



**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Financial Statements and Supplemental Schedules

June 30, 2018

(With Summarized Comparative Financial Information as of
and for the Year Ended June 30, 2017)

(With Independent Auditors' Report Thereon)

THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS

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KPMG LLP
345 Park Avenue
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Independent Auditors' Report

The Board of Trustees
The New York Public Library,
Astor, Lenox and Tilden Foundations:

We have audited the accompanying financial statements of The New York Public Library, Astor, Lenox and Tilden Foundations, which comprise the balance sheet as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 New York Public Library, Astor, Lenox and Tilden Foundations as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited The New York Public Library, Astor, Lenox and Tilden Foundations' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

October 31, 2018

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Balance Sheet

June 30, 2018

(With summarized comparative financial information as of June 30, 2017)

(In thousands of dollars)

Assets	2018	2017
Cash and cash equivalents	\$ 134,790	150,895
Government and other receivables (notes 4 and 12)	95,337	71,799
Contributions receivable, net (note 5)	60,043	57,850
Other assets	7,290	7,878
Funds held by others (note 6)	4,195	4,970
Investments (notes 3 and 7)	1,312,477	1,223,665
Real estate investment used in operations (note 8)	1,084	1,084
Fixed assets, net (note 9)	419,238	395,062
Collections		
Total assets	\$ 2,034,454	1,913,203
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities (notes 10 and 15)	\$ 88,652	90,067
Deferred revenue (notes 5 and 12)	31,274	4,184
Note payable, net (note 12)	7,099	6,560
Financing obligation (note 9)	97,808	93,252
Bonds payable, net (note 13)	183,717	183,669
Accrued postretirement benefits (note 11)	81,061	86,633
Total liabilities	489,611	464,365
Commitments and contingencies (notes 7, 10, 11, 12, and 15)		
Net assets (note 8):		
Unrestricted	648,839	606,021
Temporarily restricted (note 14)	432,943	392,993
Permanently restricted (note 14)	463,061	449,824
Total net assets	1,544,843	1,448,838
Total liabilities and net assets	\$ 2,034,454	1,913,203

See accompanying notes to financial statements.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Statement of Activities

Year ended June 30, 2018

(With summarized comparative financial information for the year ended June 30, 2017)

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Operating revenues:					
City of New York	\$ 175,356	—	—	175,356	172,702
State of New York	21,312	—	—	21,312	20,739
Federal government	1,344	—	—	1,344	2,013
Contributed utilities and rent	10,266	—	—	10,266	10,624
Private contributions and grants	27,485	19,903	—	47,388	69,376
Investment return appropriated for spending (note 7)	46,294	5,590	—	51,884	51,726
Fines, royalties, and other revenue	14,645	95	—	14,740	13,836
	<u>296,702</u>	<u>25,588</u>	<u>—</u>	<u>322,290</u>	<u>341,016</u>
Net assets released from restrictions	<u>19,480</u>	<u>(19,480)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenues	<u>316,182</u>	<u>6,108</u>	<u>—</u>	<u>322,290</u>	<u>341,016</u>
Operating expenses (note 16):					
Library services	267,740	—	—	267,740	265,678
Fundraising and membership development	10,698	—	—	10,698	10,215
Management and general	26,450	—	—	26,450	26,315
Total operating expenses	<u>304,888</u>	<u>—</u>	<u>—</u>	<u>304,888</u>	<u>302,208</u>
Additions to research collections	<u>12,134</u>	<u>—</u>	<u>—</u>	<u>12,134</u>	<u>16,621</u>
Total operating expenses and additions to research collections	<u>317,022</u>	<u>—</u>	<u>—</u>	<u>317,022</u>	<u>318,829</u>
Transfers of designated nonoperating funds	<u>1,985</u>	<u>—</u>	<u>—</u>	<u>1,985</u>	<u>2,826</u>
Change in net assets from operating activities	<u>1,145</u>	<u>6,108</u>	<u>—</u>	<u>7,253</u>	<u>25,013</u>
Nonoperating activities:					
Endowment contributions and funds designated for long-term investment, net	5,007	2,086	10,387	17,480	12,159
Net assets released from restrictions for capital and contributions receivable collected	1,296	(1,296)	—	—	—
Appropriations and contributions for capital	27,613	51	—	27,664	38,898
Depreciation and amortization (note 16)	(22,189)	—	—	(22,189)	(23,399)
Investment return, net of amounts appropriated (note 7)	24,877	33,026	2,855	60,758	127,312
Postretirement benefits changes other than net periodic benefit cost (note 11)	7,024	—	—	7,024	7,950
Transfers of designated nonoperating funds	(1,955)	(25)	(5)	(1,985)	(2,826)
Change in net assets from nonoperating activities	<u>41,673</u>	<u>33,842</u>	<u>13,237</u>	<u>88,752</u>	<u>160,094</u>
Change in net assets	<u>42,818</u>	<u>39,950</u>	<u>13,237</u>	<u>96,005</u>	<u>185,107</u>
Net assets at beginning of year	<u>606,021</u>	<u>392,993</u>	<u>449,824</u>	<u>1,448,838</u>	<u>1,263,731</u>
Net assets at end of year	<u>\$ 648,839</u>	<u>432,943</u>	<u>463,061</u>	<u>1,544,843</u>	<u>1,448,838</u>

See accompanying notes to financial statements.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Statement of Cash Flows

Year ended June 30, 2018

(With summarized comparative financial information for the year ended June 30, 2017)

(In thousands of dollars)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 96,005	185,107
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(96,123)	(166,937)
Depreciation and amortization	23,012	23,866
Amortization of deferred revenue	(422)	(422)
Imputed interest related to financing obligation	3,845	1,923
Deferred rent expense	342	654
Postretirement benefits changes other than net periodic benefit cost	(7,024)	(7,950)
Appropriations and contributions for capital	(27,664)	(38,898)
Endowment contributions	(10,387)	(2,816)
Permanently restricted investment income, net of expenses	(2,855)	(1,957)
Changes in operating assets and liabilities:		
Receivables, except for contributions and other receivables restricted for investment in endowment and capital projects	1,202	(19,548)
Other assets	588	(990)
Accounts payable and accrued liabilities, except for accounts payable and accrued liabilities relating to fixed assets and deferred rent	(3,395)	1,055
Accrued postretirement benefits	1,452	2,458
Deferred revenue	21,853	297
Net cash provided by (used in) operating activities	429	(24,158)
Cash flows from investing activities:		
Purchases of investments	(453,375)	(270,250)
Proceeds from sales of investments	460,686	340,166
Purchases of fixed assets	(46,365)	(41,274)
Change in accounts payable and accrued liabilities relating to fixed assets	1,638	1,862
Net cash (used in) provided by investing activities	(37,416)	30,504
Cash flows from financing activities:		
Change in contributions receivable restricted for investment in endowment	(4,787)	576
Change in contributions and other receivables restricted for capital projects	(22,146)	(31,581)
Deferred endowment revenue	5,000	—
Change in deferred revenue relating to capital projects	659	—
Appropriations and contributions for capital	27,664	38,898
Endowment contributions	10,387	2,816
Permanently restricted investment income, net of expenses	2,855	1,957
Proceeds from financing obligation	—	93,107
Financing obligation cost of issuance	—	(2,133)
Issuance of note payable	475	—
Change in funds held by others	775	5,356
Net cash provided by financing activities	20,882	108,996
Net (decrease) increase in cash and cash equivalents	(16,105)	115,342
Cash and cash equivalents at beginning of year	150,895	35,553
Cash and cash equivalents at end of year	\$ 134,790	150,895
Supplemental disclosures:		
Unrelated business income taxes paid	\$ 700	376
Interest paid	8,062	8,060
Imputed interest related to financing obligation	3,845	1,923

