



**Assurance & Business
Advisory Services**

June 30, 2006 and 2005

OHIONET

Financial Statements

GBQ | Certified Public
Partners | Accountants
and Consultants

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To the Board of Trustees
and Members of OHIONET
Columbus, Ohio

Independent Auditors' Report

We have audited the accompanying statements of financial position of OHIONET as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of OHIONET's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OHIONET as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GBQ Partners LLC

Columbus, Ohio
August 22, 2006

OHIONET

Statements of Financial Position

June 30, 2006 and 2005

ASSETS		
	<u>2006</u>	<u>2005</u>
Current Assets		
Cash and cash equivalents	\$ 2,648,888	\$ 2,186,695
Marketable securities	2,329,166	2,102,526
Accounts receivable	1,407,247	1,682,516
Prepaid expenses, deposits and other	970,829	1,051,540
Total current assets	<u>7,356,130</u>	<u>7,023,277</u>
Property and Equipment		
Land and building	990,368	990,868
Office furniture and equipment	653,580	635,469
	<u>1,643,948</u>	<u>1,626,337</u>
Less: accumulated depreciation	(956,741)	(876,053)
Net property and equipment	<u>687,207</u>	<u>750,284</u>
Other Assets		
Equipment and software licenses held on behalf of Ohio Private Academic Libraries (OPAL) participants	<u>1,517,435</u>	<u>1,512,935</u>
TOTAL ASSETS	<u>\$ 9,560,772</u>	<u>\$ 9,286,496</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 303,781	\$ 264,940
Accounts payable - Online Computer Library Center (OCLC)	378,354	443,308
Advance payments from members	998,194	1,007,743
Unearned revenue - membership dues	134,963	-
Unearned revenue - reference services	985,733	1,064,387
Unearned revenue - OPAL administration	483,000	483,000
Total current liabilities	<u>3,284,025</u>	<u>3,263,378</u>
Long-Term Liabilities		
Amounts held for benefit of OPAL participants	<u>2,539,852</u>	<u>2,531,248</u>
Total liabilities	<u>5,823,877</u>	<u>5,794,626</u>
Net Assets		
Unrestricted	2,947,046	2,729,590
Unrestricted - board designated	789,849	762,280
Total net assets	<u>3,736,895</u>	<u>3,491,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,560,772</u>	<u>\$ 9,286,496</u>

The accompanying notes are an integral part of the financial statements.

OHIONET

Statements of Activities and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
OCLC services	\$ 4,405,556	\$ 4,498,271
Reference services	3,085,499	2,699,290
OPAL administration	499,258	437,419
Membership	367,940	371,631
Supplies and small equipment	458,857	324,918
Other products and services	160,437	188,852
Investment income	166,468	167,450
Total revenues	<u>9,144,015</u>	<u>8,687,831</u>
Expenses:		
OCLC services	3,864,227	3,977,298
Reference services	2,831,582	2,453,272
Personnel costs	1,163,339	1,001,176
OPAL administration	162,618	359,614
Supplies and small equipment	396,931	281,249
General and administrative	286,412	273,698
Other products and services	96,092	95,831
Building expense	97,789	90,053
Total expenses	<u>8,898,990</u>	<u>8,532,191</u>
Increase in Unrestricted Net Assets	245,025	155,640
Unrestricted Net Assets - Beginning of Year	<u>3,491,870</u>	<u>3,336,230</u>
Unrestricted Net Assets - End of Year	<u>\$ 3,736,895</u>	<u>\$ 3,491,870</u>

The accompanying notes are an integral part of the financial statements.

OHIONET

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities:		
Increase in unrestricted net assets:	<u>\$ 245,025</u>	<u>\$ 155,640</u>
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities:		
Depreciation	101,839	113,500
Net gain on marketable securities	(4,578)	(59,904)
(Increase) decrease in operating assets:		
Accounts receivable	275,269	254,428
Prepaid expenses, deposits and other Equipment and software licenses held on behalf of OPAL participants	80,711	(135,684)
	(4,500)	851
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	38,841	(14,598)
Accounts payable - OCLC	(64,954)	(116,832)
Advance payments from members	(9,549)	63,782
Unearned revenue - membership dues	134,963	-
Unearned revenue - reference services	(78,654)	144,342
Unearned revenue - OPAL administration	-	420,000
Amounts held for benefit of OPAL participants	8,604	(324,124)
Total adjustments	<u>477,992</u>	<u>345,761</u>
Net cash provided by operating activities	<u>723,017</u>	<u>501,401</u>
Cash Flows from Investing Activities:		
Net change in marketable securities	(222,062)	(1,545,344)
Purchase of property and equipment	(38,762)	(64,439)
Net cash used in investing activities	<u>(260,824)</u>	<u>(1,609,783)</u>
Net increase (decrease) in cash and cash equivalents	462,193	(1,108,382)
Cash and Cash Equivalents - Beginning of Year	<u>2,186,695</u>	<u>3,295,077</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,648,888</u>	<u>\$ 2,186,695</u>

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

June 30, 2006 and 2005

Nature and Scope of Business

OHIONET was incorporated in December 1977 as a not-for-profit organization to maintain a library network and to provide bibliographic cataloging services and other library-related products, services and information for its members, primarily academic institutions and public libraries in Ohio.

