

# **Carnegie Library of Pittsburgh**

## Consolidated Financial Statements

Years Ended December 31, 2017 and 2016  
with Independent Auditor's Report

**MaherDuessel**

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# CARNEGIE LIBRARY OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2017 AND 2016  
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## Independent Auditor's Report

**Board of Trustees  
Carnegie Library of  
Pittsburgh**

We have audited the accompanying consolidated financial statements of the Carnegie Library of Pittsburgh (Library) and its affiliate, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the 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.

### **Auditor's 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 audits 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 entity'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 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 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 the Library and its affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Maher Duessel*

Pittsburgh, Pennsylvania  
May 14, 2018

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents - operating	\$ 8,368,319	\$ 8,854,419
Cash and cash equivalents - capital	4,558,972	3,777,909
Cash and cash equivalents - endowment	19,110	29,055
Other receivables	1,806,941	1,315,389
Pledge receivables, current	825,713	919,497
Prepaid expenses	879,701	1,080,065
Other current assets	272,009	309,710
Total current assets	16,730,765	16,286,044
Non-current assets:		
Bellefield Boiler Plant reserve	14,174	14,174
Pledge receivables, non-current, net of discount	496,317	807,668
Total non-current assets	510,491	821,842
Long-term investments:		
Investments - operating reserve	8,102,965	6,488,381
Investments - capital	1,633,747	1,404,305
Investments - endowment	16,205,433	14,160,558
Investments - stock	9,460,880	9,460,880
Value of share in split interest agreements	1,435,374	1,290,656
Total long-term investments	36,838,399	32,804,780
Other assets		
Buildings, equipment, and land, net	49,413,087	49,755,122
Total other assets	49,413,087	49,755,122
<b>Total Assets</b>	<b>\$ 103,492,742</b>	<b>\$ 99,667,788</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,315,926	\$ 2,380,707
Accrued salaries, wages, and related payroll taxes	577,623	571,858
Mortgage note payable, current	84,620	82,526
Deferred revenue	479,240	479,240
Funds held for others	247,366	298,833
Bonds payable, current	665,000	640,000
Total current liabilities	4,369,775	4,453,164
Long-term liabilities:		
Mortgage note payable, non-current	-	84,566
Bond payable, non-current	7,217,754	7,868,409
Total long-term liabilities	7,217,754	7,952,975
Total Liabilities	11,587,529	12,406,139
Net Assets:		
Unrestricted	62,864,451	60,583,090
Temporarily restricted	13,087,331	12,639,642
Permanently restricted	15,953,431	14,038,917
Total Net Assets	91,905,213	87,261,649
<b>Total Liabilities and Net Assets</b>	<b>\$ 103,492,742</b>	<b>\$ 99,667,788</b>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Public Support, Revenues, and Gains</b>				
Allegheny County Regional Asset District	\$ 21,233,475	\$ -	\$ -	\$ 21,233,475
Allegheny County	-	-	-	-
City of Pittsburgh	63,935	-	-	63,935
City of Pittsburgh contributions	194,085	-	-	194,085
Library Tax	4,423,384	-	-	4,423,384
Commonwealth of Pennsylvania	5,523,494	-	-	5,523,494
Other government sources	53,995	15,000	-	68,995
Fundraising - private	1,031,146	3,272,926	85,381	4,389,453
Fines, lost books, and other earned income	669,064	-	-	669,064
Investment return designated for current operations	266,959	321,740	-	588,699
	<u>33,459,537</u>	<u>3,609,666</u>	<u>85,381</u>	<u>37,154,584</u>
Net assets released from restrictions	2,954,937	(2,954,937)	-	-
Total operating public support, revenues, and gains	<u>36,414,474</u>	<u>654,729</u>	<u>85,381</u>	<u>37,154,584</u>
<b>Operating Expenses:</b>				
Program services:				
Main Library, branches, and technical services	27,642,876	-	-	27,642,876
Library for the Blind and Physically Handicapped	1,407,068	-	-	1,407,068
Support services - administrative	4,662,812	-	-	4,662,812
Depreciation	2,614,800	-	-	2,614,800
Total operating expenses (see Note 14)	<u>36,327,556</u>	<u>-</u>	<u>-</u>	<u>36,327,556</u>
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	<u>86,918</u>	<u>654,729</u>	<u>85,381</u>	<u>827,028</u>
<b>Nonoperating Support, Revenues, and Gains:</b>				
Change in fair value of split interest agreements	-	2,971	141,747	144,718
Investment return in excess of amount designated for current operations	1,254,256	730,176	1,687,386	3,671,818
Net assets released from restrictions for capital expenses	940,187	(940,187)	-	-
Total nonoperating support, revenues, and gains	<u>2,194,443</u>	<u>(207,040)</u>	<u>1,829,133</u>	<u>3,816,536</u>
<b>Change in Net Assets</b>	<u>2,281,361</u>	<u>447,689</u>	<u>1,914,514</u>	<u>4,643,564</u>
<b>Net Assets:</b>				
Beginning of year	60,583,090	12,639,642	14,038,917	87,261,649
End of year	<u>\$ 62,864,451</u>	<u>\$ 13,087,331</u>	<u>\$ 15,953,431</u>	<u>\$ 91,905,213</u>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Public Support, Revenues, and Gains</b>				
Allegheny County Regional Asset District	\$ 20,836,740	\$ -	\$ -	\$ 20,836,740
Allegheny County	98,000	-	-	98,000
City of Pittsburgh	62,379	-	-	62,379
City of Pittsburgh contributions	-	-	-	-
Library Tax	4,493,759	-	-	4,493,759
Commonwealth of Pennsylvania	5,720,597	-	-	5,720,597
Other government sources	134,095	-	-	134,095
Fundraising - private	713,969	1,997,009	258,565	2,969,543
Fines, lost books, and other earned income	795,342	-	-	795,342
Investment return designated for current operations	199,924	309,133	-	509,057
	<u>33,054,805</u>	<u>2,306,142</u>	<u>258,565</u>	<u>35,619,512</u>
Net assets released from restrictions	1,991,838	(1,991,838)	-	-
Total operating public support, revenues, and gains	<u>35,046,643</u>	<u>314,304</u>	<u>258,565</u>	<u>35,619,512</u>
<b>Operating Expenses:</b>				
Program services:				
Main Library, branches, and technical services	26,192,185	-	-	26,192,185
Library for the Blind and Physically Handicapped	1,485,841	-	-	1,485,841
Support services - administrative	4,338,534	-	-	4,338,534
Depreciation	2,602,956	-	-	2,602,956
Total operating expenses (see Note 14)	<u>34,619,516</u>	<u>-</u>	<u>-</u>	<u>34,619,516</u>
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	<u>427,127</u>	<u>314,304</u>	<u>258,565</u>	<u>999,996</u>
<b>Nonoperating Support, Revenues, and Gains:</b>				
Change in fair value of split interest agreements	-	(1,216)	9,520	8,304
Investment return in excess of amount designated for current operations	617,677	600,127	303,217	1,521,021
Net assets released from restrictions for capital expenses	2,157,993	(2,157,993)	-	-
Total nonoperating support, revenues, and gains	<u>2,775,670</u>	<u>(1,559,082)</u>	<u>312,737</u>	<u>1,529,325</u>
<b>Change in Net Assets</b>	<u>3,202,797</u>	<u>(1,244,778)</u>	<u>571,302</u>	<u>2,529,321</u>
<b>Net Assets:</b>				
Beginning of year	<u>57,380,293</u>	<u>13,884,420</u>	<u>13,467,615</u>	<u>84,732,328</u>
End of year	<u>\$ 60,583,090</u>	<u>\$ 12,639,642</u>	<u>\$ 14,038,917</u>	<u>\$ 87,261,649</u>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 4,643,564	\$ 2,529,321
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	2,629,145	2,617,302
Realized (gain) loss on investments	(57,705)	(9,731)
Unrealized (gain) loss on investments	(3,087,215)	(1,042,272)
Contributions restricted for long-term purposes	(1,169,933)	(1,153,250)
Changes in assets and liabilities:		
Receivables	(86,418)	1,795,771
Prepaid expenses	200,364	(23,465)
Other current assets	37,702	(28,485)
Accounts payable and accrued expenses	(64,780)	(317,502)
Accrued salaries, wages, and related payroll taxes	5,765	87,578
Deferred revenue	-	479,240
Funds held for others	(51,467)	(26,049)
Net cash provided by (used in) operating activities	2,999,022	4,908,458
<b>Cash Flows From Investing Activities:</b>		
Purchase of fixed assets	(2,525,666)	(3,558,027)
Loss on disposal of fixed assets	252,900	(11,462)
Proceeds from sale of investments	408,095	400,432
Purchase of investments	(1,152,076)	(1,452,174)
Change in other assets	-	70,001
(Increase) decrease in perpetual trusts	(144,718)	(8,304)
Net cash provided by (used in) investing activities	(3,161,465)	(4,559,534)
<b>Cash Flows From Financing Activities:</b>		
Payment on bonds	(640,000)	(620,000)
Payment on mortgage note	(82,472)	(80,361)
Receipts of contributions restricted for long-term purposes	1,169,933	1,153,250
Net cash provided by (used in) financing activities	447,461	452,889
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	285,018	801,813
<b>Cash and Cash Equivalents:</b>		
Beginning of year	12,661,383	11,859,570
End of year	\$ 12,946,401	\$ 12,661,383
<b>Supplemental Data:</b>		
Interest paid	\$ 358,380	\$ 380,347

