

# **Carnegie Library of Pittsburgh**

## Consolidated Financial Statements

Years Ended December 31, 2018 and 2017  
with Independent Auditor's Report

**MaherDuessel**

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# CARNEGIE LIBRARY OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, 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, 2018 and 2017, 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.

### Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Library adopted ASU-2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* which amends the requirements for financial statements for nonprofit entities. Our opinion is not modified with respect to this matter.

*Maher Duessel*

Pittsburgh, Pennsylvania  
May 13, 2019

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents - operating	\$ 8,719,355	\$ 8,368,319
Cash and cash equivalents - capital	3,035,537	4,558,972
Cash and cash equivalents - endowment	91,134	19,110
Other receivables	1,054,091	1,806,941
Pledge receivables, current	285,985	825,713
Prepaid expenses	857,260	879,701
Other current assets	241,715	272,009
Total current assets	14,285,077	16,730,765
Non-current assets:		
Bellefield Boiler Plant reserve	14,174	14,174
Pledge receivables, non-current, net of discount	583,176	496,317
Total non-current assets	597,350	510,491
Long-term investments:		
Investments - operating reserve	8,108,030	8,102,965
Investments - capital	1,568,449	1,633,747
Investments - endowment	15,395,419	16,205,433
Investments - stock	9,460,880	9,460,880
Value of share in split-interest agreements	1,278,350	1,435,374
Total long-term investments	35,811,128	36,838,399
Other assets		
Insurance proceeds restricted to collection items not capitalized	6,305,233	-
Land, buildings, equipment, and software, net	50,249,563	49,413,087
Total other assets	56,554,796	49,413,087
<b>Total Assets</b>	<b>\$ 107,248,351</b>	<b>\$ 103,492,742</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,308,584	\$ 2,315,926
Accrued salaries, wages, and related payroll taxes	671,485	577,623
Mortgage note payable, current	-	84,620
Deferred revenue	-	479,240
Funds held for others	-	247,366
Bonds payable, current	685,000	665,000
Total current liabilities	3,665,069	4,369,775
Long-term liabilities:		
Bond payable, non-current	6,547,098	7,217,754
Total long-term liabilities	6,547,098	7,217,754
Total Liabilities	10,212,167	11,587,529
Net Assets:		
Without donor restrictions	66,164,955	64,525,393
With donor restrictions	30,871,229	27,379,820
Total Net Assets	97,036,184	91,905,213
<b>Total Liabilities and Net Assets</b>	<b>\$ 107,248,351</b>	<b>\$ 103,492,742</b>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Public Support, Revenues, and Gains</b>			
Allegheny County Regional Asset District	\$ 21,658,145	\$ -	\$ 21,658,145
Allegheny County	121,250	-	121,250
City of Pittsburgh	79,538	-	79,538
City of Pittsburgh contributions	-	-	-
Library Tax	4,564,911	-	4,564,911
Commonwealth of Pennsylvania	5,445,470	958,480	6,403,950
Other government sources	34,211	45,000	79,211
Fundraising - private	913,799	2,393,671	3,307,470
Fines, lost books, and other earned income	663,495	-	663,495
Investment return designated for current operations	358,565	343,698	702,263
	<u>33,839,384</u>	<u>3,740,849</u>	<u>37,580,233</u>
Net assets released from restrictions	3,058,213	(3,058,213)	-
Total operating public support, revenues, and gains	<u>36,897,597</u>	<u>682,636</u>	<u>37,580,233</u>
<b>Operating Expenses:</b>			
Program Services	32,313,962	-	32,313,962
Management and General	4,208,179	-	4,208,179
Fundraising	939,006	-	939,006
Total operating expenses	<u>37,461,147</u>	<u>-</u>	<u>37,461,147</u>
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	<u>(563,550)</u>	<u>682,636</u>	<u>119,086</u>
<b>Nonoperating Support, Revenues, and Gains:</b>			
Change in fair value of split-interest agreements	-	(157,024)	(157,024)
Investment return, net	(604,500)	(544,297)	(1,148,797)
Net assets released from restrictions for capital expenses	2,807,612	(2,807,612)	-
Total nonoperating support, revenues, and gains	<u>2,203,112</u>	<u>(3,508,933)</u>	<u>(1,305,821)</u>
<b>Change in Net Assets Related to Collection Items Not Capitalized:</b>			
Proceeds from insurance recovery	-	6,263,890	6,263,890
Investment return on insurance proceeds	-	53,816	53,816
Total change in net assets related to collection items not capitalized	<u>-</u>	<u>6,317,706</u>	<u>6,317,706</u>
<b>Change in Net Assets</b>	<u>1,639,562</u>	<u>3,491,409</u>	<u>5,130,971</u>
<b>Net Assets:</b>			
Beginning of year, as restated	64,525,393	27,379,820	91,905,213
End of year	<u>\$ 66,164,955</u>	<u>\$ 30,871,229</u>	<u>\$ 97,036,184</u>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	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	3,358,307	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
	33,459,537	3,695,047	37,154,584
Net assets released from restrictions	2,918,412	(2,918,412)	-
Total operating public support, revenues, and gains	36,377,949	776,635	37,154,584
<b>Operating Expenses:</b>			
Program Services	31,294,643	-	31,294,643
Management and General	3,981,011	-	3,981,011
Fundraising	963,579	-	963,579
Total operating expenses	36,239,233	-	36,239,233
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	138,716	776,635	915,351
<b>Nonoperating Support, Revenues, and Gains:</b>			
Change in fair value of split-interest agreements	-	144,718	144,718
Investment return, net	1,202,458	2,381,037	3,583,495
Net assets released from restrictions for capital expenses	749,187	(749,187)	-
Total nonoperating support, revenues, and gains	1,951,645	1,776,568	3,728,213
<b>Change in Net Assets Related to Collection Items Not Capitalized:</b>			
Proceeds from insurance recovery	-	-	-
Investment return on insurance proceeds	-	-	-
Total change in net assets related to collection items not capitalized	-	-	-
<b>Change in Net Assets</b>	2,090,361	2,553,203	4,643,564
<b>Net Assets:</b>			
Beginning of year, as restated	62,435,032	24,826,617	87,261,649
End of year, as restated	\$ 64,525,393	\$ 27,379,820	\$ 91,905,213

