OCLC Online Computer Library Center, Inc. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended June 30, 2016 and 2015, and Independent Auditors' Report

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
OCLC Online Computer Library Center, Inc.:

We have audited the accompanying consolidated financial statements of OCLC Online Computer Library Center, Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of revenues, expenses, and corporate equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OCLC Online Computer Library Center, Inc. and its subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

September 12, 2016

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,698,300	$ 11,175,000
Short-term investments	9,092,400	
Mutual funds	183,400,900	184,190,800
Other pooled investments	35,542,300	54,351,700
Receivables—net	30,815,900	30,272,100
Prepaid expenses and other	6,161,400	7,105,000
Total current assets	271,711,200	287,094,600
FIXED ASSETS—net	145,659,700	141,117,000
OTHER ASSETS	8,254,300	8,126,800
TOTAL	$ 425,625,200	$ 436,338,400
LIABILITIES AND CORPORATE EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital leases	$ 20,736,300	$ 22,098,600
Accounts payable	8,687,900	15,792,000
Accrued liabilities	20,491,700	23,072,700
Advance subscription payments	19,066,500	20,570,900
Unearned revenue	34,207,100	36,017,200
Total current liabilities	103,189,500	117,551,400
LONG-TERM DEBT AND CAPITAL LEASES—Less current portion	64,916,400	51,663,500
OTHER NONCURRENT LIABILITIES	17,552,200	17,351,700
CORPORATE EQUITY	239,967,100	249,771,800
TOTAL	$ 425,625,200	$ 436,338,400

See notes to consolidated financial statements.

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CORPORATE EQUITY FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
REVENUES	$ 203,383,400	$ 202,793,700
OPERATING EXPENSES:		
Salaries, wages, and related fringe benefits	124,102,100	131,521,000
Depreciation and amortization	29,491,100	27,072,900
Library services	25,670,400	24,955,700
Selling, general, and administrative	23,711,600	23,066,400
Building and utilities	7,952,900	7,906,500
Total operating expenses	210,928,100	214,522,500
DEFICIT OF REVENUES OVER OPERATING EXPENSES	(7,544,700)	(11,728,800)
OTHER INCOME (EXPENSE):		
Investment income	7,388,600	15,491,100
Interest expense	(1,556,100)	(1,561,900)
Miscellaneous—net	(857,500)	150,300
Total other income	4,975,000	14,079,500
(DEFICIT) EXCESS OF REVENUES OVER EXPENSES	(2,569,700)	2,350,700
NET CHANGE IN UNREALIZED LOSS ON INVESTMENTS	(6,311,900)	(16,376,600)
POSTRETIREMENT BENEFIT PLAN ADJUSTMENT	(1,799,700)	(1,011,900)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	876,600	(2,102,300)
DECREASE IN CORPORATE EQUITY	(9,804,700)	(17,140,100)
CORPORATE EQUITY—Beginning of year	249,771,800	266,911,900
CORPORATE EQUITY—End of year	$ 239,967,100	$ 249,771,800

See notes to consolidated financial statements.

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Deficit) excess of revenues over expenses	$ (2,569,700)	$ 2,350,700
Adjustments for noncash items:		
Depreciation and amortization	29,491,100	27,072,900
Realized gain on sale of investments	(400,500)	(11,183,800)
Other-than-temporary declines in investments	178,200	3,529,300
(Gain) loss on disposal of fixed assets	(88,400)	108,900
Changes in assets and liabilities:		
Receivables	(543,800)	515,300
Other assets	106,100	(1,337,400)
Accounts payable	(111,900)	(115,500)
Accrued liabilities, unearned revenue, and other	(7,058,100)	(1,335,800)
Net cash provided by operating activities	19,003,000	19,604,600
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt and capital leases	30,000,000	30,000,000
Payments on long-term debt and capital leases	(12,093,600)	(14,539,900)
Proceeds from line of credit	10,799,100	11,548,500
Payments on line of credit	(16,799,100)	(11,548,500)
Debt issuance costs	(78,800)	(84,400)
Net cash provided by financing activities	11,827,600	15,375,700
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(60,941,700)	(32,450,600)
Proceeds from distributions and sale of investments	65,359,000	24,516,500
Purchases of fixed assets	(30,380,500)	(11,354,800)
Capitalization of internal developed software	(10,801,100)	(17,206,100)
Acquisition of SCS (excluding acquired cash of $80,100)		(2,091,900)
Other—net	411,900	434,800
Net cash used in investing activities	(36,352,400)	(38,152,100)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,045,100	1,243,200