See accompanying notes to consolidated financial statements.



# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 1. Organization

The Carnegie Library of Pittsburgh (Library) is a public trust established in 1895 for the benefit of the citizens of Western Pennsylvania. As a free public library, the Library provides collections, programs, and services through a network that has twenty (20) locations, including the Main Library and the Library for the Blind and Physically Handicapped (LBPH), all of which are public service outlets, and the Library Support Center in the West End, which is not a public service outlet.

The Library is an organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is, therefore, exempt from taxation under Section 501(a) of the IRC. Additionally, the Library is classified as an organization which is not a private foundation according to the Internal Revenue Code. As a not-for-profit public trust, the Library is required to file federal information returns annually with the Internal Revenue Service.

A significant portion of the Library's funds are received from governmental agencies that annually appropriate funds designated for the Library.

The Library has a cooperation and support agreement with Allegheny Regional Asset District (District) for the purposes of supporting and financing the activities of the Library and providing for oversight of efficient operation of the Library. Provided the Library complies with the requirements of the agreement, the District covenants to provide funds of at least \$11,882,000 to the Library annually through the year 2019. In 2002, this agreement was amended in connection with the issuance of bonds. Under this amendment, the District has committed to allocate \$1,000,000 of the annual grant to the Library for payment of debt service on the bonds through 2028. This agreement was reaffirmed in 2010 with the issuance of the new bonds. The District may also provide support to the Library for special projects.