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 13,842,678	\$ 1,844,637	\$ 624,718	\$ 16,312,033
Library materials	4,658,072	2,029	87	4,660,188
Fringe benefits	3,894,053	559,651	132,999	4,586,703
Occupancy	3,390,644	8,101	-	3,398,745
Depreciation	2,675,898	-	-	2,675,898
Professional services	1,187,961	704,758	54,226	1,946,945
Supplies and expenses	1,622,392	156,236	80,953	1,859,581
Information technology	476,766	402,558	-	879,324
Advertising and promotion	54,340	286,967	40,638	381,945
Interest and amortization	347,839	-	-	347,839
Insurance	9,377	164,583	-	173,960
Conferences, conventions, and meetings	63,198	74,022	3,657	140,877
Travel	39,937	4,485	1,728	46,150
Vehicle expense	50,807	152	-	50,959
	<u>\$ 32,313,962</u>	<u>\$ 4,208,179</u>	<u>\$ 939,006</u>	<u>\$ 37,461,147</u>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 13,543,204	\$ 1,841,202	\$ 600,450	\$ 15,984,856
Library materials	4,775,831	3,233	82	4,779,146
Fringe benefits	3,682,840	573,719	129,540	4,386,099
Occupancy	3,299,985	6,454	-	3,306,439
Depreciation	2,614,800	-	-	2,614,800
Professional services	938,516	399,482	59,290	1,397,288
Supplies and expenses	1,377,841	162,099	123,751	1,663,691
Information technology	414,936	425,944	-	840,880
Advertising and promotion	92,267	320,913	45,189	458,369
Interest and amortization	372,725	-	-	372,725
Insurance	6,548	159,448	-	165,996
Conferences, conventions, and meetings	83,554	83,203	2,549	169,306
Travel	50,333	4,813	2,728	57,874
Vehicle expense	41,263	501	-	41,764
	<u>\$ 31,294,643</u>	<u>\$ 3,981,011</u>	<u>\$ 963,579</u>	<u>\$ 36,239,233</u>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 5,130,971	\$ 4,643,564
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	2,690,242	2,629,145
Investment return, net	1,702,744	(3,144,920)
Contributions restricted for long-term purposes	(1,259,784)	(1,169,933)
Insurance proceeds restricted to collection items not capitalized	(6,317,706)	-
Changes in assets and liabilities:		
Receivables	1,205,719	(86,418)
Prepaid expenses	22,441	200,364
Other current assets	30,294	37,702
Accounts payable and accrued expenses	(7,342)	(64,780)
Accrued salaries, wages, and related payroll taxes	93,862	5,765
Deferred revenue	(479,240)	-
Funds held for others	(247,366)	(51,467)
Net cash provided by (used in) operating activities	2,564,835	2,999,022
<b>Cash Flows From Investing Activities:</b>		
Purchase of land, building, equipment, and software	(3,854,033)	(2,525,666)
Loss on disposal of land, buildings and equipment	341,659	252,900
Proceeds from sale of investments	427,184	408,095
Purchase of investments	(7,564,914)	(1,152,076)
(Increase) decrease in split interest agreements	157,024	(144,718)
Net cash provided by (used in) investing activities	(10,493,080)	(3,161,465)
<b>Cash Flows From Financing Activities:</b>		
Payment on bonds	(665,000)	(640,000)
Payment on mortgage note	(84,620)	(82,472)
Receipts of contributions restricted for long-term purposes	1,259,784	1,169,933
Insurance proceeds restricted to collection items not capitalized	6,317,706	-
Net cash provided by (used in) financing activities	6,827,870	447,461
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,100,375)</b>	<b>285,018</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	12,946,401	12,661,383
End of year	\$ 11,846,026	\$ 12,946,401
<b>Supplemental Data:</b>		
Interest paid	\$ 333,495	\$ 358,380

