

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

**SOUTHEASTERN LIBRARY NETWORK, INC.
AND SUBSIDIARY**

June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors Southeastern Library Network, Inc. and Subsidiary

We have audited the accompanying consolidated statements of financial position of the Southeastern Library Network, Inc. (SOLINET) and Subsidiary as of June 30, 2008 and 2007, and the related consolidated statements of activities, and cash flows for the years then ended. These consolidated financial statements are the responsibility of SOLINET's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Library Network, Inc. and Subsidiary as of June 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2008 on our consideration of SOLINET's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of SOLINET taken as a whole. The supplemental information contained in the consolidating statement of financial position as of June 30, 2008 and the consolidating statement of activities for the year then ended on pages 14 and 15 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is



presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such supplemental information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Car, Rizzip & Argam, LLC

Atlanta, Georgia
September 2, 2008

Southeastern Library Network, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

ASSETS

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 11,228,000 | \$ 9,119,634 |
| Investments - marketable securities | 8,783,084 | 12,629,954 |
| Receivables | | |
| Member | 6,754,401 | 8,127,887 |
| Grants - federal | 190,906 | 28,076 |
| Other | <u>193,803</u> | <u>94,521</u> |
| | 7,139,110 | 8,250,484 |
| Prepaid subscriptions | 1,433,301 | 1,439,846 |
| Other prepaid expenses | <u>176,924</u> | <u>356,263</u> |
| Total current assets | 28,760,419 | 31,796,181 |
| PROPERTY AND EQUIPMENT - AT COST | | |
| Building | 830,048 | 830,048 |
| Computer equipment | 547,708 | 591,265 |
| Furniture and fixtures | 653,605 | 643,338 |
| Computer software | <u>637,271</u> | <u>587,243</u> |
| | 2,668,632 | 2,651,894 |
| Less accumulated depreciation | <u>1,809,735</u> | <u>1,749,810</u> |
| | 858,897 | 902,084 |
| Land | <u>1,310,519</u> | <u>1,310,519</u> |
| | 2,169,416 | 2,212,603 |
| OTHER ASSETS | | |
| Investments - deferred compensation | 431,463 | 5,792 |
| Deferred lease incentive | <u>309,515</u> | <u>5,792</u> |
| | 740,978 | 5,792 |
| | <u>\$ 31,670,813</u> | <u>\$ 34,014,576</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 8,465,865 | \$ 7,689,390 |
| Member deposits | 9,670,906 | 9,792,742 |
| Unearned grant income | <u>3,971,358</u> | <u>6,286,153</u> |
| Total current liabilities | 22,108,129 | 23,768,285 |
| DEFERRED COMPENSATION | 413,464 | 5,792 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS, UNRESTRICTED | | |
| Unrestricted, board designated for future operations | 1,359,000 | 1,294,000 |
| Unrestricted, undesignated | <u>7,790,220</u> | <u>8,946,499</u> |
| Total net assets, unrestricted | 9,149,220 | 10,240,499 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 31,670,813</u> | <u>\$ 34,014,576</u> |

The accompanying notes are an integral part of these statements.

Southeastern Library Network, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|---------------|---------------|
| Revenues and support | | |
| Sales of services and products | \$ 48,918,772 | \$ 49,677,016 |
| Grant support - federal | 712,971 | 252,370 |
| Grant support - other | 5,605,069 | 3,084,088 |
| Membership dues | 836,182 | 838,388 |
| Initial membership fees | 6,500 | 8,000 |
| Rental income | 83,321 | |
| Interest income | 1,364,755 | 833,336 |
| Net realized and unrealized gain (loss) on investments | (1,393,794) | 541,729 |
| Other revenues | 24,343 | 10,093 |
| | 56,158,119 | 55,245,020 |
| Expenses | | |
| Direct costs | 47,999,290 | 46,943,176 |
| Salaries | 5,564,317 | 3,995,030 |
| Fringe benefits | 829,112 | 837,559 |
| Depreciation | 149,722 | 186,994 |
| Building operations | 206,464 | 164,753 |
| Office operations | 992,085 | 493,990 |
| Data processing supplies and maintenance | 92,481 | 120,019 |
| Travel and conferences | 577,445 | 412,566 |
| Telephone | 56,656 | 53,715 |
| Prepayment discounts allowed | 130,952 | 130,611 |
| Professional fees | 598,105 | 417,913 |
| Property taxes | 52,769 | 51,562 |
| | 57,249,398 | 53,807,888 |
| CHANGE IN NET ASSETS, UNRESTRICTED | (1,091,279) | 1,437,132 |
| NET ASSETS, UNRESTRICTED AT BEGINNING OF YEAR | 10,240,499 | 8,803,367 |
| NET ASSETS, UNRESTRICTED AT END OF YEAR | \$ 9,149,220 | \$ 10,240,499 |

