

# **Carnegie Library of Pittsburgh**

## Consolidated Financial Statements

Years Ended December 31, 2019 and 2018  
with Independent Auditor's Report

**MaherDuessel**

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# CARNEGIE LIBRARY OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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 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, 2019 and 2018, 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 2016-02, "*Leases (Topic 842)*," which requires 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. Our opinion is not modified with respect to this matter.

*Maher Duessel*

Pittsburgh, Pennsylvania  
May 11, 2020

**CARNEGIE LIBRARY OF PITTSBURGH**  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents - operating	\$ 8,681,629	\$ 8,719,355
Cash and cash equivalents - capital	3,419,222	3,035,537
Cash and cash equivalents - endowment	8,563	91,134
Other receivables	1,284,660	1,054,091
Pledge receivables, current	971,757	285,985
Prepaid expenses	862,412	857,260
Other current assets	242,538	248,682
Total current assets	15,470,781	14,292,044
<b>Non-current assets:</b>		
Bellefield Boiler Plant reserve	14,174	14,174
Pledge receivables, non-current, net of discount	465,886	583,176
Right of use asset - financing lease	213,869	481,523
Right of use asset - operating lease	285,411	310,679
Total non-current assets	979,340	1,389,552
<b>Long-term investments:</b>		
Investments - operating reserve	10,139,867	8,108,030
Investments - capital	1,942,736	1,568,449
Investments - endowment	18,782,418	15,395,419
Investments - stock	10,290,956	9,460,880
Value of share in split-interest agreements	1,583,427	1,278,350
Total long-term investments	42,739,404	35,811,128
<b>Other assets:</b>		
Insurance proceeds restricted to collection items not capitalized	6,450,721	6,305,233
Land, buildings, and equipment, net	50,413,186	50,249,563
Total other assets	56,863,907	56,554,796
<b>Total Assets</b>	<b>\$ 116,053,432</b>	<b>\$ 108,047,520</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,921,667	\$ 2,308,584
Accrued salaries, wages, and related payroll taxes	761,433	671,485
Bonds payable, current	715,000	685,000
Current portion of lease liability - financing lease	149,090	269,520
Current portion of lease liability - operating lease	94,285	265,719
Total current liabilities	3,641,475	4,200,308
<b>Long-term liabilities:</b>		
Bond payable, non-current	5,846,443	6,547,098
Non current portion of lease liability - financing lease	69,880	218,969
Non current portion of lease liability - operating lease	191,126	44,961
Total long-term liabilities	6,107,449	6,811,028
Total Liabilities	9,748,924	11,011,336
<b>Net Assets:</b>		
Without donor restrictions	70,291,739	66,164,955
With donor restrictions	36,012,769	30,871,229
Total Net Assets	106,304,508	97,036,184
<b>Total Liabilities and Net Assets</b>	<b>\$ 116,053,432</b>	<b>\$ 108,047,520</b>

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Public Support, Revenues, and Gains</b>			
Allegheny County Regional Asset District	\$ 22,307,889	\$ 91,514	\$ 22,399,403
Allegheny County	173,250	-	173,250
City of Pittsburgh	68,329	-	68,329
Library Tax	4,589,097	-	4,589,097
Commonwealth of Pennsylvania	4,959,622	1,046,462	6,006,084
Other government sources	55,395	1,000	56,395
Fundraising - private	734,522	4,176,296	4,910,818
Fines, lost books, and other earned income	620,143	-	620,143
Investment return designated for current operations	407,179	356,722	763,901
	33,915,426	5,671,994	39,587,420
Net assets released from restrictions	3,299,197	(3,299,197)	-
Total operating public support, revenues, and gains	37,214,623	2,372,797	39,587,420
<b>Operating Expenses:</b>			
Program services	31,503,415	-	31,503,415
Management and general	4,416,517	-	4,416,517
Fundraising	1,002,392	-	1,002,392
Total operating expenses	36,922,324	-	36,922,324
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	292,299	2,372,797	2,665,096
<b>Nonoperating Support, Revenues, and Gains:</b>			
Change in fair value of split-interest agreements	-	178,687	178,687
Investment return, net	2,839,128	3,442,612	6,281,740
Net assets released from restrictions for capital expenses	995,357	(995,357)	-
Total nonoperating support, revenues, and gains	3,834,485	2,625,942	6,460,427
<b>Change in Net Assets Related to Collection Items Not Capitalized:</b>			
Proceeds from insurance recovery	-	-	-
Investment return on insurance proceeds	-	142,801	142,801
Total change in net assets related to collection items not capitalized	-	142,801	142,801
<b>Change in Net Assets</b>	4,126,784	5,141,540	9,268,324
<b>Net Assets:</b>			
Beginning of year	66,164,955	30,871,229	97,036,184
End of year	\$ 70,291,739	\$ 36,012,769	\$ 106,304,508