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 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, 2018 AND 2017

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the Library. Tax revenue recognized for 2018 and 2017 amounted to approximately \$4.56 million and \$4.42 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. With the backing of public and private supporters and the entire community, the Library surpassed its initial \$20 million goal in 2018, raising \$22.8 million. The Library is planning a second phase of *Realize* in order to fund strategic initiatives and innovative delivery models that support and sustain library services in the key areas where the Library can play a greater role in shaping Pittsburgh's future.

## 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 \$10,161,207 and \$10,468,738, and total revenue of \$1,042,469 and \$989,998 as of December 31, 2018 and 2017, respectively. All interrelated transactions and accounts are eliminated.

### Basis of Presentation

The Library reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use

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# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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that are placed by its donors: net assets with donor restrictions and net assets without donor restrictions.

Net assets without donor restrictions 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 support without donor restrictions. Restricted contributions that are received and spent within the reporting year are treated as assets without restriction. Donor-restricted resources intended for capital projects are released and reclassified as support without donor restrictions when the related assets are capitalized. All expenses are recorded as a reduction to net assets without donor restrictions. Certain net assets without restrictions have been designated for funding of future capital maintenance and Library programs. A substantial portion of the net assets without restrictions are not readily available for general organization purposes. Included in the net asset figure without restrictions is the net asset that represents buildings and equipment, net of related debt.

Net assets with restrictions 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.

Some net assets with restrictions 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 (GAAP) 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.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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### 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 \$96,391 and \$88,323 for the years ended December 31, 2018 and 2017, respectively. Investment returns not designated for operations are included in the statements of activities as non-operating gains (losses). 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 net assets with donor restrictions based upon the nature of the trust. The income from the trusts is recorded upon receipt as either net assets with donor restrictions or without donor restrictions based on the designation by the donor. Income from such trust funds was \$68,507 and \$62,026 as of December 31, 2018 and 2017, respectively.

### Cash and Cash Equivalents

The Library generally 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.

### Liquidity and Availability of Financial Assets

The following reflects the Library's financial assets as of the statement of financial position date (December 31, 2018), reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved draw from the endowment for the following year, as well as amounts that are available for general expenditure in the following year. The Library is partially supported by restricted contributions, and because a donor's restriction requires resources to be used in a particular manner or in a future period, the

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Library must maintain sufficient resources to meet those responsibilities to its donors. Therefore, financial assets may not be available for general expenditure within one year.

The Library invests cash in excess of daily requirements in various short-term investments, including certificate of deposits and short-term Treasury instruments. To help manage unanticipated liquidity needs, the Library has a committed line of credit (Note 12) in the amount of \$5 million which it could draw upon in the event of an unanticipated liquidity need. Additionally, the Library has a quasi-endowment and operating reserve. Although the Library does not intend to spend from its quasi-endowment other than draw amounts for general expenditure based on Board of Trustees (Board) approval, amounts could be made available if necessary.

