

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY  
FOUNDATION**

**Consolidating Financial Statements**

**Year Ended June 30, 2017**

**With Independent Auditors' Report Thereon**

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION**

**CONSOLIDATING FINANCIAL STATEMENTS**

**Year Ended June 30, 2017**

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Consolidating Statement of Financial Position	3
Consolidating Statement of Activities	4
Consolidating Statement of Cash Flows	5
Notes to the Consolidating Financial Statements	6
SUPPLEMENTARY INFORMATION:	
Program Service Accomplishments (Unaudited)	22

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Providence Public Library and  
Providence Public Library Foundation:

We have audited the accompanying consolidating financial statements of Providence Public Library (the Library) and Providence Public Library Foundation (the Foundation) (collectively, the Organization), which comprise the consolidating statement of financial position as of June 30, 2017, and the related consolidating statements of activities and cash flows for the year then ended, and the related notes to the consolidating financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidating financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidating 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 Organization'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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of the Providence Public Library and Providence Public Library Foundation as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidating financial statements as a whole. The supplementary information on page 22 is presented for purposes of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has not been subjected to the auditing procedures applied in the audit of the consolidating financial statements and, accordingly, we express no opinion on it.

January 26, 2018

*Kahn, Litwin, Renya & Co., Ltd.*

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2017**



	<b>Providence Public Library</b>	<b>Providence Public Library Foundation</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 317,735	\$ 15,023	\$ -	\$ 332,758
Grants and pledges receivable	21,255	-	-	21,255
Other receivables	350,966	-	(208,082)	142,884
Current portion of lease payments receivable	279,400	-	-	279,400
Prepaid expenses	4,772	-	-	4,772
<b>Total current assets</b>	<b>974,128</b>	<b>15,023</b>	<b>(208,082)</b>	<b>781,069</b>
Land, Building, Equipment and Books	23,530,544	-	-	23,530,544
Less accumulated depreciation	13,034,639	-	-	13,034,639
<b>Net land, buildings, equipment and books</b>	<b>10,495,905</b>	<b>-</b>	<b>-</b>	<b>10,495,905</b>
Other Non-current Assets:				
Future minimum City of Providence lease payments receivable	3,352,953	-	-	3,352,953
Investments, at fair value	-	33,574,030	-	33,574,030
<b>Other non-current assets</b>	<b>3,352,953</b>	<b>33,574,030</b>	<b>-</b>	<b>36,926,983</b>
Collections (Note 2)	-	-	-	-
<b>Total Assets</b>	<b>\$ 14,822,986</b>	<b>\$ 33,589,053</b>	<b>\$ (208,082)</b>	<b>\$ 48,203,957</b>
<b>Liabilities and Net Assets</b>				
Current Liabilities:				
Current portion of term loan	\$ 92,791	\$ -	\$ -	\$ 92,791
Accounts payable	276,959	-	-	276,959
Accrued expenses	119,590	35,460	-	155,050
Accrued payroll and payroll taxes	195,806	-	-	195,806
Advances	-	208,082	(208,082)	-
<b>Total current liabilities</b>	<b>685,146</b>	<b>243,542</b>	<b>(208,082)</b>	<b>720,606</b>
Long-term Liabilities:				
Line of credit	954,506	-	-	954,506
Term loan, less current portion	2,378,636	-	-	2,378,636
Unearned interest income	707,777	-	-	707,777
Pension benefit cost liability	3,499,137	-	-	3,499,137
<b>Total long-term liabilities</b>	<b>7,540,056</b>	<b>-</b>	<b>-</b>	<b>7,540,056</b>
<b>Total liabilities</b>	<b>8,225,202</b>	<b>243,542</b>	<b>(208,082)</b>	<b>8,260,662</b>
Net Assets:				
Unrestricted:				
Board designated:				
Endowment (Note 9)	-	12,938,539	-	12,938,539
Long-term investment	-	15,689,749	-	15,689,749
Net assets available for operations	6,197,938	-	-	6,197,938
Total unrestricted	6,197,938	28,628,288	-	34,826,226
Temporarily restricted	399,846	531,783	-	931,629
Permanently restricted (Note 9)	-	4,185,440	-	4,185,440
<b>Total net assets</b>	<b>6,597,784</b>	<b>33,345,511</b>	<b>-</b>	<b>39,943,295</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 14,822,986</b>	<b>\$ 33,589,053</b>	<b>\$ (208,082)</b>	<b>\$ 48,203,957</b>

