



OCLC, Inc. and Subsidiaries

Consolidated Financial Statements
Years Ended June 30, 2021 and 2020

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



OCLC, Inc. and Subsidiaries

Consolidated Financial Statements
Years Ended June 30, 2021 and 2020

OCLC, Inc. and Subsidiaries

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Independent Auditor's Report

Board of Trustees
OCLC, Inc. and Subsidiaries
Dublin, Ohio

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OCLC, Inc. and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of revenues, expenses, and net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of OCLC, Inc. and its subsidiaries as of June 30, 2021 and 2020, and the changes in net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). For the year ended June 30, 2021, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's



report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2021 on our consideration of OCLC, Inc. and its subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCLC, Inc. and its subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCLC, Inc. and its subsidiaries' internal control over financial reporting and compliance.

BDO USA, LLP

September 20, 2021

Consolidated Financial Statements

OCLC, Inc. and Subsidiaries

Consolidated Balance Sheets

| <i>June 30,</i> | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 40,619,100 | \$ 36,509,300 |
| Mutual funds | 284,892,000 | 223,541,700 |
| Accounts receivable, net | 18,158,200 | 43,197,500 |
| Prepaid expenses and other | 6,027,800 | 4,736,100 |
| Total Current Assets | 349,697,100 | 307,984,600 |
| Fixed Assets, net of depreciation | 130,224,100 | 129,672,600 |
| Goodwill and Other Intangibles, net of amortization | 8,901,300 | 7,093,800 |
| Other Assets | 6,332,500 | 8,955,000 |
| Total Assets | \$ 495,155,000 | \$ 453,706,000 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current portion of long-term debt | \$ 18,729,500 | \$ 17,079,400 |
| Lines of credit | - | 15,000,000 |
| Accounts payable | 6,209,600 | 5,879,500 |
| Accrued liabilities | 25,678,600 | 24,140,300 |
| Advance subscription payments | 4,686,900 | 9,109,000 |
| Unearned revenue | 39,381,300 | 46,651,500 |
| Total Current Liabilities | 94,685,900 | 117,859,700 |
| Long-Term Debt, less current portion | 59,986,600 | 51,062,800 |
| Other Noncurrent Liabilities | 18,177,400 | 20,642,000 |
| Total Liabilities | 172,849,900 | 189,564,500 |
| Net Assets Without Restrictions | 322,305,100 | 264,141,500 |
| Total Liabilities and Net Assets | \$ 495,155,000 | \$ 453,706,000 |

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries

Consolidated Statements of Revenues, Expenses, and Net Assets

| <i>Years ended June 30,</i> | 2021 | 2020 |
|--|-----------------------|-----------------------|
| Revenues | \$ 217,791,900 | \$ 214,574,500 |
| Operating Expenses | | |
| Salaries, wages, and related fringe benefits | 136,559,700 | 129,515,300 |
| Depreciation and amortization | 27,079,200 | 29,724,400 |
| Library services | 23,246,800 | 21,014,700 |
| Selling, general, and administrative | 18,238,000 | 25,202,100 |
| Buildings and utilities | 5,124,200 | 6,822,400 |
| Total Operating Expenses | 210,247,900 | 212,278,900 |
| Excess of Revenues Over Operating Expenses | 7,544,000 | 2,295,600 |
| Other Income (Expense) | | |
| Investment income | 50,928,500 | 471,400 |
| Interest expense | (1,311,700) | (1,629,000) |
| Income taxes | (1,262,400) | (411,600) |
| Miscellaneous, net | (393,200) | (465,900) |
| Total Other Income (Expense) | 47,961,200 | (2,035,100) |
| Excess of Revenues Over Expenses | 55,505,200 | 260,500 |
| Postretirement Benefit Plan Adjustment | 2,460,200 | (1,159,400) |
| Foreign Currency Translation Adjustment | 198,200 | (206,500) |
| Change in Net Assets Without Restrictions | 58,163,600 | (1,105,400) |
| Net Assets Without Restrictions, beginning of year | 264,141,500 | 265,613,000 |
| Cumulative Effect Adjustment of Adopting ASC 606 (Note 1) | - | (366,100) |
| Adjusted Net Assets Without Restrictions, beginning of year | 264,141,500 | 265,246,900 |
| Net Assets Without Restrictions, end of year | \$ 322,305,100 | \$ 264,141,500 |

