LYRASIS

FINANCIAL STATEMENTS

June 30, 2020 and 2019



LYRASIS Table of Contents June 30, 2020 and 2019

	Page
REPORT Independent Auditors' Report	1
FINANCIAL STATEMENTS Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	9





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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees LYRASIS

Report on the Financial Statements

We have audited the accompanying financial statements of LYRASIS, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of 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 entity'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 financial statements.

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

Opinion

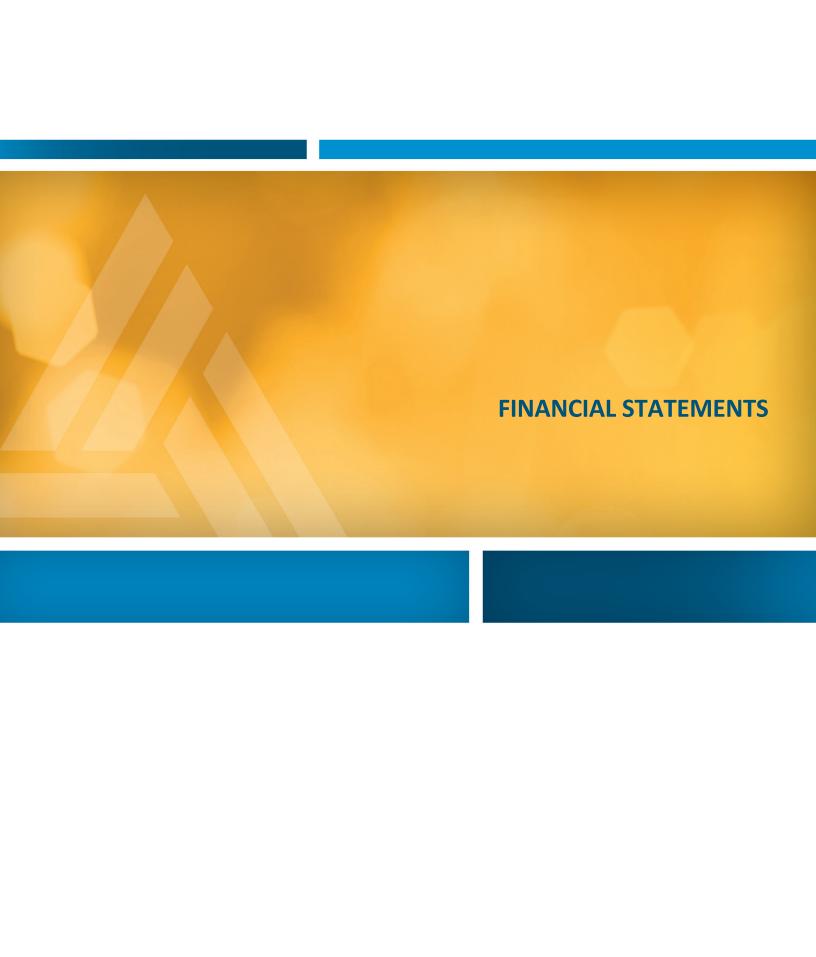
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LYRASIS as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, LYRASIS adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606); ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made; and ASU 2016-01, Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The presentation of these financial statements have been updated accordingly. There were no significant impacts to LYRASIS resulting from the adoption of these accounting policies.