The Library also has support agreements with the Commonwealth of Pennsylvania for annual library operations and for capital renovation and construction reimbursement. Other Commonwealth revenue sources include table games revenue as authorized by Senate Bill 711 of 2009.

During 2011, the Library initiated the "Our Library, Our Future" campaign to gather support for a referendum to approve an additional 0.25 mill property tax levy on the residents of the City of Pittsburgh. The initiative passed on November 8, 2011; and the levy was effective January 1, 2012. The proceeds are used exclusively for the operation and maintenance of

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

the Library. Tax revenue recognized for 2017 and 2016 amounted to approximately \$4.4 million and \$4.5 million, respectively.

On January 1, 2015, the Library launched *Realize: Our Power, Our Potential*, a major gifts initiative intended to strengthen the Library through strategic investments in early education, out-of-school learning, neighborhood vitality, and workforce and economic development. *Realize* also emphasizes planned giving and endowment gifts that will help the Library chart a course for future sustainability. As the Library concludes the initial phase of *Realize* in 2018 by reaching the first \$20 million goal, the next major phase of the fundraising initiatives will begin.

## 2. Summary of Significant Accounting Policies

A summary of significant accounting policies consistently followed by management in the preparation of the accompanying financial statements follows:

### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized as they are earned, and expenses are recorded when liabilities are incurred.

### Reporting Entity

The financial statements include the accounts of the Library and the Jack G. Buncher Charitable Fund for the Carnegie Library of Pittsburgh (Fund). The Fund is a supporting organization of the Library and had total assets of \$10,468,738 and \$10,428,741, and total revenue of \$989,998 and \$937,537 as of December 31, 2017 and 2016, respectively. All interrelated transactions and accounts are eliminated.

### Basis of Presentation

The Library reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Unrestricted net assets are composed of expendable resources used to support the Library's core activities and all other resources not included in the below categories. Donor-restricted contributions that are received on a reimbursement basis and, therefore, by their nature must have their restrictions met in the same reporting period, are classified as unrestricted support. Donor-restricted resources intended for capital projects are released and reclassified as unrestricted support when the related assets are capitalized. All expenses are recorded as a reduction to unrestricted net assets. Certain unrestricted net assets have been designated for funding of future capital maintenance and Library programs. A substantial portion of the unrestricted net assets are not readily available for general organization purposes. Included in the unrestricted net asset figure is the net asset that represents buildings and equipment, net of related debt.

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period of time or upon the occurrence of a stated event as specified by the donor. Included in this category are gifts held by the Library pending their use in accordance with donor stipulations, unexpended donor gifts for capital projects, pledges, certain split interest agreements, and term endowments.

Permanently restricted net assets are to be held in perpetuity by the Library, including certain gifts of endowment and split interest agreements. Investment earnings on the related assets are classified based on donor restrictions or Pennsylvania Law.

### Use of Estimates

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Investments and Investment Return

Investments are carried at fair value as outlined in Note 6. Gains and losses from the sale of investments are determined by the average cost method.

Investment and custodian fees amounted to approximately \$88,323 and \$77,967 for the years ended December 31, 2017 and 2016, respectively. Investment returns not designated for operations are included in the statements of activities as non-operating gains (losses).

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

For its endowment, the Library follows a spending policy as outlined in Note 7. The Library also complies with PA State Act 141 of 1998, which requires a minimum endowment draw of 2% and a maximum draw of 7%.

### Split Interest Agreements

The Library is the beneficiary of the income from certain irrevocable trust funds held by bank trustees. The fair value of the Library's share of the trusts is included in the statements of financial position as an asset and as a temporarily restricted or permanently restricted net asset based upon the nature of the trust. The income from the trusts is recorded upon receipt as either temporarily restricted or unrestricted based on the designation by the donor. Income from such trust funds was \$62,026 and \$68,100 as of December 31, 2017 and 2016, respectively.

### Cash and Cash Equivalents

The Library classifies all investments with maturities of three months or less, when purchased, to be cash equivalents other than any such investments included in the long-term investment or held for transfer to long-term investments. The Library maintains, at a financial institution, cash and cash equivalents that may exceed federally insured amounts at times.

### Pledges Receivable

Pledges receivable are recorded as revenue when an unconditional promise to give is received or the condition has been fulfilled for a conditional promise to give. Pledges receivable are recorded at the present value of expected net proceeds ultimately payable to the Library. Pledges receivable are adjusted annually and are reflected in the statements of activities as gifts and grants.

### Inventories

Inventories, primarily supplies, are stated at the lower of cost or net realization value using the first-in, first-out method (FIFO).

### Buildings, Equipment, and Software

Buildings, equipment, and software are stated at cost when purchased or at fair value when donated. Major improvements and betterments greater than \$2,500 are capitalized. Items

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

under the \$2,500 capitalization threshold as well as costs of maintenance and repairs that do not extend the estimated useful lives of the applicable assets are charged to expense as incurred. When Buildings, Equipment, and Software are retired, or otherwise disposed of, the asset and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations.

Depreciation of property and equipment is calculated over the estimated useful lives of the assets of three to thirty-five years and is computed on the straight-line method.