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

| <i>Years ended June 30,</i> | 2021 | 2020 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities | | |
| Excess of revenues over expenses | \$ 55,505,200 | \$ 260,500 |
| Adjustments for noncash items: | | |
| Depreciation and amortization | 27,079,200 | 29,724,400 |
| Amortization of deferred implementation costs | 2,264,000 | 309,900 |
| Realized loss (gain) on sale of investments | (1,571,500) | 9,386,900 |
| Unrealized gain on investments | (39,617,500) | (1,210,600) |
| Non-cash distribution on investments | 1,972,500 | - |
| Impairment of software development | 2,205,500 | - |
| Loss on disposal of fixed assets | 80,000 | 200,700 |
| Changes in assets and liabilities: | | |
| Accounts receivables | 26,090,900 | (7,886,800) |
| Other assets | (1,389,500) | 1,474,600 |
| Accounts payable | (1,092,100) | 604,700 |
| Accrued liabilities, unearned revenue, and other | (12,345,900) | 5,765,700 |
| Net Cash Provided by Operating Activities | 59,180,800 | 38,630,000 |
| Cash Flows from Investing Activities | | |
| Purchases of investments | (83,906,000) | (83,592,500) |
| Proceeds from distributions and sale of investments | 61,772,200 | 79,816,600 |
| Purchases of fixed assets | (4,430,800) | (7,626,300) |
| Capitalization of internally developed software | (23,889,600) | (24,831,600) |
| Acquisition of Capira Technologies | (1,091,200) | - |
| Other, net | 544,200 | 4,900 |
| Net Cash Used in Investing Activities | (51,001,200) | (36,228,900) |
| Cash Flows from Financing Activities | | |
| Proceeds from long-term debt | 30,000,000 | 30,000,000 |
| Payments on long-term debt | (19,391,200) | (18,954,700) |
| Proceeds from lines of credit | - | 15,533,100 |
| Payments on lines of credit | (15,000,000) | (10,533,100) |
| Debt issuance costs | (99,000) | (90,000) |
| Net Cash Provided by (Used in) Financing Activities | (4,490,200) | 15,955,300 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 420,400 | 45,500 |
| Increase in Cash and Cash Equivalents | 4,109,800 | 18,401,900 |
| Cash and Cash Equivalents, beginning of year | 36,509,300 | 18,107,400 |
| Cash and Cash Equivalents, end of year | \$ 40,619,100 | \$ 36,509,300 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | \$ 1,412,100 | \$ 1,601,200 |
| Supplemental Disclosure of Non-Cash Flow Information | | |
| Fixed asset additions financed by accounts payable | \$ 951,100 | \$ 385,500 |
| Cumulative effect adjustment of adopting ASC 606 (Note 1) | - | 366,100 |
| Acquisitions | | |
| Fair value of assets acquired | \$ 195,400 | \$ - |
| Liabilities assumed | (1,003,900) | - |
| Goodwill | 1,899,700 | - |
| Cash Paid | \$ 1,091,200 | \$ - |

See accompanying notes to consolidated financial statements.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies and Procedures

OCLC, Inc. (OCLC), is a nonprofit corporation organized to establish, maintain, and operate an international computerized network of bibliographic cataloging services for libraries and to promote the evolution of library use. The accumulated excess of revenues over expenses (net assets) cannot be distributed to the members. OCLC's net assets are without restrictions. In the event of dissolution, the Board of Trustees is to adopt a plan for distribution of remaining assets that is consistent with the purpose of OCLC. OCLC generally provides services to its members on a subscription basis. The significant accounting policies of OCLC and its subsidiaries are set forth below:

Principles of Consolidation

The consolidated financial statements include the accounts of OCLC and its wholly owned for-profit subsidiaries, OCLC EMEA B.V. and subsidiaries (OCLC EMEA), (the Corporation). Operating revenues from OCLC's wholly owned for-profit subsidiaries were \$48,432,400 and \$43,934,800 and operating expenses were \$44,848,800 and \$43,496,600 for the years ended June 30, 2021 and 2020, respectively. Intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents

All highly liquid debt investments with an original maturity of three months or less at the time of purchase are considered cash equivalents and are stated at cost, which approximates market value. Cash is primarily held in two banks and is invested into money market funds nightly.

Investments

Mutual funds are stated at fair value. Fair values for these investments are based on market quotes or as calculated by third-party administrators. In the fiscal year ended June 30, 2020, Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* was adopted by the Corporation at the beginning of fiscal year 2020. The most significant impact of the standard is the requirement for OCLC to report unrealized gains and losses of the investment portfolio through investment income and expense beginning with fiscal year 2020. Realized gains and losses are calculated based on the first-in, first-out (FIFO) method. Realized and unrealized gains and losses and other-than-temporary declines in market value from original cost are included in investment income in other income (expense). OCLC's investment portfolio is without restrictions.

Liquidity Management

OCLC is wholly supported by operations and does not rely on contributions. As part of OCLC's liquidity management, the financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. In addition, OCLC invests cash in excess of daily requirements. In the event of a liquidity need (either planned or unplanned), OCLC could draw upon \$30 million of available lines of credit (as further discussed in Note 5) or liquidate some or all of its investments as set forth by OCLC's investment policy statement. OCLC's current investments, being mutual funds, have daily liquidity.

OCLC's financial assets available for general expenditures within one year of the consolidated balance sheet date are all current assets less prepaid expenses and other.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Accounts Receivable

Accounts receivable consist primarily of amounts due to OCLC in relation to subscription and software revenues and are presented net of a sales allowance and an allowance for doubtful accounts. OCLC assesses the collectability of all receivables on an ongoing basis by considering its historical credit loss experience, current economic conditions, and other relevant factors. Based on this analysis, the Corporation has established a combined sales allowance and an allowance for doubtful accounts of \$2,016,200 and \$3,372,500 at June 30, 2021 and 2020, respectively.

Revenue Recognition

OCLC recognizes revenue when control of the promised good or services is transferred to our customer or member in an amount that reflects consideration expected to be entitled to in exchange for those goods or services. Unearned revenues and advance subscription payments represent monies advanced to OCLC by members, participating libraries, and certain independent regional service providers in the United States and are recognized as revenues when control of the promised goods or services are transferred.

Member service revenues are recognized over the time services are transferred to our customers and include services to locate, acquire, catalog, lend, circulate, and preserve library materials. OCLC recognizes revenue from these services on a ratable basis over the contract term beginning on the date our services are made available to the customer. Subscriptions generally are one year and are billed in advance. As a result, deferred revenue and accounts receivable are recorded for any amounts for which OCLC has a right to invoice but for which services have not yet been provided.