Carr, Riggs & Ingram, L.L.C.
CARR, RIGGS & INGRAM, LLC

Atlanta, Georgia



LYRASIS Statements of Financial Position

June 30,	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 1,490,598	\$ 1,582,226
Restricted cash	1,723,639	1,032,967
Investments - marketable securities	27,611,691	21,625,741
Note receivable	222,000	21,023,741
Receivables, net	222,000	
Member	6,383,346	2,784,159
Other	509,341	203,514
Other	6,892,687	2,987,673
Deferred costs	6,024,444	5,518,400
Other prepaid expenses		
Other prepaid expenses	379,219	294,939
Total current assets	44,344,278	33,041,946
Property and equipment, net	19,599	16,303
Other assets		
Intangible assets	96,777	10,000
Note receivable	30,777	222,000
Note receivable		222,000
Total other assets	96,777	232,000
Total assets	\$ 44,460,654	\$ 33,290,249
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,898,369	\$ 4,816,297
Member deposits	3,283,658	4,782,735
Deferred revenue	14,486,926	10,258,669
PPP loan payable, current portion	401,595	-
Unearned grant income	1,639,625	906,247
Current portion of deferred gain on sale of building	401,273	168,574
Total current liabilities	28,111,446	20,932,522
Line of credit	F F00 000	
PPP loan payable, less current portion	5,500,000	-
Deferred gain on sale of building, less current portion	798,333	404 272
Deterred gain on sale of building, less current portion	-	401,273
Total liabilities	34,409,779	21,333,795
Net assets, without donor restrictions		
Board designated for future operations	1 500 000	1 500 000
Undesignated	1,500,000	1,500,000
ondesignated	8,550,875	10,456,454
Total net assets	10,050,875	11,956,454
Total liabilities and net assets	\$ 44,460,654	\$ 33,290,249

LYRASIS Statements of Activities

Revenues and support Sales of services and products Membership dues Grant - other Other revenues Total revenues and support	\$ 75,099,689 1,271,997 1,030,022 27,859 77,429,567 67,839,188 6,960,591	\$ 76,357,795 1,227,087 1,434,751 182,166 79,201,799
Sales of services and products Membership dues Grant - other Other revenues	1,271,997 1,030,022 27,859 77,429,567 67,839,188 6,960,591	1,227,087 1,434,751 182,166 79,201,799 70,790,122
Membership dues Grant - other Other revenues	1,271,997 1,030,022 27,859 77,429,567 67,839,188 6,960,591	1,227,087 1,434,751 182,166 79,201,799 70,790,122
Grant - other Other revenues	1,030,022 27,859 77,429,567 67,839,188 6,960,591	1,434,751 182,166 79,201,799 70,790,122
Other revenues	27,859 77,429,567 67,839,188 6,960,591	182,166 79,201,799 70,790,122
	77,429,567 67,839,188 6,960,591	79,201,799 70,790,122
Total revenues and support	67,839,188 6,960,591	70,790,122
	6,960,591	
Operating expenses	6,960,591	
Cost of sales	6,960,591	
Salaries		5,208,465
Fringe benefits	1,411,276	1,152,801
Depreciation and amortization	29,672	47,265
Facilities lease	245,087	245,391
Office operations	131,427	119,835
Data processing supplies and maintenance	424,030	176,261
Travel and meetings	437,297	678,639
Professional fees	278,697	478,271
Grant and subgrant awards	127,862	533,647
Other	56,047	57,830
Total operating expenses	77,941,174	79,488,527
	,- ,-	
Operating income (loss)	(511,607)	(286,728)
Other income (expenses)		
Investment income (loss)	(1,425,674)	1,150,998
Gain on sale of building	168,574	158,356
Acquisition costs for Fedora Commons, Inc.	(111,391)	(99,876)
Interest expense	(38,127)	-
Interest on note receivable	12,850	12,238
Other income (expenses)	(204)	
Total other income (expenses)	(1,393,972)	1,221,716
	(=,300,0.= <u> </u>	_,,
Change in net assets, without donor restrictions	(1,905,579)	934,988
Net assets at beginning of year	11,956,454	11,021,466
Net assets at end of year	\$ 10,050,875	\$ 11,956,454