	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 8,719,355
Accounts and interest receivable	592,732
Contribution receivable	27,134
Appropriation of investments for current use	115,500
Less: Donor restrictions for specific purposes or cash restricted for specific uses	(4,347,197)
Less: Board-designated operating reserves	<u>(328,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 4,779,524</u>

### 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 realizable value using the first-in, first-out method (FIFO).

### Buildings and Equipment

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

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# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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\$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 and equipment 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 net assets without donor restrictions in the year in which the items are acquired (of which approximately \$4.7 million and \$4.8 million was acquired in 2018 and 2017, 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. Special collection items are not recognized as an asset on the statements of financial position. Purchases of new special collection items (none in 2018 and 2017) would be recorded as a decrease in net assets without donor restrictions in the year the items were acquired, or as a decrease to net assets with donor restrictions if the assets used to purchase collections were restricted by donors.

All special collections are subject to appropriate stewardship measures (catalogued, preserved, and cared for as appropriate, finding aids created, and activities verifying their existence and assessing their condition). Proceeds from the sale of collections or insurance recoveries (of which there was an insurance recovery of approximately \$6.3 million in 2018 and none in 2017) would be reflected as revenue resulting in an increase in net assets with donor restrictions.

During 2017, the theft of 312 of the special collection items was discovered. An insurance claim was filed immediately upon discovery and recovery efforts were also launched and they continue to be underway. A complaint was filed with the Allegheny County District Attorney's Office who has been actively investigating the matter, resulting in charges filed.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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### Expense Allocation

The costs of providing the activities of the Library are presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited. Allocations among the classifications are performed using a variety of techniques, such as management's identification of indirect costs and budgeted time and effort.

### Funds Held for Others

Funds held for others represent restricted receipts of a consortium of which the Library was the agent. The consortium was dissolved effective December 31, 2018 and funds appropriately disbursed to member libraries.

### 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 2018, over 1,190 volunteers contributed 38,273 hours of service. In 2017, over 1,300 volunteers contributed 37,500 hours of service.

### Operating Activities

For purposes of the statements of activities, the Library distinguishes between operating revenue, support, gains, and expenses and nonoperating revenue, support, gains, and expenses. 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.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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- 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.
- 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 requirements of the following Financial Accounting Standards Board (FASB) Statement were adopted for the financial statements:

For the year ended December 31, 2018, the Library adopted ASU-2016-14, *“Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,”* which 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.

As a result of adopting ASU-2016-14, the Library’s net assets have been restated as of January 1, 2017. \$1,851,942 relating to the Library’s capital leases was added to net assets without donor restrictions to reflect the placed-in-service approach for long-lived assets. The table below shows the transfers between net asset classifications from three net asset classes to two as a result of the adoption.

# CARNEGIE LIBRARY OF PITTSBURGH

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Without Donor Restrictions	With Donor Restrictions
Beginning net assets, before adoption	\$ 60,583,090	\$ 12,639,642	\$ 14,038,917	\$ -	\$ -
Transfers between classes as a result of adoption	(60,583,090)	(12,639,642)	(14,038,917)	62,435,032	24,826,617
Beginning net asset, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,435,032</u>	<u>\$ 24,826,617</u>

The Library adopted ASU 2014-09, *“Revenue from Contracts with Customers (Topic 606),”* which provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. As a result of this ASU, the Library’s District Aid is no longer considered an exchange transaction, and as such, \$479,240 that was previously deferred revenue is now recognized in the statement of activities as support with donor restrictions.

The Library adopted ASU 2018-08, *“Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),”* which provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. As a result of this ASU, the Library’s District Aid is no longer considered an exchange transaction, and as such, \$479,240 that was previously deferred revenue is now recognized in the statement of activities as support with donor restrictions.

The Library adopted ASU 2018-13, *“Fair Value Measurement (Topic 958): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement,”* which modifies certain disclosures regarding fair value measurement. The implementation of this standard was applied retrospectively to the comparative amounts presented for the year ended December 31, 2017.

### Pending Pronouncements

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.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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ASU 2016-02, *“Leases (Topic 842),”* is effective for the financial statements for the year ending December 31, 2019. This statement 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 statement 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.

ASU 2016-13, *“Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,”* is effective for the financial statements for the year beginning after December 15, 2021 (as amended by ASU 2018-19). This statement requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

ASU 2019-03, *“Not-For-Profit Entities (Topic 820): Updating the Definition of Collections,”* is effective for the financial statements for the year beginning after December 15, 2019. This statement updates the definition for the use of proceeds from collection activity to include the direct care of existing collections.