Subscription services, which allow customers to use hosted software over the contract period without taking possession of the software, are provided on a subscription basis. Revenue related to subscription services provided on a subscription basis is recognized ratably over the contract period. When subscription services require a significant level of integration and interdependency with software and the implementation is not considered distinct, all revenue is recognized over the period in which the subscription services are provided.

Software license and consulting revenues, when distinct, are recognized at the point in time software is available and services are provided. Revenue from distinct on-premise licenses is recognized at the point in time when the software is made available to the customer.

Certain revenues related to the Interlibrary Fee Management program are recorded net of associated lending costs at the point of time the items are borrowed and fulfilled.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (Accounting Standards Codification [ASC] Topic 606), which replaced most existing revenue recognition guidance in generally accepted accounting principles in the United States of America (U.S. GAAP). The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to be entitled to receive for those goods or services.

OCLC adopted ASC Topic 606 using the modified retrospective method and the practical expedient of application only to contracts not complete as of July 1, 2019. As a result, OCLC recorded an adjustment that decreased net assets without restrictions as of July 1, 2019, by \$366,100. The adjustment reflects the cumulative effect on that date of applying our updated revenue recognition

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

policy, under which OCLC recognized the cost of certain implementations for subscription services over a longer period of time than before adopting ASC Topic 606.

Use of Estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgements, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant estimates are related to the expected useful lives assigned to fixed assets, estimates of fair value, and postretirement benefits. Actual amounts could differ from those estimates.

Depreciation and Amortization

Depreciation and amortization is provided using the straight-line method at rates based on the estimated useful lives of the computers and telecommunication equipment (from 3 to 10 years), office furniture and equipment (from 3 to 15 years), and buildings (from 10 to 40 years).

The cost of purchased software is capitalized and amortized using the straight-line method over the estimated economic useful lives (from 3 to 15 years). OCLC capitalizes the costs associated with purchased databases, enhancements, and certain internal use software costs once certain criteria are met. These costs are amortized using the straight-line method (from 3 to 15 years). At each consolidated balance sheet date, management compares the carrying value of capitalized software to the net realizable value of the software, and the carrying value in excess of future discounted cash flows is expensed currently.

Goodwill and Other Intangibles

Goodwill is the excess of the purchase price of an acquired entity over the amounts assigned to tangible and intangible assets and liabilities assumed in the business combination. The corporation accounts for purchased goodwill in accordance with ASC 350, *Intangibles - Goodwill and Other*. Under ASC 350, purchased goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. During fiscal years 2021 and 2020, no goodwill impairment was deemed to exist. Other intangibles, net of amortization of \$468,500 and \$877,100 at June 30, 2021 and 2020, respectively, consist primarily of acquired customer list assets.

The changes in the carrying amount of goodwill are as follows:

| | | |
|-------------------------------|----|-----------|
| Balance, June 30, 2019 | \$ | 6,321,900 |
| Currency translation | | (105,200) |
| <hr/> | | |
| Balance, June 30, 2020 | | 6,216,700 |
| Acquisition | | 1,899,700 |
| Currency translation | | 316,500 |
| <hr/> | | |
| Balance, June 30, 2021 | \$ | 8,432,900 |

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Hosting Arrangements

The Corporation capitalized \$784,100 and \$1,230,000 of implementation costs related to implementation of hosted internal-use software for the years ended June 30, 2021 and 2020, respectively. This is included in other assets on the consolidated balance sheets.

Research and Development

Research and development costs (principally salaries and related fringe benefits), approximating \$10,812,600 and \$12,282,900 for fiscal years 2021 and 2020, respectively, are expensed as incurred.

Income and Other Taxes

The Internal Revenue Service has determined that OCLC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and accordingly, no provision for income taxes is currently required for its operations. OCLC EMEA is not exempt from federal, state, local, or foreign income taxes.

The asset and liability method is used for financial accounting and reporting of income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted laws and rates applicable to the periods in which differences are expected to affect taxable income. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. See Note 7.

ASC 740-10, *Income Taxes*, addresses the accounting for uncertainties in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more-likely-than-not" for recognition of tax positions taken or expected to be taken in a tax return. ASC 740-10 also provides related guidance on measurement, classification, interest and penalties, and disclosure. OCLC evaluated its tax positions at June 30, 2021 and 2020. Based on this evaluation, OCLC determined that there was no material impact to the Corporation's consolidated financial statements as it relates to interest and penalties.

Foreign Currency Translation and Transaction

The local currency has been designated as the functional currency for operations in Australia, Canada, France, Germany, Italy, the Netherlands, Switzerland, and United Kingdom. Income and expense items are translated at the average monthly rate of exchange. Assets and liabilities are translated at the rate of exchange on the consolidated balance sheet dates with the resultant translation gains or losses included as a separate component of net assets. Net assets includes net cumulative translation gains of \$7,868,600 and \$7,670,400 at June 30, 2021 and 2020, respectively. Foreign currency transaction (gains) losses were \$(151,600) and \$(21,500) for the years ended June 30, 2021 and 2020, respectively.

Self-Insurance Programs

OCLC uses various self-insurance plans for certain medical insurance programs in the United States of America. The associated liability has been recorded in the consolidated financial statements based on information currently available as to the estimated ultimate cost for incidents incurred, but not reported and paid out prior to the consolidated balance sheet dates. These estimates are

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

based on management's assessment of outstanding claims, historical analyses, and current payment trends. Losses in excess of certain limits are insured with third-party insurance companies.