The accompanying notes are an integral part of these statements.

Southeastern Library Network, Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|---------------------|
| Change in net assets | \$ (1,091,279) | \$ 1,437,132 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 149,722 | 186,994 |
| Net realized and unrealized (gain) loss on investments | 1,393,794 | (541,729) |
| (Increase) decrease in assets and increase (decrease) in liabilities | | |
| Receivables | 1,111,374 | (1,212,133) |
| Prepaid subscriptions and expenses | 185,884 | 211,710 |
| Investments - deferred compensation | (425,671) | (215) |
| Deferred lease incentive | (309,515) | |
| Accounts payable and accrued liabilities | 776,475 | 623,115 |
| Member deposits | (121,836) | 363,728 |
| Unearned grant income | (2,314,795) | 5,176,620 |
| Deferred compensation | 407,672 | 215 |
| | <u>853,104</u> | <u>4,808,305</u> |
| Net cash provided by (used in) operating activities | (238,175) | 6,245,437 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (106,535) | (49,077) |
| Purchase of investments - marketable securities | (8,896,057) | (12,914,078) |
| Proceeds from the sale of investments - marketable securities | 11,349,133 | 8,281,010 |
| | <u>2,346,541</u> | <u>(4,682,145)</u> |
| Net cash provided by (used in) investing activities | | |
| Net increase in cash and cash equivalents | 2,108,366 | 1,563,292 |
| Cash and cash equivalents at beginning of year | <u>9,119,634</u> | <u>7,556,342</u> |
| Cash and cash equivalents at end of year | <u>\$ 11,228,000</u> | <u>\$ 9,119,634</u> |

Supplemental schedule of non-cash investing and financing activities and certain cash flow information:

There were no non-cash investing and financing activities during the years ended June 30, 2008 and 2007.

The accompanying notes are an integral part of these statements.

Southeastern Library Network, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of the Southeastern Library Network, Inc. (SOLINET) and its wholly owned real estate holding company, 1438, Inc. SOLINET was formed in 1973 to provide cost effective services and information, which will strengthen resource sharing among its members and increase their effectiveness. To achieve these goals, SOLINET provides computerized bibliographic services and other products to its members (primarily special, public and academic libraries) generally on a direct cost plus surcharge basis. SOLINET grants credit terms to its members, which are principally located in the southeastern United States.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

A summary of the significant accounting policies of SOLINET applied in the preparation of the accompanying consolidated financial statements follows.

1. Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, SOLINET is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. SOLINET considers all of its net assets to be unrestricted net assets. In addition, SOLINET is required to present a statement of cash flows.

2. Principles of Consolidation

The consolidated financial statements include the accounts of Southeastern Library Network, Inc. and its wholly owned subsidiary, 1438, Inc. All intercompany transactions have been eliminated.

3. Allowance for Doubtful Accounts

SOLINET 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, no allowance for doubtful accounts was considered necessary at June 30, 2008 and 2007.

4. Fair Value of Financial Instruments

SFAS 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of the fair value of certain items, including receivables, investments, payables and debt. SOLINET believes that the amounts disclosed for such amounts within the consolidated statements of financial position do not differ significantly from fair value as defined in SFAS 107.