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
CONSOLIDATING STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017**



	<b>Providence Public Library</b>	<b>Providence Public Library Foundation</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
Change in Unrestricted Net Assets:				
Support and revenue:				
State of Rhode Island	\$ 764,869	\$ -	\$ -	\$ 764,869
Contributions and grants	354,241	5,401	-	359,642
Interorganization transfers	2,312,161	-	(2,312,161)	-
Rentals and fines	19,783	-	-	19,783
Space rental and event revenue	373,926	-	-	373,926
Special events, net of expenses of \$45,272	49,190	-	-	49,190
<b>Support and revenue</b>	<b>3,874,170</b>	<b>5,401</b>	<b>(2,312,161)</b>	<b>1,567,410</b>
Appropriation of endowment earnings	-	1,000,931	-	1,000,931
Appropriation of long-term investment earnings	-	1,311,230	-	1,311,230
Net assets released from restrictions	773,910	-	-	773,910
<b>Total unrestricted support and revenue</b>	<b>4,648,080</b>	<b>2,317,562</b>	<b>(2,312,161)</b>	<b>4,653,481</b>
Expenses:				
General library program expenses	3,600,274	2,902	-	3,603,176
Special library fund program expenses	570,002	-	-	570,002
Management and general	781,344	19,265	-	800,609
Fundraising	409,113	5,701	-	414,814
Interorganization transfers	-	2,312,161	(2,312,161)	-
Depreciation	626,857	-	-	626,857
<b>Total expenses</b>	<b>5,987,590</b>	<b>2,340,029</b>	<b>(2,312,161)</b>	<b>6,015,458</b>
<b>Change in operating unrestricted net assets</b>	<b>(1,339,510)</b>	<b>(22,467)</b>	<b>-</b>	<b>(1,361,977)</b>
Non-operating revenue (expense):				
Investment earnings	4,455	3,633,255	-	3,637,710
Sales leaseback revenue	100,852	-	-	100,852
Appropriation of unrestricted endowment and investment earnings	-	(2,207,406)	-	(2,207,406)
Loss on disposal of equipment	(451)	-	-	(451)
Change in accumulated post retirement benefit obligation	460,399	-	-	460,399
<b>Change in total unrestricted net assets</b>	<b>(774,255)</b>	<b>1,403,382</b>	<b>-</b>	<b>629,127</b>
Change in Temporarily Restricted Net Assets:				
Contributions and grants	769,140	-	-	769,140
Investment earnings	-	59,513	-	59,513
Appropriation of endowment earnings	-	(104,755)	-	(104,755)
Net assets released from restrictions	(773,910)	-	-	(773,910)
<b>Change in temporarily restricted net assets</b>	<b>(4,770)</b>	<b>(45,242)</b>	<b>-</b>	<b>(50,012)</b>
Change in Permanently Restricted Net Assets:				
Contributions	-	100	-	100
<b>Change in permanently restricted net assets</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>100</b>
<b>Total Change in Net Assets</b>	<b>(779,025)</b>	<b>1,358,240</b>	<b>-</b>	<b>579,215</b>
<b>Net Assets, beginning of year</b>	<b>7,376,809</b>	<b>31,987,271</b>	<b>-</b>	<b>39,364,080</b>
<b>Net Assets, end of year</b>	<b>\$ 6,597,784</b>	<b>\$ 33,345,511</b>	<b>\$ -</b>	<b>\$ 39,943,295</b>

See accompanying notes to the consolidating financial statements and independent auditors' report.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
CONSOLIDATING STATEMENT OF CASH FLOWS  
Year Ended June 30, 2017**



