

EISNERAMPER

BROOKLYN PUBLIC LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Brooklyn Public Library
Brooklyn, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Brooklyn Public Library (the "Library"), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Library's management is responsible for the preparation and fair presentation of these financial statements, in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Public Library as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.



EISNERAMPER LLP
New York, New York
September 12, 2018



BROOKLYN PUBLIC LIBRARY

Statements of Financial Position (in thousands)

| | June 30, | |
|---|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| ASSETS | | |
| Cash and cash equivalents (including restricted cash of \$107 in both fiscal years) | \$ 16,608 | \$ 21,266 |
| Contributions and grant receivables, net | 11,875 | 8,964 |
| Investments | 65,334 | 44,071 |
| Restricted cash segregated account | 662 | 21,686 |
| Prepaid and other assets | 365 | 267 |
| Property and equipment, net | <u>42,559</u> | <u>38,541</u> |
| | <u>\$ 137,403</u> | <u>\$ 134,795</u> |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable, accrued expenses and advances | \$ 8,408 | \$ 9,506 |
| Accrued wages and related liabilities | 14,610 | 14,294 |
| Deferred revenue | <u>2,295</u> | <u>1,750</u> |
| Total liabilities | <u>25,313</u> | <u>25,550</u> |
| Commitments and contingencies (Note I) | | |
| Net assets: | | |
| Unrestricted: | | |
| Corporate | 71,779 | 66,262 |
| Board-designated for building renovation | 5,830 | 7,350 |
| Board-designated for use in future fiscal years | <u>5,439</u> | <u>5,439</u> |
| Total unrestricted | 83,048 | 79,051 |
| Temporarily restricted | 26,421 | 27,579 |
| Permanently restricted | <u>2,621</u> | <u>2,615</u> |
| Total net assets | <u>112,090</u> | <u>109,245</u> |
| | <u>\$ 137,403</u> | <u>\$ 134,795</u> |

BROOKLYN PUBLIC LIBRARY

Statements of Activities (in thousands)

| | Year Ended June 30, 2018 | | | | Year Ended June 30, 2017 | | | |
|---|--------------------------|------------------------|------------------------|-------------------|--------------------------|------------------------|------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Operating support and revenues: | | | | | | | | |
| City of New York appropriations | \$ 113,824 | | | \$ 113,824 | \$ 110,980 | | | \$ 110,980 |
| State of New York appropriations | 7,620 | | | 7,620 | 7,810 | | | 7,810 |
| Federal government grants | 1,258 | | | 1,258 | 1,187 | | | 1,187 |
| Contribution income | 2,400 | \$ 3,231 | | 5,631 | 1,304 | \$ 3,212 | | 4,516 |
| Purchase discount reimbursement contribution | 856 | | | 856 | 834 | | | 834 |
| Contributed facilities and utilities | 34,146 | | | 34,146 | 32,058 | | | 32,058 |
| Net investment income | 1,658 | 191 | | 1,849 | 1,588 | 182 | | 1,770 |
| Contributed goods and services | 358 | | | 358 | 465 | | | 465 |
| Special events, (net of direct benefit to donors of \$187 and \$157 in 2018 and 2017, respectively) | 1,025 | | | 1,025 | 581 | | | 581 |
| Fines, royalties, and other revenue | 4,397 | | | 4,397 | 4,307 | | | 4,307 |
| | <u>167,542</u> | <u>3,422</u> | | <u>170,964</u> | <u>161,114</u> | <u>3,394</u> | | <u>164,508</u> |
| Net assets released from restrictions for operations | 2,950 | (2,950) | | 0 | 2,936 | (2,936) | | 0 |
| Total operating support and revenues | <u>170,492</u> | <u>472</u> | | <u>170,964</u> | <u>164,050</u> | <u>458</u> | | <u>164,508</u> |
| Operating expenses: | | | | | | | | |
| Program services: | | | | | | | | |
| Central library | 36,000 | | | 36,000 | 34,440 | | | 34,440 |
| Neighborhood libraries | 107,247 | | | 107,247 | 103,045 | | | 103,045 |
| Special programs | 9,144 | | | 9,144 | 8,776 | | | 8,776 |
| Total program services | <u>152,391</u> | | | <u>152,391</u> | <u>146,261</u> | | | <u>146,261</u> |
| Supporting services: | | | | | | | | |
| Management and general | 10,913 | | | 10,913 | 9,966 | | | 9,966 |
| Fund-raising | 3,706 | | | 3,706 | 3,127 | | | 3,127 |
| Total support services | <u>14,619</u> | | | <u>14,619</u> | <u>13,093</u> | | | <u>13,093</u> |
| Total operating expenses | <u>167,010</u> | | | <u>167,010</u> | <u>159,354</u> | | | <u>159,354</u> |
| Increase in net assets from operating activities | <u>3,482</u> | <u>472</u> | | <u>3,954</u> | <u>4,696</u> | <u>458</u> | | <u>5,154</u> |
| Non-operating activities: | | | | | | | | |
| Grants and capital contributions for improvements | 2,590 | 3,445 | | 6,035 | 958 | 22,000 | | 22,958 |
| Permanently restricted contributions | | | \$ 6 | 6 | | | \$ 21 | 21 |
| Capital grants expenditures | | (3,445) | | (3,445) | | | | |
| Losses on disposals of property and equipment | (354) | | | (354) | (59) | | | (59) |
| Recovery of underwater funds and transfers | 1 | (1) | | 0 | 4 | (4) | | 0 |
| Depreciation and amortization | (4,010) | | | (4,010) | (3,593) | | | (3,593) |
| Investment gains not designated for current operations | 617 | 42 | | 659 | 2,918 | 119 | | 3,037 |
| Net assets released from restrictions for capital expenditures | 1,671 | (1,671) | | 0 | 314 | (314) | | 0 |
| Change in net assets from non-operating activities | <u>515</u> | <u>(1,630)</u> | <u>6</u> | <u>(1,109)</u> | <u>542</u> | <u>21,801</u> | <u>21</u> | <u>22,364</u> |
| Change in net assets | <u>3,997</u> | <u>(1,158)</u> | <u>6</u> | <u>2,845</u> | <u>5,238</u> | <u>22,259</u> | <u>21</u> | <u>27,518</u> |
| Net assets - beginning of year | <u>79,051</u> | <u>27,579</u> | <u>2,615</u> | <u>109,245</u> | <u>73,813</u> | <u>5,320</u> | <u>2,594</u> | <u>81,727</u> |
| Net assets - end of year | <u>\$ 83,048</u> | <u>\$ 26,421</u> | <u>\$ 2,621</u> | <u>\$ 112,090</u> | <u>\$ 79,051</u> | <u>\$ 27,579</u> | <u>\$ 2,615</u> | <u>\$ 109,245</u> |