### Collections

*Circulating Collections* – The circulating collections (materials including books, periodicals, audio visual, etc.) are not recognized as assets in the statements of financial position. Purchases of collection items are expensed and recorded as a decrease in unrestricted net assets in the year in which the items are acquired (of which approximately \$4.8 and \$4.5 million was acquired in 2017 and 2016, respectively). Proceeds from the sale of circulating collection items would be used to acquire other collection items or for the care of the collections.

*Special Collections* – The Library's special collections, which were primarily acquired through contributions since the Library's inception, consist of rare books, folios and maps, and archival holdings (primarily its own institutional archives) that are held for educational, research, and special curatorial purposes. Contributed collection items are not reflected in the GAAP financial statements.

All special collections are subject to appropriate stewardship measures (catalogued, preserved and cared for as appropriate, and finding aids created). Proceeds from the sale of collections or insurance recoveries (of which there were none in 2017 and 2016) would be reflected as revenue resulting in an increase in unrestricted net assets.

During 2017, the theft of 312 of the special collection items was discovered. An insurance claim was filed immediately upon discovery. Recovery efforts were also launched and continue to be underway. A complaint was filed with the Allegheny County District Attorney's Office who has been actively investigating the matter. The Library's special collections room has been closed since discovery in order to study and implement best practices.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### Deferred Revenue

Deferred revenue represents unearned receipts with the Commonwealth of Pennsylvania.

### Funds Held for Others

Funds held for others represent restricted receipts of a consortium of which the Library is the agent.

### Donated Services

No amounts have been reflected in the financial statements for donated services. The Library pays for all significant services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Library with various programs. In 2017, over 1,300 volunteers contributed 37,500 hours of service. In 2016, over 1,200 volunteers contributed 36,000 hours of service.

### Operating Activities

For purposes of the statements of activities, the Library distinguishes between operating revenue, support, and expenses and nonoperating support, revenue, and gains. The Library treats as operating revenue and support and operating expenses all revenues and expenses that are an integral part of its programs and supporting activities, including investment return designated for current operations. All other activity is nonoperating support, revenues, and gains.

### Financial Instruments

The following methods and assumptions were used by the Library in estimating its fair value disclosures for financial instruments:

- Cash, cash equivalents, short-term unconditional promises to give, and notes payable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.
- Short-term and endowment investments: The fair values of investments are based on quoted market prices for those or similar investments or other unobservable inputs. See Note 6 for further disclosure.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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- Long-term unconditional promises to give: The fair value of promises to give that are due in more than one year is estimated by discounting expected future cash flows using a rate of return based on the yield of a U.S. Treasury security with a maturity date similar to the expected collection period. See Note 3 for further disclosure.

### Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation.

### Adopted Pronouncements

The requirement of the following Financial Accounting Standards Board (FASB) Statement was adopted for the financial statements:

Accounting Standards Update (ASU) 2015-07, *“Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent),”* removes the requirement to categorize investments within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The provisions of this statement have been adopted and incorporated into these financial statements. Due to the implementation of this standard, the Multi-Strategy Funds will no longer be included within the fair value hierarchy.

### Pending Pronouncements

The Financial Accounting Standards Board (FASB) has issued statements that will become effective in future years as outlined below. Management has not yet determined the impact of these statements on the financial statements.

ASU 2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* is effective for the financial statements for the year ending December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," is effective for the financial statements for the year ending December 31, 2018 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the financial statements for the year ending December 31, 2019. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," is effective for the financial statements for the year ending December 31, 2019. This amendment requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

### Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.



# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 3. Pledges Receivable

Pledges are recorded in the accompanying financial statements at net present value using discount factors ranging from 1.89% to 2.33% and are expected to be received as follows:

<u>Years ending December 31</u>	<u>Amount</u>
2018	\$ 825,713
2019	277,200
2020	218,700
2021	8,000
2022	6,000
Thereafter	<u>12,000</u>
	1,347,613
Less - amount representing discount	<u>(25,583)</u>
	<u><u>\$ 1,322,030</u></u>

The Library's estimate that an allowance for uncollectible pledges is not necessary is based on historical collection experience and a review of the current status of the pledges. Decisions to charge off uncollectible pledges are based on management's judgment after consideration of facts and circumstances surrounding potential uncollectible accounts. It is reasonably possible that the Library's estimate of an allowance for uncollectible pledges will change.

Fair values of assets measured on a recurring basis as of December 31, 2017 and 2016 are as follows: Level 1 Pledges receivable – current \$825,713 and \$919,497, respectively, and Level 3 Pledges receivable – noncurrent \$496,317 and \$807,668, respectively.

Fair values for Level 1 financial instruments are determined by quoted prices in active markets for identical financial instruments. Pledges due within one year are considered to be Level 1 because of the short maturity of these instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including the Library's own assumptions in determining the fair value of financial instruments.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Since the Library's noncurrent pledges receivable have no significant observable inputs, they are classified as Level 3.

The input used by the Library to measure the value of noncurrent pledges receivable is the original pledge commitment discounted at two to seven years at the applicable U.S. Treasury Yield Curve rate.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include pledges expected to be received in more than one year:

	2017	2016
Balance as of January 1	\$ 807,668	\$ 1,412,405
Additions of long-term pledges	408,208	321,300
Increases (decreases) due to change in scheduled payments	108,554	(4,579)
Pledges receivable, which became due within one year	(825,713)	(919,497)
Pledges written off as uncollectible	(2,400)	(1,961)
Balance as of December 31	<u>\$ 496,317</u>	<u>\$ 807,668</u>

The fair value of Level 3 noncurrent pledges receivable is calculated based upon discount factors. The valuation techniques used to measure the fair value of noncurrent pledges receivable, the significant observable inputs – discounts applied, and the values for those inputs for 2017 and 2016: 1.89%-2.33% and 1.20%-2.35%, respectively. The sensitivity of the changes to unobservable inputs for the noncurrent pledges receivable is based upon future collectability.

