

Financial Statements

OHIONET

June 30, 2011 and 2010

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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, 2011 and 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OHIONET's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011 and 2010, 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
November 22, 2011

OHIONET

Statements of Financial Position

June 30, 2011 and 2010

ASSETS		
	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 3,513,345	\$ 4,064,779
Cash restricted for grant purposes	178,057	175,537
Marketable securities	3,656,073	3,248,705
Accounts receivable	1,266,136	1,196,375
Prepaid expenses, deposits and other	<u>1,699,996</u>	<u>1,174,458</u>
Total current assets	<u>10,313,607</u>	<u>9,859,854</u>
Property and Equipment		
Land and building	1,004,806	999,525
Office furniture and equipment	<u>725,098</u>	<u>647,407</u>
	1,729,904	1,646,932
Less: accumulated depreciation	<u>(1,167,639)</u>	<u>(1,105,839)</u>
Net property and equipment	<u>562,265</u>	<u>541,093</u>
Other Assets		
Equipment and software licenses held on behalf of Ohio Private Academic Libraries (OPAL) participants	<u>1,447,389</u>	<u>1,454,567</u>
TOTAL ASSETS	<u>\$ 12,323,261</u>	<u>\$ 11,855,514</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 429,597	\$ 177,369
Accounts payable - Online Computer Library Center (OCLC)	318,068	304,184
Advance payments from members	958,170	1,108,478
Grant-related funding advances	178,057	175,537
Unearned revenue - membership dues	178,800	177,900
Unearned revenue - reference services	2,288,569	2,220,161
Unearned revenue - OPAL administration	578,400	564,000
Unearned revenue - OCLC services	319,158	206,401
Unearned revenue - other	<u>69,000</u>	<u>69,000</u>
Total current liabilities	5,317,819	5,003,030
Long-Term Liabilities		
Amounts held for benefit of OPAL participants	<u>2,703,227</u>	<u>2,638,834</u>
Total liabilities	<u>8,021,046</u>	<u>7,641,864</u>
Net Assets		
Unrestricted	3,147,649	3,128,058
Unrestricted - Board designated	<u>1,154,566</u>	<u>1,085,592</u>
Total net assets	<u>4,302,215</u>	<u>4,213,650</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,323,261</u>	<u>\$ 11,855,514</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
OCLC services	\$ 4,064,268	\$ 4,071,602
Reference services	5,333,285	4,799,915
Technology management services	614,781	662,232
Membership	419,013	431,231
Supplies and small equipment	458,053	414,229
Grant revenue	164,965	191,069
Other products and services	74,291	259,210
Total revenues	<u>11,128,656</u>	<u>10,829,488</u>
Expenses:		
OCLC services	3,954,018	3,965,050
Reference services	5,050,526	4,595,519
Personnel costs	1,108,286	1,208,228
Technology management services	198,649	189,264
Supplies and small equipment	427,139	385,541
General and administrative	261,246	292,559
Grant expenses	164,642	191,069
Other products and services	74,447	108,615
Building expense	121,637	112,931
Total expenses	<u>11,360,590</u>	<u>11,048,776</u>
Decrease in Unrestricted Net Assets Before Investment Income	(231,934)	(219,288)
Investment Income	<u>320,499</u>	<u>275,358</u>
Increase in Unrestricted Net Assets	88,565	56,070
Unrestricted Net Assets - Beginning of Year	<u>4,213,650</u>	<u>4,157,580</u>
Unrestricted Net Assets - End of Year	<u>\$ 4,302,215</u>	<u>\$ 4,213,650</u>

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

OHIONET

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Increase in unrestricted net assets	\$ 88,565	\$ 56,070
Adjustments to reconcile increase in unrestricted net assets to cash and cash equivalents (used in) provided by operating activities:		
Depreciation	70,591	104,725
Net gain on marketable securities	(231,507)	(180,515)
(Increase) decrease in operating assets:		
Cash restricted for grant purposes	(2,520)	166,069
Accounts receivable	(69,761)	136,898
Prepaid expenses, deposits and other Equipment and software licenses held on behalf of OPAL participants	(525,538)	(132,427)
	7,178	83,882
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	252,228	(14,240)
Accounts payable - OCLC	13,884	(49,110)
Advance payments from members	(150,308)	109,278
Grant - related funding advances	2,520	(166,069)
Unearned revenue - membership dues	900	7,600
Unearned revenue - reference services	68,408	294,182
Unearned revenue - OPAL administration	14,400	-
Unearned revenue - OCLC Services	112,757	206,401
Amounts held for benefit of OPAL participants	64,393	20,959
Total adjustments	(372,375)	587,633
Net cash and cash equivalents (used in) provided by operating activities	(283,810)	643,703
Cash Flows from Investing Activities:		
Net change in marketable securities	(175,861)	(360,896)
Purchase of property and equipment	(91,763)	(20,648)
Net cash and cash equivalents used in investing activities	(267,624)	(381,544)
Net (decrease) increase in cash and cash equivalents	(551,434)	262,159
Cash and Cash Equivalents - Beginning of Year	4,064,779	3,802,620
Cash and Cash Equivalents - End of Year	\$ 3,513,345	\$ 4,064,779