See accompanying notes to financial statements.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(1) The Organization

The New York Public Library, Astor, Lenox and Tilden Foundations (the Library) operates research and branch libraries in New York City under a restated charter from the Regents of the State University of New York. The Library is a private, not-for-profit educational corporation that provides certain free services to users of its facilities.

Although the Library is not a governmental institution, it receives significant support through governmental appropriations in addition to the support received from private sources. In accordance with a 1901 agreement with the City of New York (the City), funding for the 88 branch libraries operated by the Library in the boroughs of Manhattan, the Bronx, and Staten Island is provided primarily by the City and the State of New York (the State), and the continuing operations of the branches is dependent upon such support. The Library also operates, at four locations in the borough of Manhattan, research libraries that are partially funded by the City, the State, and the Federal government, and by private sources and investment income.

The Library is a not-for-profit corporation that has been recognized by the Internal Revenue Service as tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the Code), and as a public charity under Sections 170(b)(1)(A)(vi) and 509(a)(1) of the Code. The Library is generally exempt from Federal, State, and City income taxes except to the extent that it is subject to unrelated business income tax.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(b) Basis of Presentation

The Library's net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Library and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. The Library's Board of Trustees has designated a portion of the unrestricted net assets for long-term investment purposes (i.e., to function as endowment).

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by the passage of time or by actions of the Library.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently by the Library. Generally, the donors of these assets permit the Library to use all or part of the return on related investments for general or specific purposes.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
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Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets and liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of restrictions on temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated pledge period has elapsed) are reported as net assets released from restrictions. It is the Library's policy to record temporarily restricted contributions received and investment return appropriated for spending by the Board of Trustees expended in the same accounting period in the unrestricted net asset class.

(c) 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 and transfers from designated nonoperating funds to support current operating activities. Endowment contributions, certain unrestricted bequests, and funds designated by the Library's Board of Trustees for long-term investment, net assets released from restrictions for capital and contributions receivable collected, appropriations and contributions for capital, contributed property for use, if any, depreciation and amortization, investment return, net of amounts appropriated for spending pursuant to the Library's endowment spending policy (notes 7 and 8), postretirement benefit changes other than net periodic benefit cost, and other nonrecurring items are recognized as nonoperating activities.

(d) Grants and Appropriations

Government grants and appropriations are generally considered to be exchange transactions whereby revenue is recognized when related expenses are incurred. Amounts received but not yet expended are reported as deferred revenue.

(e) Contributions

Contributions, including unconditional promises to give (pledges), are recorded as revenue at fair value in the period received or pledged. Fair value is estimated giving consideration to anticipated future cash receipts (after allowance is made for uncollectible contributions) and discounting such amounts at a risk-adjusted rate commensurate with the duration of the donor's payment plan. In subsequent periods, the discount rate is unchanged and the allowance for uncollectible contributions is reassessed and adjusted if necessary. Amortization of the discounts is recorded as additional contribution revenue. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

Contributions of cash or other assets restricted to the acquisition of fixed assets are reported as temporarily restricted revenue. Donors' restrictions are considered met and the net assets are released from restrictions when the fixed assets are placed in service. Contributions subject to donor-imposed restrictions that the corpus be maintained permanently (i.e., endowment contributions) are recognized as increases in permanently restricted net assets.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
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Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(f) Contributed Properties for Use

The Library occupies its landmark building and other properties under arrangements with the City and State in which the City and State retain legal title to the buildings. The properties are provided to the Library for its long-term use, free of charge, so long as the Library uses them as operating libraries. The Library records the fair value of such contributed properties for use as revenue and fixed assets at the time they are made available to the Library for its use. The Library also receives capital appropriations from the City and State to fund construction and capital improvement projects directly managed by the Library. These appropriations are recorded as unrestricted revenues and fixed assets as costs are incurred.

(g) Contributed Utilities and Rent

The City directly pays the cost of utilities (heat, light, and power) for properties occupied by the Library. Except for the Library for the Performing Arts, where the Library pays the cost of utilities directly as part of its general services expense and is partially reimbursed by the City (amounting to \$765 for fiscal years 2018 and 2017), the Library reports contributed utilities revenue for these transactions, offset by equal charges to the appropriate expense category. During the years ended June 30, 2018 and 2017, the Library recognized revenues and expenses totaling \$8,033 and \$8,428, respectively, for contributed utilities.

In addition, the Library recognizes contributed rent for certain properties occupied under short-term lease arrangements for which payments are below the fair rental value. During the years ended June 30, 2018 and 2017, the Library recognized revenues and expenses totaling \$2,233 and \$2,196, respectively, for contributed rent.

(h) Fundraising and Membership Development

Fundraising and membership development expenses were \$10,698 and \$10,215 for the years ended June 30, 2018 and 2017, respectively. The Library's fundraising and membership development activities include working with program staff to develop statements of need for private fundraising, including endowment and capital contributions reported as nonoperating activities; soliciting contributions for those needs and for the Annual Fund from individuals, corporations, and foundations; conducting outreach efforts to secure membership contributions and create awareness of the Library and its programs; and conducting special fundraising events. Revenues raised from special fundraising events are \$4,352 and \$4,277, respectively, for the years ended June 30, 2018 and 2017, and are included in private contributions and grants in the accompanying statement of activities. The costs for these events totaled approximately \$1,274 and \$1,437 for the same periods and are included in fundraising and membership development in the accompanying statement of activities. Fundraising costs are expensed as incurred.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
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Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(i) Operating Leases

Rent expense for operating leases is recorded on a straight-line basis over the lease term. The lease term begins when the Library has the right to control the use of the leased property, which may occur before rent payments are due under the terms of the lease. If a lease has a fixed and determinable escalation clause and/or if the lease provides for free rent periods, the difference between the straight-line rent expense and rent paid is recorded as deferred rent obligation and is included in the accompanying balance sheet in accounts payable and accrued liabilities. Rent for operating leases where escalation is based on an inflation index and amount of escalation cannot be determined at the beginning of the lease term is expensed over the lease term as it is paid.