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
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
	33,839,384	3,740,849	37,580,233
Net assets released from restrictions	3,058,213	(3,058,213)	-
Total operating public support, revenues, and gains	36,897,597	682,636	37,580,233
<b>Operating Expenses:</b>			
Program services	32,309,699	-	32,309,699
Management and general	4,212,442	-	4,212,442
Fundraising	939,006	-	939,006
Total operating expenses	37,461,147	-	37,461,147
Excess (deficiency) of operating public support, revenues, and gains over operating expenses	(563,550)	682,636	119,086
<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	2,203,112	(3,508,933)	(1,305,821)
<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	-	6,317,706	6,317,706
<b>Change in Net Assets</b>	1,639,562	3,491,409	5,130,971
<b>Net Assets:</b>			
Beginning of year	64,525,393	27,379,820	91,905,213
End of year	\$ 66,164,955	\$ 30,871,229	\$ 97,036,184

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 14,168,758	\$ 1,821,454	\$ 652,264	\$ 16,642,476
Library materials	4,664,289	3,168	87	4,667,544
Fringe benefits	3,879,893	592,641	137,537	4,610,071
Occupancy	2,878,347	40,182	790	2,919,319
Depreciation and amortization	2,781,034	267,654	-	3,048,688
Professional services	1,014,795	799,862	86,160	1,900,817
Supplies and expenses	1,138,694	182,280	73,215	1,394,189
Information technology	407,949	167,137	98	575,184
Advertising and promotion	78,571	254,422	44,880	377,873
Interest	307,667	10,336	-	318,003
Insurance	11,979	173,217	-	185,196
Conferences, conventions, and meetings	88,463	97,501	4,558	190,522
Travel	29,427	5,751	2,803	37,981
Vehicle expense	53,549	912	-	54,461
	<b>\$ 31,503,415</b>	<b>\$ 4,416,517</b>	<b>\$ 1,002,392</b>	<b>\$ 36,922,324</b>

See accompanying notes to consolidated financial statements.



# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED 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 and amortization	2,690,242	247,643	-	2,937,885
Professional services	1,187,961	704,758	54,226	1,946,945
Supplies and expenses	1,618,129	156,236	80,953	1,855,318
Information technology	476,766	145,020	-	621,786
Advertising and promotion	54,340	286,967	40,638	381,945
Interest	333,495	14,158	-	347,653
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
	\$ 32,309,699	\$ 4,212,442	\$ 939,006	\$ 37,461,147

