

EISNERAMPER

BROOKLYN PUBLIC LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018



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, 2019 and 2018, 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 Brooklyn Public Library as of June 30, 2019 and 2018, 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 18, 2019



BROOKLYN PUBLIC LIBRARY

Statements of Financial Position (in thousands)

	June 30,	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (including restricted cash of \$107 in both fiscal years)	\$ 20,086	\$ 16,608
Restricted cash segregated account	146	662
Contributions, grants and other receivables, net	21,016	11,875
Investments	63,511	65,334
Prepaid and other assets	1,054	365
Property and equipment, net	<u>45,338</u>	<u>42,559</u>
	<u>\$ 151,151</u>	<u>\$ 137,403</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses and advances	\$ 14,210	\$ 8,408
Accrued wages and related liabilities	17,388	14,610
Deferred revenue	<u>2,693</u>	<u>2,295</u>
Total liabilities	<u>34,291</u>	<u>25,313</u>
Commitments and contingencies (Note I)		
Net assets:		
Without donor restrictions:		
Undesignated, available for operations	73,858	71,779
Board-designated for building renovation	5,830	5,830
Board-designated for use in future fiscal years	<u>6,639</u>	<u>5,439</u>
Total net assets without donor restrictions	86,327	83,048
With donor restrictions:		
Restricted for time and purpose	27,827	26,421
Perpetual in nature	<u>2,706</u>	<u>2,621</u>
Total net assets with donor restrictions	30,533	29,042
Total net assets	<u>116,860</u>	<u>112,090</u>
	<u>\$ 151,151</u>	<u>\$ 137,403</u>

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statements of Activities

(in thousands)

	Year Ended June 30, 2019			Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues:						
City of New York appropriations	\$ 120,477		\$ 120,477	\$ 113,824		\$ 113,824
State of New York appropriations	7,840		7,840	7,620		7,620
Federal government grants	1,635		1,635	1,258		1,258
Contribution income	2,013	\$ 4,996	7,009	2,400	\$ 3,231	5,631
Purchase discount reimbursement contribution	700		700	856		856
Contributed facilities and utilities	34,433		34,433	34,146		34,146
Investment income designated for current operations	1,765	195	1,960	1,658	191	1,849
Contributed goods and services	387		387	358		358
Special events (net of direct benefit to donors of \$104 and \$111 in 2019 and 2018, respectively)	977		977	1,025		1,025
Fines, royalties, and other revenue	4,283		4,283	4,397		4,397
	<u>174,510</u>	<u>5,191</u>	<u>179,701</u>	<u>167,542</u>	<u>3,422</u>	<u>170,964</u>
Net assets released from restrictions for operations	5,653	(5,653)	0	2,951	(2,951)	0
Total operating support and revenues	<u>180,163</u>	<u>(462)</u>	<u>179,701</u>	<u>170,493</u>	<u>471</u>	<u>170,964</u>
Operating expenses:						
Program services:						
Central library	29,269		29,269	27,940		27,940
Neighborhood libraries	112,422		112,422	106,314		106,314
Special programs	15,658		15,658	14,840		14,840
Total program services	<u>157,349</u>		<u>157,349</u>	<u>149,094</u>		<u>149,094</u>
Supporting services:						
Management and general	13,230		13,230	13,233		13,233
Fund-raising	5,103		5,103	4,683		4,683
Total support services	<u>18,333</u>		<u>18,333</u>	<u>17,916</u>		<u>17,916</u>
Total operating expenses	<u>175,682</u>		<u>175,682</u>	<u>167,010</u>		<u>167,010</u>
Change in net assets from operating activities	<u>4,481</u>	<u>(462)</u>	<u>4,019</u>	<u>3,483</u>	<u>471</u>	<u>3,954</u>
Non-operating activities:						
Grants and capital contributions for improvements	2,032	13,315	15,347	2,590	3,445	6,035
With donor restrictions contributions – perpetual in nature contributions		85	85		6	6
Capital grants expenditures		(11,464)	(11,464)		(3,445)	(3,445)
Losses on disposals of property and equipment	(242)		(242)	(354)		(354)
Depreciation and amortization	(4,013)		(4,013)	(4,010)		(4,010)
Investment gains not designated for current operations	1,021	17	1,038	617	42	659
Net assets released from restrictions for capital expenditures				1,671	(1,671)	0
Change in net assets from non-operating activities	<u>(1,202)</u>	<u>1,953</u>	<u>751</u>	<u>514</u>	<u>(1,623)</u>	<u>(1,109)</u>
Change in net assets	<u>3,279</u>	<u>1,491</u>	<u>4,770</u>	<u>3,997</u>	<u>(1,152)</u>	<u>2,845</u>
Net assets - beginning of year	<u>83,048</u>	<u>29,042</u>	<u>112,090</u>	<u>79,051</u>	<u>30,194</u>	<u>109,245</u>
Net assets - end of year	<u>\$ 86,327</u>	<u>\$ 30,533</u>	<u>\$ 116,860</u>	<u>\$ 83,048</u>	<u>\$ 29,042</u>	<u>\$ 112,090</u>