Recent Accounting Pronouncements - Adopted in the Current Year

Fair Value

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework*. This ASU modified fair value disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. This ASU was adopted by the Corporation at the beginning of fiscal year 2021. The impact of this guidance was limited to additional disclosures that have been presented.

Recent Accounting Pronouncements - Pending Adoption

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (ASU 2016-02)*, which will replace most existing lease accounting guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize the rights and obligations resulting from leases as assets and liabilities. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842) Targeted Improvements*. ASU 2018-11 allows for a transition method of adoption rather than the modified retrospective method.

On June 3, 2020, the FASB issued ASU 2020-05, which amends the effective dates of the Board's standard on leasing (ASC 842) to give immediate relief to certain entities as a result of the widespread adverse economic effects and business disruptions caused by the coronavirus disease (COVID-19) pandemic. Currently, OCLC would be required to adopt ASU 2016-02 beginning July 1, 2022. The Corporation is in the process of determining the method and assessing the impact of these ASUs on its consolidated financial statements.

Goodwill

In May 2019, the FASB issued ASU 2019-06, *Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958)*. This ASU will extend the Private Company accounting alternatives on goodwill and certain identifiable intangible assets to Not-for-Profit entities. This ASU has an open-ended effective date and an unconditional one-time election. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

In March 2021, the FASB issued ASU 2021-03, *Intangibles-Goodwill and Other (Topic 350), Accounting Alternative for Evaluating Triggering Events*. This ASU allows private companies and not-for-profit entities an accounting alternative to perform the goodwill impairment triggering event evaluation as required in Subtopic 350-20 as of the end of the reporting period, whether the reporting period is an interim or annual period. Currently, OCLC would be required to adopt ASU 2016-02 beginning July 1, 2021. The amendments in this update also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability under Topic 250, *Accounting Changes and Error Corrections*. The Corporation is currently evaluating the impact of this ASU on its consolidated financial statements.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 820), Measurement of Credit Losses on Financial Instruments*. This ASU replaces the incurred loss methodology with an expected credit loss impairment model and requires consideration of broader ranges of reasonable and supportable information to calculate credit loss estimates. Additional disclosures are also required with this ASU. Currently, OCLC would be required to adopt ASU 2016-13 beginning July 1, 2023. The Corporation is in the process of reviewing the impact of this ASU on its consolidated financial statements.

Reclassifications

Certain amounts present within the fiscal year 2020 consolidated financial statements have been reclassified to conform to the fiscal year 2021 consolidated financial statement presentation.

2. Investments

OCLC invests available cash in major banks and mutual funds. Market risk is reduced by investing funds in maturities that match anticipated short and long-term cash needs and by investing in diversified industries and markets, both domestic and international. All investments are held by custodians and are reflected on the consolidated balance sheets as cash equivalents and mutual funds.

Realized gains and losses related to investments are recorded using the FIFO method. The cumulative net unrealized gains on the portfolio totaled \$47,880,800 and \$8,263,400 at June 30, 2021 and 2020, respectively. The following schedule details investment returns:

| <i>Year ended June 30,</i> | 2021 | 2020 |
|---|----------------------|-------------------|
| Dividends, interest, and other income | \$ 9,739,500 | \$ 8,647,700 |
| Net realized gain (loss) on investments | 1,571,500 | (9,386,900) |
| Net unrealized gain on investments | 39,617,500 | 1,210,600 |
| Total Net Investment Gain | \$ 50,928,500 | \$ 471,400 |

3. Fixed Assets

Fixed assets include the following:

| <i>June 30,</i> | 2021 | 2020 |
|---|-----------------------|-----------------------|
| Land and improvements | \$ 11,272,200 | \$ 11,272,200 |
| Building and improvements | 92,916,900 | 92,014,000 |
| Computer and telecommunications equipment | 42,161,500 | 38,543,000 |
| Databases | 85,178,400 | 84,045,800 |
| Software | 201,235,100 | 181,245,900 |
| Office furniture and equipment | 7,460,300 | 7,430,200 |
| Total | 440,224,400 | 414,551,100 |
| Less: accumulated depreciation and amortization | 310,000,300 | 284,878,500 |
| Fixed Assets, Net | \$ 130,224,100 | \$ 129,672,600 |

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Software development costs, related to internal use software, of \$23,889,600 and \$24,831,600, were capitalized in fiscal year 2021 and 2020, respectively.

Database enhancement costs of \$985,300 and \$1,398,100 were capitalized in fiscal year 2021 and 2020, respectively, and were included in databases.

A non-cash impairment of an asset was recorded in fiscal year 2021 in the amount of \$2,205,500 related to product development work, which was discontinued and disposed because it was determined the service offering would be satisfied with other solutions. The impairment was recorded for the entire amount spent on the project. The loss was recorded as an expense with selling, general, and administrative expenses on the consolidated statements of revenues, expenses, and net assets.