Summary of Significant Accounting Policies

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 periods. Actual results could differ from those estimates.

Financial Statement Presentation

OHIONET reports information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations and are available for use in OHIONET's ongoing operations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by action of OHIONET pursuant to those stipulations, and/or upon receipt of the funding. OHIONET had no temporarily restricted net assets at June 30, 2006 and 2005.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that the principal be maintained permanently by OHIONET. OHIONET had no permanently restricted net assets at June 30, 2006 and 2005.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand; and demand deposits, money market accounts and certificates of deposit held with financial institutions with an original maturity of three months or less.

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Notes to Financial Statements

June 30, 2006 and 2005

Summary of Significant Accounting Policies (continued)

Marketable Securities

Marketable securities consist of investments in mutual funds. The mutual funds are recorded at fair value based on readily determinable quoted market values. The certificates of deposit are recorded at cost which approximates fair value. Unrealized and realized gains and losses are included in investment income in the accompanying statements of activities.

Marketable securities are exposed to various risks such as interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in the values of marketable securities may occur in the near term, which could be material.

Accounts Receivable and Revenues

OHIONET provides services and products to its members by assessing membership and administrative fees, as well as surcharges on certain products in order to cover operating expenses. Revenues related to products and services that OHIONET provides to its members and customers are recognized as revenue in the month that the product is shipped or service is provided to the member. Member payments for certain products and services are recorded as unearned revenue liabilities based on amounts collected and then recognized as revenue either in the month the product or service is provided or on a monthly pro-rata basis matching the subscription term. Membership dues are billed annually and recognized as revenue on a pro-rata basis over the membership fiscal year. Membership dues collected in advance of the pro-rata recognition are recorded as unearned revenue liabilities.

OHIONET utilizes the allowance method to recognize potentially uncollectible amounts based on management's estimation of the amount that may not be collected. The estimation takes into consideration overall historical collection trends as well as past history with specific members. Actual results could vary from the estimate. Accounts are charged against the allowance when management deems them to be uncollectible. Account balances over 30 days old are considered delinquent. Interest is not charged by OHIONET on past due accounts. No allowance was recorded due to management's estimate that all accounts are collectible as of June 30, 2006 and 2005.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over their estimated useful lives ranging from 3 to 46.5 years. Major acquisitions and improvements are capitalized and depreciated. Maintenance and repairs, which do not improve or extend the useful lives of the respective assets, are charged to expense as incurred. Upon disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is reflected in income.

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Notes to Financial Statements

June 30, 2006 and 2005

Summary of Significant Accounting Policies (continued)

Advance Payments from Members

OHIONET receives advance funding from members when the member anticipates buying certain products or services in the future but has not entered into a transaction to do so. Accordingly, such payments received are reported as liabilities in the accompanying statements of financial position.

Board Designated Net Assets

The Board of Trustees of OHIONET established a reserve fund to explore opportunities in technology and telecommunications, as well as to expand services, membership and revenue. Funds designated by the Board for this purpose are included in cash and cash equivalents and marketable securities in the accompanying statements of financial position.

Income Taxes

OHIONET is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes was made in the accompanying financial statements.

Cash and Cash Equivalents

OHIONET maintains its cash and cash equivalents in six accounts with three financial institutions. Cash balances may periodically exceed federally insured limits.

Marketable Securities

A summary of marketable securities at June 30 is as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Equity mutual funds	\$ 718,502	\$ 784,549	\$ 630,636	\$ 669,287
Fixed income mutual funds	<u>1,613,115</u>	<u>1,544,617</u>	<u>1,439,578</u>	<u>1,433,239</u>
	<u>\$2,331,617</u>	<u>\$2,329,166</u>	<u>\$2,070,214</u>	<u>\$2,102,526</u>

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Notes to Financial Statements

June 30, 2006 and 2005

Marketable Securities (continued)

Total investment income for marketable securities as well as cash and cash equivalents consisted of the following at June 30:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 161,890	\$ 107,546
Net realized and unrealized gains	<u>4,578</u>	<u>59,904</u>
	<u>\$ 166,468</u>	<u>\$ 167,450</u>

The Ohio Private Academic Libraries (OPAL) Project

OHIONET entered into separate agreements with Ohio private academic libraries to form a concentrated participant group for the primary purpose of establishing a multi-user online public access library cataloging system (the OPAL System) on a more affordable basis. A summary of the agreements and participants is as follows:

1. During fiscal year 1998, 17 participants signed an initial three-year agreement.
2. Effective July 1, 2002, 19 participants signed new three-year agreements.
3. During the fiscal year ended June 30, 2004, two additional participants joined the group.
4. Effective July 1, 2005, 21 participants signed three-year agreements.

