

Carnegie Library of Pittsburgh

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020
with Independent Auditor's Report

MaherDuessel

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CARNEGIE LIBRARY OF PITTSBURGH

YEARS ENDED DECEMBER 31, 2021 AND 2020

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Independent Auditor's Report

**Board of Trustees
Carnegie Library of Pittsburgh**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of the Carnegie Library of Pittsburgh (Library) and affiliate, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Library and affiliate, as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Library, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Library's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Library's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Maher Duessel

Pittsburgh, Pennsylvania
May 17, 2022

CARNEGIE LIBRARY OF PITTSBURGH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents - operating (Note 2) | \$ 12,984,712 | \$ 15,218,991 |
| Cash and cash equivalents - capital (Note 2) | 3,449,253 | 4,526,424 |
| Cash and cash equivalents - endowment (Note 2) | 98,646 | 65,477 |
| Other receivables (Note 2) | 2,389,589 | 2,686,428 |
| Pledge receivables, current (Note 3) | 650,468 | 592,591 |
| Prepaid expenses | 1,121,243 | 768,538 |
| Other current assets | 270,508 | 273,335 |
| Total current assets | <u>20,964,419</u> | <u>24,131,784</u> |
| Non-current assets: | | |
| Bellefield Boiler Plant reserve | 14,174 | 14,174 |
| Pledge receivables, non-current, net of discount (Note 3) | 75,449 | 403,000 |
| Right of use asset - financing lease (Note 12) | 477,377 | 790,293 |
| Right of use asset - operating lease (Note 12) | 5,485,452 | 191,126 |
| Total non-current assets | <u>6,052,452</u> | <u>1,398,593</u> |
| Long-term investments: | | |
| Investments - operating reserve (Note 5 & 6) | 11,458,180 | 9,390,262 |
| Investments - capital (Note 5 & 6) | 2,454,008 | 2,125,018 |
| Investments - endowment (Note 5 & 6) | 23,634,016 | 20,418,647 |
| Investments - stock (Note 5 & 6) | 12,440,707 | 10,290,956 |
| Value of share in split-interest agreements (Note 5 & 6) | 1,744,430 | 1,623,691 |
| Total long-term investments | <u>51,731,341</u> | <u>43,848,574</u> |
| Other assets: | | |
| Insurance proceeds restricted to collection items not capitalized (Note 10) | 7,008,811 | 6,790,104 |
| Land, buildings, and equipment, net (Note 4) | 57,036,339 | 54,962,308 |
| Total other assets | <u>64,045,150</u> | <u>61,752,412</u> |
| Total Assets | <u>\$ 142,793,362</u> | <u>\$ 131,131,363</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,984,794 | \$ 4,317,136 |
| Accrued salaries, wages, and related payroll taxes | 1,029,064 | 856,065 |
| Bonds payable, current (Note 14) | 795,000 | 745,000 |
| Current portion of lease liability - financing lease (Note 12) | 313,887 | 312,726 |
| Current portion of lease liability - operating lease (Note 12) | 404,785 | 52,248 |
| Total current liabilities | <u>4,527,530</u> | <u>6,283,175</u> |
| Long-term liabilities: | | |
| Paycheck Protection Program Loan, non-current (Note 14) | - | 4,002,000 |
| Bond payable, non-current, net (Note 14) | 4,946,300 | 5,115,787 |
| Non current portion of lease liability - financing lease (Note 12) | 165,865 | 479,752 |
| Non current portion of lease liability - operating lease (Note 12) | 5,080,667 | 138,878 |
| Total long-term liabilities | <u>10,192,832</u> | <u>9,736,417</u> |
| Total Liabilities | <u>14,720,362</u> | <u>16,019,592</u> |
| Net Assets: | | |
| Without donor restrictions | 90,468,195 | 79,721,830 |
| With donor restrictions (Note 8) | 37,604,805 | 35,389,941 |
| Total Net Assets | <u>128,073,000</u> | <u>115,111,771</u> |
| Total Liabilities and Net Assets | <u>\$ 142,793,362</u> | <u>\$ 131,131,363</u> |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| Operating Public Support, Revenues, and Gains | | | |
| Allegheny County Regional Asset District | \$ 21,878,269 | \$ - | \$ 21,878,269 |
| Allegheny County | - | - | - |
| City of Pittsburgh | 81,473 | - | 81,473 |
| Library Tax | 4,809,552 | - | 4,809,552 |
| Commonwealth of Pennsylvania | 4,644,740 | 1,569,693 | 6,214,433 |
| Forgiveness of debt - Paycheck Protection Program | 4,002,000 | - | 4,002,000 |
| Other government sources | 85,571 | - | 85,571 |