Operating Leases

Certain buildings and equipment are rented under operating leases. Rental expense for all leases was \$2,035,100 and \$2,472,100 for fiscal years 2021 and 2020, respectively. Future minimum lease payments under existing noncancelable lease commitments are as follows:

Year ending June 30,

| | | |
|--------------|-----------|------------------|
| 2022 | \$ | 1,788,500 |
| 2023 | | 950,900 |
| 2024 | | 573,300 |
| 2025 | | 225,200 |
| 2026 | | 26,500 |
| Thereafter | | 1,700 |
| Total | \$ | 3,566,100 |

4. Debt

| | 2021 | 2020 |
|-----------------------------|----------------------|----------------------|
| Tax-exempt financing | \$ 78,892,300 | \$ 68,283,500 |
| Debt issuance costs | (176,200) | (141,300) |
| Subtotal | 78,716,100 | 68,142,200 |
| Less: current maturities | (18,729,500) | (17,079,400) |
| Total Long-Term Debt | \$ 59,986,600 | \$ 51,062,800 |

Tax-Exempt Financing

On August 10, 2009, the Corporation entered into a ten-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 4.0773%. The lease is due monthly in equal principal and interest installments of \$304,800 beginning September 10, 2009 and had a balance outstanding of \$606,600 at June 30, 2019. During fiscal year 2020, the remaining balance was repaid and there was no outstanding balance at June 30, 2020. The proceeds were used to refund the remaining portion of the 1998 Franklin County revenue bonds and to finance the acquisition and installation of office systems and equipment,

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

computers, servers, related peripheral equipment and software, and bibliographic and other information databases.

On June 19, 2013, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$24,000,000 with an effective interest rate of 1.615%. The lease is due monthly in equal principal and interest installments of \$302,400 beginning July 19, 2013 and had a balance outstanding of \$3,596,800 at June 30, 2019. During fiscal year 2020, the remaining balance was repaid and there was no outstanding balance at June 30, 2020. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On October 24, 2014, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 1.54%. The lease is due monthly in equal principal and interest installments of \$377,000 beginning November 28, 2014 and has a balance outstanding of \$1,503,000 and \$5,966,200 at June 30, 2021 and 2020, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On April 14, 2016, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 1.793%. On December 10, 2020, the Corporation refinanced the remaining balance of \$11,148,000 with an effective interest rate of 1.19%. The lease is due quarterly in equal principal and interest installments. Quarterly payments prior to the refinancing were \$1,142,500 beginning July 14, 2016 and after the refinancing are \$1,131,000 beginning January 14, 2021. The lease has a balance outstanding of \$8,928,300 and \$13,318,400 at June 30, 2021 and 2020, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On March 28, 2018, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 2.86%. On December 10, 2020, the Corporation refinanced the remaining balance of \$19,965,700 with an effective interest rate of 1.02%. The lease is due quarterly in equal principal and interest installments. Quarterly payments prior to the refinancing were \$1,186,100 beginning June 28, 2018 and after the refinancing are \$1,134,000 beginning December 28, 2020. The lease has a balance outstanding of \$16,667,300 and \$21,001,600 at June 30, 2021 and 2020, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On November 26, 2019, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 2.06%. On December 10, 2020, the Corporation refinanced the remaining balance of \$25,973,900 with an effective interest rate of 1.07%. The lease is due quarterly in equal principal and interest installments. Quarterly payments prior to the refinancing were \$1,153,300 beginning February 26, 2020 and after the refinancing are \$1,118,300 beginning February 26, 2021. The lease has a balance outstanding of \$23,862,500 and \$27,997,300 at June 30, 2021 and 2020, respectively. The proceeds were used to finance the acquisition and installation of office systems and equipment,

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

On December 10, 2020, the Corporation entered into a seven-year tax-exempt lease agreement through Columbus-Franklin County Finance Authority for \$30,000,000 with an effective interest rate of 1.075%. The lease is due quarterly in equal principal and interest installments of \$1,113,700 beginning March 10, 2021 and has a balance outstanding of \$27,931,100 at June 30, 2021. The proceeds were used to finance the acquisition and installation of office systems and equipment, computers, servers, related peripheral equipment and software, real property renovations and improvements, and bibliographic and other information databases.

Cost and accumulated depreciation of the leased equipment included in fixed assets are as follows:

| | 2021 | 2020 |
|------------------------------------|----------------------|----------------------|
| Equipment, software, and databases | \$ 186,314,800 | \$ 156,314,800 |
| Less: accumulated depreciation | 116,928,900 | 98,104,600 |
| Capital Lease Assets, Net | \$ 69,385,900 | \$ 58,210,200 |

The aggregate maturities of the tax-exempt financing obligations and bank lines of credit (see Note 5) are as follows:

Year ending June 30,

| | |
|--------------|----------------------|
| 2022 | \$ 18,729,500 |
| 2023 | 17,414,900 |
| 2024 | 13,061,000 |
| 2025 | 12,065,300 |
| 2026 | 8,774,200 |
| Thereafter | 8,847,400 |
| Total | \$ 78,892,300 |

The Corporation is in compliance with all debt covenants.

5. Bank Lines of Credit

An unsecured revolving line of credit with a bank in the United States provided for total borrowings of up to \$15,000,000 during fiscal years 2021 and 2020. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to the London Interbank Offered Rate (LIBOR) plus 1.0% at June 30, 2021 and 2020 (total of 1.1% and 1.1% at June 30, 2021 and 2020, respectively). During fiscal year 2021, \$0 was borrowed and \$15,000,000 was repaid with no outstanding balance at June 30, 2021. During fiscal year 2020, \$15,000,000 was borrowed and \$0 was repaid with \$15,000,000 outstanding June 30, 2020. The agreement expires January 31, 2023.