In order to be a participant in the OPAL System, the library must be a member of OHIONET and have paid the annual participant subscription fee. Each participant has representation and a vote on the OPAL Directors Council. This Council is not subject to the control of the management or the Board of Trustees of OHIONET.

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Notes to Financial Statements

June 30, 2006 and 2005

The Ohio Private Academic Libraries (OPAL) Project (continued)

OHIONET is the contracted administrator of and agent for the OPAL System. OHIONET is primarily responsible for negotiating contracts with a software cataloging company and a computer hardware company, developing and maintaining the web-based hosting site and facilitating the assembling of the OPAL Directors Council. OHIONET sends subscription fee invoices on an annual basis to the participants. The invoices are established annual amounts, including a contingency fund reserve, pursuant to each executed contract. Through the contract term ending June 30, 2005, revenue is recorded monthly by OHIONET based on actual costs incurred for that month, which OHIONET is responsible to incur and pay, plus a pro-rata portion of the administrative fee. All expenditures were approved by the OPAL Directors Council. Effective for the contract period beginning July 1, 2005, the planned program expenditures were consolidated into a single administrative fee. A contingency reserve is still collected and any incremental non-planned program expenditures are approved by the OPAL Directors Council and paid for using the accumulated contingency reserve funds. Unspent funds plus investment earnings as well as the contingency reserve are held by OHIONET, as the agent, for future use by the OPAL participants.

Termination by a participant does not eliminate the obligation of the participant to make all payments required by the agreement. The OPAL agreement allows the OHIONET Board of Trustees to end its participation in the OPAL project by providing 90 days notice to all OPAL participants. Should OHIONET elect to end its participation or cease operations, a successor entity with a purpose similar to the OPAL project will be chosen by the participants to succeed in holding custody of OPAL participant assets, as well as the management of the project. In the event the project is terminated, any excess OPAL funds remaining shall be distributed to the OPAL participants and not retained by OHIONET.

OPAL participants consummate three-year agreements in advance of the term which legally obligates the participant to make subscription payments over the term. In practice, OHIONET invoices participants in May for one year obligations, and payment is due the subsequent June. Receivables and unearned revenues are recorded in the month invoiced.

OHIONET is holding cash and cash equivalents, marketable securities and accounts receivable on behalf of the OPAL participants. The OPAL project agreement also provides that all hardware and software licenses, equipment and other assets, which are purchased by the participants as part of the project, will be held by OHIONET as administrator/agent of the project on behalf of the OPAL participants. Accordingly, no depreciation is provided for these assets.

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Notes to Financial Statements

June 30, 2006 and 2005

The Ohio Private Academic Libraries (OPAL) Project (continued)

The following is a summary of the assets held on behalf of OPAL, and the corresponding liability, recorded in the accompanying statements of financial position as of June 30:

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and cash equivalents	\$ 221,274	\$ 278,861
Marketable securities	740,154	709,780
Accounts receivable and other	63,000	75,531
Equipment and software licenses	<u>1,517,435</u>	<u>1,512,935</u>
	<u>2,541,863</u>	<u>2,577,107</u>
Liabilities:		
Amounts due OHIONET	<u>(2,011)</u>	<u>(45,859)</u>
Amounts held for benefit of OPAL participants	<u>\$ 2,539,852</u>	<u>\$ 2,531,248</u>

Online Computer Library Center Agreement

OHIONET operates under a network agreement with the Online Computer Library Center (OCLC), a not-for-profit organization that provides bibliographic cataloging services and other library-related products, services and information to its member networks, including OHIONET. Many of OHIONET's members are also members of OCLC. The initial term of the agreement expired July 1, 1982, was extended indefinitely and is currently under negotiation. The original contract includes a provision that either party may terminate the agreement at the end of any month, with at least one year's prior notice. OCLC is a unique supplier in that there is no other accumulated library materials resource database to the extent and specified geographical location that OCLC provides. During fiscal 2006 and 2005, approximately 53% and 56%, respectively, of the direct costs of services and products provided to members was from OCLC.

Retirement Plan

OHIONET maintains a qualified defined contribution retirement plan for all employees who meet the age and service requirements. Eligible employees may elect to defer receipt of a portion of their annual wages as a contribution to the plan. OHIONET makes a contribution based on a percentage of the employee's compensation to the Plan on behalf of eligible employees, provided that the employee contributes a certain percentage of his or her compensation. OHIONET may make additional contributions at the discretion of the Board of Trustees. OHIONET's retirement plan expense was approximately \$64,000 and \$60,000 for 2006 and 2005, respectively.