| Fundraising - private | 1,142,043 | 3,188,475 | 4,330,518 |
| Fines, lost books, and other earned income | 191,071 | - | 191,071 |
| Investment return designated for current operations | 265,336 | 392,963 | 658,299 |
| | <u>37,100,055</u> | <u>5,151,131</u> | <u>42,251,186</u> |
| Net assets released from restrictions (Note 9) | 4,263,225 | (4,263,225) | - |
| Total operating public support, revenues, and gains | <u>41,363,280</u> | <u>887,906</u> | <u>42,251,186</u> |
| Operating Expenses: | | | |
| Program services | 31,368,843 | - | 31,368,843 |
| Management and general | 4,430,482 | - | 4,430,482 |
| Fundraising | 1,103,209 | - | 1,103,209 |
| Total operating expenses | <u>36,902,534</u> | <u>-</u> | <u>36,902,534</u> |
| Excess (deficiency) of operating public support, revenues, and gains over operating expenses | <u>4,460,746</u> | <u>887,906</u> | <u>5,348,652</u> |
| Nonoperating Support, Revenues, and Gains: | | | |
| Change in fair value of split-interest agreements | - | 120,740 | 120,740 |
| Investment return, net | 3,965,467 | 3,307,992 | 7,273,459 |
| Net assets released from restrictions for capital expenses (Note 9) | 2,320,152 | (2,320,152) | - |
| Total nonoperating support, revenues, and gains | <u>6,285,619</u> | <u>1,108,580</u> | <u>7,394,199</u> |
| Change in Net Assets Related to Collection Items Not Capitalized: | | | |
| Repayments from insurance recovery | - | (5,000) | (5,000) |
| Investment return on insurance proceeds | - | 223,378 | 223,378 |
| Total change in net assets related to collection items not capitalized | <u>-</u> | <u>218,378</u> | <u>218,378</u> |
| Change in Net Assets | <u>10,746,365</u> | <u>2,214,864</u> | <u>12,961,229</u> |
| Net Assets: | | | |
| Beginning of year | 79,721,830 | 35,389,941 | 115,111,771 |
| End of year | <u>\$ 90,468,195</u> | <u>\$ 37,604,805</u> | <u>\$ 128,073,000</u> |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|-----------------------|
| Operating Public Support, Revenues, and Gains | | | |
| Allegheny County Regional Asset District | \$ 18,581,700 | \$ 33,500 | \$ 18,615,200 |
| Allegheny County | 4,399,675 | - | 4,399,675 |
| City of Pittsburgh | 57,133 | - | 57,133 |
| Library Tax | 4,690,135 | - | 4,690,135 |
| Commonwealth of Pennsylvania | 5,083,338 | 1,603,012 | 6,686,350 |
| Forgiveness of debt - Paycheck Protection Program | - | - | - |
| Other government sources | 25,500 | - | 25,500 |
| Fundraising - private | 2,888,874 | 3,021,690 | 5,910,564 |
| Fines, lost books, and other earned income | 277,892 | - | 277,892 |
| Investment return designated for current operations | 239,860 | 256,203 | 496,063 |
| | <u>36,244,107</u> | <u>4,914,405</u> | <u>41,158,512</u> |
| Net assets released from restrictions | <u>2,394,130</u> | <u>(2,394,130)</u> | <u>-</u> |
| Total operating public support, revenues, and gains | <u>38,638,237</u> | <u>2,520,275</u> | <u>41,158,512</u> |
| Operating Expenses: | | | |
| Program services | 29,977,311 | - | 29,977,311 |
| Management and general | 4,444,976 | - | 4,444,976 |
| Fundraising | 1,037,978 | - | 1,037,978 |
| Total operating expenses | <u>35,460,265</u> | <u>-</u> | <u>35,460,265</u> |
| Excess (deficiency) of operating public support, revenues, and gains over operating expenses | <u>3,177,972</u> | <u>2,520,275</u> | <u>5,698,247</u> |
| Nonoperating Support, Revenues, and Gains: | | | |
| Change in fair value of split-interest agreements | - | 40,264 | 40,264 |
| Investment return, net | 675,823 | 2,063,004 | 2,738,827 |
| Net assets released from restrictions for capital expenses | 5,576,296 | (5,576,296) | - |
| Total nonoperating support, revenues, and gains | <u>6,252,119</u> | <u>(3,473,028)</u> | <u>2,779,091</u> |
| Change in Net Assets Related to Collection Items Not Capitalized: | | | |
| Proceeds from insurance recovery | - | 284,160 | 284,160 |
| Investment return on insurance proceeds | - | 45,765 | 45,765 |
| Total change in net assets related to collection items not capitalized | <u>-</u> | <u>329,925</u> | <u>329,925</u> |
| Change in Net Assets | <u>9,430,091</u> | <u>(622,828)</u> | <u>8,807,263</u> |
| Net Assets: | | | |
| Beginning of year | <u>70,291,739</u> | <u>36,012,769</u> | <u>106,304,508</u> |
| End of year | <u>\$ 79,721,830</u> | <u>\$ 35,389,941</u> | <u>\$ 115,111,771</u> |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2021