(Continued)

OCLC ONLINE COMPUTER LIBRARY CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
DECREASE IN CASH AND CASH EQUIVALENTS	$ (4,476,700)	$ (1,928,600)
CASH AND CASH EQUIVALENTS—Beginning of year	11,175,000	13,103,600
CASH AND CASH EQUIVALENTS—End of year	$ 6,698,300	$ 11,175,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 1,455,900	$ 1,617,600
Fixed asset additions financed by accounts payable	$ 3,856,800	$ 10,849,000
ACQUISITIONS:		
Fair value of assets acquired		$ 744,800
Liabilities assumed		(1,380,100)
Goodwill		2,807,300
CASH PAID		$ 2,172,000

See notes to consolidated financial statements. (Concluded)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

OCLC Online Computer Library Center, Inc. (OCLC or the “Corporation”), 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 (corporate equity) cannot be distributed to the members. OCLC’s corporate equity is unrestricted. 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 contract 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 Information Distribution, Inc. (OID), and OCLC EMEA B.V. and subsidiaries (OCLC EMEA). Operating revenues for OCLC’s wholly owned for-profit subsidiaries were $42,245,700 and $44,112,800 and operating expenses were $39,817,500 and $44,816,200 for the years ended June 30, 2016 and 2015, 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. Cash is primarily held in two banks and is invested into money market funds nightly.

Investments—Short-term investments, mutual funds and other pooled investments are stated at fair value. Fair values for these investments are based on market quotes or as calculated by third-party administrators. Fair value changes are reported as unrealized gains and losses and recorded within the changes of corporate equity. Realized gains and losses are calculated based on the first in, first out (FIFO) method. Realized gains and losses and other-than-temporary declines in market value from original cost are included in investment income in other income (expense).

Revenue Recognition—Member service revenues are recognized at the time services are provided and include services to locate, acquire, catalog, lend, circulate, and preserve library materials. Software license and consulting revenues are recognized at the time software is shipped and services are provided or according to contract terms in the case of customized installations and system maintenance billings. Certain revenues to acquire access to reference content on behalf of libraries are recorded net of associated database acquisition costs. Unearned revenue 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 the service is provided. Transaction based member participation credits (2016—$297,600; 2015—$1,165,400) are issued to libraries for services provided to OCLC for the benefit of the cooperative and are recorded as an expense rather than a reduction of revenue. Beginning in July 2014, most of the transactional credits are being eliminated in favor of reduced subscription contract pricing.

Use of Estimates—The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires, in certain instances, the use of estimates. Actual results could differ from these estimates.

Depreciation and Amortization—Depreciation is provided using the straight-line method at rates based on the estimated useful lives of the equipment and improvements (from 3 to 20 years) and buildings (from 10 to 40 years). Costs incurred in connection with the issuance of debt are amortized using the effective interest method over the terms of the respective debt.

Software and Goodwill—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 represents the excess of cost over fair value of assets acquired. Net book value of goodwill was $5,725,200 and $5,777,700 at June 30, 2016 and 2015, respectively. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. As a result of planned software integration timeframes and anticipating margins over its remaining life, OCLC determined that the fair value of Sustainable Collection Services LLC (SCS) estimated using a discounted cash flow analysis and appropriate discount rates was less than its carrying value. As a result on June 30, 2015, $1,707,200 of goodwill was impaired (included in Depreciation and Amortization expense) relating to the acquisition of SCS (see note 7). At June 30, 2016, no goodwill impairment was deemed to exist and changes in net book value between the years exists solely due to foreign currency fluctuations.

Research and Development—Research and development costs (principally salaries and related fringe benefits), approximating $18,885,000 and $18,481,300 for fiscal years 2016 and 2015, respectively, are charged to operations 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 and OID are 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.

Accounting Standards Codification (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, 2016 and 2015. Based on this evaluation, OCLC determined that there was no material impact to the Corporation's consolidated financial statements.

Foreign Currency Translation—The local currency has been designated as the functional currency for operations in Australia, Canada, France, Germany, 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 corporate equity. Corporate equity includes net cumulative translation gains of $7,638,800 and $6,762,200 at June 30, 2016 and 2015, respectively.

Self-Insurance Programs—OCLC uses various self-insurance plans for certain of its 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 prior to the consolidated balance sheet dates. Losses in excess of certain limits are insured with third-party insurance companies.

2. INVESTMENTS

Investments are carried at their fair values with related unrealized gains and losses on the portfolio reflected in the change in net equity. Realized gains and losses are included in investment income.

