended June 30, 2014.

Closing

This reported is intended solely for the information and use of the Members of the Authority and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to Johnson County Education Research Triangle Authority.

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

December 2, 2014
Wichita, KS



Allen, Gibbs & Houlik, L.C.
CPAs & Advisors

Members of the Authority Johnson County Education Research Triangle Authority

We have performed the procedures enumerated below, which were agreed to by the Johnson County Education Research Triangle Authority (Authority), solely to assist you in determining whether the use of monies from the Authority for the year ending June 30, 2014 is in accordance with the budgets approved by the Authority and the Board of Regents, and in accordance with the provisions of K.S.A. 19-5001 through 19-5005. The Authority is responsible for the use of monies in accordance with the statutes cited. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the associated findings are as follows:

Procedure 1: In accordance with K.S.A. 19-5005(c), we tested that no more than 2% of funds collected in any fiscal year were allocated to administrative expenses of the Authority or its board of directors. We calculated the ratio of total administrative expenses to total collections for the period ending June 30, 2014.

Findings: No exceptions were noted.

Procedure 2: In accordance with K.S.A. 19-5005(a), we tested that funds appropriated by Johnson County to the Authority were remitted by the Authority in equal shares for the University of Kansas Edwards Campus in Overland Park, Kansas State University Innovation Campus in Olathe, and the University of Kansas Medical Center's Johnson County campus (the Universities). We confirmed with the Johnson County treasurer all amounts remitted by them to the Authority, and then calculated the amounts transferred out of the Authority's bank account to the Universities.

Findings: No exceptions were noted.

Procedure 3: In accordance with K.S.A. 19-5005(b), we will perform procedures to determine that expenditures are in compliance with the purposes of the Johnson County Education Research Triangle Authority Act (JCERTA).

- We obtained an understanding from each of the Universities regarding how their allocation of funds has been budgeted or otherwise approved to be spent for the current fiscal year.
- We obtained an understanding from each of the Universities regarding their process for monitoring and approving expenditures incurred from their JCERTA funds.

- We obtained detail transaction listings from each University of their receipts from the Authority, and expenditures incurred during the fiscal year ending June 30, 2014.
- We selected a sample of transactions from the Universities' expenditure transaction listings. Three samples were selected as follows:
 - 1) Payroll expenditures: We obtained a list from each University of those employees whose salary is being paid in full or in part with funds under the Act. We selected 10-19 employees from each University to perform the following procedures:
 - Obtained job position description and read to ensure description appears to support activities that are for allowable purposes under the Act.
 - Obtained quarterly certification (or similar documentation) showing how time for each employee is allocated between JCERTA-supported activities vs. other activities of the University.
 - For two judgmentally-selected pay periods during the fiscal year, verified that time / salary expense actually charged to JCERTA activities was in agreement with the allocation noted in the previous step.
 - 2) Other non-payroll expenditures: For all other transactions, we used a sample size of 75 (25 from each University), and judgmentally selected items from across all the expenditure type categories (for example, supplies, travel, advertising, etc.)
- For each item in the selected sample, we:
 - obtained supporting documentation and determined if the expenditure appeared to be for allowable purposes under the Act.
 - tested whether the expenditure was properly supported and approved in accordance with each University's policies.

Findings: See Appendix A for a summary of testing performed on expenditures for the Universities. We had the following observations and recommendations:

- (1) At one University, for two expenditures tested within the sample of 25, one expenditure included a monthly dining membership to a country club in the amount of \$141 per month in dues, and the second expenditure was related to the rental of holiday decorations for the University campus amounting to \$1,396. While it appears that neither is expressly prohibited by statute, it is our recommendation that the Authority Board develop formal guidance related to administrative expenditures of JCERTA funds incurred by the Universities.
- (2) At another University, internal control policies include completion of quarterly certifications by employees who are funded completely or in part from JCERTA funds. We observed payroll for one employee whose funding allocation differed from the certification on file for that employee. Discussions with management indicated the payroll was properly paid with JCERTA funds. Since communicating the above observation, management followed up with the employee and corrected the original certification. It is our recommendation that the University assign a specific employee the responsibility of periodically reviewing the certifications for compliance with University policy.