| | Program Services | Management and General | Fundraising | Total |
|--|----------------------|---------------------------|---------------------|----------------------|
| Salaries | \$ 13,391,496 | \$ 2,017,199 | \$ 693,729 | \$ 16,102,424 |
| Library materials | 4,897,021 | 20,977 | 121 | 4,918,119 |
| Fringe benefits | 3,672,367 | 531,167 | 141,420 | 4,344,954 |
| Occupancy | 3,099,793 | 2,580 | - | 3,102,373 |
| Depreciation and amortization | 3,192,363 | 312,915 | - | 3,505,278 |
| Professional services | 1,067,374 | 718,350 | 125,108 | 1,910,832 |
| Supplies and expenses | 975,647 | 196,111 | 79,744 | 1,251,502 |
| Information technology | 648,165 | 184,660 | - | 832,825 |
| Advertising and promotion | 41,598 | 248,275 | 61,253 | 351,126 |
| Interest | 235,102 | 2,714 | - | 237,816 |
| Insurance | 23,738 | 183,782 | - | 207,520 |
| Conferences, conventions, and meetings | 67,571 | 9,887 | 969 | 78,427 |
| Travel | 2,933 | 1,729 | 865 | 5,527 |
| Vehicle expense | 53,675 | 136 | - | 53,811 |
| | <u>\$ 31,368,843</u> | <u>\$ 4,430,482</u> | <u>\$ 1,103,209</u> | <u>\$ 36,902,534</u> |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2020

| | Program Services | Management and General | Fundraising | Total |
|--|----------------------|---------------------------|---------------------|----------------------|
| Salaries | \$ 13,430,490 | \$ 2,000,602 | \$ 672,090 | \$ 16,103,182 |
| Library materials | 4,922,680 | 28,811 | 111 | 4,951,602 |
| Fringe benefits | 3,681,339 | 628,592 | 138,922 | 4,448,853 |
| Occupancy | 2,372,043 | 1,460 | - | 2,373,503 |
| Depreciation and amortization | 2,881,280 | 290,285 | - | 3,171,565 |
| Professional services | 779,250 | 625,647 | 100,055 | 1,504,952 |
| Supplies and expenses | 1,029,364 | 196,096 | 87,596 | 1,313,056 |
| Information technology | 436,792 | 162,280 | 2,027 | 601,099 |
| Advertising and promotion | 54,499 | 296,687 | 36,310 | 387,496 |
| Interest | 279,867 | 31,449 | - | 311,316 |
| Insurance | 15,893 | 172,750 | - | 188,643 |
| Conferences, conventions, and meetings | 55,453 | 7,170 | 347 | 62,970 |
| Travel | 3,655 | 3,073 | 520 | 7,248 |
| Vehicle expense | 34,706 | 74 | - | 34,780 |
| | <u>\$ 29,977,311</u> | <u>\$ 4,444,976</u> | <u>\$ 1,037,978</u> | <u>\$ 35,460,265</u> |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2021 AND 2020

| | 2021 | 2020 |
|---|--------------------|------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ 12,961,229 | \$ 8,807,263 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 3,505,278 | 3,171,565 |
| Investment return, net | (7,395,384) | (2,490,945) |
| Contributions restricted for long-term purposes | (2,095,353) | (4,416,858) |
| Earnings on insurance proceeds restricted to collection items not capitalized | (218,378) | (329,925) |
| Forgiveness of debt - Paycheck Protection Program | (4,002,000) | - |
| Changes in assets and liabilities: | | |
| Receivables | 566,513 | (959,716) |
| Prepaid expenses | (352,705) | 93,874 |
| Other current assets | 2,824 | (30,797) |
| Accounts payable and accrued expenses | (1,704,003) | 761,613 |
| Accrued salaries, wages, and related payroll taxes | 172,999 | 94,632 |
| Net cash provided by (used in) operating activities | 1,441,020 | 4,700,706 |
| Cash Flows From Investing Activities: | | |
| Purchase of land, building, equipment, and software | (5,891,156) | (6,041,131) |
| Loss on disposal of land, buildings and equipment | 107,264 | 258,931 |
| Proceeds from sale of investments | 524,596 | 1,999,210 |
| Purchase of investments | (1,109,946) | (916,557) |
| (Increase) decrease in split-interest agreements | (120,739) | (40,264) |
| Net cash provided by (used in) investing activities | (6,489,981) | (4,739,811) |
| Cash Flows From Financing Activities: | | |
| Payment on bonds | (5,689,198) | (715,000) |
| Proceeds from refinancing of bonds | 5,610,000 | - |
| Payments for debt issuance costs | (151,128) | - |
| Payments on finance lease liabilities | (312,725) | (293,200) |
| Paycheck Protection Program Loan | - | 4,002,000 |
| Receipts of contributions restricted for long-term purposes | 2,095,353 | 4,416,858 |
| Earnings on insurance proceeds restricted to collection items not capitalized | 218,378 | 329,925 |
| Net cash provided by (used in) financing activities | 1,770,680 | 7,740,583 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (3,278,281) | 7,701,478 |
| Cash and Cash Equivalents (including operating, capital and endowment): | | |
| Beginning of year | 19,810,892 | 12,109,414 |
| End of year | \$ 16,532,611 | \$ 19,810,892 |
| Supplemental Data: | | |
| Interest paid | \$ 235,102 | \$ 306,867 |
| Interest paid - financing leases | 2,714 | 4,449 |
| Total interest paid | \$ 237,816 | \$ 311,316 |
| Schedule of Noncash Investing and Financing Activities: | | |
| Addition of right to use asset for operating leases | \$ 5,637,042 | \$ - |
| Addition of right to use asset for financing leases | \$ - | \$ 866,708 |
| Capital additions included in Accounts Payable | \$ 628,335 | \$ 1,633,856 |