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 9,268,324	\$ 5,130,971
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	3,048,688	2,937,885
Investment return, net	(5,703,058)	1,702,744
Donation of split interest agreement	(126,390)	-
Contributions restricted for long-term purposes	(1,648,799)	(1,259,784)
Insurance proceeds restricted to collection items not capitalized	(142,801)	(6,317,706)
Changes in assets and liabilities:		
Receivables	(799,051)	1,205,719
Prepaid expenses	(5,152)	22,441
Other current assets	6,144	23,327
Accounts payable and accrued expenses	(386,917)	(7,342)
Accrued salaries, wages, and related payroll taxes	89,948	93,862
Deferred revenue	-	(479,240)
Funds held for others	-	(247,366)
Net cash provided by (used in) operating activities	3,600,936	2,805,511
<b>Cash Flows From Investing Activities:</b>		
Purchase of land, building, equipment, and software	(2,942,840)	(3,854,033)
Loss on disposal of land, buildings and equipment	12,527	341,659
Proceeds from sale of investments	457,064	427,184
Purchase of investments	(1,522,692)	(7,564,914)
(Increase) decrease in split interest agreements	(178,687)	157,024
Net cash provided by (used in) investing activities	(4,174,628)	(10,493,080)
<b>Cash Flows From Financing Activities:</b>		
Payment on bonds	(685,000)	(665,000)
Payment on mortgage note	-	(84,620)
Payments on finance lease liabilities	(269,520)	(240,676)
Receipts of contributions restricted for long-term purposes	1,648,799	1,259,784
Insurance proceeds restricted to collection items not capitalized	142,801	6,317,706
Net cash provided by (used in) financing activities	837,080	6,587,194
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	263,388	(1,100,375)
<b>Cash and Cash Equivalents (including operating, capital and endowment):</b>		
Beginning of year	11,846,026	12,946,401
End of year	\$ 12,109,414	\$ 11,846,026
<b>Supplemental Data:</b>		
Interest paid	\$ 307,667	\$ 333,495
Interest paid - financing leases	10,336	14,158
Total interest paid	\$ 318,003	\$ 347,653
<b>Schedule of Noncash Investing and Financing Activities:</b>		
Donation of split interest agreement	\$ 126,390	\$ -
Addition of right to use asset for operating leases	\$ 268,166	\$ -
Addition of right to use asset for financing leases	\$ -	\$ 120,064

See accompanying notes to consolidated financial statements.

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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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 2024. 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, 2019 AND 2018

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the Library. Tax revenue recognized for 2019 and 2018 amounted to approximately \$4.59 million and \$4.56 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: Our Power, Our Potential* 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. In July 2019, the Library's Board of Trustees (Board) approved a motion to continue its *Realize: Our Power, Our Potential* major gifts campaign with a goal to raise a cumulative total of \$50 million by 2023. Since 2015, the Library has raised \$29.9 million.

## 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 \$10,813,296 and \$10,161,207, and total revenue of \$1,902,089 and \$1,042,469 as of December 31, 2019 and 2018, 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, 2019 AND 2018

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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 net assets without restrictions. 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, 2019 AND 2018

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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 \$101,546 and \$96,391 for the years ended December 31, 2019 and 2018, 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 \$70,480 and \$68,507 as of December 31, 2019 and 2018, 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, 2019 and 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

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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period, the 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 13) 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 the Board approval, amounts could be made available if necessary.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$ 8,681,629	\$ 8,719,355
Accounts and interest receivable	593,382	592,732
Contribution receivable	6,134	27,134
Appropriation of investments for current use	129,600	115,500
Less: Donor restrictions for specific purposes or cash restricted for specific uses	(4,442,239)	(4,347,197)
Less: Board-designated operating reserves	<u>(336,000)</u>	<u>(328,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 4,632,506</u>	<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 fundraising - private.

### Inventories

Inventories, primarily supplies, are stated at the lower of cost or net realizable value using the first-in, first-out method (FIFO). Inventories are included in other current assets on the Consolidated Statements of Financial Position

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# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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### 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 \$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 net assets without donor restrictions in the year in which the items are acquired (of which approximately \$4.7 million was acquired in both 2019 and 2018, 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 2019 and 2018) 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 none in 2019 and approximately \$6.3 million in 2018) would be reflected as revenue resulting in an increase in net assets with donor restrictions.



# CARNEGIE LIBRARY OF PITTSBURGH

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During 2017, the theft of 312 of the special collection items was discovered. An insurance claim was filed immediately upon discovery and a complaint was filed with the Allegheny County District Attorney's Office. Their investigation has resulted in felony charges against two individuals responsible for the crime.

### 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 2019, over 1,324 volunteers contributed 37,020 hours of service. In 2018, over 1,190 volunteers contributed 38,273 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.

# CARNEGIE LIBRARY OF PITTSBURGH

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### Financial Instruments

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

- Cash, cash equivalents, and short-term unconditional promises to give: 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.
- 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 Accounting Standards

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

ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," 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 2016-02, "*Leases (Topic 842)*," requires 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 are 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. The adoption of this standard resulted in the presentation of right of use lease assets and related lease liabilities on the statements of financial position,

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and additional footnote disclosure. The effects of this adoption were not material to beginning net asset balances, and were adjusted through the statements of financial position.

