

Notes to Financial Statements

1. Significant Accounting Policies

ORGANIZATION

Carnegie Library of Pittsburgh (the Library) is a public trust which was established in 1895 for the benefit of the Greater Pittsburgh area community. As a free public library, the Library provides collections, programs, and services through a network which includes the Main Library and eighteen branch libraries, the Bookmobile Center with three bookmobiles, and the Library for the Blind and Physically Handicapped. The Library is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.

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

In December 1994, the Library entered into a support agreement with Allegheny County Regional Asset District (the District) for the purposes of supporting and financing the activities of the Library, providing for oversight and coordination of the Library, and assuring the efficient operation and development of the Library. Provided that the Library complies with the requirements of the agreement, the District covenants to provide funds to the Library of at least \$11,882,000 annually through the year 2004.

NET ASSETS

The Library reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. The Library records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Permanently restricted net assets represent funds which the donor has stipulated must be invested and only the income earned on said investments may be expended. The classification of the interest earnings on such funds as unrestricted or temporarily restricted is based on donor restrictions. Realized and unrealized gains are maintained as permanently restricted net assets as required by law.

INVESTMENTS AND INVESTMENT RETURN

Investments are carried at market value based on quoted prices. The Library makes available to be spent each year the lesser of actual interest income and dividends or 5.5% (net of investment and custodial fees—approximately \$42,000 and \$38,000 in 1998 and 1997, respectively) of the average market value of the long-term investment portfolio for the three preceding years (the operating rate) plus any additional amount, as authorized by the Board of Trustees, not to exceed the amount permitted by law. Investment earnings not designated for operations are included in the statements of activities and changes in net assets as nonoperating revenue.

Notes to Financial Statements

1. Significant Accounting Policies (continued)

CASH AND CASH EQUIVALENTS

The Library classifies all investments with maturities of three months or less, when purchased, as cash and cash equivalents.

LAND, BUILDINGS, AND EQUIPMENT

It is the Library's policy that expenditures for land, buildings, and equipment are reported as decreases in unrestricted net assets and are carried at no value in the financial statements. Consequently, depreciation of buildings and equipment is not provided for in the statements of activities and changes in net assets. The value of land, buildings, and equipment has not been determined at December 31, 1998.

COLLECTIONS

The Library's special collections, which were acquired through purchases and contributions since the Library's inception, consist of approximately 128,000 books that are held for educational, research, and special curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections.

The collections are not recognized as assets in the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired (\$2,257,510 in 1998 and \$2,575,099 in 1997 included in Main Library and branches expenditures). Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries (of which there were none in 1998 and 1997) are reflected as increases in unrestricted net assets.

DEFERRED REVENUE

Deferred revenue represents amounts received which relate to a future period.

MEASURE OF OPERATIONS

The Library includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including capital expenditures based on its policy not to capitalize these amounts. As discussed in the Investments and Investment Return policy, investment earnings are allocated between operating and nonoperating revenues.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes to Financial Statements

2. Investments

Investments consist of the following at December 31:

	1998		1997	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 188,130	\$ 188,130	\$ 413,876	\$ 413,876
U.S. Government obligations	2,096,837	2,117,872	2,227,275	2,247,460
Corporate obligations	894,544	906,999	886,490	888,802
Common stocks	3,771,926	5,389,326	2,913,947	4,018,806
Other	—	—	99,700	103,292
Total investments	\$6,951,437	\$8,602,327	\$6,541,288	\$7,672,236

The following summarizes the total return on investments and cash equivalents and its classification in the statements of activities and changes in net assets:

Year ended December 31, 1998:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Interest and dividend income, net of investment fees of \$42,120	\$227,371	\$219,765	\$ —	\$ 447,136
Nonoperating revenue:				
Net realized gains on investments	65,886	7,766	333,350	407,002
Net change in unrealized gains on investments	82,151	6,239	431,552	519,942
Investment return not designated for operations	148,037	14,005	764,902	926,944
Total return on investments and cash equivalents	\$375,408	\$233,770	\$ 764,902	\$1,374,080

Year ended December 31, 1997:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenue:				
Interest and dividend income, net of investment fees of \$37,677	\$152,757	\$177,362	\$ —	\$ 330,119
Nonoperating revenue:				
Net realized gains on investments	208,237	23,713	1,064,843	1,296,793
Net change in unrealized gains on investments	(15,187)	(1,729)	(77,659)	(94,575)
Investment return not designated for operations	193,050	21,984	987,184	1,202,218
Total return on investments and cash equivalents	\$345,807	\$199,346	\$ 987,184	\$1,532,337

Notes to Financial Statements

3. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31, 1998	December 31, 1997
Main Library and branches	\$1,642,613	\$ 666,603
Electronic Information Network	247,102	654,204
Beginning with Books	794,357	810,693
	\$2,684,072	\$2,131,500

The Electronic Information Network (EIN) is a project being administered by the Library which will electronically link County of Allegheny libraries. The project, which commenced in 1994, is estimated to cost approximately \$10,440,000 and is expected to be completed in the year 2000. As of December 31, 1998, the EIN project has been substantially funded.