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses

Year Ended June 30, 2018

(with comparative totals for June 30, 2017)

(in thousands)

| | Program Services | | | | Supporting Services | | | Total Expenses | |
|---|------------------|------------------------|------------------|------------------------|------------------------|-----------------|---------------------------|-------------------|-------------------|
| | Central Library | Neighborhood Libraries | Special Programs | Total Program Services | Management and General | Fund-Raising | Total Supporting Services | 2018 | 2017 |
| | | | | | | | | | |
| Salaries and related expenses: | | | | | | | | | |
| Salaries | \$ 11,809 | \$ 41,050 | \$ 3,374 | \$ 56,233 | \$ 4,163 | \$ 1,778 | \$ 5,941 | \$ 62,174 | \$ 60,164 |
| Payroll taxes | 1,137 | 3,953 | 325 | 5,415 | 401 | 171 | 572 | 5,987 | 5,696 |
| Employee health and retirement benefits | 5,597 | 19,458 | 1,599 | 26,654 | 1,973 | 843 | 2,816 | 29,470 | 27,569 |
| Total salaries and related expenses | 18,543 | 64,461 | 5,298 | 88,302 | 6,537 | 2,792 | 9,329 | 97,631 | 93,429 |
| Operating expenses: | | | | | | | | | |
| Professional fees and contract service payments | 1,361 | 4,732 | 389 | 6,482 | 1,772 | 521 | 2,293 | 8,775 | 8,733 |
| Supplies | 503 | 1,747 | 144 | 2,394 | 152 | 84 | 236 | 2,630 | 2,769 |
| Telephone and telecommunications | 688 | 2,393 | 197 | 3,278 | 134 | 16 | 150 | 3,428 | 4,121 |
| Postage and shipping | 22 | 75 | 6 | 103 | 21 | 6 | 27 | 130 | 152 |
| Occupancy | 367 | 1,275 | 105 | 1,747 | 1,507 | | 1,507 | 3,254 | 2,943 |
| Donated rent and utilities | 11,169 | 20,928 | 2,049 | 34,146 | | | | 34,146 | 32,058 |
| Contributed public service announcements | 42 | 146 | 12 | 200 | | | | 200 | 263 |
| Printing | 6 | 22 | 2 | 30 | 8 | 8 | 16 | 46 | 49 |
| Advertising and public service messages | 76 | 263 | 22 | 361 | 36 | 28 | 64 | 425 | 380 |
| Conferences, meetings, travel and subsistence | 58 | 201 | 16 | 275 | 24 | 12 | 36 | 311 | 239 |
| Subscriptions and reference publications | 6 | 20 | 2 | 28 | 3 | 2 | 5 | 33 | 30 |
| Books and public library materials | 2,022 | 7,028 | 578 | 9,628 | | | | 9,628 | 9,499 |
| Insurance | 167 | 579 | 47 | 793 | 92 | | 92 | 885 | 883 |
| Repairs and maintenance | 787 | 2,738 | 225 | 3,750 | 343 | 62 | 405 | 4,155 | 2,123 |
| Staff development/training | 39 | 136 | 11 | 186 | 19 | 7 | 26 | 212 | 289 |
| Interest, bank and lockbox fees | 76 | 263 | 21 | 360 | 205 | 44 | 249 | 609 | 572 |
| Scholarship fund and staff recognition | 20 | 69 | 6 | 95 | 22 | | 22 | 117 | 186 |
| Direct mail costs | | 3 | | 3 | | | | 3 | 83 |
| Miscellaneous | 4 | 13 | 1 | 18 | | | | 18 | 110 |
| Special events and other expenses | 44 | 155 | 13 | 212 | 13 | 124 | 137 | 349 | 280 |
| Bad debt expense | | | | | 25 | | 25 | 25 | 163 |
| Total operating expenses | 36,000 | 107,247 | 9,144 | 152,391 | 10,913 | 3,706 | 14,619 | 167,010 | 159,354 |
| Non-operating expenses: | | | | | | | | | |
| Depreciation and amortization | 843 | 2,926 | 241 | 4,010 | | | | 4,010 | 3,593 |
| Total non-operating expenses | 843 | 2,926 | 241 | 4,010 | | | | 4,010 | 3,593 |
| Total expenses | \$ 36,843 | \$ 110,173 | \$ 9,385 | \$ 156,401 | \$ 10,913 | \$ 3,706 | \$ 14,619 | \$ 171,020 | \$ 162,947 |

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses Year Ended June 30, 2017 (in thousands)

| | Program Services | | | | Supporting Services | | | Total Expenses |
|---|------------------|------------------------|------------------|------------------------|------------------------|-----------------|---------------------------|-------------------|
| | Central Library | Neighborhood Libraries | Special Programs | Total Program Services | Management and General | Fund-Raising | Total Supporting Services | 2017 |
| Salaries and related expenses: | | | | | | | | |
| Salaries | \$ 11,437 | \$ 39,758 | \$ 3,268 | \$ 54,463 | \$ 4,115 | \$ 1,586 | \$ 5,701 | \$ 60,164 |
| Payroll taxes | 1,093 | 3,801 | 313 | 5,207 | 348 | 141 | 489 | 5,696 |
| Employee health and retirement benefits | 5,311 | 18,461 | 1,517 | 25,289 | 1,604 | 676 | 2,280 | 27,569 |
| Total salaries and related expenses | 17,841 | 62,020 | 5,098 | 84,959 | 6,067 | 2,403 | 8,470 | 93,429 |
| Operating expenses: | | | | | | | | |
| Professional fees and contract service payments | 1,497 | 5,205 | 428 | 7,130 | 1,251 | 352 | 1,603 | 8,733 |
| Supplies | 538 | 1,868 | 154 | 2,560 | 166 | 43 | 209 | 2,769 |
| Telephone and telecommunications | 839 | 2,918 | 240 | 3,997 | 121 | 3 | 124 | 4,121 |
| Postage and shipping | 23 | 78 | 6 | 107 | 39 | 6 | 45 | 152 |
| Occupancy | 306 | 1,065 | 88 | 1,459 | 1,484 | | 1,484 | 2,943 |
| Donated rent and utilities | 10,458 | 19,677 | 1,923 | 32,058 | | | | 32,058 |
| Contributed public service announcements | 55 | 192 | 16 | 263 | | | | 263 |
| Printing | 8 | 29 | 2 | 39 | 5 | 5 | 10 | 49 |
| Advertising and public service messages | 60 | 209 | 17 | 286 | 40 | 54 | 94 | 380 |
| Conferences, meetings, travel and subsistence | 43 | 149 | 12 | 204 | 29 | 6 | 35 | 239 |
| Subscriptions and reference publications | 6 | 20 | 2 | 28 | 1 | 1 | 2 | 30 |
| Books and public library materials | 1,995 | 6,934 | 570 | 9,499 | | | | 9,499 |
| Insurance | 168 | 586 | 48 | 802 | 81 | | 81 | 883 |
| Repairs and maintenance | 396 | 1,377 | 113 | 1,886 | 198 | 39 | 237 | 2,123 |
| Staff development/training | 59 | 205 | 17 | 281 | 7 | 1 | 8 | 289 |
| Interest, bank and lockbox fees | 53 | 183 | 15 | 251 | 295 | 26 | 321 | 572 |
| Scholarship fund and staff recognition | 37 | 129 | 11 | 177 | 9 | | 9 | 186 |
| Direct mail costs | 6 | 23 | 2 | 31 | 16 | 36 | 52 | 83 |
| Miscellaneous | 23 | 79 | 6 | 108 | 1 | 1 | 2 | 110 |
| Special events and other expenses | 29 | 99 | 8 | 136 | 9 | 135 | 144 | 280 |
| Bad debt expense | | | | | 147 | 16 | 163 | 163 |
| Total operating expenses | 34,440 | 103,045 | 8,776 | 146,261 | 9,966 | 3,127 | 13,093 | 159,354 |
| Non-operating expenses: | | | | | | | | |
| Depreciation and amortization | 755 | 2,623 | 215 | 3,593 | | | | 3,593 |
| Total non-operating expenses | 755 | 2,623 | 215 | 3,593 | | | | 3,593 |
| Total expenses | \$ 35,195 | \$ 105,668 | \$ 8,991 | \$ 149,854 | \$ 9,966 | \$ 3,127 | \$ 13,093 | \$ 162,947 |