See accompanying notes to consolidated financial statements.

CARNEGIE LIBRARY OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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 of Accessible Media for Pennsylvanians (LAMP), previously known as 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 \$15,752,000 to the Library annually through the year 2024. The District renews agreements with its contractual assets every five years; the Library's renewal process will likely begin in early 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 and again in 2021 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.

The Library receives a 0.25 mill property tax levy from the residents of the City of Pittsburgh. The proceeds are to be used exclusively for the operation and maintenance of

CARNEGIE LIBRARY OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

the Library. Tax revenue recognized for 2021 and 2020 amounted to approximately \$4.81 million and \$4.69 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 Trustee's (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 \$44.9 million, 90% of its campaign goal.

In early 2020, an outbreak of a novel strain of coronavirus quickly turned into a worldwide pandemic. The coronavirus had an immediate impact on Allegheny County, Pennsylvania, which continued throughout 2021. The coronavirus and its impact on trade, including customer demand, travel, employee productivity, supply chain, and other economic activities, had a significant effect on financial markets and business activities. Although 2021 produced a COVID-19 vaccine and most business activities resumed with some limitations, variants of the coronavirus emerged, which perpetuated operational restrictions and impacts to regular funding sources. The Library secured a Paycheck Protection Program loan in 2020, with forgiveness in 2021. Also received in 2020 was \$4,395,425 of a business interruption grant from Allegheny County CARES Act funding. This funding was in response to the pandemic related reduction in sales tax revenue distributed by the Allegheny Regional Asset District (RAD).

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.

CARNEGIE LIBRARY OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

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 \$13,029,653 and \$10,871,697, and total revenue of \$3,357,956 and \$1,108,401 as of December 31, 2021 and 2020, 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 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.

CARNEGIE LIBRARY OF PITTSBURGH

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures 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 may differ from those estimates.

Investments and Investment Return

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

Investment and custodian fees amounted to \$89,012 and \$90,930 for the years ended December 31, 2021 and 2020, 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 \$133,383 and \$73,332 as of December 31, 2021 and 2020, 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.

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Liquidity and Availability of Financial Assets

The following reflects the Library's financial assets as of the statement of financial position date (December 31, 2021 and 2020), 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 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, 2021</u> | <u>December 31, 2020</u> |
|--|--------------------------|--------------------------|
| Cash and cash equivalents | \$ 12,984,712 | \$ 15,218,991 |
| Accounts and interest receivable | 679,489 | 541,135 |
| Pledges receivable | 21,000 | 2,934 |
| Appropriation of investments for current use | 153,681 | 138,589 |
| Less: Donor restrictions for specific purposes or cash restricted for specific uses | (5,195,855) | (5,636,451) |
| Less: Board-designated operating reserves | - | (346,000) |
| Financial assets available to meet cash needs for general expenditure within one year | <u>\$ 8,643,027</u> | <u>\$ 9,919,198</u> |

Other Receivables

Other receivables of \$2.39 million is comprised of funding of \$1.25 million from the Office of Commonwealth Libraries (OCL), \$570,000 in outstanding amounts due for special library

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tax, a tenant allowance on the Downtown capital project, various ongoing operational receivables, and one-time grants.

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.

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 \$4.9 million and \$4.9 million was acquired in 2021 and 2020, respectively). Proceeds from the sale of circulating collection items would be used to acquire other collection items.

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

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(none in 2021 and 2020) 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).

The Library's policy is that proceeds from the sale of special collection items, or insurance recoveries on the loss of special collection items would be used to purchase suitable new special collection items or used for direct care of the collection. Direct Care for the Library's special collections is defined as expenses to enhance the life, usefulness and quality of the item, that are based on an institutional plan for the special collection. The policy is based upon the Financial Accounting Standards Board's (FASB) Accounting Standards Updates (ASU) 2019-03, the AAM's ethics, guidelines and recommendation for direct care as well as legal guidance.

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 resulted in felony charges to which the two individuals responsible for the crime plead guilty.