LYRASIS Statements of Functional Expenses

For the year ended June 30, 2020

	Program	General and Administrative	
Cost of sales Salaries Fringe benefits Depreciation and amortization Facilities lease Office operations Data processing supplies and maintenance Travel and meetings Professional fees Grant and subgrant awards Other	\$ 67,839,188 4,089,321 813,050 - 422 62,180 334,741 185,730 204,759 127,862 48,159	\$ - 2,871,270 598,226 29,672 244,665 69,247 89,289 251,567 73,938 - 7,888	\$ 67,839,188 6,960,591 1,411,276 29,672 245,087 131,427 424,030 437,297 278,697 127,862 56,047
Total	\$ 73,705,412	\$ 4,235,762	\$ 77,941,174

LYRASIS
Statements of Functional Expenses (Continued)

For the year ended June 30, 2019

	Program		General and Iministrative		Total
Cost of sales	\$,,	\$	-	\$	70,790,122
Salaries	2,489,003		2,719,462		5,208,465
Fringe benefits	523,911		628,890		1,152,801
Depreciation and amortization	-		47,265		47,265
Facilities lease	629		244,762		245,391
Office operations	47,546		72,289		119,835
Data processing supplies and maintenance	103,389		72,872		176,261
Travel and meetings	286,836		391,803		678,639
Professional fees	289,004		189,267		478,271
Grant and subgrant awards	533,647		-		533,647
Other	49,942		7,888		57,830
Total	\$ 75,114,029	Ś	4,374,498	Ś	79,488,527

Statements of Cash Flows

For the years ended June 30,		2020		2019
Operating activities				
Change in net assets	Ś	(1,905,579)	\$	934,988
Adjustments to reconcile change in net assets to net cash	•	() / /	•	, , , , , , ,
provided by (used in) operating activities				
Depreciation and amortization		29,672		47,265
Net realized and unrealized (gain) loss on investments		2,160,210		(891,778)
Gain on sale of property		(168,574)		(158,356)
Change in:		(100,574)		(130,330)
Receivables		(3,690,050)		1,180,009
Deferred costs and prepaid expenses		(528,763)		832,908
Accounts payable and accrued liabilities		2,938,234		(1,162,846)
Member deposits		1,499,077		870,567
Deferred revenue		732,239		(2,715,398)
Unearned grant income		732,239		(420,444)
oneumea grant meome		733,376		(420,444)
Net cash provided by (used in) operating activities		1,799,844		(1,483,085)
Investing activities				
Cash acquired through acquisition of Fedora Commons, Inc.		254,758		_
Purchase of property and equipment		(9,326)		_
Net sales (purchases) of investments - marketable securities		(8,146,160)		721,905
		(0,-10,-00,		
Net cash provided by (used in) investing activities		(7,900,728)		721,905
Financing activities				
Net borrowings (payments) on line of credit		5,500,000		_
Net borrowing (payments) on PPP loan		1,199,928		-
		,,-		
Net cash provided by (used in) investing activities		6,699,928		-
Net change in cash and cash equivalents		599,044		(761,180)
Cash, cash equivalents and restricted cash at beginning of year		2,615,193		3,376,373
Cash, cash equivalents and restricted cash at end of year	\$	3,214,237	\$	2,615,193
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LYRASIS Statements of Cash Flows (Continued)

For the years ended June 30,		2020		2019
Supplemental schedule of non-cash investing and financing activinformation:	ities	and certain o	ash	flow
Assets acquired and liabilities (assumed) through acquisition of Fedora Commons, Inc.: Receivables Deferred costs and prepaid expenses Accounts payable and accrued liabilities Deferred revenue Property and equipment, net Goodwill	\$	214,964 61,561 (143,838) (497,864) 2,890 107,529	\$	- - - - -
	\$	(254,758)	\$	
Reconciliation to Statement of Financial Position: Cash and cash equivalents Restricted cash	\$	1,490,598 1,723,639	\$	1,582,226 1,032,967
Cash, cash equivalents and restricted cash at year end	\$	3,214,237	\$	2,615,193