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statements of Cash Flows

| | Year Ended June 30, | |
|---|-------------------------|-------------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,845 | \$ 27,518 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,010 | 3,593 |
| Bad debts expense | 25 | 163 |
| Losses on disposals of property and equipment | 354 | 59 |
| Unrealized gains on investments | (394) | (3,398) |
| Net realized gains on sales of investments | (835) | (531) |
| Proceeds from the sale of donated securities | 82 | 119 |
| Donated securities | (82) | (69) |
| Contributions to permanently restricted net assets | (6) | (20) |
| Changes in: | | |
| Contribution and grant receivables, net | (2,936) | (769) |
| Prepaid expenses and other assets | (98) | (184) |
| Accounts payable, accrued expenses and advances | (1,098) | (780) |
| Accrued wages and related liabilities | 316 | (113) |
| Deferred revenue | 545 | 1,402 |
| Net cash provided by operating activities | <u>2,728</u> | <u>26,990</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | 19,060 | 17,424 |
| Purchases of investments | (39,094) | (15,502) |
| Proceeds from sale of fixed assets | 9 | |
| Purchases of property and equipment | <u>(8,391)</u> | <u>(5,995)</u> |
| Net cash used in investing activities | <u>(28,416)</u> | <u>(4,073)</u> |
| Cash flows from financing activities: | | |
| Contributions to permanently restricted net assets | <u>6</u> | <u>20</u> |
| Net cash provided by financing activities | <u>6</u> | <u>20</u> |
| Net change in cash, cash equivalents and restricted cash | (25,682) | 22,937 |
| Cash, cash equivalents and restricted cash-beginning of year | <u>42,952</u> | <u>20,015</u> |
| Cash, cash equivalents and restricted cash-end of year | <u>\$ 17,270</u> | <u>\$ 42,952</u> |
| Supplemental disclosure of cash flow of information: | | |
| Taxes paid | <u>\$ 245</u> | <u>\$ 233</u> |

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

Brooklyn Public Library (the "Library") was incorporated in the State of New York in 1902 and serves more than 2.5 million Brooklynites with a Central Library, a Business Library, and 58 branch locations. The Library receives significant support through governmental appropriations, primarily from the State of New York and The City of New York, and its continuing operations are dependent upon such government support.

The Library is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), and from state and local taxes under comparable laws.

[2] Basis of accounting:

The financial statements of the Library have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, support and revenues, and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

[4] Cash, cash equivalents and restricted cash:

The Library considers all highly liquid financial instruments, purchased with a maturity of three months or less, to be cash equivalents, except for those highly liquid assets held as a part of the investment portfolio. Included in cash and cash equivalents at both June 30, 2018 and 2017, is the amount of \$107, which is restricted for disbursement to entities involved in the Net-Working, NYC program. Additionally at June 30, 2018 and 2017 respectively, the Library had restricted cash proceeds in the amount of \$662 and \$21,686, received by the Library from the disposition of the Brooklyn Heights Branch Library building by The City of New York for the fit-out of a new Brooklyn Heights and Sunset Park Branch libraries (see Note I[11]).

[5] Investments:

Investments are reported at fair value based on quoted market prices. The Library's investments consist of U.S. equity securities, developed international equity securities, emerging market equity securities, fixed income securities and corporate bonds. During fiscal-year 2018, the Library also invested in an offshore hedge fund for which readily determinable fair value does not exist. The fair value of the hedge fund has been estimated based on the respective net asset value ("NAV") per share (or its equivalent unit) of the investment, as reported by the investment manager.

Because of the complex management structure and nature of the hedge fund and the inherent uncertainty of the valuations due to the use of NAV as a practical expedient of fair value, the Library's management and its investment manager monitor its position on a routine basis, to reduce the risk of potential losses due to changes in fair value or the failure of counterparties to perform. Management believes the carrying amount of the investment in the hedge fund is a reasonable estimate of its fair value. However, estimated fair values may differ significantly from the values that would have been used had a ready market for this investment existed.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[5] Investments: (continued)

Investment transactions are recorded on a trade-date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases and decreases in unrestricted net assets unless their use is restricted on temporary or permanent basis through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost at time of acquisition to proceeds at the time of disposition. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

The Library's policy is to sell the donated securities immediately, and accordingly, for purposes of the statements of cash flows, donated securities and the proceeds generated from their sale are included within operating activities.

Investment expenses include the services of investment manager and custodian. The balances of investment management fees disclosed in Note C are those specific fees charged by the Library's investment manager in each fiscal year and do not include those fees that are embedded in various other investment accounts and transactions.

[6] Property and equipment:

Property and equipment are reported at their costs on the dates of acquisition or at their fair values on the dates of donation, net of accumulated depreciation and amortization. Minor costs or repairs and maintenance are expensed as incurred. The Library capitalizes as assets those items of property and equipment that have a cost of \$20 or more and that have a useful life greater than one year. Depreciation is provided using the straight-line method over a period of five years for computer equipment and seven years for furniture. Amortization of leasehold improvements is provided using the straight-line method over the estimated useful lives of the improvements or the remaining lives of the leases, whichever is shorter.