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses
Year Ended June 30, 2019
(with comparative totals for June 30, 2018)
(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	2019	2018
Salaries and related expenses:									
Salaries	\$ 9,478	\$ 43,834	\$ 5,924	\$ 59,236	\$ 5,514	\$ 2,278	\$ 7,792	\$ 67,028	\$ 62,174
Fringe benefits	4,998	23,116	3,124	31,238	2,908	1,201	4,109	35,347	35,458
Total salaries and related expenses	14,476	66,950	9,048	90,474	8,422	3,479	11,901	102,375	97,632
Operating expenses:									
Professional fees and contract service									
Payments	1,432	6,622	895	8,949	2,022	820	2,842	11,791	8,776
Office expenses and related supplies	409	1,893	256	2,558	250	129	379	2,937	2,675
Telephone and telecommunications	482	2,231	301	3,014	105	94	199	3,213	3,428
Occupancy	398	1,384	114	1,896	1,581	24	1,605	3,501	3,254
Donated rent and utilities	9,507	21,483	3,443	34,433				34,433	34,146
Advertising and public service messages	121	560	76	757	25	37	62	819	625
Staff development and training	97	446	60	603	241	36	277	880	673
Books and public library materials	1,660	7,677	1,037	10,374				10,374	9,628
Insurance	139	644	87	870	96		96	966	885
Repairs and maintenance	390	1,802	243	2,435	200	91	291	2,726	4,155
Catering and decorations						497	497	497	291
Other expense	158	730	98	986	288		288	1,274	953
	<u>29,269</u>	<u>112,422</u>	<u>15,658</u>	<u>157,349</u>	<u>13,230</u>	<u>5,207</u>	<u>18,437</u>	<u>175,786</u>	<u>167,121</u>
Less direct benefit to donors						(104)	(104)	(104)	(111)
Total operating expenses	29,269	112,422	15,658	157,349	13,230	5,103	18,333	175,682	167,010
Non-operating expenses:									
Depreciation and amortization	642	2,969	402	4,013				4,013	4,010
Total expenses	\$ 29,911	\$ 115,391	\$ 16,060	\$ 161,362	\$ 13,230	\$ 5,103	\$ 18,333	\$ 179,695	\$ 171,020

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses Year Ended June 30, 2018 (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
Salaries and related expenses:								
Salaries	\$ 8,724	\$ 40,347	\$ 5,452	\$ 54,523	\$ 5,403	\$ 2,248	\$ 7,651	\$ 62,174
Fringe benefits	<u>4,975</u>	<u>23,010</u>	<u>3,109</u>	<u>31,094</u>	<u>3,082</u>	<u>1,282</u>	<u>4,364</u>	<u>35,458</u>
Total salaries and related expenses	13,699	63,357	8,561	85,617	8,485	3,530	12,015	97,632
Operating expenses:								
Professional fees and contract service								
Payments	989	4,572	618	6,179	2,061	536	2,597	8,776
Office expenses and related supplies	383	1,773	240	2,396	171	108	279	2,675
Telephone and telecommunications	507	2,346	317	3,170	134	124	258	3,428
Occupancy	363	1,263	104	1,730	1,507	17	1,524	3,254
Donated rent and utilities	9,461	21,270	3,415	34,146				34,146
Advertising and public service messages	90	415	56	561	36	28	64	625
Staff development and training	77	354	48	479	158	36	194	673
Books and public library materials	1,540	7,125	963	9,628				9,628
Insurance	127	587	79	793	92		92	885
Repairs and maintenance	590	2,727	368	3,685	346	124	470	4,155
Catering and decorations						291	291	291
Other expense	<u>114</u>	<u>525</u>	<u>71</u>	<u>710</u>	<u>243</u>		<u>243</u>	<u>953</u>
	<u>27,940</u>	<u>106,314</u>	<u>14,840</u>	<u>149,094</u>	<u>13,233</u>	<u>4,794</u>	<u>18,027</u>	<u>167,121</u>
Less direct benefit to donors						(111)	(111)	(111)
Total operating expenses	27,940	106,314	14,840	149,094	13,233	4,683	17,916	167,010
Non-operating expenses:								
Depreciation and amortization	<u>642</u>	<u>2,967</u>	<u>401</u>	<u>4,010</u>				<u>4,010</u>
Total expenses	<u>\$ 28,582</u>	<u>\$ 109,281</u>	<u>\$ 15,241</u>	<u>\$ 153,104</u>	<u>\$ 13,323</u>	<u>\$ 4,683</u>	<u>\$ 17,916</u>	<u>\$ 171,020</u>