	<u>Providence Public Library</u>	<u>Providence Public Library Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>Cash Flows from Operating Activities:</b>				
Total change in net assets	\$ (779,025)	\$ 1,358,240	\$ -	\$ 579,215
Adjustments to reconcile total change in net assets to net cash provided (used) by operating activities:				
Depreciation	626,857	-	-	626,857
Loss on disposal of equipment	451	-	-	451
Net realized and unrealized gain on investments	-	3,046,921	-	3,046,921
Unearned interest income	(100,852)	-	-	(100,852)
Contributions restricted for investment in permanently restricted net assets	-	100	-	100
Change in pension benefit cost liability	(103,589)	-	-	(103,589)
Changes in operating assets and liabilities:				
Other receivables	217,307	-	(8,266)	209,041
Prepaid expenses	3,414	-	-	3,414
Accounts payable	(298,073)	-	-	(298,073)
Accrued expenses	(13,581)	(3,856)	-	(17,437)
Accrued payroll and payroll taxes	17,216	-	-	17,216
Advances	-	(8,266)	8,266	-
<b>Net cash provided (used) by operating activities</b>	<b><u>(429,875)</u></b>	<b><u>4,393,139</u></b>	<b><u>-</u></b>	<b><u>3,963,264</u></b>
<b>Cash Flows from Investing Activities:</b>				
Capital additions	(823,012)	-	-	(823,012)
Proceeds from sale of investments	-	3,687,262	-	3,687,262
Purchases of investments	-	(8,080,519)	-	(8,080,519)
<b>Net cash used by investing activities</b>	<b><u>(823,012)</u></b>	<b><u>(4,393,257)</u></b>	<b><u>-</u></b>	<b><u>(5,216,269)</u></b>
<b>Cash Flows from Financing Activities:</b>				
Increase in temporarily restricted grants and pledges receivable	30,462	-	-	30,462
Contributions restricted for investment in permanently restricted net assets	-	(100)	-	(100)
Payments received from the City of Providence	279,412	-	-	279,412
Proceeds from line of credit	713,697	-	-	713,697
Payments on term loan	(89,185)	-	-	(89,185)
<b>Net cash provided (used) by financing activities</b>	<b><u>934,386</u></b>	<b><u>(100)</u></b>	<b><u>-</u></b>	<b><u>934,286</u></b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(318,501)</b>	<b>(218)</b>	<b>-</b>	<b>(318,719)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b><u>636,236</u></b>	<b><u>15,241</u></b>	<b><u>-</u></b>	<b><u>651,477</u></b>
<b>Cash and Cash Equivalents, end of year</b>	<b><u>\$ 317,735</u></b>	<b><u>\$ 15,023</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 332,758</u></b>
<b>Supplemental Cash Flow Information:</b>				
Cash paid for interest	<u>\$ 115,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,857</u>

See accompanying notes to the consolidating financial statements and independent auditors' report.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

**1. Nature of Operations**

The accompanying consolidating financial statements of the Providence Public Library and Providence Public Library Foundation (collectively, the Organization) include the accounts of the Providence Public Library (the Library) and the Providence Public Library Foundation (the Foundation). The Organization, located in Providence, Rhode Island, is a not-for-profit corporation chartered under the laws of the State of Rhode Island.

The Library was organized as a not-for-profit corporation to provide library services to the City of Providence and the State of Rhode Island's community. The Library provides access to information and opportunities for learning to the community at-large and other libraries by offering materials, staff support, and centers for meeting.

The Library maintains a space license and user agreement with a local catering company which allows the catering company to conduct and host events at the Library. The Library receives rental fees from the catering company under the terms of this agreement.

On August 2, 2005, Articles of Incorporation were filed with the RI Secretary of State for the creation of the Providence Public Library Foundation. The Foundation was formed to operate solely for the benefit of the Library and to continue the careful stewardship of private funds, and to encourage private giving.

**2. Summary of Significant Accounting Policies**

This summary of significant accounting policies of the Organization is presented to assist the reader in understanding the Organization's consolidating financial statements. The consolidating financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the consolidating financial statements.

***Principles of Consolidation***

In accordance with accounting principles generally accepted in the United States of America, these consolidating financial statements include the accounts of the Providence Public Library and the Providence Public Library Foundation. All significant intercompany transactions and balances are eliminated in consolidation.

***Basis of Presentation***

The consolidating financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities. In accordance with authoritative guidance, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.



**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

***Performance Indicator***

In the accompanying consolidating statement of activities, the primary indicator of the Organization's results is "change in operating unrestricted net assets." As such, it includes all support and revenue and operating expenses. Investment earnings, sales leaseback revenue, appropriation of endowment earnings, loss on disposal of equipment and post-retirement benefit activity are included as a component of the change in non-operating revenue (expense) on the consolidating statement of activities.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand, demand deposits with financial institutions, and all liquid debt instruments purchased with an original maturity of three months or less, except for money market funds included in the investment portfolio.

***Receivables***

The Organization carries its grant and pledges receivables at net realizable value. On a periodic basis, the Organization evaluates its receivables and establishes an allowance for doubtful accounts, based on a history of past bad debt expense, collections and current credit conditions.