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2018 and 2017, respectively, and in the opinion of management, there were no impairments. However it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Deferred revenue:

The Library's appropriations and grants from the State of New York and The City of New York are treated as exchange transactions, and, accordingly, revenue is recorded as the related expenses under the respective grant terms are incurred. Any amount received before the service is provided and reported as deferred revenue.

[8] Net assets:

The net assets of the Library and the changes therein are classified as follows:

(i) *Unrestricted:*

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions. The Library's board-designated funds represent the portions of expendable funds that are available for support of the Library's operations, at the discretion of the Library's Board of Trustees. At June 30, 2018 and 2017, the Board has designated amounts for the future fiscal-year's operations and building renovation and improvements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Net assets (continued):

(ii) *Temporarily restricted:*

Temporarily restricted net assets represent those resources that have been restricted by donors or grantors for specific purposes or period of time, as well as the unappropriated appreciation on donor-restricted endowment funds that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). Net assets released from restrictions represent the passage of time, satisfaction of the restricted purposes, and/or explicit appropriation action by the members of the Board of Trustees.

(iii) *Permanently restricted:*

Permanently restricted net assets represent those resources that have been designated by the donor or grantor to be held and invested in perpetuity. Generally, the donors of these assets direct the Library to use all or part of the income earned on related investments. Under the terms of NYPMIFA, those earnings are classified as temporarily restricted in the accompanying statements of activities, pending appropriations by the Board of Trustees.

[9] Collections:

The Library has collections of non-circulating library materials, including books, periodicals and other items. These collections are maintained by the Library under curatorial care and are held for research, education, and public exhibition in furtherance of public service.

Proceeds from the sales of collections are used to acquire other items for collections. The cost of collections purchased by the Library is expensed in the year of purchase. The value of the Library's collections, for financial statement purposes, cannot be determined. The costs of circulating books and other library materials are not recorded as collections, but are recorded as an expense in the year purchased, as the useful lives of such items are relatively short.

[10] Contributed facilities:

The Library occupies the majority of its branch locations, as well as the Central Library, under rent-free arrangements with The City of New York. The estimated value of the use of those premises (including utility costs, which are paid by the City) is reported as contributed facilities support, offset by an equal amount of rental and utilities expense, in the accompanying financial statements. The Library estimates the value of those contributed facilities based upon market rental rates for properties in the same locations as branch libraries and discounts such rates for the limited-use nature of the branch library facilities.

[11] Revenue recognition:

(i) *Contributions:*

Contributions to the Library are recorded as revenue upon the earlier of the receipt of an unconditional pledge or the receipt of cash or other assets. Contributions are considered available for unrestricted use unless they are restricted by the donors on either a temporary or permanent basis contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[11] Revenue recognition (continued):

(ii) *Bequests:*

The Library records bequest income at the time it has an established right to a bequest and the proceeds are measurable.

(iii) *Fines, royalties, and other revenue:*

Fines, royalties, and other revenue are recognized as services are rendered.

(iv) *Donated services:*

Contributed legal services have been included in the financial statements at their fair market values. However, a number of volunteers, including members of the Board of Trustees, have made significant contributions of time to the Library's policy-making, program, and support functions. The value of such contributed time does not meet the criteria for recognition of contributed services under generally accepted accounting principles and, accordingly, is not reported in the accompanying financial statements.

[12] Functional allocation of expenses:

The costs of providing program and supporting services have been reported on a functional basis in the statements of functional expenses, except for investment fees and special event expenses that have been offset against revenue in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services using appropriate measurement methodologies determined by the Library's management. Indirect cost has been allocated on the basis of time and effort.

[13] 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 an authorized investment income allocation and all contributions except for those contributions that are for capital expenditures or have been permanently restricted by donors. Investment income, including net realized and unrealized gains and losses, that is earned in an amount in excess of (or less than) the Library's aggregate authorized spending amount, is reported as part of non-operating activities, as are: (i) contributions for capital expenditures; (ii) depreciation and amortization expenses; (iii) gains and (losses) on the disposal of property and equipment; (iv) contributions to permanently restricted net assets; and (v) all other nonrecurring items of revenue and expenses.

[14] Income taxes:

The Library is subject to the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. For the Library, ASC Topic 740 is potentially applicable to the incurrence of unrelated business income ("UBI"), attributable to passport services provided to the public. Because the Library has always accrued the tax liability for these items and, because of the Library's general tax-exempt status, ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Library's financial statements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[15] Component unit:

The Library's financial statements for each fiscal year are included as a component unit in The City of New York's Comprehensive Annual Financial Report.

[16] Adoption of accounting pronouncement:

Effective July 1, 2017, the Library adopted FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, issued in October 2016 to increase the consistency of reporting cash flows into and out of restricted cash accounts. It requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

ASU No. 2016-18 was applied on a retrospective basis to all periods presented. Prior to adoption, the Library included the change in restricted cash within the operating activities of the statements of cash flows. Restricted cash is now included within the statements of cash flows in both the beginning and ending balances of cash and cash equivalents, and restricted cash.

[17] Upcoming accounting change:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends financial-statements presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Library will adopt the pronouncement in fiscal-year 2019.

[18] Reclassification:

Certain amounts in the Library's prior-year's financial statements have been reclassified to conform to the current-year's presentation.

[19] Subsequent events:

The Library evaluated subsequent events through September 12, 2018, the date on which the financial statements were available to be issued.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE B - RECEIVABLES

At each fiscal year-end, contribution grant and other receivables consisted of the following:

| | <u>June 30,</u> | |
|--|------------------|-----------------|
| | <u>2018</u> | <u>2017</u> |
| Appropriations and grants - State of New York | \$ 5,101 | \$ 4,038 |
| Appropriations and grants - The City of New York | <u>3,698</u> | <u>1,711</u> |
| Total appropriations and grants | <u>8,799</u> | <u>5,749</u> |
| Contributions receivables: less than one year | 1,766 | 2,343 |
| Contributions receivables: one to five years | <u>277</u> | <u>55</u> |
| | 2,043 | 2,398 |
| Less discount to present value (at a discount rate of 3.25%) | 9 | 3 |
| Less allowance for doubtful accounts | <u>59</u> | <u>126</u> |
| Total net contribution receivables | 1,975 | 2,269 |
| Purchase discount reimbursement contributions receivable | 856 | 834 |
| Other receivables, net of allowance for doubtful accounts of \$39 in 2018 and 2017, respectively | <u>245</u> | <u>112</u> |
| | <u>\$ 11,875</u> | <u>\$ 8,964</u> |

Subsequent to each fiscal year-end, substantially all of the State of New York and The City of New York appropriations and grants receivable were collected. Based on prior experience, management expects to collect the government receivables in full and, accordingly, has not established an allowance for uncollectible amounts. Most other receivables are expected to be collected within one year, although certain contributions receivable, are expected to be collected in periods of up to five years.