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statements of Cash Flows

(in thousands)

	Year Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 4,770	\$ 2,845
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,013	4,010
Bad debts expense	16	25
Losses on disposals of property and equipment	242	354
Unrealized gains on investments	(1,274)	(394)
Net realized gains on sales of investments	(159)	(835)
Proceeds from the sale of donated securities	43	82
Donated securities	(43)	(82)
Contributions from donors with restrictions to be held in perpetuity	(85)	(6)
Changes in:		
Contribution, grants and other receivables, net	(9,156)	(2,936)
Prepaid expenses and other assets	(690)	(98)
Accounts payable, accrued expenses and advances	5,801	(1,098)
Accrued wages and related liabilities	2,778	316
Deferred revenue	398	545
Net cash provided by operating activities	<u>6,654</u>	<u>2,728</u>
Cash flows from investing activities:		
Proceeds from sales of investments	6,935	19,060
Purchases of investments	(3,678)	(39,094)
Proceeds from sale of fixed assets		9
Purchases of property and equipment	<u>(7,034)</u>	<u>(8,391)</u>
Net cash used in investing activities	<u>(3,777)</u>	<u>(28,416)</u>
Cash flows from financing activities:		
Contributions from donors with restrictions to be held in perpetuity	<u>85</u>	<u>6</u>
Net cash provided by financing activities	<u>85</u>	<u>6</u>
Net change in cash, cash equivalents and restricted cash	2,962	(25,682)
Cash, cash equivalents and restricted cash - beginning of year	<u>17,270</u>	<u>42,952</u>
Cash, cash equivalents and restricted cash - end of year	<u>\$ 20,232</u>	<u>\$ 17,270</u>
Supplemental disclosures of cash flow of information:		
Taxes paid	\$ 213	\$ 245
Contributed goods and services	\$ 387	\$ 356

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(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. Cash and cash equivalents at both June 30, 2019, and 2018 included \$107 which is restricted for disbursement to entities involved in the Net-Working, NYC program. Additionally, at June 30, 2019 and 2018, the Library had restricted cash proceeds in the amount of \$146 and \$662, respectively, received by the Library from the disposition of the Brooklyn Heights Branch Library building by The City of New York for the construction of several new branches of the library, which includes the new Brooklyn Heights and Sunset Park branches (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, international equity securities from developed markets, emerging market equity securities, and mutual funds trading in fixed income securities from developed markets and corporate bonds. The Library also has an investment in an offshore hedge fund which is not readily marketable. 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. The hedge fund is an event driven long/short fund focused on the community and regional banking sectors.

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. Management believes the carrying amounts 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, 2019 and 2018

(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 net assets without donor restrictions unless their use is limited through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost at the time of acquisition to proceeds at the time of disposition. Distributions from the hedge fund investments that represent returns of contributed capital reduce the cumulative costs basis of the respective investment. Distributions received from the hedge fund in excess of the Library's cumulative cost basis are recognized as realized gains. 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, 2019 and 2018, 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] 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 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.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

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

[8] Net assets:

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

(i) *Net asset without donor restrictions:*

Net assets without donor restrictions represent those resources that are not subject to donor-imposed restrictions and available for current operations. 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, 2019, and 2018, the Board has designated amounts for the subsequent fiscal-year's operations and building renovation and improvements.