At the beginning of 2017, the Library held \$125,000 in contingent pledges, all of which continued to be outstanding at December 31, 2017. Contingent pledges are recognized in the financial statements only when the contingency is met. The Library did not receive any new contingent pledges in 2017. In 2018, all \$125,000 of contingent pledges are expected to be fulfilled.

At the beginning of 2016, the Library held \$175,000 in contingent pledges. The Library met these contingencies and recognized the pledges as revenue on the statement of activities during 2016. New contingent pledges of \$125,000 were made to the Library in 2016, which were outstanding at December 31, 2016. No payments on the new contingent pledges were received in 2016.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 4. Land, Buildings, and Equipment

Buildings and equipment at December 31, 2017 and 2016 consist of the following:

	2017	2016
Capital assets:		
Not being depreciated:		
Land	\$ 891,298	\$ 879,798
Construction in progress	1,821,723	564,305
Total not being depreciated	2,713,021	1,444,103
Being depreciated:		
Building and building improvements	68,262,648	67,809,584
Equipment	6,751,404	6,419,618
Vehicles	298,136	298,136
Total being depreciated	75,312,188	74,527,338
Less accumulated depreciation	(28,612,122)	(26,216,319)
Net being depreciated	46,700,066	48,311,019
Total capital assets, net of depreciation	\$ 49,413,087	\$ 49,755,122

Beginning in 2002 and continuing beyond December 31, 2017, the Library is undergoing a series of renovations of certain buildings as part of its Libraries for Life capital campaign. The Library also performs ongoing capital maintenance at all locations. As of December 31, 2017 and 2016, approximately \$2,675,318 and \$161,000, respectively, remain committed under contracts related to these activities. No net interest costs were capitalized for 2017 or 2016.

As of December 31, 2017 and 2016, the Library held lease agreements with the City of Pittsburgh (City) for six and seven locations, respectively. The lease agreements are for a term of twenty-nine (29) years, with an annual rent of \$1 per location. Under the lease agreements, the Library can purchase any of the properties for \$100. If the Library purchases any of the leased properties, it either can use the property for Library purposes or has the right, subject to Pittsburgh City Council's approval, to sell the property. Any proceeds from the sale of a property can only be used to support library facilities. In May 2017, CLP-Carrick was purchased from the City and a donation from the City was recognized

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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to the extent the fair value of the property purchased exceeded the value of consideration given to the City plus the value of the capital lease previously recognized.

The Library can also terminate any of the remaining six capital leases by giving notice. This notice of termination must be in writing to the City and must be given on or before June 1 of the year prior to the year in which such termination is to occur.

The leases have been recorded as capital leases as of December 31, 2017 and 2016, with the fair value of \$1,740,000 and \$1,970,000, respectively, recorded as buildings, offset by an original temporarily restricted contribution. The restricted net assets are released from restriction in amounts equal to depreciation expense recorded for use of the buildings.

In October 2016, the Library purchased the property adjacent to CLP-Carrick. The building was closed and demolished with construction beginning in the summer of 2017. The renovated building is estimated to reopen to the public in 2018.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 5. Investments

Investments consist of two multi-strategy funds, an operating reserve fund, private company stock, and split interest agreements at December 31, 2017 and 2016.

The total returns on investments and cash equivalents for the year ended December 31, 2017 are summarized as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest on cash and cash equivalents	\$ 111,310	\$ 4,397	\$ -	\$ 115,707
Interest and dividend income	311,209	688,681	-	999,890
Net realized gain (loss)	6,771	(65)	50,999	57,705
Unrealized gain (loss)	1,091,925	358,903	1,636,387	3,087,215
Return on investments	1,521,215	1,051,916	1,687,386	4,260,517
Investment return designated for current operations	(266,959)	(321,740)	-	(588,699)
Investment gain (loss) recognized	<u>\$ 1,254,256</u>	<u>\$ 730,176</u>	<u>\$ 1,687,386</u>	<u>\$ 3,671,818</u>

The total returns on investments and cash equivalents for the year ended December 31, 2016 are summarized as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest on cash and cash equivalents	\$ 42,669	\$ 2,337	\$ -	\$ 45,006
Interest and dividend income	299,692	633,377	-	933,069
Net realized gain (loss)	1,004	(66)	8,793	9,731
Unrealized gain (loss)	474,236	273,612	294,424	1,042,272
Return on investments	817,601	909,260	303,217	2,030,078
Investment return designated for current operations	(199,924)	(309,133)	-	(509,057)
Investment gain (loss) recognized	<u>\$ 617,677</u>	<u>\$ 600,127</u>	<u>\$ 303,217</u>	<u>\$ 1,521,021</u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

The Library's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, due to the level of risk associated with these instruments, it is reasonably possible that changes in the values of these instruments will occur in the near-term, and that such changes could materially affect the amounts reported in the financial statements.