Purchase discount reimbursement contributions receivable arose from an agreement between the Library and the Universal Service Fund ("USF"), a not-for-profit organization, whereby USF grants to the Library an amount equal to an agreed-upon percentage of expenditures made by the Library in connection with certain public access/information technology initiatives (90% for internal connections and Internet access, and 30% for voice services in fiscal-year 2018; and 80% for Internet access and internal connections, and 40% for voice service in fiscal-year 2017). Items and services are purchased by the Library from vendors specified in the agreement, and consequently, a contribution at the specified level is made by USF to the Library. Total expenditures related to the agreement were approximately \$1,100 and \$1,300 for fiscal-years 2018 and 2017, respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE C - INVESTMENTS

At each fiscal year-end, investments consisted of the following, at fair value:

| | June 30, | |
|---|------------------|------------------|
| | 2018 | 2017 |
| Certificates of deposit | \$ 2,315 | \$ 2,308 |
| Stocks/Bonds: | | |
| U.S. equity securities | 17,676 | 17,203 |
| Developed international equity securities | 11,181 | 10,132 |
| Emerging market equity securities | 1,635 | 1,722 |
| Fixed income funds | 11,491 | 12,706 |
| Corporate bond funds | 19,364 | |
| Hedge fund | 1,672 | |
| | <u>\$ 65,334</u> | <u>\$ 44,071</u> |

Investment income for each fiscal year consisted of the following:

| | Year Ended June 30, 2018 | | |
|---|--------------------------|------------------------|----------------|
| | Unrestricted | Temporarily Restricted | Total |
| Dividends and interest, (net of investment expenses of \$200) | \$ 1,163 | \$ 116 | \$ 1,279 |
| Net realized gains on sale of investments | 759 | 76 | 835 |
| Net unrealized gains on investments | <u>353</u> | <u>41</u> | <u>394</u> |
| Investment earnings, net | 2,275 | 233 | 2,508 |
| Less: Investment earnings designated for current operations | <u>(1,658)</u> | <u>(191)</u> | <u>(1,849)</u> |
| Investment gains not designated for current operations, net | <u>\$ 617</u> | <u>\$ 42</u> | <u>\$ 659</u> |

| | Year Ended June 30, 2017 | | |
|---|--------------------------|------------------------|-----------------|
| | Unrestricted | Temporarily Restricted | Total |
| Dividends and interest, (net of investment expenses of \$192) | \$ 792 | \$ 87 | \$ 879 |
| Net realized gains on sale of investments | 478 | 52 | 530 |
| Net unrealized gains on investments | <u>3,236</u> | <u>162</u> | <u>3,398</u> |
| Investment earnings, net | 4,506 | 301 | 4,807 |
| Less: Investment earnings designated for current operations | <u>(1,588)</u> | <u>(182)</u> | <u>(1,770)</u> |
| Investment gains not designated for current operations, net | <u>\$ 2,918</u> | <u>\$ 119</u> | <u>\$ 3,037</u> |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

At June 30, 2018 and 2017, concentrations of the Library's investments in excess of 10% of the fair values of its portfolio included approximately: (i) 30% and 0% in corporate bond funds, (ii) 27% and 39% invested in U.S. equity securities, respectively (iii) 18% and 29% invested in fixed income funds, respectively and (iv) 17% and 22% invested in developed international equity securities, respectively.

The FASB's ASC Topic 820, *Fair Value Measurements*, establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for identical investments, at the reporting dates.
- Level 2: Valuations are based on (i) quoted prices for similar investments in active markets, or (ii) quoted prices for those investments, or for similar investments in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued.

Certain of the Library's investments are valued using NAV per share (or its equivalent unit) as a practical expedient of fair value. This applies to investments (i) which do not have a readily determinable fair value and (ii) the financial statements of which were prepared by the respective investment manager, in a manner consistent with the measurement principles of either an investment company or an entity which has the attributes of an investment company. Investments that are valued using NAV per share (or its equivalent unit) are not required to be categorized within the fair-value hierarchy. Accordingly, these NAV-investments and certain related disclosures are no longer required to be included in the fair value disclosures in the financial statements.

The Library's investments are subject to various risks, such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of those securities could occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair-value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period. During fiscal-years 2018 and 2017, there were no transfers among the fair-value hierarchy levels of the Library's investments.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements
June 30, 2018 and 2017
(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

The following tables summarize the fair values of the Library's assets at each fiscal year-end, in accordance with the FASB's ASC Topic 820 valuation levels:

| June 30, 2018 | | | | |
|--|------------------|-----------------|------------------------|------------------|
| Amounts Within the Fair-Value Hierarchy | | | | |
| | Level 1 | Level 2 | Measured at NAV | Total |
| Certificates of deposit | | \$ 2,315 | | \$ 2,315 |
| Stocks/Bonds: | | | | |
| U.S. equity securities | \$ 17,676 | | | 17,676 |
| Developed international equity securities | 11,181 | | | 11,181 |
| Emerging markets equity securities | 1,635 | | | 1,635 |
| Fixed income funds | 11,491 | | | 11,491 |
| Corporate bond funds | 19,364 | | | 19,364 |
| Hedge fund | | | \$ 1,672 | 1,672 |
| Total | \$ 61,347 | \$ 2,315 | \$ 1,672 | \$ 65,334 |

| June 30, 2017 | | | |
|---|------------------|-----------------|------------------|
| | Level 1 | Level 2 | Total |
| Certificate of deposit | | \$ 2,308 | \$ 2,308 |
| Stocks/Bonds: | | | |
| U.S. equity securities | \$ 17,203 | | 17,203 |
| Developed international equity securities | 10,132 | | 10,132 |
| Emerging markets equity securities | 1,722 | | 1,722 |
| Fixed income funds | 12,706 | | 12,706 |
| Total | \$ 41,763 | \$ 2,308 | \$ 44,071 |

The following table summarize the funding commitment and redemption information for the Library's hedge fund investment.

| June 30, 2018 | | | | |
|----------------------|-------------------|-----------------------------|-----------------------------|---------------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Hedge fund | \$ 1,672 | None | Quarterly | 30 days |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE D - PROPERTY AND EQUIPMENT

The Library's branch properties are owned by The City of New York and are occupied by the Library under its 1903 agreement with the City to provide library services to the people of Brooklyn. Apart from repairs and improvements borne by the Library from its operating budget, capital improvements to the Library's buildings are typically funded from the City's capital budget. According to the City's guidelines, all City-funded capital improvements or renovations are treated as property and equipment in the City's financial records. In order to represent the City's ownership of these assets, and to avoid duplicative accounting, City-funded capital improvements and renovations are not recorded in the Library's financial records.