(ii) *Net assets with donor restrictions:*

Net assets with donor restrictions represent those resources that are subject to donor-imposed restrictions, such as specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, or funds are appropriated through an action of the Library's Board of Trustees, net assets with donor restrictions are reclassified to net assets without donor restriction and are reported in the statements of activities as "net assets released from restrictions."

Also included within net assets with donor restrictions are donor restrictions that are perpetual in nature and subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). These donors have stipulated that those resources be maintained in perpetuity with the resultant income and net capital appreciation arising from the underlying assets to be used in satisfaction of the wishes of those donors.

[9] 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.

[10] Revenue recognition:

(i) *Contributions, grants and pledges:*

Contributions and grants to the Library are recorded as revenue upon the receipt of an unconditional pledge or the receipt of cash or other assets. Contributions are reported as "with donor restrictions" if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recognized when the donor's conditions have been met and, if received in advance, are recognized in the statements of financial position as funds received in advance. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved. An allowance for uncollectible pledges receivable is provided, using management's estimate of potential defaults.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

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

[10] Revenue recognition: (continued)

(ii) *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.

(iii) *Bequests:*

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

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

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

(v) *Donated services:*

For recognition of donated goods and services in the Library's financial statements, such goods or services must: (i) create or enhance non-financial assets and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must: (i) require a specialized skill, and (ii) be provided by individuals possessing these skills. Donated goods and services are recorded as without donor restrictions unless the donor has restricted the donated assets for a specific purpose. Donated goods and services are reported as both contributions and offsetting expenses in the statements of activities.

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.

[11] Functional allocation of expenses:

The costs of providing various programs and supporting services have been reported on a functional basis in the accompanying statements of functional expenses, except for direct investment fees that have been netted against revenue in the accompanying statements of activities. The statements of functional expenses present the Library's expenses by natural classification and function. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas and expenses benefiting multiple areas have been allocated amongst those areas using the full-time equivalent employee method and square footage. The expenses that have been allocated include salaries and benefits, contributed rent and utilities, the Library's floating circulating public library materials, occupancy, professional fees, and office-related expenses.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

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

[12] 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 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 with donor restricted net assets; and (v) all other nonrecurring items of revenue and expenses.

[13] 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. ASC Topic 740 is potentially applicable to the incurrence of unrelated business income tax, attributable to passport services provided to the public and disallowed transportation fringe benefits. 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.

[14] Component unit:

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

[15] Adoption of accounting pronouncement:

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-statement presentations and disclosures. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, and (iv) liquidity and the availability of resources. ASU 2016-14 was effective for annual reporting periods issued for years beginning after December 15, 2017. Accordingly, the Library was required to adopt ASU 2016-14 for its fiscal year-ended June 30, 2019, which under U.S. GAAP was a change in accounting principle requiring retroactive application in the financial statements of certain areas, whereas certain other areas were adopted on a prospective basis. Although the Library's adoption of ASU 2016-14 had no effect on the Library's total net assets or its changes in net assets for fiscal years 2019 and 2018, certain reclassifications were required. Accordingly, the Library changed its presentation of its net asset classes, and expanded certain footnote disclosures.

[16] Reclassification:

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

[17] Subsequent events:

The Library evaluated subsequent events through September 18, 2019, the date on which the financial statements were available to be issued.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE B - RECEIVABLES

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

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Appropriations and grants - State of New York	\$ 4,187	\$ 5,101
Appropriations and grants - The City of New York	<u>12,715</u>	<u>3,698</u>
Total appropriations and grants	<u>16,902</u>	<u>8,799</u>
Contributions receivables: less than one year	3,448	1,766
Contributions receivables: one to five years	<u>136</u>	<u>277</u>
	3,584	2,043
Less discount to present value (at a discount rate in each year of 3.25%)	10	9
Less allowance for doubtful accounts	<u>30</u>	<u>59</u>
Total net contribution receivables	3,544	1,975
Purchase discount reimbursement contributions receivable	309	856
Other receivables, net of allowance for doubtful accounts of \$9 in 2019 and \$39 in 2018, respectively	<u>261</u>	<u>245</u>
	<u>\$ 21,016</u>	<u>\$ 11,875</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 10% for voice services in fiscal-year 2019; and 90% for Internet access and internal connections, and 30% for voice service in fiscal-year 2018). 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 \$880 and \$1,100 for fiscal-years 2019 and 2018, respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE C - INVESTMENTS