### Pending Accounting Standards Updates

FASB has issued Accounting Standards Updates (individually and collectively, ASU) that will become effective in future years as outlined below. Management has not yet determined the impact of these updates on the financial statements.

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, 2022 (as amended by ASU 2018-19). This amendment 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 2018-13, *“Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),”* is effective for the financial statements for the year beginning after December 15, 2019. The amendments remove and modify certain fair value hierarchy leveling disclosures.

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 amendment updates the definition for the use of proceeds from collection activity to include the direct care of existing collections.

ASU 2018-15, *“Customers Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract,”* is effective for reporting periods beginning after December 15, 2020. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing costs incurred to develop or obtain internal-use software.

ASU 2018-18, *“Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606,”* is effective for reporting periods beginning after December 15, 2021. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income.

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# CARNEGIE LIBRARY OF PITTSBURGH

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ASU 2018-14, “*Compensation – Retirement Benefits-Defined Benefit Plans (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,*” is effective for reporting periods beginning after December 15, 2021. The amendments modify disclosure requirements from Subtopic 715-20 and clarify the disclosure requirements in paragraph 715-20-50-3.

### 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.

### 3. Pledges Receivable

Pledges are recorded in the accompanying financial statements at net present value using discount factors ranging from 1.58% to 1.69% and are expected to be received as follows:

<u>Years ending December 31</u>	<u>Amount</u>
2020	\$ 971,757
2021	256,825
2022	154,325
2023	66,325
2024	<u>8,500</u>
	1,457,732
Less - amount representing discount	<u>(20,089)</u>
	<u>\$ 1,437,643</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, 2019 and 2018 are as follows: Level 1 Pledges receivable – current \$971,757 and \$285,985, respectively, and Level 3 Pledges receivable – noncurrent \$465,886 and \$583,176, respectively.

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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.

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:

	2019	2018
Balance as of January 1	\$ 583,176	\$ 496,317
Additions of long-term pledges	981,500	588,563
Increases (decreases) due to change in scheduled payments	(117,408)	(213,719)
Pledges receivable, which became due within one year	(971,757)	(285,985)
Pledges written off as uncollectible	(9,625)	(2,000)
Balance as of December 31	<u>\$ 465,886</u>	<u>\$ 583,176</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 2019 and 2018: 1.58%-1.69% and 2.48%-2.55%, respectively. The sensitivity of the changes to unobservable inputs for the noncurrent pledges receivable is based upon future collectability.

At the beginning of 2019, the Library did not have any conditional pledges. Conditional pledges are recognized in the financial statements only when the condition is met. New conditional pledges of \$150,000 were made to the Library in 2019, all of which were

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# CARNEGIE LIBRARY OF PITTSBURGH

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outstanding at December 31, 2019. In 2020, all \$150,000 of conditional pledges are expected to be fulfilled.

At the beginning of 2018, the Library held \$125,000 in conditional pledges. The Library met these conditions and recognized the pledges as revenue on the statement of activities during 2018. The Library did not receive any new conditional pledges in 2018.

### 4. Land, Buildings and Equipment

Land, buildings, and equipment at December 31, 2019 and 2018 consist of the following:

	2019	2018
Capital assets:		
Not being depreciated:		
Land	\$ 891,298	\$ 891,298
Construction in progress	2,217,594	77,060
Total not being depreciated	<u>3,108,892</u>	<u>968,358</u>
Being depreciated:		
Building and building improvements	73,528,921	73,134,640
Equipment	6,583,037	6,311,067
Vehicles	323,701	314,601
Total being depreciated	80,435,659	79,760,308
Less: accumulated depreciation	<u>(33,131,365)</u>	<u>(30,479,103)</u>
Net being depreciated	<u>47,304,294</u>	<u>49,281,205</u>
Total capital assets, net of depreciation	<u>\$ 50,413,186</u>	<u>\$ 50,249,563</u>

Beginning in 2002 and continuing beyond December 31, 2019, 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, 2019 and 2018, \$3,015,461 and \$370,739, respectively, remain committed under contracts related to these activities. No net interest costs were capitalized for 2019 and 2018.