In fiscal-years 2018 and 2017, the City paid approximately \$51,789 and \$23,805 respectively, for capital appropriations relating to renovations of City-owned branches. During fiscal-years 2009 to 2018, the City contributed approximately \$198,151 for branch capital-improvement expenses. The City's total commitment as of June 30, 2018 to branch capital improvement is approximately \$266,811 over the next five fiscal years.

At each fiscal year-end, property and equipment consisted of the following:

| | <u>June 30,</u> | |
|---|------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Furniture and fixtures | \$ 14,550 | \$ 12,932 |
| Leasehold improvements | 31,644 | 28,968 |
| Computer equipment | <u>6,873</u> | <u>6,941</u> |
| | 53,067 | 48,841 |
| Less: accumulated depreciation and amortization | <u>15,867</u> | <u>12,533</u> |
| | 37,200 | 36,308 |
| Construction-in-progress | <u>5,359</u> | <u>2,233</u> |
| | <u>\$ 42,559</u> | <u>\$ 38,541</u> |

During fiscal-years 2018 and 2017, the Library wrote off approximately \$423 and \$2,078, respectively, of fully depreciated computer equipment and furniture and fixtures that were no longer in use. In addition, the Library disposed of furniture and fixtures, equipment and leasehold improvements which resulted in a loss on disposal of approximately \$354 and proceeds in the amount \$9.

NOTE E - DEFERRED REVENUE

At each fiscal year-end, deferred revenue consisted of the following:

| | <u>June 30,</u> | |
|--------------------------------------|-----------------|-----------------|
| | <u>2018</u> | <u>2017</u> |
| State of New York construction grant | \$ 1,779 | \$ 1,317 |
| Other advances | <u>516</u> | <u>433</u> |
| | <u>\$ 2,295</u> | <u>\$ 1,750</u> |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

[1] At each fiscal year-end, temporarily purpose-restricted net assets consisted of the following:

| | <u>June 30,</u> | |
|-------------------------------------|-------------------------|-------------------------|
| | <u>2018</u> | <u>2017</u> |
| Operating: | | |
| Library materials acquisitions* | \$ 313 | \$ 314 |
| Branch library support | 1,468 | 1,399 |
| Special programs and other: | | |
| Central Library Information Commons | 117 | 105 |
| Plaza and auditorium | 244 | |
| Summer reading | | 2 |
| Summer Camp | 709 | 786 |
| Artist in residence | 94 | 567 |
| Other* | <u>3,460</u> | <u>2,720</u> |
| | 6,405 | 5,893 |
| Non-operating: | | |
| Capital projects (see Note I[11]) | <u>20,016</u> | <u>21,686</u> |
| | <u>\$ 26,421</u> | <u>\$ 27,579</u> |

*These categories includes unappropriated accumulated endowment income of \$1,363 and \$1,322 as June 30, 2018 and 2017, respectively.

[2] During each fiscal year, net assets released from restrictions consisted of the following:

| | <u>Year Ended</u> | |
|-------------------------------------|------------------------|------------------------|
| | <u>June 30,</u> | |
| | <u>2018</u> | <u>2017</u> |
| Operating: | | |
| Library materials acquisitions | \$ 50 | \$ 53 |
| Branch library support | 216 | 371 |
| Special programs and other: | | |
| Central Library Information Commons | 29 | 29 |
| Child's Place | 6 | 25 |
| Plaza and auditorium | 38 | 33 |
| Summer reading | 100 | 125 |
| Summer Camp | 126 | 114 |
| Artist in residence | 477 | 961 |
| Other | <u>1,908</u> | <u>1,225</u> |
| | 2,950 | 2,936 |
| Non-operating: | | |
| Capital projects (see Note I[11]) | <u>1,671</u> | <u>314</u> |
| | <u>\$ 4,261</u> | <u>\$ 3,250</u> |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE G - ENDOWMENT

[1] The endowment:

The endowment consists of 47 individual, donor-restricted funds, established for a variety of purposes. The Library does not have any funds designated by the Board of Trustees to function as an endowment.

[2] Interpretation of relevant law:

As discussed in Note A[8][ii], NYPMIFA is applicable to all of the Library's institutional funds, including its donor-restricted endowment funds. The Board of Trustees adheres to NYPMIFA's requirements.

[3] Endowment net asset composition, by type of fund, as of each fiscal year-end:

| | <u>June 30, 2018</u> | | | |
|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------|
| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | |
| Donor-restricted endowment funds: | | | | |
| Adult Literacy Program | \$ 1 | \$ 121 | \$ 122 | |
| Books | 166 | 301 | 467 | |
| Branch Humanities | 361 | 458 | 819 | |
| Central Library Information Commons | 87 | 500 | 587 | |
| Staff Welfare | 64 | 112 | 176 | |
| Plaza and Auditorium Programming | 187 | 260 | 447 | |
| Youth and Children Programming | 435 | 766 | 1,201 | |
| Willendorf Lecture Series | 33 | 50 | 83 | |
| Others - undesignated | <u>29</u> | <u>53</u> | <u>82</u> | |
| Total funds | <u>\$ 1,363</u> | <u>\$ 2,621</u> | <u>\$ 3,984</u> | |
| | | | | |
| | <u>June 30, 2017</u> | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted endowment funds: | | | | |
| Adult Literacy Program | \$ (1) | | \$ 118 | \$ 117 |
| Books | | \$ 161 | 301 | 462 |
| Branch Humanities | | 353 | 458 | 811 |
| Central Library Information Commons | | 82 | 500 | 582 |
| Staff Welfare | | 62 | 112 | 174 |
| Plaza and Auditorium Programming | | 184 | 260 | 444 |
| Youth and Children Programming | | 421 | 764 | 1,185 |
| Willendorf Lecture Series | | 32 | 50 | 82 |
| Others - undesignated | | <u>27</u> | <u>52</u> | <u>79</u> |
| Total funds | <u>\$ (1)</u> | <u>\$ 1,322</u> | <u>\$ 2,615</u> | <u>\$ 3,936</u> |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE G - ENDOWMENT (CONTINUED)

[4] Changes in endowment net assets in fiscal-years ended:

| | June 30, 2018 | | | |
|--|---------------|------------------------|------------------------|-----------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ (1) | \$ 1,322 | \$ 2,615 | \$ 3,936 |
| Dividends and interest, net | | 116 | | 116 |
| Net realized and unrealized gains on sale of investments | | 117 | | 117 |
| Recovery of underwater funds | 1 | (1) | | |
| Contributions | | | 6 | 6 |
| Appropriation of endowment assets for expenditures | | (191) | | (191) |
| Endowment net assets, end of year | <u>\$ 0</u> | <u>\$ 1,363</u> | <u>\$ 2,621</u> | <u>\$ 3,984</u> |

| | June 30, 2017 | | | |
|--|---------------|------------------------|------------------------|-----------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ (5) | \$ 1,207 | \$ 2,594 | \$ 3,796 |
| Dividends and interest, net | | 86 | | 86 |
| Net realized and unrealized gains on sale of investments | | 215 | | 215 |
| Transfers due to underwater funds | 4 | (4) | | |
| Contributions | | | 21 | 21 |
| Appropriation of endowment assets for expenditures | | (182) | | (182) |
| Endowment net assets, end of year | <u>\$ (1)</u> | <u>\$ 1,322</u> | <u>\$ 2,615</u> | <u>\$ 3,936</u> |