Southeastern Library Network, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, SOLINET considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Certain grants awarded to the Organization require unexpended funds to be maintained in separate bank accounts. As such, the use of these funds has been designated for current grant program purposes. The amount of designated cash and cash equivalents at June 30, 2008 and 2007 was approximately \$3,158,000 and \$5,665,000, respectively.

6. Depreciation

Depreciation is provided in amounts sufficient to charge the cost of depreciable assets to operations over their estimated useful lives using the straight-line method.

The estimated useful lives of various classes of assets are as follows:

| <u>Class of Asset</u> | <u>Estimated Useful Lives (years)</u> |
|------------------------|---------------------------------------|
| Building | 39 |
| Computer equipment | 3 |
| Furniture and fixtures | 5-10 |
| Computer software | 3-5 |

7. Revenue Recognition

Revenue is recognized as services are provided.

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

SOLINET recognizes cost of sales of the reference products at the time services are used by the member.

8. Direct Costs

Direct costs primarily consist of purchased on-line cataloging and licensing services for members.

9. Concentrations of Credit Risk

Financial instruments, which potentially subject SOLINET to concentrations of credit risk, are principally receivables. Concentration of credit risk is limited due to the members comprising the SOLINET's member base and the profession in which its members operate. To reduce risk, the SOLINET routinely assesses the financial strength of its members and, as a consequence, believes that its receivables credit risk exposure is limited.

Southeastern Library Network, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE B - INVESTMENTS - MARKETABLE SECURITIES

Investments at June 30, 2008 are recorded at market value based on quoted market prices in accordance with SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SOLINET's investments represent funds held for future operational or capital needs. Changes in the basis of investments held at the end of the year are reflected in the statement of activities as unrealized appreciation/depreciation in the market value of investments. Realized gains and losses on the sale of investments are recorded based upon the difference between the proceeds and the basis of the investments. The basis of the investments is determined by the specific-identification method. Interest income and dividends are recognized when earned. The cost and related market values of investments at June 30, 2008 and 2007 are as follows:

| | <u>2008</u> | | <u>2007</u> | |
|------------------------------|--------------------|---------------------|---------------------|---------------------|
| | <u>Cost</u> | <u>Market Value</u> | <u>Cost</u> | <u>Market Value</u> |
| Marketable debt securities | \$4,010,017 | \$4,003,993 | \$ 8,002,837 | \$ 7,995,989 |
| Marketable equity securities | <u>5,471,349</u> | <u>4,779,091</u> | <u>4,140,265</u> | <u>4,633,965</u> |
| | <u>\$9,481,366</u> | <u>\$8,783,084</u> | <u>\$12,143,102</u> | <u>\$12,629,954</u> |

NOTE C - PENSION PLAN

SOLINET has a contributory defined contribution pension plan in which substantially all employees of SOLINET are eligible to participate. Under the requirements of the Plan, the employees may contribute 4% or 5% of their regular salary (as defined), and SOLINET contributes 8% or 10%, respectively, of the employee's regular salary (as defined) for the purchase of individual deferred annuity contracts from an insurance company. SOLINET's pension expense for the years ended June 30, 2008 and 2007 was approximately \$286,000 and \$315,000, respectively.

NOTE D - TAX STATUS

Southeastern Library Network, Inc. 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 Southeastern Library Network, Inc. is not a private foundation as defined by §509(a)(1) of the Code.

1438, Inc. is exempt from federal income taxes under the provisions of §501(c)(2) of the Internal Revenue Code.

Southeastern Library Network, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE E - OPERATING LEASE AS LESSOR

1438, Inc. is the lessor of office space to another organization under an operating lease that expires in August 2015. The operating lease contains scheduled rent increases as well as certain rent abatement features. 1438, Inc. recognizes rental income on a straight-line basis and records the difference between the amount recognized as revenue and rent received as deferred rent receivable. The total amount of deferred rent receivable at June 30, 2008 was approximately \$1,800 and is included in other receivables.