Included in building and building improvements are properties received in 2003 through a donation from the City of Pittsburgh (City) for six locations. The fair value of these buildings as of December 31, 2019 and 2018 was \$1,740,000, and was offset by an original

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contribution. Any change in use, termination of use, or sale of these properties is subject to approval by City Council.

### 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, 2019 and 2018.

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, 2019 are summarized as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest on cash and cash equivalents	\$ 231,404	\$ 150,015	\$ 381,419
Interest and dividend income	409,549	795,962	1,205,511
Investment fees	(62,221)	(39,325)	(101,546)
Net realized gain (loss)	10,984	81,538	92,522
Unrealized gain (loss)	2,656,591	2,953,945	5,610,536
Return on investments, net	3,246,307	3,942,135	7,188,442
Investment return designated for current operations	(407,179)	(356,722)	(763,901)
Investment return related to proceeds from special collection insurance recovery	-	(142,801)	(142,801)
Investment gain (loss) recognized	\$ 2,839,128	\$ 3,442,612	\$ 6,281,740

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The total returns on investments and cash equivalents 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	<u>(245,935)</u>	<u>(146,783)</u>	<u>(392,718)</u>
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	<u>\$ (604,500)</u>	<u>\$ (544,297)</u>	<u>\$ (1,148,797)</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, 2019 and 2018. The total fair value of the assets as of December 31, 2019 and 2018, respectively, is \$42,739,404 and \$35,811,128.



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Fair values of assets measured on a recurring basis as of December 31, 2019:

Description	12/31/19	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	\$ 175,526	\$ 175,526	\$ -	\$ -
Fixed Income	3,064,940	3,064,940	-	-
Equities	5,860,974	5,860,974	-	-
Equity Funds	1,038,427	1,038,427	-	-
Total Operating Reserve	10,139,867	-	-	-
Private Company Stock	10,290,956	-	-	10,290,956
Split-Interest Agreements	1,583,427	-	-	1,583,427
Total assets in fair value hierarchy	22,014,250	\$ 10,139,867	\$ -	\$ 11,874,383
Investments measured at net asset value				
Multi-Strategy Funds	20,725,154			
Investments at fair value	\$ 42,739,404			

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	886,358	886,358	-	-
Total Operating Reserve	8,108,030	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split-Interest Agreements	1,278,350	-	-	1,278,350
Total assets in fair value hierarchy	18,847,260	\$ 8,108,030	\$ -	\$ 10,739,230
Investments measured at net asset value				
Multi-Strategy Funds	16,963,868			
Investments at fair value	\$ 35,811,128			

# 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, 2019:

Description	12/31/19	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	\$ 175,526	\$ 175,526	\$ -	\$ -
Fixed Income	3,064,940	3,064,940	-	-
Equities	5,860,974	5,860,974	-	-
Equity Funds	1,038,427	1,038,427	-	-
Total Operating Reserve	10,139,867	-	-	-
Private Company Stock	10,290,956	-	-	9,460,880
Split-Interest Agreements	1,583,427	-	-	1,583,427
Total assets in fair value hierarchy	22,014,250	\$ 10,139,867	\$ -	\$ 11,044,307
Investments measured at net asset value				
Multi-Strategy Funds	20,725,154			
Investments at fair value	\$ 42,739,404			

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	886,358	886,358	-	-
Total Operating Reserve	8,108,030	-	-	-
Private Company Stock	9,460,880	-	-	9,460,880
Split-Interest Agreements	1,278,350	-	-	1,278,350
Total assets in fair value hierarchy	18,847,260	\$ 8,108,030	\$ -	\$ 10,739,230
Investments measured at net asset value				
Multi-Strategy Funds	16,963,868			
Investments at fair value	\$ 35,811,128			

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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, 2019 and 2018. 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, 2019.

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.