[5] Return objectives and risk parameters:

The Library has adopted investment and spending policies for endowment assets, the objective of which is to preserve purchasing power while providing a continuing and stable funding source to support the Library's educational programs. To accomplish this objective, the endowment seeks to generate a total return that will exceed not only its operating expenses, but also all the expense associated with managing the endowment and the eroding effects of inflation. It is the Library's intention that all total investment returns (e.g., interest income, dividends, and net realized and unrealized gains and losses), above and beyond the amount approved by the Board of Trustees for expenditure or distribution, will be reinvested in the endowment's assets. The endowment will be managed on a total-return basis, consistent with the applicable standard of conduct set forth in NYPMIFA by the Board of Trustees.

[6] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Library 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 Library targets a diversified asset allocation that places a significant emphasis on equity-based investments to achieve its long-term return objectives, within prudent risk constraints.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements June 30, 2018 and 2017 (in thousands)

NOTE G - ENDOWMENT (CONTINUED)

[7] Spending policy:

For distribution each year, the Library has a policy of appropriating 5% of its endowment's average fair value over the prior 60 months through the fiscal year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Library considered the long-term expected return on its endowment. Accordingly, over the long term, the Library expects the current spending policy to allow its endowment to grow sufficiently to preserve or increase the purchasing power of the endowment. This is consistent with the Library's objective to maintain the purchasing power of the endowment's assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

[8] Funds with deficiencies:

Due to unfavorable market fluctuations, from time-to-time the fair value of assets associated with individual donor-restricted endowment funds may decline below the historic dollar value of the donors' original permanently restricted contributions. Under the terms of NYPMIFA, the Library has no responsibility to restore such decreases in value. There were no deficiencies as of June 30, 2018. Deficiencies at June 30, 2017 were \$1.

NOTE H - NON-CASH CONTRIBUTIONS

[1] Contributed facilities and utilities:

During each fiscal-year, the value of facilities and utilities contributed to the Library by The City of New York consisted of the following:

| | Year Ended June 30, | |
|--------------------------------------|------------------------|------------------|
| | 2018 | 2017 |
| Estimated rental value of properties | \$ 31,599 | \$ 29,820 |
| Heat, light and power | <u>2,547</u> | <u>2,238</u> |
| | <u>\$ 34,146</u> | <u>\$ 32,058</u> |

[2] Contributed goods and services:

During each fiscal year, the value of services contributed to the Library consisted of the following:

| | Year Ended June 30, | |
|------------------------------|------------------------|---------------|
| | 2018 | 2017 |
| Public service announcements | \$ 200 | \$ 263 |
| Contributed legal services | <u>158</u> | <u>202</u> |
| | <u>\$ 358</u> | <u>\$ 465</u> |

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES

[1] Accrued vacation benefits:

The financial statements include a liability for unused vacation benefits earned by employees and carried forward at each fiscal year-end, which amounted to approximately \$4,920 and \$4,900 for fiscal-years 2018 and 2017, respectively. Management believes that, through future appropriations, The City of New York will fund such vacation benefits as they are paid to the employees.

[2] Accrued terminal-leave obligation:

The Library provides terminal-leave with pay upon retirement, not to exceed one month for every ten years of service, prorated for fractional parts thereof. The Library has estimated the actuarial present value of the accumulated terminal leave benefit to be approximately \$7,751 and \$7,861 as of June 30, 2018, and 2017, respectively. Such amounts have been reported in the statements of financial position as part of accrued wages and related liabilities.

The significant assumptions used in calculating the actuarial present value of the terminal-leave benefit were: (i) an interest rate of 4.05% per annum (3.70% per annum in fiscal-year 2017); (ii) a salary increase rate of 2.50% per annum (2.50% per annum in fiscal-year 2017); and (iii) withdrawal rates ranging from 9.50% at age 20 to 3.70% at age 55 (9.50% at age 20 to 3.70% at age 55 in fiscal-year 2017), with a retirement age of 65 in fiscal-year 2017 and 2018. Terminal-leave benefits are funded as they are paid to employees. Management believes that, through future appropriations, The City of New York will fund terminal-leave benefits as they are paid to employees.

[3] Pension benefits:

Substantially all of the Library's employees are participants in the New York State and Local Employees' Retirement System ("NYSLRS"). NYSLRS is a cost-sharing, multiple-employer, public employee retirement system that offers plans and benefits related to years of service and final average salary. Members who joined the retirement system prior to January 1, 2010 require five years of service to be fully vested, and members who joined on or after January 1, 2010 needs ten years of service to be fully vested. Amounts of pension charged to expenses for fiscal-years 2018 and 2017 amounted to approximately \$9,647 and \$9,518, respectively. Under a 1937 agreement between the Library and the City, the City appropriate funds to cover the full cost of pension contribution for the Library employees whose salaries are funded by the City.

The Library was not listed in the plan's most recent available audited financial statements for providing more than five percent of the total contribution to the plan for the years ended March 31, 2018, and 2017. The Employer Identification Number for NYSLRS is 14-6020869. The most recent Pension Protection Act (PPA) zone status is green at March 31, 2018, and 2017. Among other factors, plans in red zone are generally less than 65% funded, plans in yellow zone are less than 80% funded, and in green zone are at least 80% funded.

For participants who joined the system before July 27, 1976, the system is noncontributory. Participants who joined on or after July 27, 1976, are required to contribute 3% to 6% of their gross salary. Effective July 1, 2013, certain newly hired non-union exempt staff have the option of participating in either the NYSLRS program or the New York State Voluntary Defined Contribution ("VDC") pension program. VDC participants are required to contribute 4.5% to 6% of their gross salary, and the Library contributes 8%. The VDC amount charged to expenses for fiscal years 2018 and 2017 amounted to approximately \$172 and \$115 respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[4] Post-retirement benefits:

The Library contributes to a multi-employer, post-retirement benefit plan that provides defined-benefit health-care benefits to substantially all employees upon retirement. The Library records related expense as payments are made. The City of New York appropriates funds to cover the full cost of post-retirement benefits for Library employees each year, as payments are made. Amounts charged to expense amounted to approximately \$3,108 and \$3,100 in fiscal-years 2018 and 2017, respectively.