OCLC invests available cash in major banks, short-term bond fund investments, mutual funds, and other pooled investments. 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 in safekeeping by custodians and are reflected on the consolidated balance sheets as cash equivalents, short-term investments, mutual funds, and other pooled investments.

Realized gains and losses related to investments are recorded using the FIFO method. Net unrealized losses on the portfolio totaled $12,782,400 and $6,470,500 at June 30, 2016 and 2015, respectively. The following schedule details investment returns for the years ended June 30, 2016 and 2015:

	2016	2015
Dividends, interest, and other income	$ 7,166,300	$ 7,836,600
Net realized gains	400,500	11,183,800
Other-than-temporary impairment	(178,200)	(3,529,300)
Investment income	7,388,600	15,491,100
Net change in unrealized loss on investments	(6,311,900)	(16,376,600)
Total net investment gain (loss)	$ 1,076,700	$ (885,500)

The following table of temporarily impaired securities shows the gross unrealized losses and fair value, aggregated by investment category and length of time those securities have been in a continuous unrealized loss position, at June 30, 2016 and 2015.

	2016					
	Less Than 12 Months		12 Months or More		Total	
Description of Temporarily Impaired Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$78,131,600	$(3,808,200)	$51,517,500	$(13,332,800)	$129,649,100	$(17,141,000)
Other pooled investments			17,239,600	(1,208,400)	17,239,600	(1,208,400)
Total temporarily impaired securities	$78,131,600	$(3,808,200)	$68,757,100	$(14,541,200)	$146,888,700	$(18,349,400)

Description of Temporarily Impaired Securities	2015 Less Than 12 Months Fair Value	Unrealized Losses	12 Months or More Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
Mutual funds	$ 147,561,900	$ (8,039,500)	$ -	$ -	$ 147,561,900	$ (8,039,500)
Other pooled investments	36,258,100	(1,630,400)			36,258,100	(1,630,400)
Total temporarily impaired securities	$ 183,820,000	$ (9,669,900)	$ -	$ -	$ 183,820,000	$ (9,669,900)

At June 30, 2016, the Corporation owned the following securities that had unrealized losses: ninety three mutual fund investment lots and two other pooled investments. At June 30, 2015, the Corporation owned the following securities that had unrealized losses: sixty nine mutual fund investment lots and six other pooled investments.

OCLC reviews its portfolio for other-than-temporary impairment each fiscal year end. The investment securities portfolio is generally evaluated for other-than-temporary impairment with consideration given to: (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issue, and (3) the intent and ability to retain a security for a period of time sufficient to allow for any anticipated recovery in fair value.

As of June 30, 2016, OCLC elected to change its method of estimating other-than-temporary impairment to consider a longer time horizon to align with its intention and ability to retain a security for a period of time sufficient to allow for market conditions to stabilize. This change was enacted to bring OCLC's accounting practices in line with its evolving investment strategy. The effect of this change in estimate was a increase in the investment income of $12,632,100 in fiscal year 2016.

The other-than-temporary impairment losses for the years ended June 30, 2016 and 2015, are as follows:

	2016	2015
Mutual funds	$ 178,200	$ 3,086,500
Other pooled investments		442,800
Total	$ 178,200	$ 3,529,300

The following summarizes the general rationale for the recognition of impairments as either unrealized losses or other-than-temporary impairments at June 30, 2016 and 2015:

At June 30, 2016, impairments were generally considered other-than-temporary on those funds and investments in which OCLC had an intent to sell or did not believe specific lots would likely recover in value in the future. At June 30, 2015, impairments were generally considered other-than-temporary on those funds in which OCLC had an intent to sell.

3. FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, include the following:

	2016	2015
Land and improvements	$ 12,154,400	$ 12,154,400
Buildings and improvements	90,109,200	76,853,800
Computer and telecommunications equipment	44,662,400	39,488,100
Databases	87,437,200	85,280,100
Intangibles including software	158,050,100	146,923,200
Goodwill	21,809,500	21,898,700
Office furniture and equipment	18,023,000	17,948,600
Total	432,245,800	400,546,900
Less accumulated depreciation and amortization	286,586,100	259,429,900
Fixed assets—net	$ 145,659,700	$ 141,117,000

Software development costs, related to internal use software, of $10,801,100 and $17,206,100 were capitalized in 2016 and 2015, respectively.

Database enhancement costs of $2,183,700 and $2,735,900 were capitalized in fiscal year 2016 and 2015, respectively, and are included in databases.