During the year ended June 30, 2008, 1438, Inc. provided certain improvements to the office space in the amount of approximately \$331,000. Accordingly, 1438, Inc. has capitalized these costs as deferred lease incentives and is amortizing these as an offset to rental income over the term of the lease.

The following is a schedule of future minimum rental payments to be received under the non-cancelable operating lease as of June 30, 2008:

| <u>Year ending June 30</u> | |
|----------------------------|--------------------|
| 2009 | \$ 76,000 |
| 2010 | 176,000 |
| 2011 | 197,000 |
| 2012 | 203,000 |
| 2013 | 209,000 |
| Thereafter | <u>465,000</u> |
| | <u>\$1,326,000</u> |

NOTE F - CONTINGENCY

SOLINET has cash deposits with a financial institution, which fluctuate in excess of federally insured limits. If this financial institution were not to honor its contractual liability, SOLINET could incur losses. Management is of the opinion that there is no risk of loss because of the financial strength of the financial institution.

NOTE G - MAJOR SUPPLIERS

For the years ended June 30, 2008 and 2007, approximately 83% of SOLINET's direct costs were incurred from two suppliers. SOLINET's accounts payable included approximately \$5,956,000 and \$5,983,000 due to these suppliers at June 30, 2008 and 2007, respectively.

Southeastern Library Network, Inc. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2008 and 2007

NOTE H - FEDERAL GRANTS

SOLINET has been awarded federal grants by the National Endowment for the Humanities (NEH) and by the Institute of Museum and Library Services (IMLS) during the years ended June 30, 2008 and 2007.

One of the NEH grants represent funding for a cooperative preservation microfilming project and a regional preservation education and training program, both developed by SOLINET. SOLINET receives funding under this grant after expenditures are made. The second NEH grant is a Challenge Grant to raise funds for an endowment for the Stanford Encyclopedia of Philosophy. SOLINET receives funds under this grant to match donations made to the project. Both the grant and donated funds are transferred to an endowment managed by Stanford University.

The IMLS grant represents funding to provide staffing for temporary public libraries supported by the Bill and Melinda Gates Foundation's Gulf Coast Libraries Project and to provide an assessment of needs and a program of continuing education for staff development at hurricane-affected public library systems. SOLINET receives funding under this grant after expenditures are made.

NOTE I - OTHER GRANTS

During the years ended June 30, 2008 and 2007, SOLINET managed several significant grants from private foundations. The Bill and Melinda Gates Foundation awarded a grant in the amount of approximately \$12.2 million, to support the re-establishment of public libraries damaged by Hurricanes Katrina and Rita in Louisiana and Mississippi, over a four year period ending in July 2010. The Andrew W. Mellon Foundation awarded several grants of various amounts to support projects such as the Preservation of Photographic Collections at Historically Black Colleges and Universities (HBCUs), the HBCU Library Leadership Program, the Academic Library Hurricane Recovery Project, the Redesigning Work in Libraries Project and the Appalachian College Association Central Library Assessment.

NOTE J - DEFERRED COMPENSATION

SOLINET has established a deferred compensation plan for certain key employees. The Plan allows the employees to defer their compensation up to the maximum allowable amount under the Internal Revenue Code (the Code). The deferred compensation may be invested in any type of investment allowable under the Code. Benefit distributions commence on the benefit commencement date specified in each agreement. However, if no date is specified, the distributions commence on April 1 of the calendar year following the participant's retirement. Participants may elect to have the benefits distributed in one of several methods, as defined.

During the year ended June 30, 2008, SOLINET established deferred compensation agreements with certain executives. The deferred compensation agreements established fixed, lump sum amounts to be paid to these executives on June 30, 2010, assuming their continued employment through that date. SOLINET purchased investments in annuity contracts to provide for the amount of the future payments. The earnings on these investments may be used by SOLINET for operational purposes.

