

OHIONET
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE 1 - ACCOUNTING POLICIES AND PROCEDURES

General - OHIONET was incorporated in December 1977 as a nonprofit 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. The Corporation may not distribute its corporate equity to its members, and, in the event of dissolution of the Corporation, the Board of Trustees is to adopt such plans for distribution of remaining assets as is consistent with the purpose of the Corporation and applicable law.

OHIONET provides services and products to its members by assessing membership and administrative fees and surcharges on certain products in order to cover operating expenses. During fiscal 2004 and 2003, approximately 62% and 68% respectively of the direct costs of services and products provided to members consists of amounts billed by OCLC (Online Computer Library Center Incorporated), a nonprofit corporation that provides bibliographic cataloging services and other library related products, services, and information to its member networks, including OHIONET. In fiscal 2004 and 2003, the cost of OCLC products and services provided to members totaled \$4,276,361.91 and \$4,491,732.28 respectively. At June 30, 2004 and 2003, accounts payable included \$560,140.27 and \$480,122.90 due to OCLC for products and services.

OHIONET operates under a definite network agreement with OCLC, pursuant to which OCLC provides services and products to OHIONET and its members. While the initial term of the network agreement expired June 30, 1983, the agreement has been extended indefinitely while the parties re-negotiate the terms of the contract. The original contract includes a provision that either party must give sixty days prior written notice to terminate the agreement.

Basis of Accounting - The financial statements of OHIONET have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of Corporate Equity: Unrestricted Corporate Equity, Temporarily Restricted Corporate Equity, and Permanently Restricted Corporate Equity. The Corporation had only Unrestricted Corporate Equity for the years ended June 30, 2004 and 2003.

Expense Allocation - The costs of providing various member services programs have been summarized on a functional basis in Note 4. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Promotional Materials - The organization expenses promotional cost, which includes a small amount of advertising as incurred. Promotion and advertising expense amounted to \$14,687.60 and \$4,298.50 for the years ended June 30, 2004 and 2003, respectively.

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Pension Expense - Effective July 1, 1980, the Corporation established a defined contribution pension plan covering all full time employees with at least one year of service. Contributions to the plan are based on participants' salaries. Through December 31, 2001, each employee who desired to participate was required to contribute 1% of gross salary into the plan while OHIONET contributed 6% of each participant's gross salary. Effective January 1, 2002 OHIONET'S contribution was increased to 8% and the participant contribution was increased to 2%. The Corporation's policy is to fund pension costs as accrued. The total pension expense in fiscal 2004 and 2003 was \$60,585.83 and \$58,667.31, respectively.

Financial Investments - The organization invests excess cash in overnight money market funds, certificates of deposit, commercial paper and the OCLC Subscription Credit Program. All banking is carried out at a single Columbus financial institution. At times during the fiscal years ended June 30, 2004 and 2003, and at times through the date of this report, the amount of cash on deposit exceeded the federally insured limit of \$100,000.00

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, OHIONET considers all unrestricted liquid investments with original maturities of ninety days or less to be cash equivalents.

Short-Term Investments - Short-term investments consist of certificates of deposit and commercial paper with original maturities between 140 days and 306 days. Short-term investments are stated at cost because that approximates market value.

Property and Depreciation - The organization capitalizes all expenditures for property in excess of \$300.00. Property is recorded at cost. Depreciation is provided using the straight-line method at rates based on the estimated useful lives of the computer equipment (three years), office furniture and equipment (three to ten years) and the remodeled building (thirty years). The total depreciation expense in fiscal 2004 and 2003 was \$126,040.77 and \$116,368.39, respectively.

Inventories - Inventories consist of supplies valued at cost which approximates market, using primarily the first-in, first-out method of valuation.

Accounts Receivable - OHIONET extends credit to its members, substantially all of whom are located in Ohio. Any accounts deemed to be uncollectible are charged to expense when that determination is made. In fiscal 2004 and 2003, accounts totaling \$ 0.13 and \$ 0.64 were deemed uncollectible.