Proceeds from the sale of collections or insurance (of which there was an insurance recovery of \$0 in 2021 and \$306,660 in 2020) would be reflected as revenue resulting in an increase in net assets with donor restrictions. Due to the physical recovery of two stolen items, insurance proceeds in the amount of \$5,000 and \$22,500 for the years ended December 31, 2021 and 2020, respectively, was returned to the insurance company.

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.

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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 2021, over 26 volunteers contributed 753 hours of service. In 2020, over 422 volunteers contributed 5,328 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, 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.

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Paycheck Protection Program Loan

The Library has elected to record the Paycheck Protection Program Loan described in Note 14 as a loan payable at December 31, 2020. In 2021, the Library applied for and received forgiveness of the loan from the Small Business Administration, therefore extinguishing the debt. As a result, the recognition of the loan forgiveness has been recorded in a separate fiscal year than the receipt of the loan proceeds and the occurrence of the qualifying expenses, which occurred prior to December 31, 2020.

Pending Accounting Standards Updates

The Financial Accounting Standards Board (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. These amendments and related amendments require 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 2020-07, *“Not-For-Profit Entities (Subtopic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets,”* is effective for reporting periods beginning after June 15, 2021. The amendments in this update address presentation and disclosure of contributed nonfinancial assets.

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.

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3. Pledges Receivable

Pledges are recorded in the accompanying financial statements at net present value using discount factors ranging from 0.73% and 1.12% and are expected to be received as follows:

| <u>Years ending December 31</u> | <u>Amount</u> |
|-------------------------------------|--------------------------|
| 2022 | \$ 650,468 |
| 2023 | 45,125 |
| 2024 | 24,500 |
| 2025 | <u>7,500</u> |
| | 727,593 |
| Less - amount representing discount | <u>(1,676)</u> |
| | <u><u>\$ 725,917</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, 2021 and 2020 are as follows: Level 1 Pledges receivable – current \$650,468 and \$592,591, respectively, and Level 3 Pledges receivable – noncurrent \$75,449 and \$403,000, 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.

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

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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:

| | <u>2021</u> | <u>2020</u> |
|---|------------------|-------------------|
| Balance as of January 1 | \$ 403,000 | \$ 465,886 |
| Additions of long-term pledges | 356,000 | 415,833 |
| Increases (decreases) due to change in scheduled payments | (18,649) | 128,872 |
| Pledges receivable, which became due within one year | (650,468) | (592,591) |
| Pledges written off as uncollectible | (14,434) | (15,000) |
| Balance as of December 31 | <u>\$ 75,449</u> | <u>\$ 403,000</u> |

At the beginning of 2021, the Library did not have any contingent pledges. Contingent pledges are recognized in the financial statements only when the contingency is met. New contingent pledges of \$270,000 were made to the Library in 2021, all of which were outstanding at December 31, 2021. In 2022, \$30,000 of contingent pledges are expected to be fulfilled.

At the beginning of 2020, the Library held \$150,000 in conditional pledges. The Library met these conditions and recognized the pledges as revenue on the statement of activities during 2020. The Library did not receive any new conditional pledges in 2020.

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4. Land, Buildings and Equipment

Land, buildings, and equipment at December 31, 2021 and 2020 consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|----------------------|
| Capital assets: | | |
| Not being depreciated: | | |
| Land | \$ 891,298 | \$ 891,298 |
| Construction in progress | - | 4,364,330 |
| Total not being depreciated | <u>891,298</u> | <u>5,255,628</u> |
| Being depreciated: | | |
| Building and building improvements | 80,726,058 | 76,955,883 |
| Leasehold improvements | 5,005,357 | 117,138 |
| Equipment | 7,494,687 | 7,185,608 |
| Vehicles | 396,610 | 383,908 |
| Total being depreciated | <u>93,622,712</u> | <u>84,642,537</u> |
| Less: accumulated depreciation | <u>(37,477,671)</u> | <u>(34,935,857)</u> |
| Net being depreciated | <u>56,145,041</u> | <u>49,706,680</u> |
| Total capital assets, net of depreciation | <u>\$ 57,036,339</u> | <u>\$ 54,962,308</u> |

Beginning in 2002 and continuing beyond December 31, 2021, 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, 2021 and 2020, \$103,795 and \$1,484,461, respectively, remain committed under contracts related to these activities. No net interest costs were capitalized for 2021 and 2020.

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, 2021 and 2020 was \$1,740,000, and was offset by an original contribution. Any change in use, termination of use, or sale of these properties is subject to approval by City Council.

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5. Investments

Long-term investments consist of three multi-strategy funds, private company stock, and split interest agreements at December 31, 2021 and 2020.