The EIN pledges receivable have been recorded in the accompanying financial statements at their estimated net present value and are expected to be received as follows:

1999	\$40,000
2000	30,000
	70,000
Less amount representing interest	2,544
Total	\$67,456

Permanently restricted net assets are restricted to:

	December 31, 1998	December 31, 1997
Investment and reinvestment in perpetuity, the income from which is expendable to support:		
Main Library and branches	\$5,610,463	\$4,966,622
Any activities of the Library	1,495,206	1,333,322
	\$7,105,669	\$6,299,944

4. Net Assets Released from Restrictions

Net assets were released from donor restrictions for the years ended December 31, 1998 and 1997 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	December 31, 1998	December 31, 1997
Main Library and branches	\$1,526,844	\$1,740,511
Electronic Information Network	2,621,731	3,546,792
Beginning with Books	829,448	729,424
Total	\$4,978,023	\$6,016,727

Notes to Financial Statements

5. Pension Plan

The Library participates in a multiemployer pension plan covering all eligible employees which requires employee contributions of 5% of salaries and wages. The required employer contribution is 7.5% of salaries and wages up to the employee's 50th birthday and 8.5% thereafter. Pension costs, amounting to \$652,765 for 1998 and \$622,145 for 1997, have been fully funded.

6. Leases

The Brookline and Hill District branches' facilities are leased under agreements expiring through 2002. Approximate future rentals are: 1999—\$61,625; 2000—\$28,625; 2001—\$28,625; and 2002—\$28,625.

7. Mortgage Payable

In March 1990, the Library borrowed \$425,380 to purchase a building for the Library for the Blind and Physically Handicapped. The mortgage, which is secured by the property at 4724 Baum Boulevard, bears interest at an interest rate of 8.4% and requires monthly principal and interest payments of \$5,154 with the final payment due on February 28, 2000. Rental proceeds from a tenant in the building are being utilized to satisfy the debt service on the mortgage.

8. Expenses and Losses by Natural Classification

Expenses and losses by natural classification are as follows at December 31:

	1998	1997
Salaries	\$11,748,444	\$11,318,907
Fringe benefits	3,271,062	3,126,431
Library materials	2,257,510	2,575,099
Utilities	875,877	840,806
Administrative service	685,000	670,000
Equipment	1,214,936	2,107,998
Supplies and expenses	1,298,226	1,367,797
Building rental	61,626	80,735
Repairs and maintenance	568,570	436,429
Telephone	238,259	299,272
Postage	112,367	116,295
Purchased services	391,552	446,410
Professional fees	442,536	507,298
Insurance	79,436	88,320
Vehicle operating expenses	11,119	20,097
Capital projects	484,633	704,878
Interest	9,679	13,882
Total expenses and losses	\$23,750,832	\$24,720,654

Notes to Financial Statements

9. Related Party Transactions

Certain administrative services are provided to the Library by the Carnegie Institute. The Institute charged the Library \$685,000 in 1998 and \$670,000 in 1997 for these services.

10. Impact of Year 2000 (Unaudited)

Some of the Library's older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software that recognizes a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations including, among other things, a temporary inability to process transactions, or engage in similar normal business activities.

The Library has created a Y2K Task Force which consists of representatives from the Main Library, Branches, the Electronic Information Network (EIN), and an external legal advisor.

The Task Force meets monthly to review progress and to identify Y2K tasks to be completed. Progress reports are provided to the President, Library Director, Audit Committee, Executive Committee, and the Board of Trustees. Monthly progress reports are also provided to Ernst & Young.

The Library has completed an assessment and is in the process of remediating and testing changes to its software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. The project is estimated to be completed no later than June 30, 1999, which is prior to any anticipated impact on its operating systems. The Library believes that with modifications to existing software and conversions to new software, the Year 2000 Issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the operations of the Library. All mission-critical items are expected to be Y2K compliant by September 30, 1999. Written contingency plans have also been developed.

The costs of the project, which are not expected to be material, and the date on which the Library believes it will complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.