[5] Lease obligations:

The Library is a party to a number of operating leases that expire at various dates through June 30, 2025. Various leases provide for increases in annual base rentals based on various expenses and other criteria. Aggregate rent expense amounted to approximately \$1,200 and \$1,100 in fiscal-years 2018 and 2017, respectively.

The total of the future minimum lease payments is amortized using the straight-line method over the term of the lease. The difference between rent expense calculated under this method and the actual rent paid is recorded as a deferred rent liability.

Aggregate future minimum lease payments under non-cancelable operating leases that have remaining terms in excess of one year as of June 30, 2018, are approximately as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|-----------------|
| 2019 | 1,005 |
| 2020 | 1,108 |
| 2021 | 1,163 |
| 2022 | 1,178 |
| 2023 | 1,202 |
| Thereafter | <u>1,816</u> |
| | <u>\$ 7,472</u> |

[6] Litigation:

The Library is currently involved in litigation arising in the normal course of its activities. Management believes that the amount of losses that might be sustained beyond existing insurance coverage, if any, would not have a material effect on the accompanying financial statements.

[7] Grantor audits:

The Library's grantors, including agencies of the governments of The City of New York, the State of New York, and the United States, have the right to conduct or otherwise require audits of funding they provide to the Library. Such audits might result in disallowances of costs submitted for reimbursement or other questioned amounts. No amounts have been provided in the accompanying financial statements for such potential claims. Management believes that, in the event of such audits, any findings would not have a material effect on the Library's financial position or operations.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[8] Surplus book sales:

In June 2005, the Library negotiated an agreement with Better World Books ("BWB") under which it engaged BWB as its exclusive agent to manage, transport, sell, and distribute the Library's surplus books and to manage and conduct all surplus-book distribution and resale services on behalf of the Library.

These books are sent to BWB to be sold through established Internet book vendors (e.g., Amazon.com and Half.com) and, if not sold, will be subsequently destroyed in an environmentally responsible manner. Revenue earned through this arrangement is shared between BWB and the Library, with the Library earning 34% of gross sales in each fiscal year.

[9] BookOps:

On January 16, 2014, the Library entered into a collaborative agreement, effective May 5, 2013, with The New York Public Library, Astor, Lenox and Tilden Foundations ("NYPL") for the provision of technical services operations by NYPL's BookOps department to both the Library and NYPL. The collaborative operation is referred to as "BookOps" and its services include selection and ordering, acquisitions, cataloging, processing, sorting, and delivery of Library materials, as well as other activities related to the provision of circulating library services.

The actual total cost and expenses incurred in the provision of the BookOps services is shared by each party, based on agreed-upon allocation percentages. Such allocation percentages are based on the service usage level as determined by the relevant cost drivers. The books and records are to be reviewed by an independent accountant following the end of each fiscal year, to evaluate the completeness and accuracy of the costs and expenses reported by BookOps and to determine the reasonableness of the allocation percentages. Expenses incurred by the Library under this agreement were approximately \$3,400 and \$3,600 for fiscal-years, 2018, and 2017, respectively, and are included in professional fees and contract service payments in the accompanying statements of activities.

[10] Other contracts:

In the normal course of business, the Library enters into various contracts for professional and other services, which are typically renewable on a year-to-year basis.

[11] Construction related to grants:

Greenpoint:

- (i) In March 2015, the Library entered into a grant agreement with the National Fish and Wildlife Foundation in the amount of approximately \$4,400. In addition, in April 2018, the Library entered into an agreement with The City of New York for an amount not to exceed \$13,998. Both grants requires the Library to design and build a LEED Silver standard Greenpoint Library and Environmental Educational Center at the site of the current Greenpoint branch library. It is expected that the new facility would be opened to the public in May 2019. In conjunction with building the new Greenpoint branch library, the Library entered into a \$1,200 architectural agreement for the design of the new facility, of which approximately \$993 is included in construction in progress at June 30, 2018. In August 2017, the Library awarded a construction management contract to Westerman Construction Co. Inc. for approximately \$15,900 for construction of the new Greenpoint Library and Educational Environmental Center of which approximately \$1,100 is included in construction in progress at June 30, 2018.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2018 and 2017

(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[11] Construction related to grants (continued):

South Site project:

- (ii) In June 2015, the Library entered into a Memorandum of Understanding with the New York City Economic Development Corporation ("NYCEDC") and the New York City Department of Cultural Affairs ("DCLA") for a joint capital project for a multi-tenant cultural programming space. NYCEDC, on behalf of DCLA, will undertake the design and construction of the Library's portion of the project. DCLA will use City capital funds to pay for some of the Library's portion of the project, with the expectation that the Library will fund the balance of the project using non-City capital funds. The Library will initially contribute approximately \$2,000 in non-City (private) funds to compliment the City funds for the project. The final amount of the Library's non-City contribution will be agreed upon in accordance with the cost estimates for the Library's portion of the project. The amount included at June 30, 2018 construction in progress for the cultural programming space was approximately \$2,000.

Brooklyn Heights:

- (iii) In fiscal year 2017, the Library entered into a Memorandum of Understanding with The City of New York, and the NYCEDC for a joint construction project. The City, disposed of one of its building (which was previously occupied by the Brooklyn Heights Branch Library) and received proceeds in the amount of \$52,000. The Library received \$22,000 of the proceeds directly for the fit-out of eligible projects, including a new Brooklyn Heights Branch. Approximately \$20,000 of the proceeds received by the Library was invested in a series of short-term corporate bonds that are set to mature at different times during the various construction projects. The remaining \$30,000 will be appropriated to the Library as capital funds from the City. The property will be developed into a condominium. At the completion of the development, a condominium unit will be transferred to the City for use by the Library as the new Brooklyn Heights Branch Library. In conjunction with retrofitting the space, the Library entered into an agreement with Marvel Architect, PLLC for the design of a new Brooklyn Heights Branch Library facility in the amount of \$941. At June 30, 2018, the amount included in construction in progress was \$658.

NOTE J - LINE-OF-CREDIT AGREEMENT

The Library has a line-of-credit agreement with a bank under which it may borrow up to \$3,500, secured by \$50,000 of the Library's net assets, with an interest rate of the Citibank prime rate subject to changes from time to time. The line of credit is renewable on an annual basis, and all outstanding balances are due at the expiration date. There were no drawdowns nor any outstanding balances at either June 30, 2018 or June 30, 2017.

NOTE K - CONCENTRATION OF CREDIT RISK

The Library maintains its cash and cash equivalents in interest-bearing accounts, with financial institutions the balances of which, from time to time, may exceed federally insured limits. However, the cash maintained in noninterest-bearing accounts currently has no limit on federal insurance. The Library's management believe that there is no substantial risk of loss associated with the failure of these financial institutions.