The Organization does not accrue interest on receivables. A receivable is considered past due if payment has not been received within stated terms. The Organization will then exhaust all methods in-house to collect the receivable. Once all practical resources to collect the receivable have been utilized without success, the receivable is deemed uncollectible and charged to the allowance for doubtful accounts. At year-end, management did not believe an allowance for doubtful accounts was deemed necessary.

***Present Value Component***

Receivables are recognized as revenue in the year the grant or pledge is made. If material, receivables with amounts due beyond one year are discounted to their net present value using the interest rate for U.S. Government issues with a remaining term equal to the expected future receipts.

***Land, Building, Equipment and Books***

Land, building, equipment and books are recorded at cost if purchased, or fair value if contributed. The cost and accumulated depreciation of assets sold or retired (except books) are removed from the respective accounts and any gain or loss is recorded in earnings. The cost and accumulated depreciation of books are removed from the respective accounts the year after they become fully depreciated.

Depreciation is calculated using the straight-line method over the estimated useful lives of assets as follows:

<u>Assets</u>	<u>Life</u>
Buildings and improvements	40 years
Furniture and fixtures	5-10 years
Books	5 years
Computer equipment	3-10 years

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

***Investments***

Investments in marketable securities with readily determinable fair market values and all debt securities are reported at their fair values in the consolidating statement of financial position. Unrealized and realized gains and losses are included as part of investment earnings in the consolidating statement of activities. Interest and dividends are also reported as part of investment earnings. Included in investments are certain money market funds with maturities of less than three months. Such money market funds are held for the express purpose of long-term investment.

***Fair Value Measurements***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by authoritative guidance, are used to measure fair value.

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy and inputs to the valuation methodologies are described as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets the Foundation has the ability to access.

Level 2 inputs are other than quoted prices in active markets that are observable either directly or indirectly for the asset. Such inputs are derived principally from or corroborated by observable market data by correlation or other means, over substantially the full contractual term of the asset, if applicable.

Level 3 inputs are unobservable and significant to the fair value measurement. Such inputs generally rely on the Foundation's own assumptions about the assumptions that market participants would use in pricing the asset.

The following represents the Foundation's fair value hierarchy for its inputs, measured at fair value on a recurring basis.

Money market investments	Level 1
Equities, exchange traded funds and mutual funds	Level 1
Agency, corporate and exchange traded bonds	Level 2

*Money market investments, equities, exchange traded funds and mutual funds:* Valued at the last recorded sales price as of the financial statement reporting date, or in the absence of recorded sales, at the last quoted bid price reported on a National Securities Exchange as of the financial statement reporting date.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

*Agency, corporate and exchange traded bonds:* Valued by obtaining non-binding market prices from the custodian holding the Foundation's investments as of the financial statement reporting date. These investments are less actively traded in the market, but quoted market prices exist for similar instruments that are actively traded.

***Collections***

The historical collections are not capitalized by the Library. In addition, the Library does not capitalize repairs or improvements to inexhaustible collections. All purchases of collection items, restoration or improvements to inexhaustible collections are recorded as decreases in unrestricted net assets in the year in which the expenditure is made. The Library maintains a collection policy that addresses collections upkeep, accession and de-accession policies and other aspects of collections management. In accordance with the policy of not recording collections in the financial records, donated collection items received during the year are not reflected in the consolidating statement of activities.

***Revenue Recognition***

***Contributions and Grants***

The Organization recognizes contributions and grants in the fiscal year in which the contribution and grants are made. Contributions are recorded either as, unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor imposed restrictions. The Organization has elected, however, to report restricted contributions whose restrictions are met in the same reporting period as they are received as unrestricted support. Interorganization transfers are eliminated in consolidation.

***Space Rental, Event and Special Events Revenue***

The Library recognizes event revenue in the fiscal year in which the revenues are earned. Event revenues are recorded as unrestricted support and revenue.

***Allocation of Expenses***

The expenses incurred to provide the various programs and activities of the Organization have been summarized on a functional basis in the consolidating statement of activities. Accordingly, these costs have been allocated in a systematic and rational manner among the programs and supporting services benefited based on management's estimates.

***Income Taxes***

The Library and the Foundation are public charities exempt from income taxes in accordance with Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income if income from those activities meet certain levels. Management has determined that those income levels were not met for the year ended June 30, 2017. Management believes that the Library and Foundation both operate in a manner consistent with their tax-exempt status at both the state and federal level.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

The Library and Foundation annually file IRS Form 990 – *Return of Organization Exempt from Income Tax* reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities, generally for a period of three years after they were filed. The Library and the Foundation currently have no tax examinations in progress.