Operating Leases—Certain buildings and equipment are rented under operating leases. Rental expense for all leases was $3,036,600 and $3,517,300 for fiscal years 2016 and 2015, respectively. Future minimum lease payments under existing noncancelable lease commitments are as follows:

Fiscal Years Ending June 30	
2017	$ 2,572,700
2018	1,778,200
2019	1,440,900
2020	1,051,600
2021	411,500
Thereafter	348,500
Total	$ 7,603,400

4. LONG-TERM DEBT AND CAPITAL LEASES

Long-term debt and capital leases at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Long-term debt and line of credit	$ 7,609,900	$ 15,069,000
Capital leases	78,042,800	58,693,100
Subtotal	85,652,700	73,762,100
Less current maturities	(20,736,300)	(22,098,600)
Total	$ 64,916,400	$ 51,663,500

Long-Term Debt—On October 1, 2013, OCLC EMEA entered into a bank loan for the purposes of financing the purchase of HKA. The 6,500,000 euro loan has a fixed interest rate of 3.1% until October 1, 2016. The loan is due based on the following schedule: 650,000 euros on October 1, 2014; 1,300,000 euros on April 1, 2015 and 2016; 1,600,000 euros on April 1, 2017; 650,000 euros on October 1, 2017; and 1,000,000 euros on April 1, 2018. The loan balance outstanding was 3,250,000 euros ($3,609,900) and 4,550,000 euros ($5,069,000), at June 30, 2016 and 2015, respectively. The bank loan is secured by the shares and capital of HKA, mortgage on a building, business equipment, and accounts receivable of OCLC EMEA. The bank loan requires compliance with certain financial ratio covenants at June 30, 2015, which were not met. The bank provided a waiver for this covenant for the fiscal year ended June 30, 2015.

Capitalized Leases—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 has a balance outstanding of $10,850,000 and $13,995,700 at June 30, 2016 and 2015, respectively. 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, 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 has a balance outstanding of $14,045,300 and $17,417,200 at June 30, 2016 and 2015, 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 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 $23,147,500 and $27,280,200 at June 30, 2016 and 2015, 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%. The lease is due quarterly in equal principal and interest installments of $1,142,500 beginning July 14, 2016. 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 2016 and 2015 fixed assets are as follows:

	2016	**2015**
Equipment, software, and databases	$ 96,314,800	$ 66,314,800
Less accumulated depreciation	33,968,500	22,343,100
Capitalized leased assets—net	$ 62,346,300	$ 43,971,700

The aggregate maturities of the other long-term debt, capital lease obligations, and bank line of credit (see note 5) are as follows:

Fiscal Years Ending June 30	
2017	$ 20,736,300
2018	17,122,000
2019	15,628,500
2020	12,881,300
2021	8,823,400
2022 and later	10,461,200
Total	$ 85,652,700

5. BANK LINE 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 2016 and 2015. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to 1.0% and 1.35% above the London Interbank Offered Rate (LIBOR) at June 30, 2016 and 2015, respectively (total of 1.5% for both years). During fiscal year 2016, $10,000,000 was borrowed and $6,000,000 was repaid with $4,000,000 outstanding at June 30, 2016 which is included in current portion of long-term debt and capital leases on the consolidated balance sheet. In fiscal 2015, no borrowings were made under such line of credit. The agreement expires December 31, 2016.

Effective January 3, 2012, 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 .75% at June 30, 2016 and 2015 (total of 1.2% and 0.9% for June 30, 2016 and 2015, respectively). During fiscal year 2016, a total of $10,000,000 was repaid and there was no outstanding balance at June 30, 2016. During fiscal year 2015, a total of $10,000,000 was borrowed and outstanding at June 30, 2015, and is included in current portion of long-term debt and capital leases on the consolidated balance sheet. The agreement expires January 31, 2018.

On October 1, 2013, OCLC EMEA modified its secured revolving line of credit with a bank for a total of 2,250,000 euros. The line of credit declines quarterly by 125,000 euros beginning April 1, 2014, through October 1, 2015. The line of credit available was 1,500,000 euros ($1,666,100) and 1,625,000 euros ($1,810,400) at June 30, 2016 and 2015, respectively. Under the terms of the agreement, interest on amounts borrowed is payable at an effective interest rate equal to 1.7% margin above the three-month EURIBOR (total of 1.46% and 1.72% at June 30, 2016 and 2015, respectively). The margin is reconsidered by the bank each year. During fiscal year 2016, a total of 719,700 euros ($799,100) was borrowed and subsequently repaid. During fiscal year 2015, a total of 1,289,000 euros ($1,548,500) was borrowed and subsequently repaid.