### 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

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### 3. Pledges Receivable

Pledges are recorded in the accompanying financial statements at net present value using discount factors ranging from 2.48% to 2.55% and are expected to be received as follows:

<u>Years ending December 31</u>	<u>Amount</u>
2019	\$ 285,985
2020	340,200
2021	123,000
2022	121,500
2023	33,500
Thereafter	<u>6,000</u>
	910,185
Less - amount representing discount	<u>(41,024)</u>
	<u><u>\$ 869,161</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, 2018 and 2017 are as follows: Level 1 Pledges receivable – current \$285,985 and \$825,713, respectively, and Level 3 Pledges receivable – noncurrent \$583,176 and \$496,317, 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.

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# 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 six 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:

	2018	2017
Balance as of January 1	\$ 496,317	\$ 807,668
Additions of long-term pledges	588,563	408,208
Increases (decreases) due to change in scheduled payments	(213,719)	108,554
Pledges receivable, which became due within one year	(285,985)	(825,713)
Pledges written off as uncollectible	(2,000)	(2,400)
Balance as of December 31	<u>\$ 583,176</u>	<u>\$ 496,317</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 2018 and 2017: 2.48%-2.55% and 1.89%-2.33%, respectively. The sensitivity of the changes to unobservable inputs for the noncurrent pledges receivable is based upon future collectability.

At the beginning of 2018, the Library held \$125,000 in contingent pledges. Contingent pledges are recognized in the financial statements only when the contingency is met. The Library met these contingencies and recognized the pledges as revenue on the statement of activities during 2018. The Library did not receive any new contingent pledges in 2018.

At the beginning of 2017, the Library held \$125,000 in contingent pledges, all of which continued to be outstanding at December 31, 2017. The Library did not receive any new contingent pledges in 2017.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 4. Land, Buildings and Equipment

Land, buildings, and equipment at December 31, 2018 and 2017 consist of the following:

	2018	2017
Capital assets:		
Not being depreciated:		
Land	\$ 891,298	\$ 891,298
Construction in progress	77,060	1,821,723
Total not being depreciated	<u>968,358</u>	<u>2,713,021</u>
Being depreciated:		
Building and building improvements	73,134,640	68,262,648
Equipment	6,311,067	6,751,404
Vehicles	314,601	298,136
Total being depreciated	<u>79,760,308</u>	<u>75,312,188</u>
Less accumulated depreciation	<u>(30,479,103)</u>	<u>(28,612,122)</u>
Net being depreciated	<u>49,281,205</u>	<u>46,700,066</u>
Total capital assets, net of depreciation	<u>\$ 50,249,563</u>	<u>\$ 49,413,087</u>

Beginning in 2002 and continuing beyond December 31, 2018, 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, 2018 and 2017, approximately \$370,739 and \$2,675,318, respectively, remain committed under contracts related to these activities. No net interest costs were capitalized for 2018 or 2017.

As of December 31, 2018 and 2017, the Library held lease agreements with the City of Pittsburgh (City) for six locations. 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 to the extent the fair

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, 2018 and 2017, with the fair value of \$1,740,000, recorded as buildings, offset by an original contribution.

### 5. Investments

Long term Investments consist of two multi-strategy funds, an operating reserve fund, private company stock, and split interest agreements at December 31, 2018 and 2017.

The total returns on long term investments, cash equivalents, and the insurance proceeds restricted to collection items not capitalized for the year ended December 31, 2018 are summarized as follows:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest on cash and cash equivalents	\$ 191,057	\$ 65,887	\$ 256,944
Interest and dividend income	367,592	781,881	1,149,473
Investment fees	(58,508)	(37,883)	(96,391)
Net realized gain (loss)	50,634	254,390	305,024
Unrealized gain (loss)	(796,710)	(1,211,058)	(2,007,768)
Return on investments, net	(245,935)	(146,783)	(392,718)
Investment return designated for current operations	(358,565)	(343,698)	(702,263)
Investment return related to proceeds from special collection insurance recovery	-	(53,816)	(53,816)
Investment gain (loss) recognized	\$ (604,500)	\$ (544,297)	\$ (1,148,797)