University Responses:

- (1) While these expenditures fall within the scope of the JCERTA statute, the University will reimburse JCERTA funds for the amount described and all monthly dues for the dining membership in fiscal year 2014. The University no longer pays the dining membership from JCERTA funds.

JCERTA Response:

- (1) The Authority has determined that any costs outlined above will be reimbursed by the University.

We do not express an opinion or any form of assurance on the responses noted above.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance with K.S.A 19-5001 through 19-5005. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Members of the Authority of the Johnson County Education Research Triangle Authority, and is not intended to be and should not be used by anyone other than these specified parties.

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

December 2, 2014
Wichita, KS

**Johnson County Education Research Triangle Authority
Transaction Testing: Summary
Year ended June 30, 2014**

The following summarizes items tested as part of Procedure 3 described on the previous pages. This is not a summary of the entire population of expenditures for the period.

	<u>KU Edwards</u>
<u>Bond Expenditures Tested from Bond Accounts</u>	
KU Edwards Campus: Debt service payments	<u>\$ 1,225,000.00</u>
<u>Expenditures Tested from JCERTA Tax Collections</u>	
Payroll	<u>\$ 48,710.40</u>
Other:	
Equipment and signage	\$ 39,373.50
Programs	1,484,372.84
Scholarships	49,500.00
Administrative	22,658.32
Utilities	34,810.14
Advertising	69,253.39
Security costs	41,400.58
Subscriptions	6,058.00
	<u>\$ 1,747,426.77</u>
Grand Total Tested	\$ 3,021,137.17
Total Expenditures for the Period ¹	\$ 5,216,474.00
Percentage Tested	58%

¹The percentage of testing at the KU Edwards Campus exceeded the other two universities as a result of the dollar value of the sample selected in non-payroll expenditures as well as the size of the debt service payments.

**Johnson County Education Research Triangle Authority
Transaction Testing: Summary
Year ended June 30, 2014**

The following summarizes items tested as part of Procedure 3 described on the previous pages. This is not a summary of the entire population of expenditures for the period.

	<u>KUMC</u>
<u>Bond Expenditures Tested from Bond Accounts</u>	
KU Medical Center: Debt service payment	\$ <u>460,801.32</u>
<u>Expenditures Tested from JCERTA Tax Collections</u>	
Payroll	\$ <u>84,385.52</u>
Other:	
Clinical research facility project costs: equipment	\$ 1,455.00
Clinical services (University of Kansas Hospital Authority Settlement Costs)	361,669.89
Equipment	1,167.22
Equipment lease (mass spectrometer)	160,962.72
Administrative	110.07
Utilities	22,058.42
Travel / conference registrations	4,116.58
Landscape, custodial, security	15,376.56
Repairs and maintenance	497.50
	<u>\$ 567,413.96</u>
Grand Total Tested	\$ 1,112,600.80
Total Expenditures for the Period	\$ 4,620,090.00
Percentage Tested	24%

**Johnson County Education Research Triangle Authority
Transaction Testing: Summary
Year ended June 30, 2014**

The following summarizes items tested as part of Procedure 3 described on the previous pages. This is not a summary of the entire population of expenditures for the period.

	<u>K-State</u>
<u>Bond Expenditures Tested from Bond Accounts</u>	
K-State Olathe Innovation Campus: Debt service payments	\$ <u>746,452.50</u>
<u>Expenditures Tested from JCERTA Tax Collections</u>	
Payroll	\$ <u>61,884.03</u>
Other:	
Furniture and equipment	\$ 1,995.00
Equipment lease	844.77
Programs	40,175.30
Administrative	7,201.35
Consultants	42,363.43
Advertising	9,800.00
Public relations / marketing	13,627.61
Travel / conference registrations	1,713.70
Landscape, custodial, security	10,713.41
Repairs and maintenance	6,533.00
General liability insurance	26,475.00
	\$ <u>161,442.57</u>
Grand Total Tested	\$ 969,779.10
Total Expenditures for the Period	\$ 5,008,130.98
Percentage Tested	19%

JOHNSON COUNTY
EDUCATION RESEARCH TRIANGLE AUTHORITY
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

AND

INDEPENDENT AUDITOR'S REPORT

JOHNSON COUNTY EDUCATION RESEARCH TRIANGLE AUTHORITY

FINANCIAL STATEMENTS

Year ended June 30, 2014

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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, 2014, 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, 2014, 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

December 2, 2014
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, 2014. 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 2013 by \$40,856 due to the budgeted drawdown of existing cash balances to pay for Authority administrative expenses (see more on page 5). The increase in administrative expenses include the production of a formal 5-year report to the community in addition to other administrative costs. Funds have been invested in cash; which makes up \$212,423 of the total assets. Sales taxes receivable of \$2.8 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 \$16.0 million for the period.
- The Authority expended \$16.0 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 \$45,571.