(j) Investments

Investments with readily determinable fair values are reported at fair value based upon quoted market prices or published net asset values (NAV) for investments in funds with characteristics similar to a mutual fund. The estimated fair value of certain commingled investment funds, hedge funds, and private market funds is reported at estimated fair value based on, as a practical expedient, NAVs provided by investment managers. These values are reviewed and evaluated by Library management for reasonableness. The reported values may differ from the values that would have been reported had a ready market for these investments existed.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized gains and losses and changes in unrealized gains and losses in investments are included in investment return in the statement of activities.

(k) Cash and Cash Equivalents

The Library considers highly liquid investments purchased with an original maturity of three months or less, other than those held in the Library's long-term investment portfolio, to be cash equivalents. The majority of cash and cash equivalents are held with one financial institution.

(l) Split-Interest Agreements

The Library's split-interest agreements consist primarily of charitable gift annuities, pooled income funds, and beneficial interest in perpetual trust.

Contribution revenue from charitable gift annuities is recognized at the date each agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. These liabilities are adjusted annually for changes in the value of the assets, accretion of the discount 3.4% and 2.4% at June 30, 2018 and 2017, respectively, and other changes in the estimates of future benefits. The related liabilities for beneficiary payments in the amount of \$4,230 and \$4,823, respectively, at June 30, 2018 and 2017 are included in accounts payable and accrued liabilities. Assets are invested and payments are made to the donor and/or beneficiaries, in accordance with the respective agreements. Assets related to charitable gift annuities amounted to \$4,862 and \$5,200, respectively, at June 30, 2018 and 2017, and are included in investments in the accompanying balance sheet.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
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Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

In 2018 and 2017, there have been no new contributions to the pooled income fund. Assets are invested and payments are made to the donor and/or beneficiaries, in accordance with the respective agreements. The assets related to the pooled income fund amounted to \$700 and \$698, respectively, at June 30, 2018 and 2017, and are included in investments in the accompanying balance sheet.

The Library is also the beneficiary of two separate perpetual trusts that are held and administered by a third party, and are included in other assets in the accompanying balance sheet in the amount of \$1,763 and \$1,694, respectively, at June 30, 2018 and 2017.

(m) Fixed Assets

Fixed assets include expenditures for the purchase of land, construction, and renovation of Library-owned buildings, renovation or build out of leased property, and purchase of furniture and equipment. Fixed assets also include properties provided to the Library by the City and State, for its long-term use as libraries, and expenditures incurred by the Library to renovate those properties. It is the Library's policy to capitalize fixed asset costs in excess of \$25.

Depreciation and amortization of buildings, building improvements, and furniture and equipment are provided over the estimated useful lives, which range from 5 to 50 years, on the straight-line basis. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvement.

Amounts paid directly by the City from its capital budget for certain capital improvements made to properties occupied by the Library, which are typically managed directly by the City, are not recorded by the Library. During the years ended June 30, 2018 and 2017, such amounts were approximately \$4,326 and \$6,745, respectively.

(n) Collections

The Library has extensive research collections of library materials, including books, periodicals, and other items. These collections are maintained by the research libraries 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 for the research libraries is charged to expense when incurred, and donated collection items are not recorded. The value of the Library's research collections cannot be determined.

The cost of books and other library materials purchased by the branch libraries is not recorded as collections, but is charged as a Library services expense in the year purchased because, largely by reason of their frequent use, such items are exhaustible over a short period of time.

(o) Volunteers

A number of volunteers, including the 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 this contributed time does not meet criteria for recognition as contributed services and, accordingly, is not reflected in the accompanying financial statements.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
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Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(p) Asset Retirement Obligations

The Library has recognized a liability for the fair value of legally required asset retirement obligations (e.g., asbestos remediation) associated with fixed assets that are owned by the Library. The Library's asset retirement obligations was \$471 and \$470 at June 30, 2018 and 2017, respectively, and is reflected in accounts payable and accrued liabilities in the accompanying financial statements. For City-owned buildings, by law and written agreement, the City is responsible for maintenance and repair of the buildings, which, supported by a long-term pattern of practice, include provision of funds for remediation costs associated with asbestos and other hazardous materials in those buildings. Therefore, the Library has not recorded a liability in its financial statements for asset retirement obligations associated with City-owned buildings.

(q) Related Party Transactions

Members of the Library's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the Library. The Library has a written ethics and conflicts policy that requires, among other things, annual disclosure of interests or affiliations that could be construed as creating a conflict or the appearance of a conflict with the interests of the Library. The ethics and conflicts policy requires that no member of the Board of Trustees or senior management can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee and member of senior management is required to certify compliance with the ethics and conflicts policy on an annual basis and indicate whether the Library does business with an entity in which he or she has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the Library, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant as of and for the years ended June 30, 2018 and 2017.

(r) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the valuation of investments at fair value, net realizable value of receivables, fair value of properties provided by the City and State, postretirement benefit obligations and related costs, and functional allocation of expenses. Actual results could differ from those estimates.

(s) Accounting for Uncertainty in Income Taxes

The Library prescribes to a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. As of June 30, 2018 and 2017, the Library does not have any uncertain tax positions or any unrelated business income tax liability, which would have a material impact upon its financial statements.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,
LENOX AND TILDEN FOUNDATIONS**

Notes to Financial Statements

June 30, 2018 and 2017

(In thousands of dollars)

(t) *Presentation of Certain Prior Year Information*

The financial statements include certain prior year summarized information for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Library's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

(u) *Reclassifications and Other Adjustments*

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

The statement of cash flows for the year ended June 30, 2017, which has been presented for comparative purposes, has been adjusted from the previous presentation to revise the presentation of the changes in certain receivables. An adjustment of \$41,355 was made to the change in contributions and other receivables restricted for capital projects (financing activities) with an offsetting adjustment to the change in other receivables (operating activities). The effect of the adjustment was a decrease in cash used by operating activities and a corresponding decrease in cash provided by financing activities. This adjustment had no effect on the cash and cash equivalents amounts previously presented.

(v) *New Authoritative Accounting Pronouncements*

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. The significant requirements of the ASU include the reduction of the number of net asset classes from three to two: with donor restrictions and without donor restrictions; the presentation of expenses by their function and their natural classification in one location; quantitative and qualitative information about the management of liquid resources and availability of financial assets to meet cash needs within one year of the date of the statement of financial position; and retaining the option to present operating cash flows in the statements of cash flows using either the direct or indirect method. The ASU is effective for the Library's 2019 fiscal year.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 helps an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional, which may delay recognition of contribution revenue (recipient) or expense (resource provided). The provisions in this ASU are effective for annual periods beginning after June 15, 2018. The Library is in the process of evaluating the impact of the ASU. The Library plans to implement the provisions of ASU 2018-08 as of July 1, 2018.

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(w) Subsequent Events

In conjunction with the preparation of the financial statements, the Library evaluated subsequent events from July 1, 2018 through October 31, 2018, the date on which the financial statements were issued, and has concluded that there are no further disclosures required.

(3) Fair Value Measurements

Investments are reported at fair value on a recurring basis by the Library.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The inputs to fair value measurements are classified in the fair value hierarchy by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The Library prioritizes the inputs to valuation techniques used to measure fair value under the three levels of the fair value hierarchy, as follows:

Level 1 inputs are quoted prices or published NAV (unadjusted) in active markets for identical assets or liabilities that the Library has the ability to access at measurement date.