SUPPLEMENTAL INFORMATION

Southeastern Library Network, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2008

| | SOLINET | 1438, Inc. | Combined | Eliminating Journal Entries | Consolidated Balance |
|--|-------------------|------------------|-------------------|-----------------------------------|-------------------------|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 11,157,600 | \$ 70,400 | \$ 11,228,000 | \$ | \$ 11,228,000 |
| Investments - marketable securities | 8,783,084 | | 8,783,084 | | 8,783,084 |
| Receivables | | | | | |
| Member | 6,754,401 | | 6,754,401 | | 6,754,401 |
| Grants - federal | 190,906 | | 190,906 | | 190,906 |
| Other | 133,781 | 16,927 | 150,708 | 43,095 | 193,803 |
| | <u>7,079,088</u> | <u>16,927</u> | <u>7,096,015</u> | <u>43,095</u> | <u>7,139,110</u> |
| Prepaid subscriptions | 1,433,301 | | 1,433,301 | | 1,433,301 |
| Other prepaid expenses | 175,864 | 1,060 | 176,924 | | 176,924 |
| | <u>1,433,301</u> | <u>1,060</u> | <u>1,433,301</u> | | <u>1,433,301</u> |
| Other prepaid expenses | 175,864 | 1,060 | 176,924 | | 176,924 |
| | <u>175,864</u> | <u>1,060</u> | <u>176,924</u> | | <u>176,924</u> |
| Total current assets | 28,628,937 | 88,387 | 28,717,324 | 43,095 | 28,760,419 |
| PROPERTY AND EQUIPMENT - AT COST | | | | | |
| Building | | 830,048 | 830,048 | | 830,048 |
| Computer equipment | 547,708 | | 547,708 | | 547,708 |
| Furniture and fixtures | 324,355 | 329,250 | 653,605 | | 653,605 |
| Computer software | 637,271 | | 637,271 | | 637,271 |
| | <u>1,509,334</u> | <u>1,159,298</u> | <u>2,668,632</u> | | <u>2,668,632</u> |
| Less accumulated depreciation | 1,354,213 | 455,522 | 1,809,735 | | 1,809,735 |
| | <u>155,121</u> | <u>703,776</u> | <u>858,897</u> | | <u>858,897</u> |
| Land | | 1,310,519 | 1,310,519 | | 1,310,519 |
| | <u>155,121</u> | <u>2,014,295</u> | <u>2,169,416</u> | | <u>2,169,416</u> |
| OTHER ASSETS | | | | | |
| Investments - deferred compensation | 431,463 | | 431,463 | | 431,463 |
| Deferred lease incentive | | 309,515 | 309,515 | | 309,515 |
| | <u>431,463</u> | <u>309,515</u> | <u>740,978</u> | | <u>740,978</u> |
| DUE FROM 1438, Inc. | 1,730,928 | | 1,730,928 | (1,730,928) | |
| | <u>1,730,928</u> | | <u>1,730,928</u> | <u>(1,730,928)</u> | |
| Total assets | \$ 30,946,449 | \$ 2,412,197 | \$ 33,358,646 | \$ (1,687,833) | \$ 31,670,813 |
| CURRENT LIABILITIES | | | | | |
| Accounts payable and accrued liabilities | \$ 8,421,507 | \$ 44,358 | \$ 8,465,865 | \$ | \$ 8,465,865 |
| Member deposits | 9,670,906 | | 9,670,906 | | 9,670,906 |
| Unearned grant income | 3,728,263 | 200,000 | 3,928,263 | 43,095 | 3,971,358 |
| | <u>21,820,676</u> | <u>244,358</u> | <u>22,065,034</u> | <u>43,095</u> | <u>22,108,129</u> |
| Total current liabilities | 21,820,676 | 244,358 | 22,065,034 | 43,095 | 22,108,129 |
| DEFERRED COMPENSATION | 413,464 | | 413,464 | | 413,464 |
| COMMITMENTS AND CONTINGENCIES | | | | | |
| DUE TO SOLINET | | 1,730,928 | 1,730,928 | (1,730,928) | |
| | <u>22,234,140</u> | <u>1,975,286</u> | <u>24,209,426</u> | <u>(1,687,833)</u> | <u>22,521,593</u> |
| Total liabilities | 22,234,140 | 1,975,286 | 24,209,426 | (1,687,833) | 22,521,593 |
| NET ASSETS, UNRESTRICTED | | | | | |
| Unrestricted, board designated for future operations | 1,359,000 | | 1,359,000 | | 1,359,000 |
| Unrestricted, undesignated | 7,353,309 | 436,911 | 7,790,220 | | 7,790,220 |
| | <u>8,712,309</u> | <u>436,911</u> | <u>9,149,220</u> | | <u>9,149,220</u> |
| Total net assets, unrestricted | 8,712,309 | 436,911 | 9,149,220 | | 9,149,220 |
| Total liabilities and net assets | \$ 30,946,449 | \$ 2,412,197 | \$ 33,358,646 | \$ (1,687,833) | \$ 31,670,813 |