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

Notes to Financial Statements

June 30, 2011 and 2010

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 (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 restrictions and are available for use in OHIONET’s ongoing operations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that expire by passage of time, can be fulfilled and removed by action of OHIONET pursuant to those restrictions, and/or upon receipt of the funding. OHIONET had no temporarily restricted net assets at June 30, 2011 and 2010.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the principal be maintained permanently by OHIONET. OHIONET had no permanently restricted net assets at June 30, 2011 and 2010.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits and money market accounts held with financial institutions, excluding cash held for grant purposes.

OHIONET

Notes to Financial Statements

June 30, 2011 and 2010

Summary of Significant Accounting Policies (continued)

Marketable Securities

Marketable securities consist of investments in mutual funds. The mutual funds are recorded at fair value as further described herein. Unrealized and realized gains and losses are included in investment income in the accompanying statements of activities and changes in net assets.

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 and services 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. Additional amounts uncollected from the member are recorded as unearned revenue liabilities if the product or service begins prior to the current month-end and the member has not provided notice of cancellation or has provided notice of continuation. 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 as management estimated that all accounts are collectible as of June 30, 2011 and 2010.

Notes to Financial StatementsJune 30, 2011 and 2010

Summary of Significant Accounting Policies (continued)Fair Value Measurements

Accounting guidance relating to fair value measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that OHIONET has ability to access. This level represents the highest priority. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets.• Quoted prices for identical or similar assets or liabilities in inactive markets.• Inputs other than quoted prices that are observable for the asset or liability.• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- | | |
|---------|--|
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. This level represents the lowest priority. |
|---------|--|

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

OHIONET

Notes to Financial Statements

June 30, 2011 and 2010

Summary of Significant Accounting Policies (continued)

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.

Impairment of Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate the amount of the assets may not be recoverable. When an indication of impairment is present and the undiscounted cash flows estimated to be generated by the related assets are less than the assets' carrying amount, an impairment loss will be recorded based on the difference between the carrying amount of the assets and their estimated fair value. Management determined that no impairment existed at June 30, 2011 or 2010.

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 potential acquisitions that would complement services to libraries. 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 a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income as defined by the Code. Accordingly, no provisions for federal, state or local taxes are included in the financial statements.

Notes to Financial StatementsJune 30, 2011 and 2010

Summary of Significant Accounting Policies (continued)Income Taxes (continued)

OHIONET performs an annual assessment for any uncertainty in income tax positions which includes an analysis of whether there are any tax positions OHIONET takes with regard to unrelated business income, related deductions applied or other activities that may jeopardize their tax exempt status and thus would meet the definition of an uncertain tax position. As of June 30, 2011, tax filing periods for the years ended 2007 and prior are closed. Management has not been notified that their tax returns for years 2008 and subsequent are currently under examination. No tax liability accrual was recorded relating to material uncertain positions taken as management believes there are none.

Fair Value Measurement Accounting Standards Amendments

In May 2011, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) No. 2011-04 which provides amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in previously implemented U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. There are also amendments that clarify FASB's intent about the application of existing fair value measurement requirements, while others change a particular principle of requirements for measuring fair value or for disclosing information about fair value measurements. Certain amendments in the ASU are not required for nonpublic entities. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Management does not anticipate that this ASU will have a material effect to future financial statements.

Cash and Cash Equivalents

OHIONET maintains its cash and cash equivalents in eight accounts with three financial institutions. Cash balances may periodically exceed federally insured limits. All of the non-interest-bearing cash balances were fully insured at June 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at June 30, 2011 approximated \$265,000.

Money market funds of approximately \$2,776,000 and \$3,269,000 were not federally insured as of June 30, 2011 and 2010, respectively. Money market funds are reported at fair value based on quoted market prices (considered Level 1) or cost, which approximates fair value based on quoted market prices.

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Notes to Financial Statements

June 30, 2011 and 2010

Cash Restricted for Grant Purposes

OHIONET receives resources in certain transactions through the State Library of Ohio where OHIONET is acting as an intermediary for the resource providers. The resources are then delivered to third-party recipients and service providers. The State Library of Ohio recognizes OHIONET as the sub-recipient of these grants. Management has determined the grant agreements are exchange transactions. Accordingly, OHIONET recognizes these transactions as revenue and expenses on the statement of activities to the extent that the funding has been expended. At June 30, 2011 and 2010, OHIONET did not expend all funds received and accordingly has recorded a grant funding advances liability for \$178,057 and \$175,537, respectively, representing amounts received but not expended during the fiscal year. Total funding expected for the term of the agreements was \$480,000 through the year ended June 30, 2010; however, all cash held as of June 30, 2010 was required to be disbursed prior to October 31, 2010. The remaining cash balances as of June 30, 2011 represent funding received from other states but are being used for similar purposes.