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, 2021 are summarized as follows:

| | 2021 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Interest on cash and cash equivalents | \$ 6,038 | \$ 834 | \$ 6,872 |
| Interest and dividend income | 122,901 | 718,990 | 841,891 |
| Investment fees | (46,568) | (42,445) | (89,013) |
| Net realized gain (loss) | 383,303 | 819,212 | 1,202,515 |
| Unrealized gain (loss) | 3,765,129 | 2,427,742 | 6,192,871 |
| Return on investments, net | 4,230,803 | 3,924,333 | 8,155,136 |
| Investment return designated for current operations | (265,336) | (392,963) | (658,299) |
| Investment return related to proceeds from special collection insurance recovery | - | (223,378) | (223,378) |
| Investment gain (loss) recognized | <u>\$ 3,965,467</u> | <u>\$ 3,307,992</u> | <u>\$ 7,273,459</u> |

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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, 2020 are summarized as follows:

| | 2020 | | |
|--|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Interest on cash and cash equivalents | \$ 90,698 | \$ 49,367 | \$ 140,065 |
| Interest and dividend income | 125,118 | 615,457 | 740,575 |
| Investment fees | (53,295) | (37,635) | (90,930) |
| Net realized gain (loss) | 156,553 | 25,981 | 182,534 |
| Unrealized gain (loss) | 596,609 | 1,711,802 | 2,308,411 |
| Return on investments, net | 915,683 | 2,364,972 | 3,280,655 |
| Investment return designated for current operations | (239,860) | (256,203) | (496,063) |
| Investment return related to proceeds from special collection insurance recovery | - | (45,765) | (45,765) |
| Investment gain (loss) recognized | <u>\$ 675,823</u> | <u>\$ 2,063,004</u> | <u>\$ 2,738,827</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 three multi-strategy funds, private company stock, and split-interest agreements at December 31, 2021. The total fair value of the assets as of December 31, 2021 and 2020, respectively, is \$51,731,341 and \$43,848,574.

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Fair values of assets measured on a recurring basis as of December 31, 2021:

| Description | 12/31/21 | 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) |
| Private Company Stock | \$ 12,440,707 | - | - | \$ 12,440,707 |
| Split-Interest Agreements | 1,744,430 | - | - | 1,744,430 |
| Total assets in fair value hierarchy | 14,185,137 | \$ - | \$ - | \$ 14,185,137 |
| Investments measured at net asset value | | | | |
| Multi-Strategy Funds | 37,546,204 | | | |
| Investments at fair value | \$ 51,731,341 | | | |

Fair values of assets measured on a recurring basis as of December 31, 2020:

| Description | 12/31/20 | 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) |
| Private Company Stock | \$ 10,290,956 | - | - | \$ 10,290,956 |
| Split-Interest Agreements | 1,623,691 | - | - | 1,623,691 |
| Total assets in fair value hierarchy | 11,914,647 | \$ - | \$ - | \$ 11,914,647 |
| Investments measured at net asset value | | | | |
| Multi-Strategy Funds | 31,933,927 | | | |
| Investments at fair value | \$ 43,848,574 | | | |

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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. Since the split-interest agreements and private company stock have no significant observable inputs, they are classified at Level 3. The input used by the Library to measure the value the split interest agreements is the market value from the bank trust statements. The input used by the Library to measure the value of the private company stock is the FMV appraisal report conducted under valuation services section 100 of the AICPA.

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, 2021 and 2020. 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, 2021.

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.

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

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Balance as of January 1 | \$ 11,914,647 | \$ 11,874,383 |
| Contributions (Operating support) | - | - |
| Change in fair value (Nonoperating Gains) - stock | 2,149,750 | - |
| Change in fair value (Nonoperating Gains) - split interest agreements | 120,740 | 40,264 |
| Balance as of December 31 | <u>\$ 14,185,137</u> | <u>\$ 11,914,647</u> |

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

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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, 2021:

| Board-Designated Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------|---------------|
| \$ 2,347,587 | \$ 21,286,429 | \$ 23,634,016 |

Endowment net asset composition by type of fund as of December 31, 2020:

| Board-Designated Without Donor Restrictions | With Donor Restrictions | Total |
|---|----------------------------|---------------|
| \$ 2,084,072 | \$ 18,334,575 | \$ 20,418,647 |

Changes in endowment net assets for the fiscal year ended December 31, 2021:

| | Board-Designated Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|----------------------------|---------------|
| Endowment Net Assets, Beginning of Year | \$ 2,084,072 | \$ 18,334,575 | \$ 20,418,647 |
| Investment return, net: | | | |
| Fees | (14,589) | (40,797) | (55,386) |
| Net gain (loss), realized and unrealized | 414,460 | 2,764,609 | 3,179,069 |
| Total investment return, net | 399,871 | 2,723,812 | 3,123,683 |
| Contributions | - | 610,419 | 610,419 |
| Other changes: | | | |
| Withdrawals | (136,397) | (382,377) | (518,774) |
| Miscellaneous income (expense) | 41 | - | 41 |
| Endowment Net Assets, End of Year | \$ 2,347,587 | \$ 21,286,429 | \$ 23,634,016 |