Level 2 inputs are other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities.

Level 3 inputs are unobservable for the assets or liabilities.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The Library excludes from the fair value hierarchy investments without readily determinable fair value that are eligible to be measured at fair value using the NAV per share practical expedient.

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The following tables present investments by strategy and fair value hierarchy at June 30, 2018 and 2017:

	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Managed accounts:				
Short-term investments	\$ 246,020	—	—	246,020
Currency futures	259	—	—	259
Domestic common stocks	157,562	—	—	157,562
Corporate bonds	39,406	—	—	39,406
Government bonds	2,007	—	—	2,007
Commingled investment funds:				
Domestic equity funds	2,089	—	—	2,089
Global/international equity funds	1,570	—	—	1,570
Fixed-income funds	1,588	—	—	1,588
	<u>\$ 450,501</u>	<u>—</u>	<u>—</u>	<u>450,501</u>
Investments reported at net asset value:				
Commingled investment funds:				
Domestic equity funds				219,993
Global/international equity funds				348,146
Hedge funds:				
Long/short equity funds				1,216
Multi-strategy funds				181,018
Private market funds:				
Venture capital				2,174
Private equity				71,803
Real estate				<u>37,626</u>
Total investments reported at net asset value				<u>861,976</u>
Total investments				<u>\$ 1,312,477</u>

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	2017			
	Level 1	Level 2	Level 3	Total
Investments:				
Managed accounts:				
Short-term investments	\$ 87,825	—	—	87,825
Currency futures	1,434	—	—	1,434
Domestic common stocks	218,896	—	—	218,896
Corporate bonds	56,480	—	—	56,480
Government bonds	6,002	—	—	6,002
Commingled investment funds:				
Domestic equity funds	87,665	—	—	87,665
Global/international equity funds	1,683	—	—	1,683
Fixed-income funds	1,681	—	—	1,681
	\$ 461,666	—	—	461,666
Investments reported at net asset value:				
Commingled investment funds:				
Domestic equity funds				209,286
Global/international equity funds				313,942
Hedge funds:				
Long/short equity funds				20,608
Multi-strategy funds				108,502
Private market funds:				
Venture capital				3,108
Private equity				75,974
Real estate				30,579
Total investments reported at net asset value				761,999
Total investments				\$ 1,223,665

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(4) Government and Other Receivables

At June 30, 2018 and 2017, government and other receivables consisted of the following:

	2018	2017
City of New York (construction receivables)	\$ 63,151	37,242
City of New York – other	16,209	19,134
State of New York	6,732	6,224
Other (note 12)	9,245	9,199
Total	\$ 95,337	71,799

Construction receivables consist of billed and unbilled amounts to be reimbursed by the City for construction projects under pertinent agreements.

(5) Contributions Receivable

Contributions receivable at June 30, 2018 and 2017 are expected to be collected as follows:

	2018	2017
Amounts expected to be collected in:		
Less than one year	\$ 22,171	18,114
One to five years	31,678	30,400
More than five years	8,902	12,502
	62,751	61,016
Less discount to present value (at rates ranging from 1.2% to 5.0%)	(2,708)	(3,166)
	\$ 60,043	57,850

At June 30, 2018 and 2017, approximately 46% and 58%, respectively, of gross contributions receivable is due from two donors in 2018 and 2017.

As of June 30, 2018 and 2017, the Library has received conditional contributions of approximately \$68,694 and \$15,579, respectively, in the form of matching grants or other conditions that have not been recognized as revenue in the accompanying financial statements because the conditions on which they depend have not been substantially met. As of June 30, 2018, \$26,667 of conditional contributions has been received and reported as deferred revenue.

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(6) Funds Held by Others

At June 30, 2018 and 2017, funds held by others consist of cash held designated for debt service and cost of issuance under the Series 2015 bond agreement (note 13) and amounts advanced under the New Markets Tax Credit (NMTC) financing transaction (note 12) not yet drawn by the Library. Funds held by others at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Debt service fund	\$ 3,982	3,982
Cost of issuance fund	22	22
New markets tax credit funds	191	966
Total	<u>\$ 4,195</u>	<u>4,970</u>

Funds held by others are invested in cash, which is considered Level 1 within the fair value hierarchy.

(7) Investments

The components of the Library's investments at June 30, 2018 and 2017 were as follows:

	<u>Fair value</u>	
	<u>2018</u>	<u>2017</u>
Managed accounts	\$ 445,254	370,637
Commingled investment funds	573,386	614,257
Hedge funds	182,234	129,110
Private market funds	111,603	109,661
Total	<u>\$ 1,312,477</u>	<u>1,223,665</u>

Information with respect to investment strategies, redemption terms, and funding commitments for these investments is as follows:

Managed Accounts: Investments held in managed custodial accounts are segregated from other client assets (i.e., not commingled) and are held in the Library's name at each institution. The underlying assets in the accounts are managed by five separate investment managers and include short-term investments, currency futures, domestic common stocks, corporate bonds, and government bonds. For these accounts, the Library has daily liquidity with one or two days notice required for redemptions or transfers.

Commingled Investment Funds: Commingled investment funds typically include traditional strategies employed by investment managers that invest in publicly traded equity and fixed-income securities. These strategies include, but are not limited to, diversified portfolios of U.S. equities, international equities, corporate bonds, and government-issued debt securities. The funds are typically structured as pooled

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investment vehicles, which may include private limited partnerships or institutional mutual funds that may or may not issue a daily NAV. For the Library's current investments in such commingled funds, redemptions are allowed at a frequency that ranges from daily to quarterly and the notice period ranges from 1 day to 60 days.

Hedge Funds: Hedge funds include a large number of investment strategies for which the underlying manager's investments are typically made in public exchange-traded securities or other types of assets that are actively traded and priced in the broker-dealer markets. For example, long/short equity managers generally build diversified portfolios of long and short investments in publicly listed equity securities based upon their positive or negative fundamental outlook for the prospects of the underlying businesses. Multi-strategy managers employ an opportunistic approach across strategies, and the manager will allocate capital based on their assessment of the relative top-down opportunity set. This includes, but is not limited to, investment opportunities in fundamental corporate equities and credit, event-driven situations such as bankruptcies and mergers, and relative value arbitrage strategies in securities that are believed to be mis-priced relative to their intrinsic value due to a market dislocation or inefficiency. Commodity-oriented strategies typically include long and short positions in exchange-traded commodity futures, options, and equities based upon the underlying manager's fundamental analysis of the supply/demand characteristics for a given commodity market. Hedge funds are typically structured as onshore or offshore private limited partnerships, which may include lock-ups and/or limited redemption terms. For the Library's hedge fund portfolio, the lock-up provisions for investments subject to such terms generally range from one year to three years. At June 30, 2018, \$10,132 of the Library's hedge fund portfolio is within a specified lock-up period. For the remaining \$172,102 of hedge fund investments at June 30, 2018, which are not subject to a lock-up provision, redemptions are allowed on an ongoing basis that ranges from quarterly to semiannually. Redemption notice periods range from 60 to 180 days prior to the stipulated redemption date. At June 30, 2018, the Library had no unfunded commitments to hedge funds.