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

	June 30,	
	2019	2018
Certificates of deposit		\$ 2,315
Stocks/Bonds:		
U.S. equity securities	\$ 18,105	17,676
International equity securities from developed markets	12,069	11,181
Emerging market equity securities	386	1,635
Fixed income funds	11,830	11,491
Corporate bond funds	19,468	19,364
Hedge fund	1,653	1,672
	<u>\$ 63,511</u>	<u>\$ 65,334</u>

Investment income for each fiscal year consisted of the following:

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest (net of investment expenses of \$146)	\$ 1,422	\$ 143	\$ 1,565
Net realized gains on sale of investments	145	14	159
Net unrealized gains on investments	<u>1,219</u>	<u>55</u>	<u>1,274</u>
Investment earnings, net	2,787	212	2,998
Less: Investment earnings designated for current operations	<u>(1,765)</u>	<u>(195)</u>	<u>(1,960)</u>
Investment gains not designated for current operations, net	<u>\$ 1,021</u>	<u>\$ 17</u>	<u>\$ 1,038</u>

	Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	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>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

At June 30, 2019 and 2018, concentrations of the Library's investments in excess of 10% of the fair values of its portfolio included approximately: (i) 31% and 30% in corporate bonds respectively, (ii) 29% and 27% invested in U.S. equity securities, respectively (iii) 19% and 18% invested in fixed income funds, respectively and (iv) 19% and 17% invested in international equity securities from developed markets, 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 which: (i) 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 and, accordingly, have been excluded from the fair-value hierarchy.

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 2019 and 2018, there were no transfers among the fair-value hierarchy levels of the Library's investments.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(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, 2019				
Amounts Within the Fair-Value Hierarchy				
	Level 1	Level 2	Measured at NAV	Total
Stocks/Bonds:				
U.S. equity securities	\$ 18,105			\$ 18,105
International equity securities from developed markets	12,069			12,069
Emerging markets equity securities	386			386
Fixed income funds	11,830			11,830
Corporate bond funds		\$ 19,468		19,468
Hedge fund			\$ 1,653	1,653
Total	<u>\$ 42,390</u>	<u>\$ 19,468</u>	<u>\$ 1,653</u>	<u>\$ 63,511</u>

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
International equity securities from developed markets	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	<u>\$ 41,983</u>	<u>\$ 21,679</u>	<u>\$ 1,672</u>	<u>\$ 65,334</u>

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

June 30, 2019				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund	\$ 1,653	None	Quarterly	30 days

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(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 2019 and 2018, the City paid approximately \$16,860 and \$51,789, respectively, for capital appropriations relating to renovations of City-owned branches. During the previous ten fiscal-years 2010 to 2019, the City contributed approximately \$215,104 for branch capital-improvement expenses. The City's total commitment as of June 30, 2019 to branch capital improvement is approximately \$305,756 over the next five fiscal years.

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

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 15,230	\$ 14,550
Leasehold improvements	31,812	31,644
Computer equipment	<u>6,195</u>	<u>6,873</u>
	53,237	53,067
Less: accumulated depreciation and amortization	<u>18,820</u>	<u>15,867</u>
	34,417	37,200
Construction-in-progress	<u>10,921</u>	<u>5,359</u>
	<u>\$ 45,338</u>	<u>\$ 42,559</u>

During fiscal-years 2019 and 2018, the Library wrote off of approximately \$940 and \$423, 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 in the amounts of approximately \$362 and \$616, respectively, which resulted in a loss on disposal of approximately \$242 and \$354. Proceeds in the amount of \$9 were received in 2018.

NOTE E - DEFERRED REVENUE

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

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
State of New York construction grant	\$ 2,240	\$ 1,779
Other advances	<u>453</u>	<u>516</u>
	<u>\$ 2,693</u>	<u>\$ 2,295</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

At each fiscal year-end, net asset with donor restrictions consisted of the following:

	June 30,	
	2019	2018
Purpose restricted:		
Operating:		
Library materials acquisitions*	\$ 260	\$ 313
Branch library support	1,249	1,468
Special programs and other:		
Central Library Information Commons	119	117
Child's place	8	
Plaza and auditorium	248	244
Summer reading	13	
Summer camp	598	709
Artist in residence	30	94
Other*	<u>3,435</u>	<u>3,460</u>
	5,960	6,405
Non-operating:		
Capital projects (see Note I[10])	<u>21,867</u>	<u>20,016</u>
	27,827	26,421
Perpetual in nature	<u>2,706</u>	<u>2,621</u>
	<u>\$ 30,533</u>	<u>\$ 29,042</u>

*Collectively, these categories include accumulated endowment income of \$1,380 and \$1,363 as June 30, 2019 and 2018, respectively.