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>2019</u>	<u>2018</u>
Balance as of January 1	\$ 10,739,230	\$ 10,896,254
Contributions	126,390	-
Change in fair value - stock	830,076	-
Change in fair value - split interest agreements	178,687	(157,024)
Balance as of December 31	<u>\$ 11,874,383</u>	<u>\$ 10,739,230</u>

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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, 2019 and 2018:

Description	Fair Value as of 12/31/19	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Private Company Stock	\$ 10,290,956	Income Approach and Capitalization of Benefits Approach	Discounts Applied, Control Adjustments, Capitalization Rate	Value per Share
Split-Interest Agreement	58,361	Market Value of Underlying Investments	Yield Rates, Cash Flow	Trust Value
Split-Interest Agreement	134,719	Market Value of Underlying Investments	Percentage Share	10%
Split-Interest Agreement	139,670	Market Value of Underlying Investments	Percentage Share	25%
Split-Interest Agreement	<u>1,250,677</u>	Market Value of Underlying Investments	Percentage Share	20%
	<u>\$ 11,874,383</u>			
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>			

# CARNEGIE LIBRARY OF PITTSBURGH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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.

### **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 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 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Endowment net asset composition by type of fund as of December 31, 2019:

Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,945,723	\$ 16,836,695	\$ 18,782,418

Endowment net asset composition by type of fund as of December 31, 2018:

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

Changes in endowment net assets for the fiscal year ended December 31, 2019:

	Board-Designated Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	\$ 1,642,282	\$ 13,753,137	\$ 15,395,419
Investment return, net:			
Investment income	75,436	220,465	295,901
Fees	(13,495)	(39,325)	(52,820)
Net gain (loss), realized and unrealized	357,152	2,719,290	3,076,442
Total investment return, net	419,093	2,900,430	3,319,523
Contributions	-	521,939	521,939
Other changes:			
Withdrawals	(115,991)	(338,811)	(454,802)
Miscellaneous income (expense)	339	-	339
Endowment Net Assets, End of Year	\$ 1,945,723	\$ 16,836,695	\$ 18,782,418

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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	<u>(80,011)</u>	<u>(840,344)</u>	<u>(920,355)</u>
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)	<u>118</u>	<u>-</u>	<u>118</u>
Endowment Net Assets, End of Year	<u>\$ 1,642,282</u>	<u>\$ 13,753,137</u>	<u>\$ 15,395,419</u>

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. Market activity throughout 2019 offset this deficiency. At December 31, 2019, no funds were underwater.

### 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.

# CARNEGIE LIBRARY OF PITTSBURGH

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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, 2019 and 2018 of \$17,227,788 and \$15,234,227, respectively, are available for use by the Main Library and branches for capital improvements, the purchase and care of special collections (approximately \$6.5 million and \$6.3 million at December 31, 2019 and 2018, respectively) and a variety of other donor-imposed purposes and time periods.

Net assets of \$18,784,981 and \$15,637,002 were held in perpetuity at December 31, 2019 and 2018, respectively. The following composition of the net asset class indicates how the income is to be expended:

	<u>2019</u>	<u>2018</u>
Collection development/programming	\$ 14,047,447	\$ 11,710,541
Any library purpose	<u>4,737,534</u>	<u>3,926,461</u>
	<u>\$ 18,784,981</u>	<u>\$ 15,637,002</u>

#### Without Donor Restrictions

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



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### **9. Net Assets Released From Restrictions**

Net assets of \$4,294,554 and \$5,865,825 were released from donor restrictions for the years ended December 31, 2019 and 2018, respectively, by incurring expenses that satisfy the restricted purposes or by occurrence of events specified by the donors.

### **10. Other Assets**

Other assets of \$6,450,721 and \$6,305,233 on the statements of financial position for the years ended December 31, 2019 and 2018, respectively, 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 plan, which is offered through a third-party financial services organization. The 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 \$774,000 and \$755,000 were made to the plan for the years ended December 31, 2019 and 2018, respectively.

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### 12. Leases

The Library has historically entered into a number of lease arrangements under which we are the lessee. As of December 31, 2019, the Library is party to five contracts that are required to be recorded as lease liabilities under FASB ASU 2016-02.

The Library also leases various equipment such as computers, site servers and copier machines which are treated as finance leases. The short-term lease practical expedient has been elected related to certain other leases.

Specifically, of the Library's 19 public service locations, two are subject to operating leases. One of the Library's space rental leases includes multiple optional renewal periods. For this lease, the Library does not consider any additional renewal periods to be reasonably certain of being exercised, as comparable locations could generally be identified within the same trade areas for comparable lease rates. The other space rental lease is close to the end of its term which will not be renewed, rather replaced with a new lease with an effective date after December 31, 2019.