Private Market Funds: Private market funds include a variety of investment strategies for which the underlying manager's investments are made in companies or assets that do not trade on a public exchange. For example, private equity strategies can include investments in mature private companies in which the manager acquires a controlling equity stake and attempts to improve the operating characteristics, management team, or capital structure of the underlying businesses. Venture capital strategies include investments in less-mature private companies that require equity capital to achieve strong sales growth for their products and services. Real estate strategies include equity or debt investments that are secured by the value of physical properties such as office, multi-family residential, hotel, retail, and industrial buildings and assets. Private market funds are usually structured as onshore private limited partnerships to which limited partners commit a specified amount of capital that is called down over time as investment opportunities are identified, typically over a four to five year fixed initial investment period. Investments cannot be redeemed during the fund's stated life, which is usually 10 to 15 years from the initial commitment date. Incremental extensions can also be granted at the expiration of a fund's life, but they typically require the consent of the majority of the limited partners. At June 30, 2018, the Library had \$34,259 in unfunded commitments to private market funds. Additionally, at June 30, 2018, the Library's investments in these partnerships had remaining lives of less than 1 year and up to 13.5 years, with an average of 5 years assuming all of the potential extension periods are granted at expiration.

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The following table summarizes the Library's investment return in the accompanying statement of activities for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 28,670	23,858
Net realized and unrealized gains	96,123	166,937
Less investment expenses	<u>(12,151)</u>	<u>(11,757)</u>
Total investment return	112,642	179,038
Investment return appropriated for spending	<u>(51,884)</u>	<u>(51,726)</u>
Investment return reported as nonoperating	<u>\$ 60,758</u>	<u>127,312</u>

(8) Endowment Funds

The Library's endowment consists of 426 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Library has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as allowing the Library to appropriate for expenditure or accumulate so much of an endowment fund as the Library determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the Library classifies as permanently restricted net asset (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations of income to the permanent endowment made in accordance with the direction of the applicable donor gift instruments. Accounting guidance associated with the enactment of NYPMIFA as set forth in Accounting Standards Codification Topic 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, requires the portion of a donor-restricted endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Board of Trustees considers the following factors in making a determination to appropriate or accumulate endowment funds:

- i The duration and preservation of the endowment fund
- ii The purposes of the Library and the endowment fund
- iii General economic conditions

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- iv The possible effect of inflation and deflation
- v The expected total return from income and the appreciation of investments
- vi Other resources of the Library
- vii Alternatives to expenditure of the endowment fund
- viii The investment policies of the Library

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. At June 30, 2018 and 2017, the fair values of 2 and 4 donor-restricted endowment funds were less than their original fair value (i.e., underwater) by a total of \$88 and \$2,018, respectively.

The Library employs an asset allocation spending model having a multi-year investment horizon, and it manages its endowment in accordance with the total return concept and the goal of maximizing long-term return within acceptable levels of risk. The Library's spending policy is designed to provide a stable level of financial support and to preserve the real value of its endowment. The Library compares the performance of its endowment against several benchmarks, including its asset allocation spending model policy index.

The Library calculates annual spending as (i) 75% of the prior year's endowment spending, adjusted for inflation (i.e., CPI) and (ii) 25% of 4.5% of the endowment fair value as of December 31 of the most recent calendar year-end preceding the start of said fiscal year (Current Market Value), provided, however, that in order to avoid any unintended spending distortions over time, in no event shall the spending amount with respect to any fiscal year be less than 4% or more than 6% of the Current Market Value. Any excess is reinvested.

Endowment net assets (excluding pledges and split interest agreements) consisted of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted funds	\$ (88)	317,445	457,309	774,666
Board-designated funds functioning as endowment	479,635	21,940	—	501,575
Total	<u>\$ 479,547</u>	<u>339,385</u>	<u>457,309</u>	<u>1,276,241</u>

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Endowment net assets (excluding pledges and split interest agreements) consisted of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted funds	\$ (2,018)	285,456	443,928	727,366
Board-designated funds functioning as endowment	<u>433,300</u>	<u>20,901</u>	<u>—</u>	<u>454,201</u>
Total	<u>\$ 431,282</u>	<u>306,357</u>	<u>443,928</u>	<u>1,181,567</u>

Donor-restricted amounts reported above as unrestricted net assets at June 30, 2018 and 2017 represent underwater amounts of endowment funds. Board-designated amounts include real estate investment used in operations of \$1,084 at June 30, 2018 and 2017.

Changes in endowment net assets for the fiscal years ended June 30, 2018 and 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2016	\$ 368,497	236,376	438,722	1,043,595
Interest and dividends, net of expenses	5,655	3,942	1,957	11,554
Realized and unrealized losses	92,591	72,025	—	164,616
Contributions and other additions	9,077	—	3,249	12,326
Transfers	—	(952)	—	(952)
Appropriated for spending	<u>(44,538)</u>	<u>(5,034)</u>	<u>—</u>	<u>(49,572)</u>
Net assets at June 30, 2017	431,282	306,357	443,928	1,181,567
Interest and dividends, net of expenses	7,570	4,869	2,855	15,294
Realized and unrealized gains	62,390	33,440	—	95,830
Contributions and other additions	23,750	—	10,531	34,281
Transfers	—	—	(5)	(5)
Appropriated for spending	<u>(45,445)</u>	<u>(5,281)</u>	<u>—</u>	<u>(50,726)</u>
Net assets at June 30, 2018	<u>\$ 479,547</u>	<u>339,385</u>	<u>457,309</u>	<u>1,276,241</u>

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(9) Fixed Assets

Fixed asset balances at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,109	3,109
Buildings and improvements	627,278	605,936
Leasehold improvements	48,723	48,723
Furniture and equipment	60,760	58,502
Construction in progress	76,344	53,579
	<u>816,214</u>	<u>769,849</u>
Less accumulated depreciation and amortization	<u>(396,976)</u>	<u>(374,787)</u>
	<u>\$ 419,238</u>	<u>395,062</u>

On December 23, 2016, the Library entered into a Purchase and Sale Agreement (the Agreement) for the sale of the remaining floors of a condominium building for \$93,500 (before closing fees of \$393). Simultaneously with the execution and delivery of the Agreement, the buyer, as landlord, and the Library, as tenant, executed a lease agreement for the space for a three-year period at a rate of \$1 per annum.

Pursuant to Accounting Standards Codification Topic 840, *Leases*, the Library did not meet the criteria for sale-leaseback accounting and therefore the transaction is accounted for as a financing transaction until the end of the three-year lease term, at which time the sale will be recognized. Accordingly, the sales proceeds are accounted for as a financing obligation, with interest expense imputed at an effective rate of 4.13% over the three year period. The closing costs are treated as debt issuance costs reported as a reduction to the obligation and amortized over the three-year period.