### 6. Fair Value Measurement

The Library determines fair value of investments and other assets using a three-tier hierarchy of valuation inputs, breaking them down into Level 1, Level 2, and Level 3. These assets include two multi-strategy funds, an operating reserve account, private company stock, and split interest agreements at December 31, 2017 and 2016. The total fair value of the assets as of December 31, 2017 and 2016, respectively, is \$36,838,399 and \$32,804,780.

Fair values of assets measured on a recurring basis as of December 31, 2017:

Description	12/31/17	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating Reserve:				
Money Market Funds	\$ 149,908	\$ 149,908	\$ -	\$ -
Fixed Income	2,113,824	2,113,824	-	-
Equities	4,900,925	4,900,925	-	-
Equity Funds	938,308	938,308	-	-
Total Operating Reserve	8,102,965	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split Interest Agreements	1,435,374	-	-	1,435,374
Total assets in fair value hierarchy	18,999,219	\$ 8,102,965	\$ -	\$ 10,896,254
Investments measured at net asset value				
Multi-Strategy Funds	17,839,180			
Investments at fair value	\$ 36,838,399			

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Fair values of assets measured on a recurring basis as of December 31, 2016:

Description	12/31/16	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Operating Reserve:				
Money Market Funds	\$ 118,508	\$ 118,508	\$ -	\$ -
Fixed Income	1,926,657	1,926,657	-	-
Equities	3,873,268	3,873,268	-	-
Equity Funds	<u>569,948</u>	<u>569,948</u>	-	-
Total Operating Reserve	6,488,381	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split Interest Agreements	<u>1,290,656</u>	-	-	<u>1,290,656</u>
Total assets in fair value hierarchy	<u>17,239,917</u>	<u>\$ 6,488,381</u>	<u>\$ -</u>	<u>\$ 10,751,536</u>
Investments measured at net asset value				
Multi-Strategy Funds	<u>15,564,863</u>			
Investments at fair value	<u>\$ 32,804,780</u>			

Fair values for Level 1 financial instruments are determined by quoted prices in the active market for identical financial instruments. Fair values for Level 2 financial instruments are determined by other significant observable inputs (quoted prices for similar financial instruments, interest rates, prepayment speeds, credit risk, etc.). Fair values for Level 3 financial instruments are determined by significant unobservable inputs, including the Library's own assumptions in determining the fair value of financial instruments.

The Multi-Strategy Funds (Commonfund's Multi-Strategy Equity Fund and Multi-Strategy Bond Fund, or MSFs) are reported at market value as of December 31, 2017 and 2016. The net asset value is calculated as assets of the fund less the fund's liabilities. The share reported by the Library is proportionate to the Library's relative capital contribution. Shares are redeemable on a monthly basis. Currently, the Library has no intentions to liquidate the investments in the MSFs held at December 31, 2017.

The Library's endowment is invested in the MSFs. Together the funds seek to achieve a total return (price appreciation plus dividends and interest income) that exceeds inflation plus 5% per annum through a globally diversified portfolio. Such diversification is designed

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

to provide some downside protection and to potentially enhance long-term total return. The asset mix is designed not to outperform the best-performing asset class in any given year but rather to produce satisfactory real returns over time periods appropriate to perpetual life charities. Tactical rebalancing may periodically occur to take advantage of perceived market opportunities and / or to return the portfolio towards policy weights. The Multi-Strategy Equity Fund is primarily benchmarked against the S&P 500, with a secondary composite benchmark comprised of 85% S&P 500 and 15% MSCI All-Country World Index (ACWI). The Multi-Strategy Bond Fund is benchmarked against the Bloomberg Barclays US Aggregate Bond Index.

The following summarizes the changes in fair values associated with Level 3 investments, which include the private company stock and split interest agreements:

	<u>2017</u>	<u>2016</u>
Balance as of January 1	\$ 10,751,536	\$ 10,743,232
Contributions	-	-
Change in fair value - stock	-	-
Change in fair value - split interest agreements	<u>144,718</u>	<u>8,304</u>
Balance as of December 31	<u>\$ 10,896,254</u>	<u>\$ 10,751,536</u>

The fair value of Level 3 investments is calculated based upon valuation reports and the Library's percentages held by third party investment managers. Fair value of the private company stock is determined primarily by using a third-party valuation report that uses an income approach and capitalization of benefits method to value the total operating equity of the company and then adjusting the total operating equity value for the market value of the various investments and non-income producing assets; appropriate discounts are then applied. There is no ready market for the private company stock, so it is not a liquid investment; the Library intends to hold the stock long-term. Fair value of the split interest agreements is determined using the Library's share percentage of the market value of the trust.



# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following tables represent Level 3 investments, the valuation techniques used to measure the fair value of those investments, the significant observable inputs, and the values for those inputs as of December 31, 2017 and 2016:

Description	Fair Value as of 12/31/17	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Private Company Stock	\$ 9,460,880	Income Approach and Capitalization of Benefits Approach	Discounts Applied, Control Adjustments, Capitalization Rate	Value per Share
Split Interest Agreement	61,690	Market Value of Underlying Investments	Yield Rates, Cash Flow	Trust Value
Split Interest Agreement	139,797	Market Value of Underlying Investments	Percentage Share	25%
Split Interest Agreement	<u>1,233,887</u>	Market Value of Underlying Investments	Percentage Share	20%
	<u>\$ 10,896,254</u>			
Description	Fair Value as of 12/31/16	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Private Company Stock	\$ 9,460,880	Income Approach and Capitalization of Benefits Approach	Discounts Applied, Control Adjustments, Capitalization Rate	Value per Share
Split Interest Agreement	58,719	Market Value of Underlying Investments	Yield Rates, Cash Flow	Trust Value
Split Interest Agreement	126,192	Market Value of Underlying Investments	Percentage Share	25%
Split Interest Agreement	<u>1,105,745</u>	Market Value of Underlying Investments	Percentage Share	20%
	<u>\$ 10,751,536</u>			