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

	Year Ended June 30,	
	2019	2018
Operating:		
Library materials acquisitions	\$ 100	\$ 50
Branch library support	470	216
Special programs and other:		
Central Library Information Commons	29	29
Child's Place	6	6
Plaza and auditorium	44	38
Summer reading	71	100
Summer camp	125	126
Artist in residence	2,769	477
Other	<u>2,039</u>	<u>1,909</u>
	5,653	2,951
Non-operating:		
Capital projects (see Note I[10])	<u> </u>	<u>1,671</u>
	5,653	4,622
Capital Grant Expenditures	<u>11,464</u>	<u>3,445</u>
	<u>\$ 17,117</u>	<u>\$ 8,087</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE G - ENDOWMENT

[1] The endowment:

The endowment consists of 48 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 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:

	June 30, 2019		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Donor-restricted endowment funds:			
Adult Literacy Program	\$ 2	\$ 123	\$ 125
Books	167	301	468
Branch Humanities	365	458	823
Central Library Information Commons	90	500	590
Staff Welfare	65	112	177
Plaza and Auditorium Programming	189	310	499
Youth and Children Programming	439	766	1,205
Willendorf Lecture Series	34	50	84
Others - undesignated	29	86	115
	<u>\$ 1,380</u>	<u>\$ 2,706</u>	<u>\$ 4,086</u>

	June 30, 2018		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
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	29	53	82
	<u>\$ 1,363</u>	<u>\$ 2,621</u>	<u>\$ 3,984</u>

The amounts subject to appropriation represent the portion of allocated investment income, derived from endowment assets held in perpetuity, that have not yet been appropriated by the Board of Trustees for expenditures.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements
June 30, 2019 and 2018
(in thousands)

NOTE G - ENDOWMENT (CONTINUED)

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

	June 30, 2019		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Endowment net assets, beginning of year	\$ 1,363	\$ 2,621	\$ 3,984
Dividends and interest, net	143		143
Net realized and unrealized gains	69		69
Contributions		85	85
Appropriation of endowment assets for expenditures	<u>(195)</u>		<u>(195)</u>
Endowment net assets, end of year	<u>\$ 1,380</u>	<u>\$ 2,706</u>	<u>\$ 4,086</u>

	June 30, 2018		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Endowment net assets, beginning of year	\$ 1,321	\$ 2,615	\$ 3,936
Dividends and interest, net	116		116
Net realized and unrealized gains	117		117
Contributions		6	6
Appropriation of endowment assets for expenditures	<u>(191)</u>		<u>(191)</u>
Endowment net assets, end of year	<u>\$ 1,363</u>	<u>\$ 2,621</u>	<u>\$ 3,984</u>

[5] Return objectives and risk parameters:

The Board of Trustees 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 Board'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.

[6] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Board 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 Board 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, 2019 and 2018
 (in thousands)

NOTE G - ENDOWMENT (CONTINUED)

[7] Spending policy:

For distribution each year, the Board has a policy of appropriating 5% and did appropriate 5% of its endowment average fair value over the prior 60 months through the fiscal year proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Board considered the long-term expected return on its endowment. Accordingly, over the long term, the Board 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 Board's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

The Library has a policy that permits spending from underwater endowment funds so long as the fair values of the funds are 90% or more of the endowed amount required by the donor or any applicable laws or regulations.

[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, 2019 and 2018.

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,	
	2019	2018
Estimated rental value of properties	\$ 31,961	\$ 31,599
Heat, light and power	<u>2,472</u>	<u>2,547</u>
	<u>\$ 34,433</u>	<u>\$ 34,146</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,	
	2019	2018
Public service announcements	\$ 322	\$ 200
Contributed legal services	<u>65</u>	<u>158</u>
	<u>\$ 387</u>	<u>\$ 358</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(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 \$5,036 and \$4,920 for fiscal-years 2019 and 2018, respectively. Management believes that through future appropriations, The City of New York will fund such vacation benefits as they are paid to the employees. Such amounts have been reported in the statements of financial position as part of accrued wages and related liabilities.