The change in the financing obligation for the fiscal years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Financing obligation at beginning of year	\$ 93,252	—
Proceeds received at closing	—	93,107
Costs of issuance	—	(2,133)
Imputed interest expense	3,846	1,923
Amortization of costs of issuance	710	355
Financing obligation at end of year	<u>\$ 97,808</u>	<u>93,252</u>

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(10) Pensions and Postemployment Benefits

Substantially all of the Library's salaried 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. All benefits generally vest after five years of accredited service. Pension expense for these employees was approximately \$17,078 and \$17,719, respectively, for the years ended June 30, 2018 and 2017. There have been no significant changes that affect the comparability of fiscal year 2018 and 2017 contributions. The Library was not listed in the plan's most recent available audited financial statements for providing more than 5% of the total contributions to the plan for the years ended March 31, 2018 and 2017. The most recent Pension Protection Act (PPA) zone status is green at March 31, 2018 and 2017. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The Employer Identification Number for NYSLRS is 14-6020869.

Under a 1937 agreement between the Library and the City, the City is responsible for pension liabilities to NYSLRS for Library employees whose salaries are funded by the City. City funding for such liabilities is included in City operating revenues in the accompanying statement of activities.

For participants enrolled in NYSLRS prior to July 27, 1976, the Library contributes the total amount necessary to pay benefits when due. Participants who enrolled in NYSLRS on or after July 27, 1976 are required to contribute 3% to 6% of their gross salary, and the Library contributes the remaining amounts necessary to pay benefits when due.

As of July 1, 2013, certain nonunion employees have an alternative option to participate in the New York State Voluntary Defined Contribution Plan (VDC). VDC participants are required to contribute 4.5% to 6.0% of their gross salary, and the Library contributes 8%. VDC expense was \$906 and \$759, respectively, for the years ended June 30, 2018 and 2017.

The Library provides certain severance and sick leave benefits under its Service Credit Program to all employees who meet certain age and service requirements. The present value of the Service Credit Leave obligation amounted to \$3,954 and \$4,338, respectively, at June 30, 2018 and 2017, which is included in accounts payable and accrued liabilities in the accompanying balance sheet. The liability is funded on a pay-as-you-go basis. Benefits paid and expenses recognized by the Library were \$437 and \$53, respectively, for the year ended June 30, 2018 and \$352 and \$341, respectively, for the year ended June 30, 2017.

(11) Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Library provides certain postretirement health and supplemental benefits to its salaried employees if they reach normal retirement age while working for the Library.

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The Library funds its postretirement benefits on a pay-as-you-go basis; however, for financial reporting purposes, the Library records these benefits as employees earn them by rendering service. Accounting principles permit an employer to consider sources of funding when measuring the accrued postretirement obligation. The Library's postretirement benefit obligation considers the present value of the future appropriations from the City to fund a significant portion of postretirement benefits as they become due.

Effective July 1, 2015, the Library amended its postretirement benefit plan whereby nonunion employees hired after June 30, 2015 are not eligible to participate in the plan. In addition, effective January 1, 2016, Medicare-eligible nonunion retirees and their dependents will choose a Medicare supplement plan through a choice of providers in a private Medicare exchange along with a Health Care Reimbursement Account from the Library to help fund coverage. The Library further amended the plan, effective January 1, 2018, to reduce the reimbursement percentage of Medicare Part B premiums to nonunion employees.

The following table sets forth the changes in the postretirement benefit obligation as of and for the years ended June 30, 2018 and 2017:

	2018	2017
Change in benefit obligation:		
Accumulated postretirement obligation at beginning of year	\$ 86,633	92,125
Service cost	3,026	3,191
Interest cost	3,308	3,295
Amendments	(1,932)	—
Participant contributions	261	295
Actuarial net gain	(6,639)	(8,596)
Benefits paid	(6,338)	(6,118)
City funding offset	2,742	2,441
Accumulated postretirement obligation at end of year	81,061	86,633
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	3,335	3,382
Participant contributions	261	295
Benefits paid	(6,338)	(6,118)
City funding offset	2,742	2,441
Fair value of plan assets at end of year	—	—
Accrued postretirement benefits as reflected in the balance sheet	\$ 81,061	86,633

The accrued postretirement benefit obligation of \$81,061 and \$86,633, respectively, as of June 30, 2018 and 2017 includes the present value of future City funding offset of \$100,255 and \$105,100, respectively.

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Net periodic postretirement benefit cost for the years ended June 30, 2018 and 2017 includes the following components:

	<u>2018</u>	<u>2017</u>
Service cost	\$ 3,026	3,191
Interest cost	3,308	3,295
Net amortization and deferral	<u>(1,547)</u>	<u>(646)</u>
Net periodic postretirement benefit cost	<u>\$ 4,787</u>	<u>5,840</u>
Weighted average assumptions used to determine benefit obligations – discount rate	4.15 %	3.90 %
Weighted average assumptions used to determine net periodic benefit cost – discount rate	3.90	3.65

Accumulated amounts recorded in unrestricted net assets other than through net periodic postretirement benefit cost at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Net loss	\$ 39,846	49,363
Prior service credit	<u>(32,107)</u>	<u>(34,600)</u>
Total	<u>\$ 7,739</u>	<u>14,763</u>

The expected amortization to be included in net periodic postretirement benefit cost for fiscal year 2019 is \$2,292 and \$4,593 of net actuarial loss and prior service credit, respectively.

Other changes recognized in unrestricted net assets other than net periodic postretirement benefit cost during the years ended June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Net gain	\$ (6,639)	(8,596)
Prior service credit	2,493	4,425
Amortization of net loss	<u>(2,878)</u>	<u>(3,779)</u>
Total	<u>\$ (7,024)</u>	<u>(7,950)</u>

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The weighted average annual assumed rate of increase in the per capita cost of healthcare benefits (i.e., healthcare cost trend rate) begins at an initial rate of 6.7% for pre-65 participants and post-65 participants, and decreases gradually to 4.5% by 2037 and remains at that level thereafter. All other benefits are assumed to increase at an annual rate of 4.0%.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the plan. A 1% change in assumed healthcare cost trend rates would have the following effects as of June 30, 2018:

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 1,518	(1,178)
Effect on the postretirement benefit obligation	14,394	(11,581)

Expected benefit payments, net of participant contributions and City funding, are as follows:

	Net benefit payments
Fiscal year(s) ending:	
2019	\$ 3,279
2020	3,442
2021	3,719
2022	4,303
2023	4,455
2024–2028	24,998

As of June 30, 2018 and 2017, the Library has considered any provisions of healthcare reform that would be expected to have a significant impact on the measured obligation.