***Use of Estimates***

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

***Recent Accounting Pronouncements***

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Organization.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which is effective for annual periods beginning after December 15, 2019. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Organization's year ending June 30, 2021. The Organization is currently in the process of evaluating the impact of adoption on the consolidating financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Upon adoption, net assets will be reduced to two classes (with and without donor restriction). The standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted and will be applied retrospectively to all periods presented upon adoption. The standard will be effective for the Organization's year ending June 30, 2019. The Organization is currently in the process of evaluating the impact of adoption on the consolidating financial statements.

**3. Grants and Pledges Receivable**

At year-end, contributors to the Library have promised to give \$21,255 in contributions, which are due within one year.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

**4. Land, Building, Equipment and Books**

Land, building, equipment and books at year-end consisted of the following:

Land	\$ 169,148
Building and improvements	19,592,934
Furniture and fixtures	788,791
Books	1,423,940
Computer equipment	486,747
Construction in progress	<u>1,068,984</u>
 Total land, building, equipment and books	 <u>\$ 23,530,544</u>

The Library entered into contracts for the preparation of construction documents relating to the on-going capital project to improve their facility. The total commitments per the contracts are approximately \$849,000, of which approximately \$799,000 was expended during the year ending June 30, 2017. On August 2, 2017 and December 6, 2017, the Library entered into additional contracts for approximately \$88,000 and \$57,000, respectively, for the same project. These expenditures are included in construction in progress at year-end and will be depreciated once placed into service. During the year ended June 30, 2017, the Library disposed of equipment in the amount of \$5,957, resulting in a loss of approximately \$450.

**5. Investments, at Fair Value**

The following represents the Foundation's fair value hierarchy for its investments measured at fair value on a recurring basis at year-end:

	Level 1	Level 2	Total
Money Markets	\$ 1,391,847	\$ -	\$ 1,391,847
Equities:			
Basic Materials	1,823,700	-	1,823,700
Consumer goods	2,033,951	-	2,033,951
Financial	3,395,962	-	3,395,962
Healthcare	3,043,524	-	3,043,524
Industrial goods	2,606,056	-	2,606,056
Real Estate	1,384,411	-	1,384,411
Services	3,122,681	-	3,122,681
Technology	3,721,819	-	3,721,819
Utilities	795,335	-	795,335
Total equities	<u>21,927,439</u>	<u>-</u>	<u>21,927,439</u>
Exchange Traded Funds	4,717,532	-	4,717,532
Bonds:			

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

Agency bonds	-	547	547
Corporate bonds	-	4,967,382	4,967,382
Non-traditional bonds	-	569,283	569,283
Total bonds	-	5,537,212	5,537,212
Total investments	<u>\$ 28,036,818</u>	<u>\$ 5,537,212</u>	<u>\$ 33,574,030</u>

Total investment earnings are summarized as follows:

Interest income	\$ 145,787
Dividend income	700,148
Realized gain	498,633
Unrealized gain	2,548,288
Investment and custodial fees	(195,633)
Total investment earnings	<u>\$ 3,697,223</u>

**6. Line of Credit**

The Library had a three-year revolving line of credit agreement (revolver) with a bank for maximum borrowings of \$1,000,000. The revolver accrued interest on any outstanding balance at the one-month LIBOR rate (1.23% at June 30, 2017) plus 1.75%. Monthly interest-only payments were required, with full payment due upon maturity on September 23, 2025. The revolver was secured by a minimum value of marketable securities in the amount of \$1,450,000. The outstanding balance on the revolver as of June 30, 2017 was \$954,506. Subsequent to year-end, the revolver was refinanced with a different bank (Note 16).

**7. Term Loan**

The Library had a ten-year term loan in the amount of \$2,625,415. Monthly principal and interest payments of \$15,840 were due through maturity on September 23, 2025, at which time the remaining principal balance was due. Principal and interest payments are based on a 20-year amortization schedule. Interest accrued monthly at a rate of 3.96%. The term loan was secured by a minimum value of the Foundation's marketable securities in the amount of 145% of the outstanding balance on the term loan. The balance on the term loan as of June 30, 2017 was \$2,471,427. Subsequent to year-end, the term loan was refinanced with a different bank (Note 16).

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

Scheduled future maturities of the term loan are as follows:

Year Ending June 30.