[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 \$9,089 and \$7,751 as of June 30, 2019, and 2018, 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 3.35% per annum (4.05% per annum in fiscal-year 2018); (ii) a salary increase rate of 2.75% per annum (2.50% per annum in fiscal-year 2018); 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 2018), with a retirement age of 65 in both fiscal years 2019 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 need ten years of service to be fully vested. Amounts of pension charged to expenses for fiscal-years 2019 and 2018 amounted to approximately \$9,419 and \$9,647, 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, 2019, and 2018. The Employer Identification Number for NYSLRS is 14-6020869. The most recent Pension Protection Act ("PPA") zone status is green at March 31, 2019, and 2018. 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 2019 and 2018 amounted to approximately \$210 and \$172 respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(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 \$3,007 and \$3,108 in fiscal-years 2019 and 2018, respectively.

[5] Lease obligations:

The Library is a party to a number of operating leases that expire at various dates through June 30, 2045. Various leases provide for increases in annual base rentals based on various expenses and other criteria. Aggregate rent expense amounted to approximately \$1,200 in both fiscal-years 2019 and 2018, 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, 2019, are approximately as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 1,266
2021	1,488
2022	1,503
2023	1,527
2024	1,513
Thereafter	<u>10,284</u>
	<u>\$ 17,581</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 government 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, 2019 and 2018

(in thousands)

NOTE I - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[8] 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 \$3,700 and \$3,400 for fiscal-years 2019 and 2018, respectively, and are included in professional fees and contract service payments in the accompanying statements of activities.

[9] 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.

[10] Construction related to grants:

(i) Greenpoint:

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. The agreement with the City requires the Library to maintain a project reserve of at least 2,000, through substantial completion, to fund any cost overruns. 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 December 2019. In August 2018, 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 \$4,300 and \$1,100 is included in construction in progress at June 30, 2019 and 2018 respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

NOTE I- COMMITMENTS AND CONTINGENCIES (CONTINUED)

[11] Construction related to grants: (continued)

(ii) South Site project:

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 complement 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 in each year at June 30, 2019 and 2018 in construction in progress for the cultural programming space was approximately \$2,000.

(iii) Brooklyn Heights:

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 construction 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, 2019 and 2018, the amount included in construction in progress was approximately \$862 and \$658 respectively.

(iv) Central Library Renovation:

On June 17, 2019, the Library entered into a capital grant agreement with The City of New York for an amount not to exceed \$35,000 for the Phase One renovation of the Central Library facility. The agreement requires the Library to maintain a project reserve of at least \$3,500, through substantial completion of the renovation, for the purpose of funding any cost overruns relating to the project. In fiscal-year 2017 the Library entered into a "cost-plus" construction management contract with Gilbane Building Company for the Phase One renovation of the Central Library facility.

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, with an interest rate of the Citibank prime rate subject to changes from time to time to time which was 5.5% and 4.89% at June 30, 2019 and 2018, respectively. The Library must maintain a minimum of \$50,000 in the category of without donor restrictions within net assets. 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, 2019 or June 30, 2018.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2019 and 2018

(in thousands)

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.

NOTE L - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Library's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of June 30, 2019 because of contractual or donor-imposed restrictions or internal designations.

Accordingly the Library's financial assets available for general expenditure within one year of June 30, 2019 are as follows:

Cash and cash equivalents and restricted cash	\$ 20,232
Contribution, grants and other receivable, net	21,016
Investments	<u>63,511</u>
Total financial assets available within one year	<u>104,759</u>
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted cash	(254)
Restrictions by donors with purpose and time restrictions	(24,776)
Deferred revenue	(2,693)
Restricted by donors in perpetuity	<u>(2,706)</u>
Total amounts unavailable for general expenditure within one year	<u>(30,429)</u>
Amounts unavailable to management without Board approval:	
Board-designated for building renovation	(5,830)
Board-designated for use in future fiscal years	<u>(6,639)</u>
	<u>(12,469)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 61,861</u>

Liquidity policy:

The Library's policy is to structure its financial assets to be available for its general expenditures, liabilities and other obligations as they come due. Additionally, the Library has a line of credit and Board designated net assets and while the Library does not intend to spend the funds for purposes other than those identified, such fund could be used to help manage unanticipated liquidity needs, if needed.