The Library also contributes to a Taft-Hartley trust, District Council 37 New York Public Library Health and Security Plan Trust (the Plan), which provides certain welfare benefits to active and eligible retired employees of the Library covered by a collective bargaining agreement. The collective bargaining agreement is negotiated and approved periodically. The Library records related expense as contributions are made. Total expense recognized under the Plan was \$4,226 and \$4,167, respectively, for the years ended June 30, 2018 and 2017. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents, and (2) active employees and their beneficiaries and dependents after retirement from service. As of June 30, 2017, the date of the Plan's most recently issued financial statements, the Plan had net assets available for benefits of \$8,296. The actuarial present value of estimated future benefits to plan participants who have provided services as of June 30, 2017 amounted to \$97,895 (\$593 currently payable, \$24,618 for actives fully eligible, \$35,493 for actives not fully eligible, and \$37,191 for retirees). There is no requirement for the

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(In thousands of dollars)

Plan's Trustees to provide payment over and beyond the amounts in the Plan collected and held for such purpose. The Plan's Trustees have the right to change or discontinue the types and amounts of benefits under the Plan and the eligibility rules. The Library is currently the only remaining contributing employer to the Plan. The Employer Identification Number for the Plan is 13-3378857.

(12) Note Payable

The Library entered into a NMTC financing transaction on December 18, 2014 in which a NMTC corporation is providing a \$10,000 NMTC allocation to support the renovation project of the Schomburg Center for Research in Black Culture. The \$10,000 allocation returns \$3,900 in tax credits for the investor, and \$2,951 in proceeds to the Qualified Active Low-Income Business, which is the Schomburg Center for Research in Black Culture, a portion of the business of the Library.

In connection with this NMTC financing, the Library agreed to borrow \$9,800 under two notes, Note A in the amount of \$6,849 and Note B in the amount of \$2,951. Both notes carry a 1.000043% interest rate. The principal amount of Note A corresponds to a \$6,849 loan made on December 18, 2014 by another bank to a controlled entity of the investor. The Library has a \$6,164 participation in the \$6,849 bank loan on which the Library receives interest at the rate of 0.50%. However, there is no right to offset the note receivable of \$6,164 against the Note A payable of \$6,849. Note A has a seven-year term, maturing on December 18, 2021. The principal balance of Note A is due upon maturity. Upon payment of the bank loan at maturity, the Library will receive the return of its \$6,164 loan participation. As of June 30, 2018 and 2017, \$6,849 has been advanced on the Note A. Unamortized cost of issuance at June 30, 2018 and 2017 was \$225 and \$289, respectively. The Library's \$6,164 participation in the bank loan is reported as government and other receivables in the accompanying balance sheets as of June 30, 2018 and 2017.

Note B has a 30-year term, maturing on December 18, 2044. The Library expects that shortly after December 18, 2021, the date the NMTC 7-year compliance period ends, Note B will be forgiven in exchange for the payment of \$5 through the exercise of a put option by the investor. The Library has determined that, in substance, Note B is revenue to the Library for performance under the NMTC arrangement and maintenance of compliance over the 7-year period. Accordingly, such revenue will be recognized on the straight-line basis over the 7-year period. Funds received on Note B in excess of revenue earned is recorded as deferred revenue.

On August 16, 2017, the Library entered into a transaction with a developer, as lender, for a \$475 note payable, which is related to the acquisition of a property from the developer for the construction of a branch library. The maturity date of the note is the earlier of ten days after final completion has occurred or two and a half years from the commencement date of the note. The note carries an interest rate of 4% per annum.

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June 30, 2018 and 2017

(In thousands of dollars)

(13) Bonds Payable

Outstanding bonds payable at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Fixed rate bonds, maturing July 1, 2045 (Series 2015)	\$ 185,000	185,000
Less unamortized costs of issuance	(1,283)	(1,331)
	\$ 183,717	183,669

On March 4, 2015, the Library issued the Series 2015 taxable bonds in the amount of \$185,000. The Series 2015 bonds bear interest at a fixed rate of 4.305% payable on January 1 and July 1 of each year, commencing July 1, 2015. The principal amount of the Series 2015 bonds is due on July 1, 2045. The proceeds of the Series 2015 bonds were used to refund in full the outstanding Series 1999 bonds, pay the termination costs of the associated swap agreements, and pay the costs of issuance. The remaining proceeds will be used to further the Library's general corporate purposes and finance several capital projects.

For the years ended June 30, 2018 and 2017, interest expense was \$7,964.

(14) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets and the income on permanently restricted net assets were available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Temporarily restricted net assets:		
Program activities:		
Branch libraries	\$ 41,385	34,350
Research libraries	204,961	187,478
Conservation and cataloging	24,628	21,344
Exhibitions and public education programs	12,937	11,493
Other – principally, time restricted and for the general operations of the research libraries and library-wide programs	132,432	122,221
Net investment in plant not yet placed in service	1,825	1,118
Acquisition of fixed assets	14,775	14,989
Total	\$ 432,943	392,993

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June 30, 2018 and 2017

(In thousands of dollars)

	2018	2017
Permanently restricted net assets:		
Branch libraries	\$ 36,209	34,219
Research libraries	248,481	243,042
Conservation and cataloging	21,102	20,803
Exhibitions and public education programs	15,448	15,388
Other – principally, for the general operations of the research libraries and library-wide programs	141,821	136,372
Total	\$ 463,061	449,824

(15) Commitments and Contingencies

(a) Litigation and Claims

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

(b) Collective Bargaining Agreements

At June 30, 2018 and 2017, approximately 73% of the Library salaried employees are unionized and are employed under Collective Bargaining Agreements between The New York Public Library and Local 1930 and Local 374 (District Council 37), which originally expired on July 2, 2017, and were extended through September 26, 2018. The Library will commence negotiations of a new Collective Bargaining Agreement in the coming months. The previous Economic Agreement between the City of New York and District Council 37 expired on September 25, 2017. Recently, both parties negotiated a new Economic Agreement which was ratified by the District Council 37 membership on August 14, 2018. The Library has adopted applicable provisions of the Economic Agreement. The Agreement is effective September 26, 2017 through May 25, 2021.

(c) Line of Credit

The Library has available an unsecured line of credit from a bank in the amount of \$15,000, of which \$1,000 has been applied toward a standby letter of credit associated with the Library's paid-loss workers' compensation insurance program. The line of credit is available through February 23, 2019, subject to extension, and carries an interest rate equal to the prime rate or LIBOR plus 0.45%, as the Library may elect.

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June 30, 2018 and 2017

(In thousands of dollars)

(d) Leases

The Library's future minimum lease payments under noncancelable operating leases, in total and for each of the next five years, are as follows at June 30:

2019	\$	7,008
2020		7,033
2021		7,101
2022		6,461
2023		5,894
Thereafter		73,553
Total	\$	107,050

Various leases provide for increases in annual base rentals based on various expenses and other increases. Rent expense for the years ended June 30, 2018 and 2017 was approximately \$7,296 and \$7,306, respectively. Deferred rent obligation was \$8,898 and \$8,519, respectively, at June 30, 2018 and 2017, and is included in accounts payable and accrued liabilities in the accompanying balance sheet.