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 full-time 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 $5,872,400 and $6,136,000 for fiscal years 2016 and 2015, 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 liabilities under the plan were $3,431,000 and $3,867,600 (reflected in other assets and other noncurrent liabilities) at June 30, 2016 and 2015, 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 $1,016,700 and $1,318,800 in fiscal years 2016 and 2015, respectively.

OCLC maintains a voluntary contributory plan providing postretirement health care and noncontributory postretirement life insurance coverage for U.S. employees. OCLC’s U.S. 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.

Relevant postretirement benefit information as of June 30, 2016 and 2015, is summarized as follows:

	2016	2015
Reconciliation of benefit obligation:		
Benefit obligation at the beginning of the plan year	$ 10,475,500	$ 9,510,500
Service cost	608,700	610,900
Interest cost	481,400	425,500
Benefits paid	(339,000)	(172,500)
Actuarial gain	(438,400)	(1,898,500)
Assumption change	1,407,600	1,999,600
Benefit obligation at the end of the plan year	$ 12,195,800	$ 10,475,500
Net postretirement benefit cost:		
Service cost	$ 608,700	$ 610,900
Interest cost	481,400	425,500
Net amortization	(830,400)	(910,800)
Total	$ 259,700	$ 125,600
Amounts included in equity:		
Unrecognized prior service credit	$ (301,200)	$ (420,400)
Unrecognized net gain	(6,999,600)	(8,680,100)
Total	$ (7,300,800)	$ (9,100,500)
Reconciliation of unrecognized net gain:		
Unrecognized net gain at the beginning of the year	$ (8,680,100)	$ (9,572,900)
Actuarial gain	(438,400)	(1,898,500)
Liability loss due to change in assumptions	1,407,600	1,999,600
Amortization amount	711,300	791,700
Unrecognized net gain at the end of the year	$ (6,999,600)	$ (8,680,100)
Benefit obligations recognized in equity:		
Net loss	$ 969,300	$ 101,100
Amortization of prior service credit	119,100	119,100
Amortization of gain	711,300	791,700
Total recognized in equity	$ 1,799,700	$ 1,011,900

Amounts recognized on the consolidated balance sheets as of June 30, 2016 and 2015, were as follows:

	2016	2015
Accrued liabilities—current	$ 275,000	$ 202,000
Other noncurrent liabilities	11,920,800	10,273,500
Total amount recognized	$ 12,195,800	$ 10,475,500

Actuarial assumptions used in determining these amounts included a weighted-average discount rate of 3.88% and 4.64% at June 30, 2016 and 2015, respectively, and an annual increase in medical expense of 8.5%, declining to 4.5% in 2025 and thereafter.

The following table summarizes the amounts in equity expected to be amortized and recognized as a component of net periodic benefit cost in 2017:

Net gain	$ (544,200)
Prior service credit	(119,100)
Total	$ (663,300)

The following table presents estimated future benefit payments for the next 10 fiscal years:

Fiscal Years Ending June 30	
2017	$ 275,000
2018	308,000
2019	301,000
2020	346,000
2021	356,000
2022–2026	2,235,000

7. ACQUISITION OF SCS

Effective January 8, 2015, OCLC purchased certain assets and assumed certain liabilities of Sustainable Collection Services LLC ("SCS"), the industry leader in helping libraries manage their print collections for $2,172,000. The agreement provides for additional consideration of up to a maximum of $1,260,000 that may be paid if SCS achieves predefined goals through fiscal year 2018. The fair value of the contingency is deemed to be $500,000 and $1,260,000 at June 30, 2016 and 2015, respectively. The purchase was accounted for by the acquisition method of accounting. Assets acquired, primarily software of $744,800 and liabilities assumed, primarily contract performance liabilities of $1,380,100 were based on their fair values at the date of acquisition. Goodwill, representing the excess of cost over fair value of assets acquired, of $2,807,300 was recorded and included in fixed assets. At June 30, 2015, goodwill was deemed partially impaired by $1,707,200 (included in depreciation and amortization expense). SCS's operations, subsequent to the date of the purchase, are included in the consolidated financial statements for the year ended June 30, 2015, and its revenues for the six months ended June 30, 2015, were $378,400. The pro forma consolidated results for fiscal year 2015, assuming the purchase had been made at the beginning of the fiscal year, would not have been materially different from reported results.