The sensitivity of the changes to unobservable inputs for the private company stock is based upon the entire performance of the company, and for the split interest agreement, it is based upon the market performance of the underlying investments.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 7. Endowment Disclosures

The Library's endowment was established for a variety of purposes, including for the purchase of library materials, programming, or unrestricted operating purposes. The endowment includes both donor-restricted endowment funds and unrestricted funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Library has interpreted Pennsylvania State Act 141 of 1998 (Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Library classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and investment income in excess of amounts designated for current operations and losses up to the extent of accumulated gains. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act.

Endowment net asset composition by type of fund as of December 31, 2017:

<u>Board-Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>\$ 1,762,509</u>	<u>\$ -</u>	<u>\$ 14,442,924</u>	<u>\$ 16,205,433</u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Endowment net asset composition by type of fund as of December 31, 2016:

Board-Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,556,612	\$ -	\$ 12,603,946	\$ 14,160,558

Changes in endowment net assets for the fiscal year ended December 31, 2017:

	Board-Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,556,612	\$ -	\$ 12,603,946	\$ 14,160,558
Investment return:				
Investment income	65,524	192,233	-	257,757
Net gain (loss), realized and unrealized	257,176	150,788	1,687,386	2,095,350
Total investment return	322,700	343,021	1,687,386	2,353,107
Contributions	-	-	151,592	151,592
Other changes:				
Withdrawals	(104,471)	(343,021)	-	(447,492)
Miscellaneous income (expense)	(12,332)	-	-	(12,332)
Endowment Net Assets, End of Year	\$ 1,762,509	\$ -	\$ 14,442,924	\$ 16,205,433

Changes in endowment net assets for the fiscal year ended December 31, 2016:

	Board-Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ 1,489,366	\$ (68,874)	\$ 12,075,091	\$ 13,495,583
Investment return:				
Investment income	63,525	186,885	-	250,410
Net gain (loss), realized and unrealized	115,652	211,521	303,216	630,389
Total investment return	179,177	398,406	303,216	880,799
Contributions	-	-	225,639	225,639
Other changes:				
Withdrawals	(100,447)	(329,532)	-	(429,979)
Miscellaneous income (expense)	(11,484)	-	-	(11,484)
Endowment Net Assets, End of Year	\$ 1,556,612	\$ -	\$ 12,603,946	\$ 14,160,558

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. The Library has adopted policies and guidelines for endowment and restricted funds.

To satisfy its long-term rate-of-return objectives, the Library relies on returns in excess of the rate of inflation. The Library targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Library has a policy of appropriating, for distribution each year, between 2% and 5% of the average market value of the endowment fund balance at the end of the 12 calendar quarters that precede the calendar year being budgeted. The presumption is that, over the course of multiple years, the average investment returns will equal or exceed 5% per annum and that the endowment will meet the objective of providing ongoing financial support to the Library.

### **8. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets at December 31, 2017 and 2016 of \$13,087,331 and \$12,639,642, respectively, are available for use by the Main Library and branches for capital improvements and a variety of other donor-imposed purposes and time periods.

Permanently restricted net assets at December 31, 2017 and 2016 are held in perpetuity. The following composition of the net asset class indicates how the income is to be expended:

	<u>2017</u>	<u>2016</u>
Collection development/programming	\$ 12,294,649	\$ 10,807,269
Any library purpose	<u>3,658,782</u>	<u>3,231,648</u>
	<u>\$ 15,953,431</u>	<u>\$ 14,038,917</u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 9. Net Assets Released From Restrictions

Net assets of \$3,895,124 and \$4,149,831 were released from donor restrictions for the years ended December 31, 2017 and 2016, respectively, by incurring expenses that satisfy the restricted purposes or by occurrence of events specified by the donors.

### 10. Retirement Plan

The Library sponsors two defined contribution retirement plans, which are offered through a third-party financial services organization. The first plan is a 403(b) tax sheltered annuity plan covering all eligible employees. The 403(b) plan is open to all employees and offers an employer contribution to eligible employees. Eligible employees include those who have attained age 21, have completed 12 consecutive months of service and have worked at least 1,000 hours during the plan year. Since 2010, the employer matching contribution is 120% of employee contributions up to 5% of the employee's compensation. Employer contributions of approximately \$699,000 and \$679,000 were made to the plan for the years ended December 31, 2017 and 2016, respectively.

The second plan was a 457(b) deferred compensation plan, which was closed during 2016. There were no employer contributions to this plan for the years ended December 31, 2017 and 2016.

### 11. Leases

The Library leases branch facilities in Downtown and Hazelwood, as well as equipment. The approximate future lease rental obligations for the Downtown and Hazelwood spaces at December 31 are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2018	\$ 323,019
2019	258,240
	<u>\$ 581,259</u>

Total lease expense amounted to approximately \$344,000 and \$338,000 for the years ended December 31, 2017 and 2016, respectively.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 12. Lines of Credit

The Library has a \$5,000,000 revolving line of credit for working capital purposes that is secured by existing and future revenues which expires on October 31, 2018. Amounts outstanding under the line of credit bear interest at LIBOR plus 120 basis points. The Library did not draw from the line during 2017 or 2016 and had no outstanding balance on the line at December 31, 2017 and 2016.