The accompanying notes are an integral part of this statement.

Southeastern Library Network, Inc. and Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30, 2008

| | <u>SOLINET</u> | <u>1438, Inc.</u> | <u>Combined</u> | <u>Eliminating Journal Entries</u> | <u>Consolidated Balance</u> |
|--|---------------------|-------------------|---------------------|--|---------------------------------|
| REVENUE AND SUPPORT | | | | | |
| Sales of services and products | \$ 49,008,867 | \$ | \$ 49,008,867 | \$ (90,095) | \$ 48,918,772 |
| Grant support - federal | 712,971 | | 712,971 | | 712,971 |
| Grant support - other | 5,695,269 | | 5,695,269 | (90,200) | 5,605,069 |
| Membership dues | 836,182 | | 836,182 | | 836,182 |
| Initial membership fees | 6,500 | | 6,500 | | 6,500 |
| Rental income | | 326,032 | 326,032 | (242,711) | 83,321 |
| Interest income | 1,361,240 | 3,515 | 1,364,755 | | 1,364,755 |
| Net realized and unrealized loss on investments | (1,393,794) | | (1,393,794) | | (1,393,794) |
| Other revenues | 24,343 | | 24,343 | | 24,343 |
| | <hr/> | | <hr/> | | <hr/> |
| Total revenues and support | 56,251,578 | 329,547 | 56,581,125 | (423,006) | 56,158,119 |
| EXPENSES | | | | | |
| Direct costs | 47,999,290 | | 47,999,290 | | 47,999,290 |
| Salaries | 5,564,317 | | 5,564,317 | | 5,564,317 |
| Fringe benefits | 829,112 | | 829,112 | | 829,112 |
| Depreciation | 104,036 | 45,686 | 149,722 | | 149,722 |
| Building operations | 242,712 | 206,463 | 449,175 | (242,711) | 206,464 |
| Office operations | 1,082,285 | | 1,082,285 | (90,200) | 992,085 |
| Data processing supplies and maintenance | 92,481 | | 92,481 | | 92,481 |
| Travel and conferences | 577,445 | | 577,445 | | 577,445 |
| Telephone | 56,656 | | 56,656 | | 56,656 |
| Prepayment discounts allowed | 130,952 | | 130,952 | | 130,952 |
| Professional fees | 595,105 | 3,000 | 598,105 | | 598,105 |
| Property taxes | | 52,769 | 52,769 | | 52,769 |
| Management fees | | 90,095 | 90,095 | (90,095) | |
| | <hr/> | | <hr/> | | <hr/> |
| Total expenses | 57,274,391 | 398,013 | 57,672,404 | (423,006) | 57,249,398 |
| CHANGES IN NET ASSETS, UNRESTRICTED | | | | | |
| | (1,022,813) | (68,466) | (1,091,279) | | (1,091,279) |
| NET ASSETS, UNRESTRICTED AT BEGINNING OF YEAR | | | | | |
| | 9,735,122 | 505,377 | 10,240,499 | | 10,240,499 |
| NET ASSETS, UNRESTRICTED AT END OF YEAR | | | | | |
| | <u>\$ 8,712,309</u> | <u>\$ 436,911</u> | <u>\$ 9,149,220</u> | <u>\$</u> | <u>\$ 9,149,220</u> |

The accompanying notes are an integral part of this statement.