2018	\$	92,791
2019		96,576
2020		100,270
2021		104,606
2022		108,873
Thereafter		1,968,311
Total	\$	2,471,427

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets, consisting of various program and book funds, were available for the following purposes at year-end:

Capital Campaign	\$	17,000
Dana & Sarah Engle Fund		1,500
Deaccession Reserve		20,923
Disability Grant		1,650
IMLS Connected Libraries		647
Librarian's Discretionary Fund		30,968
LISC		10,650
Literacy		30,501
M. M. Boyle Bequest		34,347
Nicholson Whaling		179,020
Occasional Nuggets		1,621
Opening Our Doors		7,965
Project Lark		75
Reading Enrichment		19,906
RI Collection		3,573
Truck Reserve		4,500
USCIS		15,973
Watkins Lifelong Learning		12,270
Wellness Program		6,757
Unappropriated Temporarily Restricted Net Assets (Note 9)		531,783
Total temporarily restricted net assets	\$	931,629

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

**9. Endowment**

The Foundation’s endowment consists of funds established to support general operations and various book funds. The Foundation’s endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors (the Board) to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

***Interpretation of Relevant Law*** - The Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires 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, the Foundation classifies as permanently restricted (a) the original value of the gift 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 accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the long and short-term needs of the Foundation in carrying out its educational purposes, the problems peculiar to the Foundation, the Foundation’s present and anticipated financial requirements, expected total returns on the Foundation’s investments, price level trends, and general economic conditions in making a determination to appropriate or accumulate donor-restricted endowment funds.

Endowment net asset composition by type of fund at year-end is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
General operations	\$12,938,539	\$ 127,628	\$ 977,045	\$14,043,212
Various book funds	-	404,155	3,208,395	3,612,550
<b>Total endowment net assets</b>	<b>\$12,938,539</b>	<b>\$ 531,783</b>	<b>\$ 4,185,440</b>	<b>\$17,655,762</b>



**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

Change in endowment net assets for the year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$12,398,026	\$ 577,025	\$ 4,185,340	\$17,160,391
Contributions	5,401	-	100	5,501
Investment Return: Interest and dividends, net of investment expenses	250,324	44,278	-	294,602
Net realized and unrealized gain	1,180,964	15,235	-	1,196,199
Total investment return	<u>1,431,288</u>	<u>59,513</u>	<u>-</u>	<u>1,490,801</u>
Amounts appropriated for expenditure	<u>(896,176)</u>	<u>(104,755)</u>	<u>-</u>	<u>(1,000,931)</u>
Endowment net assets, end of year	<u>\$12,938,539</u>	<u>\$ 531,783</u>	<u>\$ 4,185,440</u>	<u>\$17,655,762</u>

***Funds with Deficiencies*** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or RIUPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2017.

***Return Objective and Risk Parameters*** - The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity as well as Board designated funds, if any. Given the relationship between risk and return, a fundamental step in determining the investment policy for Endowment Funds is the determination of an appropriate risk tolerance. After taking into consideration such factors as corporate financial stability, uncertainty of cash flows in and out of the Endowment Funds over the long-term and capital market volatility, the Board believes a moderate risk strategy is prudent. Under this policy, as approved by the Board, the goal is to have stable returns over the long-term, with a reduced potential of negative returns in any given year.

***Strategies Employed for Achieving Objectives*** - To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives with prudent risk constraints.

***Spending Policy*** - The funds available for distribution during any one year will be limited to five percent (5%) of the market value of the corpus, which value is determined by computing a 3-year rolling average, with measures taken at the end of each of the preceding 12 quarters.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

**10. Commitments**

Space License and Use Agreement

On February 23, 2012, the Library entered into a space license and use agreement with a local catering company. The agreement grants the catering company the right to use space in the Library as designated in the agreement to conduct and host events. The agreement runs through the earlier of the fifth anniversary of the material completion of the renovation to the event space or January 1, 2018. The Library is currently in discussions with the catering company to extend the agreement.

Lease Agreement and Option to Purchase

On March 30, 2012, the Library entered into a lease agreement and option to sell the Library's seven branch buildings to the City of Providence (the City). The Library had short-term leases with the City for \$1 annually since July 1, 2009. The new lease is a long-term, absolute net lease for the leased premises, at the end of which the City will have the option to purchase the leased premises.