8. INCOME TAXES

OCLC has a net deferred tax asset of $3,000,600 for operating loss carryforwards ($411,000 domestic and $2,589,600 foreign). 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 $102,000 and $127,000 at June 30, 2016 and 2015, respectively, relating to the fixed asset depreciation and a prior German acquisition, which is recorded as a noncurrent asset in other assets.

OCLC EMEA also has a deferred tax liability of $1,472,000 and $1,715,000 at June 30, 2016 and 2015, respectively, relating to the acquisition of HKA, which is recorded as a noncurrent liability in other noncurrent liabilities.

OCLC's tax expense is contained within the Miscellaneous- net line on the Consolidated Statement of Revenues, Expenses, and Corporate Equity.

At June 30, 2016, domestic and foreign net operating loss carryforwards for income tax reporting purposes are approximately $11,534,000 ($1,210,000 domestic and $10,324,000 foreign, principally in the United Kingdom and Canada). The domestic and Canadian carryforwards expire through fiscal year 2035.

9. 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

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 as of June 30, 2016 and 2015:

	2016			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Mutual funds:				
Fixed income	$ 73,733,800	$ -	$ -	$ 73,733,800
Equity	86,444,100			86,444,100
Alternatives	23,223,000			23,223,000
Total mutual funds	183,400,900	-	-	183,400,900
Other pooled investments:				
Domestic fixed income		17,239,600		17,239,600
Global equity		18,302,700		18,302,700
Total other pooled investments	-	35,542,300	-	35,542,300
Short-term investments-fixed income funds	9,092,400	-	-	9,092,400
Total assets at fair value	$ 192,493,300	$ 35,542,300	$ -	$ 228,035,600
Contingent consideration due under SCS acquisition agreement	$ -	$ 500,000	$ -	$ 500,000
Total liabilities at fair value	$ -	$ 500,000	$ -	$ 500,000

	2015			
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Mutual funds:				
Fixed income	$ 59,384,300	$ -	$ -	$ 59,384,300
Equity	101,917,700			101,917,700
Alternatives	22,888,800			22,888,800
Total mutual funds	184,190,800	-	-	184,190,800
Other pooled investments:				
Domestic fixed income		18,208,800		18,208,800
Global fixed income		18,049,300		18,049,300
Global equity		18,093,600		18,093,600
Total other pooled investments	-	54,351,700	-	54,351,700
Total assets at fair value	$ 184,190,800	$ 54,351,700	$ -	$ 238,542,500
Contingent consideration due under SCS acquisition agreement	$ -	$ 1,260,000	$ -	$ 1,260,000
Total liabilities at fair value	$ -	$ 1,260,000	$ -	$ 1,260,000

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, corporate equity is not considered a financial instrument and is 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 necessarily 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, Short-term Investments, 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—Investments are stated at fair value based upon quoted market prices or as calculated by third-party administrators.

Contingent consideration due under the SCS acquisition agreement is valued at fair value based upon undiscounted cash flows due to the seller determined by revenue performance, length of employment, and other indicators.

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 as of June 30, 2016 and 2015. There were no unfunded commitments for either year.

	2016		
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**
Mutual funds:			
Fixed income	$ 73,733,800	Daily	1 Day
Equity—domestic	48,610,100	Daily	1 Day
Equity—global	37,834,000	Daily	1 Day
Alternatives	23,223,000	Daily	1 Day
Other pooled investments:			
Domestic fixed income	17,239,600	Monthly	45 Days
Global equity	18,302,700	Daily	1–30 Days
	$ 218,943,200		

	2015		
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**
Mutual funds:			
Fixed income	$ 59,384,300	Daily	1 Day
Equity—domestic	42,133,600	Daily	1 Day
Equity—global	59,784,100	Daily	1 Day
Alternatives	22,888,800	Daily	1 Day
Other pooled investments:			
Domestic fixed income	18,208,800	Monthly	45 Days
Emerging market fixed income	18,049,300	Daily	1 Day
Global equity	18,093,600	Daily	1–30 Days
	$ 238,542,500		

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. Fair market value of the investments has been estimated using the net asset value per share of the investments.

10. 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.

11. SUBSEQUENT EVENTS

On July 1, 2016, OCLC EMEA acquired 100% of the shares of IFNET srl, a distributor of library automation software and services in Italy, for 300,000 Euro. This new operation will focus on helping libraries benefit from OCLC's cooperative approach to library services and systems management.

The Corporation has performed an evaluation of subsequent events through September 12, 2016 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, 2016.

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