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Changes in endowment net assets for the fiscal year ended December 31, 2020:

| | Board-Designated Without Donor Restrictions | With Donor Restrictions | Total |
|--|---|----------------------------|---------------|
| Endowment Net Assets, Beginning of Year | \$ 1,945,723 | \$ 16,836,695 | \$ 18,782,418 |
| Investment return, net: | | | |
| Fees | (13,475) | (37,635) | (51,110) |
| Net gain (loss), realized and unrealized | 238,311 | 1,551,395 | 1,789,706 |
| Total investment return, net | 224,836 | 1,513,760 | 1,738,596 |
| Contributions | - | 226,064 | 226,064 |
| Other changes: | | | |
| Withdrawals | (86,487) | (241,944) | (328,431) |
| Miscellaneous income (expense) | - | - | - |
| Endowment Net Assets, End of Year | \$ 2,084,072 | \$ 18,334,575 | \$ 20,418,647 |

Not included in the figures above, but permanently restricted for transfer from cash to the endowment are \$98,646 and \$65,477 in 2021 and 2020, respectively.

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, 2021 and 2020, 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.

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

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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

Total net assets with donor restrictions are \$37,604,805 and \$35,389,941 at December 31, 2021 and 2020, respectively.

Net assets with purpose or time restrictions at December 31, 2021 and 2020 of \$14,573,627 and \$15,189,992, respectively, are available for use by the Main Library and branches for capital improvements, the purchase and care of special collections (approximately \$7.0 million and \$6.8 million at December 31, 2021 and 2020, respectively) and a variety of other donor-imposed purposes and time periods.

Net assets of \$23,031,178 and \$20,199,949 were held in perpetuity at December 31, 2021 and 2020, respectively. The following composition of the net asset class indicates how the income is to be expended:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|----------------------|----------------------|
| Collection development/programming | \$ 17,605,939 | \$ 15,265,707 |
| Any library purpose | <u>5,425,239</u> | <u>4,934,242</u> |
| | <u>\$ 23,031,178</u> | <u>\$ 20,199,949</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 totaling \$6,583,377 and \$7,970,426 were released from donor restrictions for the years ended December 31, 2021 and 2020, respectively, by incurring expenses that satisfy the restricted purposes or by occurrence of events specified by the donors.

Net assets of \$4,263,225 and \$2,394,130 were released from restrictions on operating activity for the years ended December 31, 2021 and 2020 respectively.

Net assets of \$2,320,152 and \$5,576,296 were released from restrictions on capital activity for the years ended December 31, 2021 and 2020 respectively.

10. Insurance Proceeds Restricted to Collection Items not Capitalized

Other assets of \$7,008,811 and \$6,790,104 on the statements of financial position for the years ended December 31, 2021 and 2020, 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 that utilized a Commonwealth of Pennsylvania treasury product in the year ending December 31, 2020 was moved to an investment manager and invested in a S&P 500 equal weighted index fund, a S&P 500 market weighted index fund, a high quality bond fund, and a U.S. money market government fund in the year ending December 31, 2021. The funds are redeemable on a weekly basis. While a draw may be utilized in the future for allowable expenses, the Library currently has no intention to liquidate the investment held at December 31, 2021 in its entirety.

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 \$760,000 and \$771,000 were made to the plan for the years ended December 31, 2021 and 2020, respectively.

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12. Leases

The Library has historically entered into a number of lease arrangements under which they are the lessee. FASB ASU 2016-02 requires lessees to report a right-of-use (ROU) asset and a liability for financing and operating leases. As of December 31, 2021, the Library is party to five contracts that require this accounting treatment.

Three of the five contracts are treated as finance leases which are for various equipment such as computers, site servers and copier machines. The short-term lease practical expedient has been elected related to certain other similar contracts.

Two of the five contracts are considered operating leases. Specifically, of the Library's 19 public service locations, only two were subject to operating leases in 2021. Both of the Library's space rental leases includes multiple optional renewal periods. For these leases, 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.

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

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

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|---------------------|-------------------|
| Operating lease cost: | | |
| Fixed rent expense | \$ 358,515 | \$ 100,010 |
| Finance lease cost: | | |
| Amortization of right to use asset | 312,915 | 290,285 |
| Interest expense | 2,714 | 4,449 |
| Short term lease expense | <u>435,106</u> | <u>305,013</u> |
| Net lease cost | <u>\$ 1,109,250</u> | <u>\$ 699,757</u> |

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During the years ended December 31, 2021 and 2020, the Library had the following cash and non-cash activities associated with its leases:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------|-------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for operating leases | \$ 358,515 | \$ 100,010 |
| Operating cash flows for financing leases | - | - |
| Financing cash flows for financing leases (principal and interest) | <u>315,440</u> | <u>297,648</u> |
| Total cash paid | <u>\$ 673,955</u> | <u>\$ 397,658</u> |

The noncash investing and financing activities resulting from additions to ROU assets for operating leases was \$5,637,042 and \$0 as of December 31, 2021 and 2020, respectively. The noncash investing and financing activities resulting from additions to ROU assets for financing leases was \$0 and \$866,708, as of December 31, 2021 and 2020, respectively.