Effective October 1, 2017, OCLC obtained an additional unsecured revolving line of credit with a bank in the United States for \$15,000,000. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to LIBOR plus 1.0% at June 30, 2021 and 2020 (total of 1.1% and 1.1% at June 30, 2021 and 2020, respectively). During fiscal year 2021, a total of \$0 was borrowed and \$0 was repaid with no outstanding balance at June 30, 2021. During fiscal

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

year 2020, a total of \$0 was borrowed and \$10,000,000 was repaid with no outstanding balance at June 30, 2020. The agreement expires January 31, 2022.

On October 1, 2013, OCLC EMEA modified its secured revolving line of credit with a bank for a total of €2,250,000. The line of credit declined quarterly by €125,000 beginning April 1, 2014, through October 1, 2015. The line of credit available was €1,500,000 (\$1,783,000) and €1,500,000 (\$1,682,800) at June 30, 2021 and 2020, respectively. Under the terms of the agreement, interest on amounts borrowed was payable at a margin above the one-month Euribor (total of 1.9% at June 30, 2021 and 1.8% at June 30, 2020). The margin is reconsidered by the bank each year in June. During fiscal year 2021, €0 (\$0) was borrowed or repaid. During fiscal year 2020, a total of €481,100 (\$533,100) was borrowed and subsequently repaid within fiscal year 2020. There was no outstanding balance at June 30, 2021 or 2020. The bank line of credit is secured by a mortgage on real property, a pledge of business equipment, and accounts receivable of OCLC EMEA. The line of credit automatically renews each year for a one-year term unless cancelled by either party with one month notice.

The Corporation is in compliance with all lines of credit covenants.

6. Employee Benefit Plans

A noncontributory defined contribution retirement plan covers all OCLC employees in the United States (domestic) who have completed two years of service. Voluntary contributory defined contribution employee savings plans cover all permanent domestic OCLC employees. In 2003, OCLC established a 457(b) nonqualified voluntary contributory defined contribution savings plan for key domestic employees with no defined waiting period. The cost of these plans (included in salaries, wages, and related fringe benefits) was \$6,954,500 and \$6,653,400 for fiscal years 2021 and 2020, respectively.

In 1998, OCLC established a nonqualified voluntary contributory savings plan for key domestic employees and Board of Trustee members. OCLC holds investment assets, recorded at fair value, purchased with the participants' voluntary contributions. Due to a change in U.S. federal tax regulations, the plan was frozen effective May 1, 2002. The assets and matching liabilities under the plan were \$1,215,500 and \$1,690,100 (reflected in other assets and other noncurrent liabilities) at June 30, 2021 and 2020, respectively.

Operations outside the United States, including the OCLC Canada division and OCLC EMEA, maintain or participate in separate retirement and defined contribution pension plans. Total expenses recorded under these plans were \$1,777,800 and \$1,618,000 in fiscal years 2021 and 2020, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and noncontributory postretirement life insurance coverage for domestic employees. OCLC's domestic employees meeting certain age and service requirements at the time of their retirement are eligible to participate. OCLC recognizes the cost of postretirement medical and life benefits as the employees render service. These benefits are funded by OCLC when incurred.

OCLC, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Relevant postretirement benefit information is summarized as follows:

| <i>June 30,</i> | 2021 | 2020 |
|---|----------------|----------------|
| Reconciliation of Benefit Obligation | | |
| Benefit Obligation , beginning of plan year | \$ 18,629,300 | \$ 17,664,200 |
| Service cost | 694,600 | 595,100 |
| Interest cost | 438,300 | 538,900 |
| Plan amendments | (5,950,800) | - |
| Benefits paid, net | (1,171,600) | (1,020,600) |
| Actuarial loss | 458,100 | 432,400 |
| Assumption change | 2,722,000 | 419,300 |
| Benefit Obligation , end of plan year | \$ 15,819,900 | \$ 18,629,300 |
| Net Postretirement Cost | | |
| Service cost | \$ 694,600 | \$ 595,100 |
| Interest cost | 438,300 | 538,900 |
| Net amortization | (310,500) | (307,700) |
| Total Net Postretirement Cost | \$ 822,400 | \$ 826,300 |
| Amounts Included in Net Assets | | |
| Unrecognized prior service cost (credit) | \$ (4,622,500) | \$ 1,087,100 |
| Unrecognized net loss (gain) | 999,800 | (2,249,600) |
| Total Amounts Included in Net Assets | \$ (3,622,700) | \$ (1,162,500) |
| Reconciliation of Unrecognized Net Gain | | |
| Unrecognized Net Gain , beginning of year | \$ (2,249,600) | \$ (3,553,800) |
| Actuarial loss | 458,200 | 432,400 |
| Loss due to change in assumptions | 2,722,000 | 419,300 |
| Amortization amount | 69,200 | 452,500 |
| Unrecognized Net Loss (Gain) , end of year | \$ 999,800 | \$ (2,249,600) |
| Benefit Obligations Recognized in Net Assets | | |
| Net loss | \$ 3,180,200 | \$ 851,700 |
| Prior service credit | (5,950,800) | - |
| Amortization of prior service credit (cost) | 241,200 | (144,800) |
| Amortization of gain | 69,200 | 452,500 |
| Total Benefit Obligations Recognized in Net Assets | \$ (2,460,200) | \$ 1,159,400 |

Amounts recognized on the consolidated balance sheets were as follows:

| <i>June 30,</i> | 2021 | 2020 |
|--------------------------------|---------------|---------------|
| Accrued liabilities - current | \$ 466,000 | \$ 554,000 |
| Other noncurrent liabilities | 15,353,900 | 18,075,300 |
| Total Amount Recognized | \$ 15,819,900 | \$ 18,629,300 |

Actuarial assumptions used in determining these amounts included a weighted-average discount rate of 2.88% and 2.83% at June 30, 2021 and 2020, respectively, and an annual increase in medical expense of 7.0%, declining to 4.5% in 2027 and thereafter.