All of the Library's leases include fixed rental payments.

The Library recognized rent expense associated with its leases as of December 31:

	<u>2019</u>	<u>2018</u>
Operating lease cost:		
Fixed rent expense	\$ 302,291	\$ 270,644
Finance lease cost:		
Amortization of right to use asset	267,654	247,643
Interest expense	10,336	14,158
Short term lease expense	<u>266,662</u>	<u>281,923</u>
Net lease cost	<u>\$ 846,943</u>	<u>\$ 814,368</u>

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During the years ended December 31, 2019 and 2018, the Library had the following cash and non-cash activities associated with its leases:

	2019	2018
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 302,291	\$ 270,644
Operating cash flows for financing leases	-	-
Financing cash flows for financing leases (principal and interest)	279,856	254,834
Total cash paid	\$ 582,147	\$ 525,478

The noncash investing and financing activities resulting from additions to ROU assets for operating leases was \$268,166 and \$0, as of December 31, 2019 and 2018, respectively. The noncash investing and financing activities resulting from additions to ROU assets for financing leases was \$0 and \$120,064, as of December 31, 2019 and 2018, respectively.

The future payments due under operating and financing leases as of December 31, 2019 is as follows:

Years Ending December 31	Operating	Financing
2020	\$ 100,010	\$ 152,716
2021	56,348	25,576
2022	58,028	25,576
2023	59,750	21,315
2024	25,200	-
	299,336	225,183
Less effects of discounting	(13,925)	(6,213)
Lease liabilities recognized	\$ 285,411	\$ 218,970

As of December 31, 2019 and 2018, the weighted-average remaining lease term for all operating leases is 3.75 years and 1.17 years, respectively, while the weighted-average remaining lease term for all finance leases is 1.92 years and 2.29 years, respectively.

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Because the Library does not have access to the rate implicit in the lease, it utilizes the US Treasury rate as the incremental borrowing rate. The weighted average discount rate associated with operating leases as of December 31, 2019 and 2018 is 2.55% and 2.55%, respectively, while the weighted-average discount rate associated with finance leases is 2.48% and 2.48%, respectively.

### 13. Line 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, 2020. Amounts outstanding under the line of credit bear interest at LIBOR plus 120 basis points. The Library did not draw from the line during 2019 or 2018 and had no outstanding balance on the line at December 31, 2019 and 2018.

### 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.

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The Library has \$113,557 and \$127,902 of unamortized bond issuance costs, for the years ended December 31, 2019 and 2018, respectively. The bonds payable are shown net of unamortized bond issuance cost.

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>
2020	4.000%	\$ 715,000
2021	4.375%	745,000
2022	4.375%	780,000
2023	4.375%	810,000
2024	4.375%	850,000
Thereafter	4.375%	<u>2,775,000</u>
		<u>6,675,000</u>
Less: unamortized bond issuance costs		<u>(113,557)</u>
		<u>\$ 6,561,443</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.

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### 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 \$306,753 and \$302,550 for the years ended December 31, 2019 and 2018, respectively. The eiNetwork also reimbursed the Library for expenses totaling \$171,727 and \$167,303 for the years ended December 31, 2019 and 2018, respectively.

### 16. Subsequent Event

In early 2020, an outbreak of a novel strain of coronavirus quickly turned into a worldwide pandemic. The coronavirus has been found in a number of countries on every continent, including every state in the United States and specifically Allegheny County, Pennsylvania. The coronavirus and its impact on trade, including customer demand, travel, employee productivity, supply chain, and other economic activities, have had, and may continue to have, a significant effect on financial markets and business activity for 2020. At the direction of the Governor and the Office of Commonwealth Libraries, Carnegie Library of Pittsburgh began a mandated closure in mid-March, along with many other businesses deemed non-essential. These circumstances may impact the Library's funding, which is highly dependent on sales tax and other government revenue sources. The full extent of the pandemic's impact is unclear and will depend on certain developments, including, among others, the duration and spread of the outbreak, its direct impact on our community, employees and vendors, and governmental responses.