Note 1: DESCRIPTION OF THE ORGANIZATION

LYRASIS partners with member libraries and cultural heritage organizations to create, access and manage information with an emphasis on digital content, while building and sustaining collaboration, enhancing operations and technology, and increasing buying power. A non-profit membership organization, LYRASIS was established in April 2009 with a collective history of legacy networks dating back to 1936. LYRASIS continues its mission of supporting information professionals by offering creative solutions and increased savings opportunities. With a diverse membership and large in scale, LYRASIS works closely with library and cultural heritage organization professionals and their staff to build and maintain valued relationships, making frequent connections with site visits, conferences and e-communications.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

Restricted Cash

Certain grants awarded to LYRASIS require unexpended funds to be maintained in separate bank accounts. As such, the use of these funds has been restricted for current grant program purposes.

Accounts Receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. LYRASIS provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of members to meet their obligations.

Deferred Costs

Deferred costs represent vendor activity for service and product revenue currently deferred. The costs of this vendor activity will be recognized with the related revenue.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

LYRASIS provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred in the collection of all receivables. The estimated losses, if any, are based upon historical collection experience coupled with a review of the current status of existing receivables. In management's opinion, the allowance for doubtful accounts of approximately \$55,000 and \$50,000 at June 30, 2020 and 2019, respectively, is adequate. These amounts are included in the member receivables balance in the accompanying statements of financial position.

Investments

LYRASIS reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends, or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property and Equipment

All acquisitions of property and equipment in excess of \$2,000 and all expenditures for maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Repairs and maintenance are expensed as incurred. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method. Estimated useful lives used in computing depreciation are as follows:

Class of Asset	Estimated Useful Lives (years)
Computer equipment Furniture and fixtures Computer software	3 5-10 3-5

Net Assets

LYRASIS reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of LYRASIS, the environment in which it operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (continued)

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Revenue and Deferred Revenue

Membership dues, service and product revenue are accounted for under ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), recognizing revenue when performance obligations under the terms of the contracts with customers are satisfied. Prior to the adoption of ASC 606, LYRASIS recognized revenue when persuasive evidence of an arrangement existed, the sales price was fixed or determinable and collectability was reasonably assured.

Contributions are recognized when cash, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met or the donor has explicitly released the restriction. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as net assets without donor restrictions.

Deferred revenues represent annual dues and database licensing fees that are recognized over the annual membership period and over the period the services are provided, respectively.

Member deposits represent current year prepayments by member libraries for subsequent year subscription and bibliographic services. These prepayments are refundable to the member if not used for services. The deposits are recognized as revenue over the period the services are provided.

Cost of Sales

Cost of sales primarily consists of purchased on-line cataloging and licensing services for members.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Personnel expenses, which are allocated, are based on estimates of time and purpose. Other costs have been allocated based on direct usage of materials and resources.

Advertising

Advertising costs are expensed as incurred. Advertising expense was approximately \$11,000 and \$8,000 for the years ended June 30, 2020 and 2019, respectively.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

LYRASIS is exempt from federal income taxes under the provisions of §501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has also determined that LYRASIS is not a private foundation as defined by §509(a)(1) of the Code.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 22, 2020, and determined there were no events that occurred that required disclosure.

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. LYRASIS adopted this ASU during the year ended June 30, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. LYRASIS adopted this ASU during the year ended June 30, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry specific guidance. LYRASIS adopted this ASU during the year ended June 30, 2020, and there were no adjustments resulting from the adoption of this accounting policy.

Note 3: FINANCIAL ASSET AVAILABILITY

LYRASIS maintains its financial assets primarily in cash and cash equivalents, investments and receivables to provide liquidity to ensure funds are available as expenditures come due. The following reflects LYRASIS's financial assets as of the statement of financial positon date, reduced by amounts not available for general use within one year of the statement of financial positon date because of contractual or donor-imposed restrictions.