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest on cash and cash equivalents	\$ 111,310	\$ 4,397	\$ 115,707
Interest and dividend income	311,209	688,681	999,890
Investment fees	(51,798)	(36,525)	(88,323)
Net realized gain (loss)	6,771	50,934	57,705
Unrealized gain (loss)	1,091,925	1,995,290	3,087,215
Return on investments, net	1,469,417	2,702,777	4,172,194
Investment return designated for current operations	(266,959)	(321,740)	(588,699)
Investment return related to proceeds from special collection insurance recovery	-	-	-
Investment gain (loss) recognized	<u>\$ 1,202,458</u>	<u>\$ 2,381,037</u>	<u>\$ 3,583,495</u>

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, 2018 and two multi-strategy funds, an operating reserve account, private company stock, and split-interest agreements at December 31, 2017. The total fair value of the assets as of December 31, 2018 and 2017, respectively, is \$35,811,128 and \$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, 2018:

Description	12/31/18	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	\$ 295,171	\$ 295,171	\$ -	\$ -
Fixed Income	2,512,315	2,512,315	-	-
Equities	4,414,186	4,414,186	-	-
Equity Funds	<u>886,358</u>	<u>886,358</u>	-	-
Total Operating Reserve	8,108,030	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split-Interest Agreements	<u>1,278,350</u>	-	-	<u>1,278,350</u>
Total assets in fair value hierarchy	<u>18,847,260</u>	<u>\$ 8,108,030</u>	<u>\$ -</u>	<u>\$ 10,739,230</u>
Investments measured at net asset value				
Multi-Strategy Funds	<u>16,963,868</u>			
Investments at fair value	<u>\$ 35,811,128</u>			

# 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, 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	<u>938,308</u>	<u>938,308</u>	-	-
Total Operating Reserve	8,102,965	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split-Interest Agreements	<u>1,435,374</u>	-	-	<u>1,435,374</u>
Total assets in fair value hierarchy	<u>18,999,219</u>	<u>\$ 8,102,965</u>	<u>\$ -</u>	<u>\$ 10,896,254</u>
Investments measured at net asset value				
Multi-Strategy Funds	<u>17,839,180</u>			
Investments at fair value	<u>\$ 36,838,399</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, 2018 and 2017. 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, 2018.

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 to provide some downside protection and to potentially enhance long-term total return.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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>2018</u>	<u>2017</u>
Balance as of January 1	\$ 10,896,254	\$ 10,751,536
Contributions	-	-
Change in fair value - stock	-	-
Change in fair value - split interest agreements	<u>(157,024)</u>	<u>144,718</u>
Balance as of December 31	<u>\$ 10,739,230</u>	<u>\$ 10,896,254</u>

# 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, 2018 and 2017:

Description	Fair Value as of 12/31/18	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	53,555	Market Value of Underlying Investments	Yield Rates, Cash Flow	Trust Value
Split-Interest Agreement	122,966	Market Value of Underlying Investments	Percentage Share	25%
Split-Interest Agreement	<u>1,101,829</u>	Market Value of Underlying Investments	Percentage Share	20%
	<u>\$ 10,739,230</u>			

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>			

The fair value measurement could be different depending upon the changes to unobservable inputs for the private company stock which is based upon the entire performance of the company, and for the split-interest agreement, which is based upon the market performance of the underlying investments.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. Endowment Disclosures

The Library's endowment was established for a variety of purposes, including for the purchase of library materials, programming, or operating purposes without donor restrictions. The endowment includes both donor-restricted endowment funds and funds without donor restrictions 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 net assets with donor restrictions held in perpetuity (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 net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions held for a certain time/purpose 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, 2018:

Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
<u>\$ 1,642,282</u>	<u>\$ 13,753,137</u>	<u>\$ 15,395,419</u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,762,509	\$ 14,442,924	\$ 16,205,433

Changes in endowment net assets for the fiscal year ended December 31, 2018:

	Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 1,762,508	\$ 14,442,925	\$ 16,205,433
Investment return, net:			
Investment income	82,390	240,728	323,118
Fees	(12,968)	(37,882)	(50,850)
Net gain (loss), realized and unrealized	(80,011)	(840,344)	(920,355)
Total investment return, net	(10,589)	(637,498)	(648,087)
Contributions	-	268,586	268,586
Other changes:			
Withdrawals	(109,755)	(320,876)	(430,631)
Miscellaneous income (expense)	118	-	118
Endowment Net Assets, End of Year	<u>\$ 1,642,282</u>	<u>\$ 13,753,137</u>	<u>\$ 15,395,419</u>