(e) Construction-Related Purchase Commitments

The Library has entered into construction-related purchase commitments of approximately \$83,726 as of June 30, 2018.

(16) Functional Expense Classification

Expenses by functional classification for the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Total operating expenses and additions to research collections from the statement of activities	\$ 317,022	318,829
Depreciation and amortization	22,189	23,399
Total expenses	\$ 339,211	342,228
Library services	\$ 300,993	304,648
Fundraising and membership development	10,976	10,487
Management and general	27,242	27,093
Total expenses	\$ 339,211	342,228

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Schedule of Activities – Branch and Research Libraries

Year ended June 30, 2018

(In thousands of dollars)

	The branch libraries				The research libraries and library-wide programs				All funds			Total
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	
Operating revenues:												
City of New York	\$ 148,126	—	—	148,126	27,230	—	—	27,230	175,356	—	—	175,356
State of New York	10,976	—	—	10,976	10,336	—	—	10,336	21,312	—	—	21,312
Federal government	900	—	—	900	444	—	—	444	1,344	—	—	1,344
Contributed utilities and rent	7,856	—	—	7,856	2,410	—	—	2,410	10,266	—	—	10,266
Private contributions and grants	5,526	11,539	—	17,065	21,959	8,364	—	30,323	27,485	19,903	—	47,388
Investment return appropriated for spending	5,410	921	—	6,331	40,884	4,669	—	45,553	46,294	5,590	—	51,884
Fines, royalties, and other revenue	3,731	66	—	3,797	10,914	29	—	10,943	14,645	95	—	14,740
	182,525	12,526	—	195,051	114,177	13,062	—	127,239	296,702	25,588	—	322,290
Net assets released from restrictions	7,463	(7,463)	—	—	12,017	(12,017)	—	—	19,480	(19,480)	—	—
Total operating revenues	189,988	5,063	—	195,051	126,194	1,045	—	127,239	316,182	6,108	—	322,290
Operating expenses:												
Library services	184,172	—	—	184,172	83,568	—	—	83,568	267,740	—	—	267,740
Fundraising and membership development	1,663	—	—	1,663	9,035	—	—	9,035	10,698	—	—	10,698
Management and general	11,891	—	—	11,891	14,559	—	—	14,559	26,450	—	—	26,450
Total operating expenses	197,726	—	—	197,726	107,162	—	—	107,162	304,888	—	—	304,888
Additions to research collections	—	—	—	—	12,134	—	—	12,134	12,134	—	—	12,134
Total operating expenses and additions to research collections	197,726	—	—	197,726	119,296	—	—	119,296	317,022	—	—	317,022
Transfers of designated nonoperating funds	592	—	—	592	1,393	—	—	1,393	1,985	—	—	1,985
Change in net assets from operating activities	(7,146)	5,063	—	(2,083)	8,291	1,045	—	9,336	1,145	6,108	—	7,253
Nonoperating activities:												
Endowment contributions and funds designated for long-term investment	213	—	1,691	1,904	4,794	2,086	8,696	15,576	5,007	2,086	10,387	17,480
Appropriations and contributions for capital	24,441	2,840	—	27,281	3,172	(2,789)	—	383	27,613	51	—	27,664
Depreciation and amortization	(10,792)	—	—	(10,792)	(11,397)	—	—	(11,397)	(22,189)	—	—	(22,189)
Investment return, net of amounts appropriated	674	2,118	300	3,092	24,203	30,908	2,555	57,666	24,877	33,026	2,855	60,758
Postretirement benefits changes other than net periodic benefit cost	4,378	—	—	4,378	2,646	—	—	2,646	7,024	—	—	7,024
Transfers of designated nonoperating funds	(592)	—	—	(592)	(1,393)	—	—	(1,393)	(1,985)	—	—	(1,985)
Net assets released from restrictions for capital and contributions receivable released from time restrictions and board-designated for long-term investment	141	(141)	—	—	1,155	(1,155)	—	—	1,296	(1,296)	—	—
Redesignation of net assets	5	(23)	—	(18)	25	(2)	(5)	18	30	(25)	(5)	—
Change in net assets from nonoperating activities	18,468	4,794	1,991	25,253	23,205	29,048	11,246	63,499	41,673	33,842	13,237	88,752
Change in net assets	11,322	9,857	1,991	23,170	31,496	30,093	11,246	72,835	42,818	39,950	13,237	96,005
Net assets at beginning of year	124,798	37,960	34,219	196,977	481,223	355,033	415,605	1,251,861	606,021	392,993	449,824	1,448,838
Net assets at end of year	\$ 136,120	47,817	36,210	220,147	512,719	385,126	426,851	1,324,696	648,839	432,943	463,061	1,544,843

See accompanying independent auditors' report.

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Schedule of Functional Expenses and Additions to Research Collections

Year ended June 30, 2018

(In thousands of dollars)

	Program services			Supporting services							Total
	Library services			Fundraising and membership development			Management and general				
	The branch libraries	The research libraries and library-wide programs	Total program services	The branch libraries	The research libraries and library-wide programs	Total fundraising and membership development	The branch libraries	The research libraries and library-wide programs	Total management and general	Total supporting services	
Salaries	\$ 80,842	39,959	120,801	628	4,228	4,856	6,455	8,153	14,608	19,464	140,265
Fringe benefits	36,319	18,211	54,530	289	1,970	2,259	2,992	3,655	6,647	8,906	63,436
Books and library materials	16,470	6	16,476	—	—	—	—	—	—	—	16,476
Binding and conservation expenditures	245	304	549	—	—	—	—	—	—	—	549
Office-related expenditures	1,858	230	2,088	73	285	358	35	19	54	412	2,500
Equipment rental and maintenance	1,231	663	1,894	1	26	27	78	6	84	111	2,005
Telecommunications	2,288	510	2,798	—	—	—	1	—	1	1	2,799
Building repairs, occupancy, and related expenditures	21,665	6,319	27,984	121	124	245	317	256	573	818	28,802
Contributed utilities and rent	7,856	2,410	10,266	—	—	—	—	—	—	—	10,266
Professional services	7,657	6,593	14,250	220	1,237	1,457	1,126	814	1,940	3,397	17,647
Promotional and special event expenses	28	271	299	87	831	918	—	329	329	1,247	1,546
Interest and accretion expense	6,166	5,034	11,200	236	236	472	515	515	1,030	1,502	12,702
Insurance expense	1,066	874	1,940	7	7	14	148	53	201	215	2,155
Other expenses	481	2,184	2,665	1	91	92	224	759	983	1,075	3,740
Total functional expenses before additions to research collections and depreciation and amortization	184,172	83,568	267,740	1,663	9,035	10,698	11,891	14,559	26,450	37,148	304,888
Additions to research collections	—	12,134	12,134	—	—	—	—	—	—	—	12,134
Depreciation and amortization	10,269	10,850	21,119	139	139	278	385	407	792	1,070	22,189
Total expenses	\$ 194,441	106,552	300,993	1,802	9,174	10,976	12,276	14,966	27,242	38,218	339,211

See accompanying independent auditors' report.