<i>June 30,</i>	2020	2019
Financial assets at year end	\$ 37,718,615	\$ 27,228,607
Less amounts not available for use: Cash and cash equivalents, with contract restrictions	1,723,639	1,032,967
Total amounts not available for use	1,723,639	1,032,967
	\$ 35,994,976	\$ 26,195,640

Financial assets at year-end as noted in the above schedule exclude deferred costs, prepaids, property and equipment, intangible assets and note receivable.

Note 4: INVESTMENTS

Investment in marketable securities consist of the following:

June 30,	20	20	20	19
	Fair Value	Cost	Fair Value	Cost
Mutual tunds	\$ 27,611,691	\$ 28,302,044	\$ 21,625,741	\$ 19,960,218

LYRASIS's policy for recording fees paid for the management of its investments is to net the fees against investment income.

Note 5: INTANGIBLE ASSETS

As of October 1, 2009, NELINET, Inc. (NELINET) was combined with LYRASIS whereby the net assets of NELINET were transferred to LYRASIS. A portion of the net assets, as determined by an independent appraiser, was recorded as a member list. This total of \$400,000 is being amortized to operations over ten years. Amortization expense for this member list was \$10,000 and \$40,000 for the years ended June 30, 2020 and 2019, respectively.

As of July 1, 2019, LYRASIS acquired Fedora Commons, Inc. (Fedora) whereby the net assets of Fedora were transferred to LYRASIS. A portion of the negative net assets acquired was recorded as goodwill. This total of \$107,529 is being amortized to operations over ten years. Amortization expense for this goodwill was \$10,752 for the year ended June 30, 2020.

Note 6: PROPERTY AND EQUIPMENT

Property and equipment - net consist of the following:

June 30,	2020	2019
Furniture and fixtures	\$ 298,298 \$	298,298
Computer equipment	132,565	106,615
Computer software	429,991	424,340
	860,854	829,253
Less: accumulated depreciation	(841,255)	(812,950)
	\$ 19,599 \$	16,303

Depreciation expense for the years ended June 30, 2020 and 2019 was \$8,920 and \$7,265, respectively.

Note 7: LINE OF CREDIT

In April of 2017, LYRASIS entered into a revolving line of credit agreement with a bank, with a credit limit of \$3,000,000. In June of 2019, the line of credit increased to \$6,000,000 and the maturity date was extended through June 2022. Interest is due monthly at the 1-month LIBOR rate plus 1.75%. The effective rate at June 30, 2020 was 1.91%. Total balance as of June 30, 2020 and 2019 was \$5,500,000 and \$0, respectively. All cash brokerage accounts of LYRASIS serve as collateral for this line of credit.

Note 8: PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In April 2020, LYRASIS applied for, and received, a loan of \$1,197,500 under the Paycheck Protection Program (PPP) sponsored by the federal government. The interest rate is 1% per year. This loan will be used to cover payroll expenses and a majority of the loan and any accrued interest is expected to be forgiven. Payments on the unforgiven portion of the loan, if any, begin on the 7th month after funding. Final payments on the unforgiven portion are due in full 24 months from the date of the loan. Accrued interest at June 30, 2020 totaled \$2,428.

Note 9: REVENUE

LYRASIS is recognizing revenue over time for its membership dues, and service and product revenue. The performance obligation is to provide digital services and online membership to its customers. Substantially all of LYRASIS's revenue is recognized over time once the performance obligation is met.

Note 9: REVENUE (Continued)

Contract Balances

June 30,	2020	2019
Contract liabilities, beginning of year Contract liabilities, end of year	\$ 15,947,651 \$ 19,410,209	
Receivable from contracts, beginning of year Receivable from contracts, end of year	\$ 2,784,159 \$ 6,383,346	

Contract liabilities consist of member deposits, deferred revenue and unearned grant income which are recognized over the annual membership period, or as services are provided. Contract accounts receivable consist of member receivables.