The future payments due under operating and financing leases as of December 31, 2021 is as follows:

| <u>Years Ending December 31</u> | <u>Operating</u> | <u>Financing</u> |
|---------------------------------|---------------------|-------------------|
| 2022 | \$ 420,628 | \$ 315,440 |
| 2023 | 422,350 | 166,246 |
| 2024 | 387,800 | - |
| 2025 | 362,600 | - |
| 2026 | 379,867 | - |
| Thereafter | <u>3,617,367</u> | <u>-</u> |
| | <u>5,590,612</u> | <u>481,686</u> |
| Less effects of discounting | <u>(105,160)</u> | <u>(1,934)</u> |
| Lease liabilities recognized | <u>\$ 5,485,452</u> | <u>\$ 479,752</u> |

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As of December 31, 2021 and 2020, the weighted-average remaining lease term for all operating leases is 13.87 years and 3.42 years, respectively, while the weighted-average remaining lease term for all finance leases is 1.53 years and 2.53 years, respectively.

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, 2021 and 2020 is 1.38% and 2.49%, respectively, while the weighted-average discount rate associated with finance leases is 0.96% and 0.96%, 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, 2022. Amounts outstanding under the line of credit bear interest at a rate per annum which is equal to the sum of the Daily BSBY Rate plus 100 basis points. The Library did not draw from the line during 2021 or 2020 and had no outstanding balance on the line at December 31, 2021 and 2020.

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 with fixed-rates ranging from 0.8% to 4.375%. 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.

On July 22, 2021, the Library issued \$5,610,000 of Allegheny County Industrial Development Authority Regional Asset District Sales Tax Revenue Bonds, Series of 2021 at an aggregate

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purchase price of \$6,196,632, representing the aggregate principal amount of the bonds, plus original issuance premium of \$609,072 and less discount of \$22,400. The amount was sufficient to refund the 2010 Revenue Bonds, pay the expenses of the bond issue, and provide proceeds of approximately \$573,000 for an existing capital project. Debt service for the 2021 bonds remains essentially the same as under the 2010 bonds. The fixed-rate bonds are at rates ranging from 3.0% to 4.0%

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 \$139,502 and \$99,213 of unamortized bond issuance costs, for the years ended December 31, 2021 and 2020, respectively. The Library has \$605,802 of unamortized bond issuance premium for the year ended December 31, 2021. The bonds payable are shown net of unamortized bond issuance cost and unamortized bond issuance premium.

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> |
|--|-----------------------------|---------------------|
| 2022 | 3.000%-4.000% | \$ 795,000 |
| 2023 | 4.000% | 825,000 |
| 2024 | 4.000% | 860,000 |
| 2025 | 4.000% | 895,000 |
| 2026 | 4.000% | 930,000 |
| 2027 | 4.000% | 970,000 |
| | | <u>5,275,000</u> |
| Less: unamortized bond issuance costs | | (139,502) |
| Add: unamortized bond issuance premium | | <u>605,802</u> |
| | Total bonds payable | <u>\$ 5,741,300</u> |
| | Less: Bond Payable, Current | <u>795,000</u> |
| | Bonds Payable, Non-Current | <u>\$ 4,946,300</u> |

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PPP Loan Payable

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to help protect businesses and employees during the COVID-19 pandemic. Included in the CARES Act is the Paycheck Protection Program (PPP), which enables the Small Business Administration (SBA) to guarantee low-interest rate loans to certain entities. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with interest and principal payments deferred until 10 months after the covered period for eligible forgiveness expenses, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is eligible for forgiveness under the PPP upon the Library's request to the extent that employees are retained, and the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Library.

The Library applied for and received PPP Loan proceeds in the amount of \$4,002,000 in April 2020. Interest payable was accrued in the amount of \$27,000, for the year ended December 31, 2020. The Library reported the funds as a loan payable for the year ended December 31, 2020 in accordance with FASB ASC 740.

In 2021, the Library applied for forgiveness of the PPP Loan with respect to these covered expenses, using 100% of the PPP Loan proceeds on eligible salary expenses. In July 2021, the Library received notice that the SBA fully forgave the loan. As a result, the loan and interest payable were extinguished, and the funds are recognized as revenue on the statement of activities for the year ended December 31, 2021.

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 RAD. The corporation members are the Allegheny County Library Association (ACLA) and Carnegie Library of Pittsburgh. The Library makes payments to

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eiNetwork for computers and other equipment, which were \$332,672 and \$442,830 for the years ended December 31, 2021 and 2020, respectively. The eiNetwork also reimbursed the Library for expenses totaling \$175,289 and \$260,579 for the years ended December 31, 2021 and 2020, respectively.