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Notes to Consolidated Financial Statements

Plan amendments during fiscal 2021 updated plan provisions to more closely align with the medical plans for active employees and implement measures to sharing costs more appropriately within the retiree population. Some of the more significant changes made include additional or increased annual deductibles and out-of-pocket maximums for participants, separate rates for pre-age-65 versus post-age-65 participants, and a discontinuation of a tobacco-free premium deduction for all participants.

No plan amendments were made during fiscal 2020.

The following table presents estimated future net benefit payments for the next ten fiscal years:

| Year ending June 30, | |
|----------------------|------------|
| 2022 | \$ 466,000 |
| 2023 | 471,000 |
| 2024 | 471,000 |
| 2025 | 488,000 |
| 2026 | 530,000 |
| 2027-2031 | 3,176,000 |

7. Income Taxes

At June 30, 2021, OCLC has a net deferred tax asset of \$4,717,000 for operating loss carryforwards (which all pertains to the foreign subsidiaries). At June 30, 2020, OCLC had a net deferred tax asset of \$3,910,000 for operating loss carryforwards (which all pertains to the foreign subsidiaries). The net deferred tax asset is fully offset by a valuation allowance due to the uncertainty of recoverability of these items. Additionally, OCLC EMEA has a deferred tax asset of \$220,000 and \$0 at June 30, 2021 and 2020, respectively, relating to fixed asset depreciation, which is recorded as a noncurrent asset in other assets. OCLC EMEA also has no deferred tax liability at June 30, 2021 and had a deferred tax liability as of \$11,000 at June 30, 2020, relating to the acquisition of HKA, which is recorded as a noncurrent liability in other noncurrent liabilities.

At June 30, 2021, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$18,686,000 (all foreign, principally in the United Kingdom and Canada). At June 30, 2020, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately \$15,303,000 (all foreign, principally in the United Kingdom and Canada). The Canadian carryforwards expire through fiscal year 2040.

8. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value by providing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Level 2 - Other significant inputs (including quoted prices of similar securities, interest rates, prepayment speeds, credit risk, etc.).

Level 3 - Significant unobservable inputs (which may include OCLC's own assumptions in determining the fair value of investments).

The asset's or liability's 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.

The following tables set forth by level, within the fair value hierarchy, present OCLC's assets and liabilities at fair value:

June 30, 2021

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------------|-------------|-------------|-----------------------|
| Mutual funds: | | | | |
| Fixed income | \$ 129,784,000 | \$ - | \$ - | \$ 129,784,000 |
| Equity | 144,807,100 | - | - | 144,807,100 |
| Alternatives | 10,300,900 | - | - | 10,300,900 |
| Total Mutual Funds | 284,892,000 | - | - | 284,892,000 |
| Nonqualified voluntary contributory savings plan | 1,215,500 | - | - | 1,215,500 |
| Total Assets, at fair value | \$ 286,107,500 | \$ - | \$ - | \$ 286,107,500 |
| Nonqualified voluntary contributory saving plan | \$ 1,215,500 | \$ - | \$ - | \$ 1,215,500 |
| Total Liabilities, at fair value | \$ 1,215,500 | \$ - | \$ - | \$ 1,215,500 |

June 30, 2020

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------------|-------------|-------------|-----------------------|
| Mutual funds: | | | | |
| Fixed income | \$ 84,550,200 | \$ - | \$ - | \$ 84,550,200 |
| Equity | 128,198,800 | - | - | 128,198,800 |
| Alternatives | 10,792,700 | - | - | 10,792,700 |
| Total Mutual Funds | 223,541,700 | - | - | 223,541,700 |
| Nonqualified voluntary contributory savings plan | 1,690,100 | - | - | 1,690,100 |
| Total Assets, at fair value | \$ 225,231,800 | \$ - | \$ - | \$ 225,231,800 |
| Nonqualified voluntary contributory savings plan | \$ 1,690,100 | \$ - | \$ - | \$ 1,690,100 |
| Total Liabilities, at fair value | \$ 1,690,100 | \$ - | \$ - | \$ 1,690,100 |

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

ASC 825, *Financial Instruments*, requires fair value disclosures about substantially all balance sheet financial instruments. Certain assets and liabilities, the most significant being fixed assets, do not meet the statement's definition of financial instruments and are excluded from this disclosure. Similarly, net assets are not considered a financial instrument and are also excluded from this disclosure. Many of the assets and liabilities subject to the disclosure requirements are not actively traded, requiring fair values to be estimated by management. These estimations involve the use of judgment about a variety of factors, including, but not limited to, materiality, relevancy of market prices of comparable instruments, and appropriate discount rates. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each material class of financial instruments:

Cash and Cash Equivalents, Receivables, Accrued and Other Liabilities (Excluding Postretirement Benefit Obligations and Deferred Compensation), Long-Term Debt, and Accounts Payable - The carrying amounts of these items are a reasonable estimate of their fair values.

Investments - Mutual funds are stated at fair value based upon quoted market prices or as calculated by third-party administrators.