Upon execution of the lease, the City was obligated to pay \$250,000, and commencing on March 30, 2014, and on each March 30 thereafter through and including March 30, 2030, the City will pay approximately \$279,400, so that the total of all rent payments made by the City to the Library during the term will be \$5,000,000.

Under the lease, the Library will bear no expense whatsoever with respect to the operation or maintenance of the leased premises during the term. The City will be permitted to sublease the leased premises to the Providence Community Library (PCL) to operate the branches as libraries so long as the sublease agreement between the City and PCL requires PCL to comply with the terms of the lease. Given that the City remains in compliance with the terms of the lease and has paid the Library all of the rent, which shall not be less than \$5,000,000 in aggregate, the City will have the option to purchase the leased premises or any one or more of the individual branches, for a purchase price of \$1 for each branch purchased.

In accordance with authoritative guidance the Library has treated this lease as a sales-type lease by 1) removing the land, building and associated accumulated depreciation, 2) recording a receivable for the full amount of future rentals to be received under the agreement and 3) recording unearned interest income, to be recognized over the term of the lease agreement, for the present value of future rental payments to be received using a discount rate of prime (4.25% at June 30, 2017).

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

Approximate future minimum lease payments receivable are as follows:

<u>Year Ending</u>	
2017	\$ 279,400
2018	279,400
2019	279,400
2020	279,400
2021	279,400
Thereafter	<u>2,235,353</u>
 Total	 <u><u>\$ 3,632,353</u></u>

**11. Pension Plan**

The Library maintained a defined benefit pension plan (the Plan) covering substantially all employees hired prior to November 13, 2009. Retirement benefits are calculated at 1.5% to 2% of a participant's compensation multiplied by a participant's credited service. The Library contributes to the Plan according to its actuary's recommendations.

On September 17, 2009, the Board of Directors (the Board) of the Library voted to freeze the Plan effective November 14, 2009. In conjunction with freezing the Plan, accrual of benefits under the Plan will not increase as a result of employment subsequent to November 14, 2009. In addition, effective November 14, 2009, the Plan was amended to provide that no additional employees are eligible to become participants in the Plan. On June 15, 2017, the Board voted to terminate the Plan effective September 30, 2017.

Authoritative guidance requires an employer to recognize in its consolidating statement of financial position the funded status of a benefit plan measured as the difference between plan assets at fair value and the projected benefit obligation; recognized with the changes in net assets, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs; measure defined benefit plan assets and obligations as of the date of the employer's year-end; and disclose in the notes to the consolidating financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses and prior service costs or credits.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

The following tables set forth the Library's defined benefit plan obligations, funded status and amounts recognized in the Organization's consolidating financial statements as of June 30, 2017:

<u>Accumulated benefit obligation</u>	<u>\$ 10,047,048</u>
 <u>Change in benefit obligation</u>	
Benefit obligation at beginning of year	\$ 10,298,738
Interest cost	356,454
Benefits paid other than for settlement	(466,316)
Actuarial gain	<u>(141,828)</u>
Benefit obligation at end of year	<u>10,047,048</u>
 <u>Change in plan assets:</u>	
Fair value of plan assets at beginning of year	6,696,012
Actual return on plan assets	407,596
Employer contributions	448,368
Benefits paid other than for settlement	(466,316)
Fair value of plan assets at end of year	<u>7,085,660</u>
Funded status at end of year	(2,961,388)
Additional funding required upon termination	(537,749)
Funded status as of termination date	<u>\$ (3,499,137)</u>
 <u>Amount recognized in the consolidating statement of financial position:</u>	
Non-current liabilities	<u>\$ (3,499,137)</u>
 <u>Amounts recognized in the consolidating statement of activities:</u>	
Net gain	<u>\$ (460,399)</u>
Interest cost	356,454
Expected return on plan assets	(437,295)
Amortization of net loss	348,270
Additional funding required upon termination	537,749
Net periodic pension cost	<u>805,178</u>
Amounts recognized in the consolidating statement of activities	<u>\$ 344,779</u>
 <u>Cumulative amounts recognized in changes in unrestricted net assets:</u>	
Net loss	<u>\$ 2,893,586</u>

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

The weighted-average assumptions used to determine the benefit obligations and the net periodic benefit cost for the year ended June 30, 2017 are as follows:

Post-retirement discount rate:	
Benefit obligations	3.87%
Net periodic benefit cost	3.61%
Expected long-term rate of return on plan assets	7.00%
Rate of compensation increase	N/A
Average future years of service	7.5 Years

The Library's pension plan weighted-average asset allocation at June 30, 2017 by asset category is as follows:

Fixed Income	44%
Cash and Cash Equivalents	56%

Significant concentrations of plan assets are held in the following investments at June 30, 2017:

- First American Government Obligations Money Market Fund
- Vanguard Long Term Investment Grade Fund
- Western Asset Core Plus Bond Fund Class I

The Library's pension plan assets are invested with the objective of achieving a total rate of return over the long-term that is sufficient to fund future pension obligations. Overall investment risk is mitigated by maintaining a diversified portfolio of assets as reflected in the above table.