Federal Income Tax - The corporation has obtained tax exempt status under Section 501(c)(3) of the Internal Revenue Code and has no net unrelated business income. Accordingly, no provision for federal, state or local income tax has been made. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 (b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

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Other Assets - OPAL equipment and software licenses are owned by OHIONET on behalf of the participating OPAL members. As a result no depreciation is provided for these assets.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Unearned Revenues - OHIONET records prepayments from members as a liability, unearned revenues, and recognizes revenues as services are performed.

NOTE 2 - BOARD DESIGNATED EQUITY

It is the policy of the Board of Trustees of OHIONET to designate specified amounts of unrestricted corporate equity for specific purposes, projects or investments. The following designations have been approved:

The Reserve Fund was established to exploit opportunities in technology and telecommunications and to expand services, membership and revenue.

NOTE 3 - THE OHIO PRIVATE ACADEMIC LIBRARIES (OPAL) PROJECT

During fiscal 1998 OHIONET entered into agreements with seventeen private academic institution members to provide an avenue to group membership in OhioLINK. On July 1, 2002 nineteen members signed a new three-year agreement with OHIONET. During the fiscal year ended June 30, 2004, two additional institutions joined the group. The OPAL project agreements provide that all hardware and software licenses and other assets, which are purchased by the participants as part of the project, will be owned by OHIONET as administrator of the project on behalf of the participating OPAL members. As required by the OPAL Project Agreements, OHIONET separately accounts for OPAL activities. OPAL equity represents the investment earnings on OPAL deposits held by OHIONET.

As of June 30, 2004 and 2003 OPAL's assets, liabilities and equity are:

	<u>2004</u>	<u>2003</u>
Cash and Cash Equivalents	\$ 926,209.44	\$ 772,645.36
Accounts Receivable	453,425.24	479,173.46
Prepaid Expenses	1,591.15	522.95
Equipment and Software Licenses	<u>1,513,786.50</u>	<u>1,404,721.50</u>
Total Assets	<u>\$ 2,895,012.33</u>	<u>\$ 2,657,063.27</u>
Accounts Payable and Accrued Expenses	\$ 39,639.69	\$ 34,786.36
Unearned Revenues and Other Obligations	2,742,609.24	2,515,773.43
Equity	<u>112,763.40</u>	<u>106,503.48</u>
Total Liabilities and Equity	<u>\$ 2,895,012.33</u>	<u>\$ 2,657,063.27</u>

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The OPAL agreements permit the OHIONET Board of Trustees to end its participation in the OPAL project by providing 90 days notice of its intent to all participants. Termination by a participant does not eliminate the obligation of the participant to make all payments required by the agreement. Should OHIONET elect to end its participation, a successor entity with a purpose similar to the OPAL project will be chosen by the participants to succeed to the ownership and management of the project. In the event the project is terminated any excess OPAL funds remaining shall be applied solely for purposes of the OPAL project.

NOTE 4 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various members services by function are as follows:

	2004 <u>Total</u>	Member <u>Services</u>	Administration & <u>Accounting</u>
Salaries, wages and related payroll taxes and benefits	\$ 1,023,371.79	\$ 678,023.74	\$ 345,348.05
Administrative	294,271.77	199,953.26	94,318.51
Building expense	<u>83,497.12</u>	<u>71,498.58</u>	<u>11,998.54</u>
Totals	<u>\$ 1,401,140.68</u>	<u>\$ 949,475.58</u>	<u>\$ 451,665.10</u>
	2003	Member	Administration &
	<u>Total</u>	<u>Services</u>	<u>Accounting</u>
Salaries, wages and related payroll taxes and benefits	\$ 957,014.04	\$ 631,088.84	\$ 325,925.20
Administrative	288,574.36	194,796.42	93,777.94
Building expense	<u>88,291.67</u>	<u>75,604.15</u>	<u>12,687.52</u>
Totals	<u>\$ 1,333,880.07</u>	<u>\$ 901,489.41</u>	<u>\$ 432,390.66</u>