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 is 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, 2014, 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:

	2014	2013
Assets		
Cash	\$ 212,423	\$ 256,012
Sales tax receivable	2,808,075	2,703,642
Total assets	<u>\$ 3,020,498</u>	<u>\$ 2,959,654</u>
Liabilities		
Current liabilities	\$ 2,805,000	\$ 2,703,300
Total liabilities	<u>2,805,000</u>	<u>2,703,300</u>
Net position		
Unrestricted	215,498	256,354
Total net position	<u>215,498</u>	<u>256,354</u>
Total liabilities and net position	<u>\$ 3,020,498</u>	<u>\$ 2,959,654</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.

	2014	2013
Revenues		
Sales tax revenue	\$ 16,029,712	\$ 15,112,717
Interest income	103	223
Total revenues	<u>16,029,815</u>	<u>15,112,940</u>
Expenses		
University program support	16,025,100	15,111,300
Authority administration	45,571	20,941
Total expenses	<u>16,070,671</u>	<u>15,132,241</u>
Change in net position	(40,856)	(19,301)
Total net position, beginning of period	<u>256,354</u>	<u>275,655</u>
Total net position, end of period	<u>\$ 215,498</u>	<u>\$ 256,354</u>

Assets, liabilities and changes in net position:

The Authority's net position decreased to \$215,498 for the year ended June 30, 2014. The \$40,856 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 2014. 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, 2014

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 212,423	\$ --	\$ 212,423
Sales tax receivable	2,808,075	--	2,808,075
	<u>3,020,498</u>	<u>--</u>	<u>3,020,498</u>
Total assets	\$ <u>3,020,498</u>	\$ <u>--</u>	\$ <u>3,020,498</u>
LIABILITIES			
Due to universities	\$ 2,805,000	\$ --	\$ 2,805,000
	<u>2,805,000</u>	<u>--</u>	<u>2,805,000</u>
Total liabilities	<u>2,805,000</u>	<u>--</u>	<u>2,805,000</u>
FUND BALANCE/NET POSITION			
Fund balances:			
Unassigned	215,498	--	--
	<u>215,498</u>	<u>--</u>	<u>--</u>
Total fund balances	<u>215,498</u>	<u>--</u>	<u>--</u>
Total liabilities and fund balances	\$ <u>3,020,498</u>	\$ <u>--</u>	
Net position:			
Unrestricted			<u>215,498</u>
Total net position			\$ <u>215,498</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, 2014

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
University program support	\$ 16,025,100	\$ --	\$ 16,025,100
Authority administration	45,571	--	45,571
Total expenditures/expenses	<u>16,070,671</u>	<u>--</u>	<u>16,070,671</u>
General revenues:			
Sales taxes	16,029,712	--	16,029,712
Interest income	103	--	103
Total general revenues	<u>16,029,815</u>	<u>--</u>	<u>16,029,815</u>
Excess of revenues over expenditures	(40,856)	--	(40,856)
Change in net position	<u>(40,856)</u>	<u>--</u>	<u>(40,856)</u>
Fund balance/net position:			
Beginning of the year	<u>256,354</u>	<u>--</u>	<u>256,354</u>
End of the year	<u>\$ 215,498</u>	<u>\$ --</u>	<u>\$ 215,498</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 retailer's 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 consists 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.

NOTE 2 – CASH

As of June 30, 2014, the Authority had a balance of \$212,423 included in cash.

Deposit and Investment Policies. The Authority does not have formal deposit and investment policies. The Authority annually approves its depository as well as minimizes the time elapsed between the collection and subsequent disbursement of funds to the Universities.

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, 2014, the Authority was not exposed to custodial credit risk.