Nonqualified Voluntary Contributory Savings Plan - Investment assets (and liabilities) recorded at fair value based upon quoted market prices or as calculated by third-party administrators. These were purchased with participants' voluntary contributions.

The valuation methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while OCLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following summarizes the nature and risk of those investments that are reported at estimated fair value utilizing net asset value. There were no unfunded commitments for 2021 or 2020.

June 30, 2021

| | Fair Value | Redemption Frequency | Redemption Notice Period |
|-------------------|----------------|----------------------|--------------------------|
| Mutual funds: | | | |
| Fixed income | \$ 129,784,000 | Daily | 1 Day |
| Equity - domestic | 52,105,400 | Daily | 1 Day |
| Equity - global | 92,701,700 | Daily | 1 Day |
| Alternatives | 10,300,900 | Daily | 1 Day |
| | <hr/> | | |
| | \$ 284,892,000 | | |

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2020

| | Fair Value | Redemption Frequency | Redemption Notice Period |
|-------------------|----------------|----------------------|--------------------------|
| Mutual funds: | | | |
| Fixed income | \$ 84,550,200 | Daily | 1 Day |
| Equity - domestic | 47,892,500 | Daily | 1 Day |
| Equity - global | 80,306,300 | Daily | 1 Day |
| Alternatives | 10,792,700 | Daily | 1 Day |
| | \$ 223,541,700 | | |

Investments in these categories consist of mutual funds or commingled funds that invest in domestic equities, foreign equities, domestic fixed income, or foreign fixed-income securities, in some instances using alternative investment strategies.

9. Revenues and Contract Liabilities

OCLC generally provides services for customers in which it acts as a principal. Some fees may be paid before any service is rendered and accordingly, such fees are deferred until obligations pertaining to these fees are satisfied. Most contracts are short term in nature, with a contract duration of one year. Accordingly, most deferred revenue for the reporting periods ended June 30, 2021 and 2020, is expected to be earned within one year.

The following table shows OCLC's revenue disaggregated according to the timing of transfer of goods or services:

| Year ended June 30, | 2021 | 2020 |
|---------------------------------------|-----------------------|-----------------------|
| Revenue recognized at a point in time | \$ 12,825,300 | \$ 14,067,100 |
| Revenue recognized over time | 200,561,200 | 197,373,200 |
| Revenue not subject to ASC 606 | 4,405,400 | 3,134,200 |
| Total Revenue | \$ 217,791,900 | \$ 214,574,500 |

OCLC contract liabilities:

| June 30, | 2021 | 2020 |
|--|----------------------|----------------------|
| Deferred revenue recognized at a point in time | \$ 231,800 | \$ 506,700 |
| Deferred revenue recognized over time | 39,149,500 | 46,144,800 |
| Total Deferred Revenue | \$ 39,381,300 | \$ 46,651,500 |

10. Functional Expenses

The Corporation has one major program being the delivery of library services and products to the membership. The Corporation's operating expenses have been allocated between program and general and administrative expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one function. Expenditures that require allocation are

OCLC, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

allocated on either a personnel-cost or specific identification, whichever is more reasonable for the expenditure. A summary of the Corporation's functional allocation of expenses is as follows:

Year ended June 30, 2021

| | Program | General and Administrative | Total |
|--|-----------------------|----------------------------|-----------------------|
| Operating Expenses | | | |
| Salaries, wages, and related fringe benefits | \$ 121,836,900 | \$ 14,722,800 | \$ 136,559,700 |
| Depreciation and amortization | 23,615,800 | 3,463,400 | 27,079,200 |
| Library services | 20,943,900 | 2,302,900 | 23,246,800 |
| Selling, general, and administrative | 16,125,100 | 2,112,900 | 18,238,000 |
| Buildings and utilities | 5,122,400 | 1,800 | 5,124,200 |
| Total Operating Expenses | \$ 187,644,100 | \$ 22,603,800 | \$ 210,247,900 |

Year ended June 30, 2020

| | Program | General and Administrative | Total |
|--|-----------------------|----------------------------|-----------------------|
| Operating Expenses | | | |
| Salaries, wages, and related fringe benefits | \$ 114,274,400 | \$ 15,240,900 | \$ 129,515,300 |
| Depreciation and amortization | 26,647,500 | 3,076,900 | 29,724,400 |
| Library services | 18,867,000 | 2,147,700 | 21,014,700 |
| Selling, general, and administrative | 22,325,800 | 2,876,300 | 25,202,100 |
| Buildings and utilities | 6,821,800 | 600 | 6,822,400 |
| Total Operating Expenses | \$ 188,936,500 | \$ 23,342,400 | \$ 212,278,900 |

11. Contingencies

The Corporation is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's consolidated financial statements.

12. Subsequent Events

The Corporation has performed an evaluation of subsequent events through September 20, 2021, which is the date the consolidated financial statements were available to be issued, noting no other events that affect the consolidated financial statements as of June 30, 2021.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
OCLC, Inc. and Subsidiaries
Dublin, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of OCLC, Inc. and its subsidiaries (the Corporation), which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of revenues, expenses, and net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered OCLC, Inc. and its subsidiaries' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCLC, Inc. and its subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of OCLC, Inc. and its subsidiaries' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OCLC, Inc. and its subsidiaries' consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether OCLC, Inc. and its subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OCLC's Inc. and Subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

September 20, 2021

OCLC, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported
- Noncompliance material to financial statements noted? yes X no