### 13. Debt

#### Bonds Payable

On November 26, 2002, the Library issued \$14,510,000 in fixed-rate bonds at rates ranging from 2.5% to 5.0% pursuant to a loan agreement with the Allegheny County Industrial Development Authority. The bond proceeds, net of bond issuance costs, were deposited into a project fund to be used for construction and renovation projects at various Library branches, as well as the Main Library.

On August 10, 2010, the Library issued \$12,515,000 of Allegheny County Industrial Development Authority Regional Asset District Sales Tax Revenue Bonds, Series of 2010. The amount was sufficient to refund the 2002 Revenue Bonds, pay the expenses of the bond issue, and provide proceeds of approximately \$500,000 for an existing capital project. Debt service for the 2010 bonds remains essentially the same as under the 2002 bonds. The fixed-rate bonds are at rates ranging from 0.8% to 4.375%.

Annual bond principal and interest payments of \$1,000,000 will be made with dedicated funds received from the District. The Allegheny Regional Asset District Cooperation and Support Agreement for the Carnegie Library of Pittsburgh between the Library, the District, the City, and the County of Allegheny provides for direct payment of these bond payments to the bond trustee and provides security for the Library's obligations under the loan agreement through 2028.

The Library has \$142,246 and \$156,591 of unamortized bond issuance costs, for the years ended December 31, 2017 and 2016, respectively, which are shown net of bond payable based on Accounting Standards Update No. 2015-03.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

A summary of future payment requirements on the bonds is as follows:

<u>Years Ending December 31</u>	<u>Interest Rate</u>	<u>Amount</u>
2018	3.500%	\$ 665,000
2019	4.000%	685,000
2020	4.000%	715,000
2021	4.375%	745,000
2022	4.375%	780,000
Thereafter	4.375%	<u>4,435,000</u>
		<u>8,025,000</u>
Less: unamortized bond issuance costs		<u>(142,246)</u>
		<u><u>\$ 7,882,754</u></u>

### Mortgage Note Payable

On December 3, 2003, the Library borrowed \$1,030,000 in tax-exempt mortgage revenue note proceeds at an initial rate of 3.96% pursuant to a secured loan agreement with Dollar Bank through the Wilkins Area Industrial Development Authority. The note is secured by a mortgage on the Library for the Blind and Physically Handicapped facility. The interest rate will be adjusted every five years based on a formula outlined in the agreement. The first interest rate adjustment occurred in December 2008, resulting in a lower adjusted rate of 3.51% for the next five years. The second interest rate adjustment occurred in December 2013, resulting in a lower adjusted rate of 2.54% for the remaining five years of the note payable. The note proceeds, net of issuance costs, were deposited into a project fund and were used for construction and renovation projects at a Library administration location in the West End of Pittsburgh, Pennsylvania, and the Main Library.

Annual note payments of \$85,807, including interest, will be paid from operations through December 1, 2018.

A summary of future principal payment requirements on the note is as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2018	<u><u>\$ 84,620</u></u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 14. Expenses by Natural Classification and Functional Expenses

Expenses by natural classification at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Salaries	\$ 15,984,856	\$ 15,623,532
Library materials	4,779,146	4,510,932
Benefits and payroll taxes	4,386,099	4,170,458
Occupancy	2,787,596	2,545,459
Depreciation	2,614,800	2,602,957
Professional services	1,868,698	1,792,087
Supplies and expenses	1,505,093	1,129,617
Information technology	962,315	985,480
Advertising and promotion	458,369	330,558
Interest and amortization	372,725	394,692
Office expense	185,342	182,012
Conferences, conventions, and meetings	169,306	104,653
Insurance	165,996	176,344
Travel	57,874	45,170
Vehicle expense	29,341	25,565
	<u>\$ 36,327,556</u>	<u>\$ 34,619,516</u>

The cost of providing the various programs has been summarized on a functional basis in the statements of activities. Certain costs have been allocated between program and supporting services.

	<u>2017</u>	<u>2016</u>
Program services	\$ 31,655,307	\$ 30,270,820
Management and general	3,750,551	3,521,160
Fundraising	921,698	827,536
	<u>\$ 36,327,556</u>	<u>\$ 34,619,516</u>



# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

### 15. Related Party Transactions

The Electronic Information Network (d/b/a eiNetwork) maintains and manages the electronic information computer network that holds a shared online catalog and reference materials. The eiNetwork manages the network for all public libraries in Allegheny County, including Carnegie Library of Pittsburgh, and hosts and administers Internet services, the library circulation system, the library staff email system, and other public access computer systems. The eiNetwork also manages the leasing and replacement of personal computers to organizations within the network.

The eiNetwork is a non-profit, member corporation with two members that are both contractual assets of the Allegheny Regional Asset District (RAD). The corporation members are the Allegheny County Library Association (ACLA) and Carnegie Library of Pittsburgh. The Library makes payments to eiNetwork for computers and other equipment, which were \$299,390 and \$464,501 for the years ended December 31, 2017 and 2016, respectively. The eiNetwork also reimbursed the Library for expenses totaling \$323,709 and \$129,071 for the years ended December 31, 2017 and 2016, respectively.