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

	Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 1,556,612	\$ 12,603,946	\$ 14,160,558
Investment return, net:			
Investment income	65,524	192,233	257,757
Fees	(12,449)	(36,526)	(48,975)
Net gain (loss), realized and unrealized	257,176	1,838,174	2,095,350
Total investment return, net	310,251	1,993,881	2,304,132
Contributions	-	151,592	151,592
Other changes:			
Withdrawals	(104,471)	(306,495)	(410,966)
Miscellaneous income (expense)	117	-	117
Endowment Net Assets, End of Year	<u>\$ 1,762,509</u>	<u>\$ 14,442,924</u>	<u>\$ 16,205,433</u>

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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From time to time, net assets with donor restrictions to be held in perpetuity may have fair value less than the amount required to be maintained by donors or by law (underwater endowments). At December 31, 2018, a fund with an original gift value of \$127,085, fair value of \$121,313, and deficiency of \$5,772 was reported in net assets with donor restrictions.

### 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. Net Assets**

### With Donor Restrictions

Net assets with purpose or time restrictions at December 31, 2018 and 2017 of \$15,234,227 and \$11,426,390, respectively, are available for use by the Main Library and branches for capital improvements, the purchase and care of special collections (approximately \$6.3 million at December 31, 2018) and a variety of other donor-imposed purposes and time periods.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Net assets of \$15,637,002 and \$15,953,431 were held in perpetuity at December 31, 2018 and 2017, respectively. The following composition of the net asset class indicates how the income is to be expended:

	<u>2018</u>	<u>2017</u>
Collection development/programming	\$ 11,710,541	\$ 12,294,649
Any library purpose	<u>3,926,461</u>	<u>3,658,782</u>
	<u>\$ 15,637,002</u>	<u>\$ 15,953,431</u>

### Without Donor Restriction

Net assets without donor restrictions which are board-designated include funds in the endowment and operating reserve.

## 9. Net Assets Released From Restrictions

Net assets of \$5,865,825 and \$3,667,598 were released from donor restrictions for the years ended December 31, 2018 and 2017, respectively, by incurring expenses that satisfy the restricted purposes or by occurrence of events specified by the donors.

## 10. Other Assets

Other assets of \$6,305,233 on the statement of activities consist of insurance proceeds related to the Library's special collections. These funds are invested in an external investment pool. The Library's investment in the external investment pool is the same as the value of the pool shares and is reported at amortized cost, which approximates market. All investments in an external investment pool that is not SEC registered are subject to oversight by the Commonwealth. The Library can withdraw funds without limitations or fees.

## 11. Retirement Plan

The Library sponsors a defined contribution retirement plans, which is offered through a third-party financial services organization. The plan is a 403(b) tax sheltered annuity plan

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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 \$755,000 and \$699,000 were made to the plan for the years ended December 31, 2018 and 2017, respectively.

### 12. 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>
2019	\$ 289,889
2020	54,903
2021	56,348
2022	58,028
2023	59,750
Thereafter	<u>25,200</u>
	<u>\$ 544,118</u>

Total lease expense amounted to approximately \$343,000 and \$344,000 for the years ended December 31, 2018 and 2017, respectively.

### 13. 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, 2019. Amounts outstanding under the line of credit bear interest at LIBOR plus 120 basis points. The Library did not draw from the line during 2018 or 2017 and had no outstanding balance on the line at December 31, 2018 and 2017.

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### 14. 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 \$127,902 and \$142,246 of unamortized bond issuance costs, for the years ended December 31, 2018 and 2017, respectively. The bonds payable are shown net of unamortized bond issuance cost.

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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>
2019	4.000%	\$ 685,000
2020	4.000%	715,000
2021	4.375%	745,000
2022	4.375%	780,000
2023	4.375%	810,000
Thereafter	4.375%	<u>3,625,000</u>
		<u>7,360,000</u>
Less: unamortized bond issuance costs		<u>(127,902)</u>
		<u>\$ 7,232,098</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 was secured by a mortgage on the Library for the Blind and Physically Handicapped facility. 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.

The interest rate was 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 final mortgage payment was paid December 2018, and mortgage satisfaction was recorded on December 6, 2018.

## **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

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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 \$302,550 and \$299,390 for the years ended December 31, 2018 and 2017, respectively. The eiNetwork also reimbursed the Library for expenses totaling \$167,303 and \$323,709 for the years ended December 31, 2018 and 2017, respectively.