Asset allocations were established to meet the Library's investment objectives. The expected long-term rate of return on plan assets is based on several factors, including the historical and projected performance of those asset classes, and on the plan's current asset composition.

Due to the termination of the plan, as noted above, the Library expects to contribute approximately \$3,499,100 to the plan during the fiscal year ending June 30, 2018. The amount is estimated based on the expected unfunded balance as of the expected contribution date. This amount is included as a long-term liability in the consolidated statement of financial position as the contribution will be funded through a line of credit (Note 16).

## **12. Union**

At June 30, 2017, the Library had a total of 55 employees. Of this total, 16 employees are represented by the United Service & Allied Workers of Rhode Island (USAW-RI). The current labor agreement, effective July 1, 2009, was extended through June 30, 2019.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

**13. Concentrations of Credit Risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, grants and pledges and other receivables, and investments. At June 30, 2017, approximately 30% of the Library's outstanding receivables are from one donor. Based on collections to date and past history of collections, the Library has determined that at June 30, 2017, an allowance for doubtful accounts is not deemed necessary.

The Library maintains its cash and cash equivalent accounts at one financial institution. Accounts at the bank are insured by the Federal Deposit Insurance Corporation up to specified limits. At June 30, 2017, the amounts exceeding the insurance limit were approximately \$192,600. Management does not believe significant credit risk exists at year-end.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such change could materially affect investment balances and activity included in the consolidating financial statements. The Organization has a diversified portfolio for all of its investments and retains an investment advisor to attain a prudent level of diversification in an attempt to minimize potential risk associated with investment securities to the extent possible. Management does not believe significant credit risks exist at year-end with respect to these investments (Note 5).

**14. Legal Proceedings**

The Library is from time to time subject to legal proceedings and claims that arise in the normal course of business. In the opinion of management, the amount of ultimate liability with respect to actions outstanding as of June 30, 2017 will not have a material adverse effect on the Organization's consolidating statement of financial position or its consolidating statement of activities.

**15. Tax-deferred Pension Plan**

The Library has a 403(b) tax-deferred pension plan, which is available to all of its employees. For the year ended June 30, 2017, the Library made a contribution of approximately \$79,200 to the plan.

**16. Subsequent Events**

On December 20, 2017, the Organization refinanced their existing revolver with a different bank and increased the maximum borrowings to \$1,500,000 (Note 6).

On December 20, 2017, the Organization refinanced their existing term loan with a different bank in the amount of \$2,500,000 (Note 7).

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
NOTES TO THE CONSOLIDATING FINANCIAL STATEMENTS  
Year Ended June 30, 2017**

On December 20, 2017, the Organization entered into a line-of-credit agreement with a bank for maximum borrowings of \$3,500,000 to fund the unfunded portion of the terminated defined benefit pension plan (Note 11).

Management has evaluated subsequent events through January 26, 2018, which is the date these consolidating financial statements were available to be issued.

**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION**

**Supplementary Information  
Program Service Accomplishments (Unaudited)**

**Year Ended June 30, 2017**



**PROVIDENCE PUBLIC LIBRARY AND  
PROVIDENCE PUBLIC LIBRARY FOUNDATION  
PROGRAM SERVICE ACCOMPLISHMENTS (UNAUDITED)  
Year Ended June 30, 2017**

The Providence Public Library is a progressive and respected 142 year old private, not for profit institution. The Library achieves its mission through the provision of traditional and innovative library services, with a focus on programs best meeting both the city and the state's lifelong learning needs.

During the year ended June 30, 2017, an estimated 150,337 people visited the Library, with total usage of resources and materials topping 593,758. Public access computers were used 37,343 times. Library users received information assistance from Library staff for a total of 30,783 times. Additionally, the Library provided a total of 1,217 programs for children and adults, generating a total attendance of 24,591.