Marketable Securities

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Equity mutual funds:				
Large-cap	\$ 753,451	\$ 724,258	\$ 794,548	\$ 594,385
Real estate	386,101	383,260	469,887	349,235
Fixed income mutual funds:				
Bond funds	1,039,831	1,089,167	943,494	991,077
High-yield funds	374,553	388,641	348,323	337,412
Short-term funds	1,039,984	1,070,747	953,832	976,596
	\$ 3,593,920	\$ 3,656,073	\$ 3,510,084	\$ 3,248,705

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

	2011	2010
Interest and dividends	\$ 88,992	\$ 94,843
Net realized and unrealized gain	231,507	180,515
	\$ 320,499	\$ 275,358

Marketable securities as detailed above are considered Level 1 within the fair value hierarchy, with the value based on readily determinable quoted market prices.

OHIONET

Notes to Financial Statements

June 30, 2011 and 2010

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 the fiscal year ended June 30, 1998, 17 participants signed an initial five-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 new three-year agreements.
5. Effective January 1, 2007, three additional participants joined the group and signed one and a half year agreements.
6. Effective July 1, 2008 and July 1, 2011, 24 participants signed new three-year agreements.

In order to be a participant in the OPAL System, a 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.

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 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 was recorded monthly by OHIONET based on actual costs incurred for that month, which OHIONET was 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 periods 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.

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Notes to Financial Statements

June 30, 2011 and 2010

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

The OPAL agreement allows the OHIONET Board of Trustees to end its participation in the OPAL project by providing 60 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 June for one-year obligations, and payment is due the subsequent July. Termination by a participant does not eliminate the obligation of the participant to make all payments required by the agreement. Receivables and unearned revenues are recorded in the month invoiced due to the consummated contractual obligation of the participant.

OHIONET is holding cash and cash equivalents, marketable securities and accounts receivable on behalf of the OPAL participants. All non-main system hardware and software licenses, incremental equipment and other assets that are purchased by the OPAL 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.

OPAL administration expense is presented as part of technology management services expense in the accompanying statements of activities and changes in net assets. OPAL administration expense was \$185,859 and \$177,339 for the years ended June 30, 2011 and 2010, respectively.

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>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents	\$ 99,041	\$ 152,144
Marketable securities	1,099,195	974,111
Accounts receivable and other	57,602	58,012
Equipment and software licenses	<u>1,447,389</u>	<u>1,454,567</u>
Amounts held for benefit of OPAL participants	<u>\$ 2,703,227</u>	<u>\$ 2,638,834</u>

OPAL administration revenue is presented as part of technology management services revenue in the accompanying statements of activities and changes in net assets. OPAL administration revenue was \$528,852 and \$575,686 for the years ended June 30, 2011 and 2010, respectively.

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Notes to Financial Statements

June 30, 2011 and 2010

Online Computer Library Center (OCLC) 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 network agreement expired July 1, 1982 and was extended indefinitely. 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. A new agreement was effective July 1, 2009, requiring all new members to enter into contracts directly with OCLC. In addition, OHIONET is no longer authorized to charge a surcharge for OCLC services and products. 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 years 2011 and 2010, approximately 41% and 43%, respectively, of the direct costs of services and products provided to members was from OCLC.

Health Insurance

OHIONET maintains a Healthcare Reimbursement Arrangement (HRA) as part of its health insurance benefits plan for employees. The Plan Year is on a calendar year basis. OHIONET is obligated to pay 50% of the annual deductible for the health insurance plan in place. Terms of the plan expose OHIONET to this liability beyond the Plan Year through three months after employment termination for health episode expenses incurred during employment. Any medical expenses that are incurred by participating employees and their dependents, if any, which exceed the HRA reimbursement limits in a Plan Year are fully insured by OHIONET with a third party insurance company. No liability is recorded as management assesses any liability would be minimal as an estimate of exposure to future claims presented and coverable by available account balances for all open Plan Years. This is based on historical trended activity and is an estimate which is subject to change in the near term.

Retirement Plan

OHIONET maintains a qualified defined contribution retirement plan (the 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 \$65,000 and \$69,000 for the fiscal years 2011 and 2010, respectively.

OHIONET also administers a contributory 403(b) retirement plan for the benefit of essentially all employees. There is no age or service requirement for participation in the 403(b) plan. OHIONET does not contribute to the 403(b) plan.

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Notes to Financial Statements

June 30, 2011 and 2010

Subsequent Events – Date of Management Evaluation

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.