Note 10: UNEARNED GRANTS - NON-FEDERAL GRANTS

During the years ended June 30, 2020 and 2019, LYRASIS managed several grants from private foundations. The Andrew W. Mellon Foundation awarded several grants of various amounts to support projects such as the stewardship of Collectionspace, an open source collections management system meeting the needs of museums, historical societies, biological collections and other collections holding organizations; Sloan Foundation research into academic e-reading platforms; provision of programs to support Emergency Preparedness for Performing Arts Organizations; and the IMLS, forum on software sustainability.

Note 11: DISPOSAL OF LONG LIVED ASSETS

On June 15, 2016, LYRASIS sold its principal building located at 1438 West Peachtree Street, Atlanta, GA to 1438 West Peachtree Partners, LLC, in return for consideration given of \$4,750,000. A portion of the total consideration comprised a balloon note in the amount of \$222,000 to be paid at the conclusion of a five year period. In addition a 60-month lease-back agreement for a portion of the building was executed concurrently with the sale (Note 12).

The net book value of the building at the date of sale was \$2,107,665. Including executory costs of \$152,080, the sale of the building resulted in a gain of \$2,490,255. During the year of sale, LYRASIS recognized \$1,473,004 of the "Gain on Sale of Building" in the statement of activities. The remaining \$1,017,251 of the gain on sale was deferred for the promissory note and sale-leaseback transaction (Note 12). During the years ended June 30, 2020 and 2019, LYRASIS recognized an additional \$168,574 and \$158,356 of the deferred gain related to the sale of the building, respectively. A total of \$401,273 of the deferred gain on sale of building remained outstanding as of June 30, 2020.

Note 12: SALE-LEASEBACK

During 2016, LYRASIS, entered into a sale-leaseback transaction with respect to the building located at 1438 West Peachtree Street (Note 11). The company entered into a five year operating lease for a portion of the building with a third party. The gain from the sale-leaseback was deferred and is being amortized as a reduction of rental expense over the life of the operating lease agreement.

Note 13: RESEARCH AND DEVELOPMENT

LYRASIS continues to invest in research and development programs to further the library community. Expenses associated with this program are related to identifying new ideas, vetting of new ideas and implementation of new ideas. These costs have been recorded to their natural classification within the statements of activities. For the years ended June 30, 2020 and 2019, LYRASIS spent approximately \$1,291,000 and \$628,000 in Research and Development across four initiatives, respectively.

Catalyst Fund – LYRASIS invested \$224,590 during the year ended June 30, 2020, in the LYRASIS Catalyst Fund, a Grant like award program established to fund new ideas and innovative projects submitted by LYRASIS members. It was designed as a direct result of members' interest in expanding opportunities to share expertise and collaborate on innovations with potential for community-wide impact.

Leadership Forums - LYRASIS invested \$47,459 during the year ended June 30, 2020, into its Leadership Forums, which are smaller, more nimble, gatherings across the US, Canada and soon the globe, to discuss, explore and workshop ideas, problems and potential solutions that might be funded. Experts from the LYRASIS team and from the LYRASIS membership bring new concepts, trends and ideas to be discussed. Typically, there are 4-8 meetings each year. Output is shared and posted for discussion.

LYRASIS Learning - LYRASIS invested \$164,657 during the year ended June 30, 2020, in its LYRASIS Learning platform, a continuing education platform that gives Members access to the entire catalog of LYRASIS archived training as well as unlimited live classes. For an annual price members get unlimited access to an evolving portfolio of old and new content.

Planning and Design – LYRASIS invested \$854,243 during the year ended June 30, 2020, in planning and design improving existing open source software, platforms or developing new ones.

For the years ended June 30,	2020	2019
Catalyst Fund	\$ 224,590	\$ 275,616
Leadership Forums	47,459	76,819
LYRASIS Learning	164,657	120,126
Planning and Design	854,243	155,539
	\$ 1,290,949	\$ 628,100

Note 14: FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Note 14: FAIR VALUE MEASUREMENTS (Continued)

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
 - observable; or
 - can be corroborated by observable market data.

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

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by LYRASIS are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by LYRASIS are deemed to be actively traded.