SINGLE AUDIT SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Board of Directors
Southeastern Library Network, Inc. and Subsidiary**

We have audited the consolidated financial statements of the Southeastern Library Network, Inc. (SOLINET) and Subsidiary as of and for the year ended June 30, 2008, and have issued our report thereon dated September 2, 2008. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SOLINET's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SOLINET's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SOLINET's internal control over financial reporting.

A control deficiency 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 misstatements a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is a more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SOLINET's consolidated financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of the financial advisory committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Car, Regis & Anguan, LLC

Atlanta, Georgia
September 2, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

**Board of Directors
Southeastern Library Network, Inc. and Subsidiary**

Compliance

We have audited the compliance of the Southeastern Library Network, Inc. (SOLINET) and Subsidiary with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. SOLINET's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of SOLINET's management. Our responsibility is to express an opinion on SOLINET's compliance based on our audits.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SOLINET's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on SOLINET's compliance with those requirements.

In our opinion, SOLINET complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of SOLINET is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered SOLINET's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SOLINET's internal control over compliance

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the financial advisory committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Atlanta, Georgia
September 2, 2008

Southeastern Library Network, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2008

| Federal Grantor / Pass-through Grantor Program Title | Federal CFDA Number | Individual Grant Number | Award Amount | Federal Award Receivable June 30, 2007 | Grant Receipts | Grant Expenditures | Federal Award Receivable June 30, 2008 |
|---|---------------------------|-------------------------------|-----------------|--|-------------------|-----------------------|--|
| <u>National Endowment for the Humanities</u> | | | | | | | |
| Preservation - field services | 45.149 | PA-51875-06 | \$ 579,920 | \$ 28,076 | \$ 255,787 | \$ 270,114 | \$ 42,403 |
| Challenge Grant Program * | 45.130 | CH-50156 | 500,000 | (61,701) | 105,299 | 167,000 | |
| Total National Endowment for the Humanities | | | | | | | |
| <u>Institute of Museum and Library Services</u> | | | | | | | |
| Laura Bush 21st Century Librarian Program * | 45.313 | RE-06-07-008-07 | 866,284 | | 127,354 | 275,857 | 148,503 |
| Total Federal Assistance | | | | | | | |
| | | | \$ 1,946,204 | \$ (33,625) | \$ 488,440 | \$ 712,971 | \$ 190,906 |

* Major Programs

Southeastern Library Network, Inc. and Subsidiary

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2008

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeastern Library Network, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Southeastern Library Network, Inc. and Subsidiary

**SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND OTHER RECOMMENDATIONS**

Year ended June 30, 2008

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued - unqualified.
2. Internal control over financial reporting:
 - A. Material weakness(es) identified? yes no
 - B. Significant deficiency(ies) identified
that are not considered to be
material weaknesses? yes none reported
3. Noncompliance material to financial
statements noted? yes no

Federal Awards

4. Internal control over major programs:
 - A. Material weakness(es) identified? yes no
 - B. Significant deficiency(ies) identified
that are not considered to be
material weakness(es)? yes none reported
5. Type of auditor's report issued on compliance for major programs - unqualified.
6. Any audit findings disclosed that are
required to be reported in accordance
with §510(a) of OMB Circular A-133? yes no
7. There were no questioned costs that are required to be reported under §510(a) of OMB Circular A-133.
8. The programs tested as major programs included:

| <u>CFDA#</u> | <u>Program Name</u> |
|--------------|--|
| 45.130 | National Endowment for the Humanities – Promotion of the Humanities – Challenge Grant Program |
| 45.313 | Institute of Museum and Library Services – Laura Bush 21 st Century Librarian Program |

9. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
10. The auditee did not qualify as a low-risk auditee.