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

Assets and liabilities measured at fair value on a recurring basis, are summarized for the years ended June 30, 2020 and 2019:

June 30, 2020	Level 1	Level 2	Level 3 Total
Mutual funds	\$ 27,611,691 \$	- \$	- \$ 27,611,691
June 30, 2019	Level 1	Level 2	Level 3 Total
Mutual funds	\$ 21,625,741 \$	- \$	- \$ 21,625,741

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Note 14: FAIR VALUE MEASUREMENTS (Continued)

Changes in Fair Value Levels (continued)

Management evaluated the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended June 30, 2020, there were no significant transfers in or out of Levels 1, 2 or 3.

Note 15: CONCENTRATIONS OF CREDIT RISK

LYRASIS maintains cash with a financial institution in excess of the FDIC limit of \$250,000 by approximately \$2,900,000 and \$2,300,000 at June 30, 2020 and 2019, respectively. Management is of the opinion that there is no risk of loss because of the financial strength of the financial institution.

Note 16: COMMITMENTS

LYRASIS entered into a five year non-cancelable operating lease agreement concurrent with the sale of 1438 West Peachtree (Notes 11 and 12) on June 15, 2016. This lease has been classified as an operating lease in accordance with FASB ASC 840, *Leases*.

Future minimum lease payments under the non-cancelable operating lease as of June 30, 2020, are as follows:

For the year ending June 30,

<u>2021</u> \$ 182,791

For the years ended June 30, 2020 and 2019, rent expense was approximately \$191,800 and \$185,100, respectively.

Note 17: RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. The economic fallout from the pandemic has the potential to negatively impact the LYRASIS's investment and operating performance. While LYRASIS acknowledges this could negatively impact its financial position in the future, the impact cannot be reasonably estimated at this time.

Note 18: ACQUISITION

On July 1, 2019, LYRASIS acquired Fedora Commons, Inc., dba DuraSpace, a not-for-profit organization, which provides open source software. The intent of the acquisition was to combine resources and continue to promote the charitable purposes of each party. At the date of acquisition, assets acquired by LYRASIS totaled \$1,514,200 and liabilities assumed totaled \$1,621,729. Incurred expenses related to the acquisition totaled \$111,391 and \$99,876 for the years ended June 30, 2020 and 2019, respectively.

Note 18: ACQUISITION (Continued)

The DuraSpace Community Supported Programs (DSCSP) Division is the new home of the DuraSpace technologies (DSpace, Vivo and Fedora) within LYRASIS, along with the continuing open source programs, ArchivesSpace and CollectionSpace.

DSpace is the software of choice for academic, non-profit, and commercial organizations building open digital repositories. It is free and easy to install "out of the box" and completely customizable to fit the needs of any organization.

VIVO is member-supported, open source software and an ontology for representing scholarship. VIVO supports recording, editing, searching, browsing, and visualizing scholarly activity.

Fedora is a robust, modular, open source repository system for the management and dissemination of digital content. It is especially suited for digital libraries and archives, both for access and preservation.

This new division brings together five critical open source technologies all under one roof, giving members and users shared infrastructure, enhanced development of the software and a strong backbone for sustainability.

Note 19: RETIREMENT PLAN

LYRASIS has several defined contribution plans in which substantially all employees of LYRASIS are eligible to participate. Under the requirements of the plans, employees may contribute up to 5% of their regular salary (as defined), and LYRASIS contributes up to 8% of the employee's regular salary. LYRASIS's plan expenses were approximately \$412,000 and \$402,000 for the years ended June 30, 2020 and 2019, respectively.

Note 20: MAJOR SUPPLIERS

For the years ended June 30, 2020 and 2019, approximately 37% and 39% of LYRASIS's costs of sales were from three suppliers. LYRASIS's accounts payable as of June 30, 2020 and 2019, included \$899,722 and \$307,728 due to these suppliers, respectively.