



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

Financial Statements and Supplemental Schedules

June 30, 2013

(With Independent Auditors' Report Thereon)

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

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**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

## **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, 2013, 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, 2013, 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' 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 30, 2013

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

Balance Sheet

June 30, 2013

(with summarized comparative financial information as of June 30, 2012)

(In thousands of dollars)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash and cash equivalents	\$ 58,035	97,310
Government and other receivables (note 4)	34,105	26,210
Contributions receivable, net (note 5)	66,308	62,216
Other assets	2,643	2,012
Funds held by bond trustee (notes 3 and 6)	21,130	24,631
Investments (notes 3 and 7)	1,030,775	889,324
Real estate investment used in operations (note 8)	1,084	1,084
Fixed assets, net (note 9)	294,379	284,821
Collections		
Total assets	\$ 1,508,459	1,387,608
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities (notes 10 and 15)	\$ 64,547	57,405
Deferred revenue – City of New York and other (note 9)	86,911	87,488
Long-term debt (note 12)	80,360	84,510
Interest rate swaps (notes 3 and 12)	11,470	16,917
Accrued postretirement benefits (note 11)	166,168	182,757
Total liabilities	409,456	429,077
Commitments and contingencies (notes 7, 10, 11, 12, and 15)		
Net assets (note 8):		
Unrestricted	378,994	295,593
Temporarily restricted (note 13)	287,904	236,691
Permanently restricted (note 13)	432,105	426,247
Total net assets	1,099,003	958,531
Total liabilities and net assets	\$ 1,508,459	1,387,608

See accompanying notes to financial statements.

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

Statement of Activities

Year ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

(In thousands of dollars)

	<u>Operating Budget</u>	<u>Unrestricted</u>	<u>Total</u>				
	<u>Activities</u>	<u>Other</u>	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>2013</u>	<u>2012</u>
		<u>Activities</u>		<u>restricted</u>	<u>restricted</u>	<u>Total</u>	<u>Total</u>
Operating revenues:							
City of New York	\$ 133,430	3,525	136,955	—	—	136,955	133,066
State of New York	18,685	—	18,685	—	—	18,685	16,391
Federal government	1,080	1,035	2,115	—	—	2,115	1,731
Contributed utilities and rent	9,160	1,980	11,140	—	—	11,140	10,072
Private contributions and grants	26,271	—	26,271	31,251	—	57,522	32,110
Investment return appropriated for spending (note 7)	35,414	252	35,666	6,236	—	41,902	38,234
Fines, royalties, and other revenue	12,669	102	12,771	—	—	12,771	12,982
	<u>236,709</u>	<u>6,894</u>	<u>243,603</u>	<u>37,487</u>	<u>—</u>	<u>281,090</u>	<u>244,586</u>
Net assets released from restrictions	12,768	—	12,768	(12,768)	—	—	—
Total operating revenues	<u>249,477</u>	<u>6,894</u>	<u>256,371</u>	<u>24,719</u>	<u>—</u>	<u>281,090</u>	<u>244,586</u>
Operating expenses (note 14):							
Library services	206,903	20,076	226,979	—	—	226,979	211,437
Fundraising and membership development	8,004	513	8,517	—	—	8,517	8,170
Management and general	20,642	2,756	23,398	—	—	23,398	23,308
Total operating expenses	<u>235,549</u>	<u>23,345</u>	<u>258,894</u>	<u>—</u>	<u>—</u>	<u>258,894</u>	<u>242,915</u>
Additions to research collections	10,712	—	10,712	—	—	10,712	10,361
Total operating expenses and additions to research collections	<u>246,261</u>	<u>23,345</u>	<u>269,606</u>	<u>—</u>	<u>—</u>	<u>269,606</u>	<u>253,276</u>
Transfers for funding principal payments on bonds and other	(3,216)	3,216	—	—	—	—	—
Change in net assets from operating activities, before gains on sales of real estate	—	(13,235)	(13,235)	24,719	—	11,484	(8,690)
Gains on sales of real estate, net (note 9)	—	—	—	—	—	—	80,767
Change in net assets from operating activities	<u>—</u>	<u>(13,235)</u>	<u>(13,235)</u>	<u>24,719</u>	<u>—</u>	<u>11,484</u>	<u>72,077</u>
Nonoperating activities:							
Endowment contributions and funds designated for long-term investment	—	7,832	7,832	4,872	5,118	17,822	45,068
Appropriations and contributions for capital	—	9,387	9,387	7,579	—	16,966	13,118
Contributed property for use (note 9)	—	—	—	—	—	—	14,466
Depreciation and amortization (note 14)	—	(22,210)	(22,210)	—	—	(22,210)	(23,158)
Investment return, net of amounts appropriated (note 7)	—	39,537	39,537	43,998	1,290	84,825	(55,257)
Postretirement benefits changes other than net periodic benefit cost (note 11)	—	26,138	26,138	—	—	26,138	(29,306)
Change in value of interest rate swaps	—	5,447	5,447	—	—	5,447	(5,255)
Net assets released from restrictions for capital and contributions receivable released from time restrictions and board designated for long-term investment	—	30,505	30,505	(30,505)	—	—	—
Change in donor designation	—	—	—	550	(550)	—	—
Change in net assets from nonoperating activities	<u>—</u>	<u>96,636</u>	<u>96,636</u>	<u>26,494</u>	<u>5,858</u>	<u>128,988</u>	<u>(40,324)</u>
Change in net assets	<u>—</u>	<u>83,401</u>	<u>83,401</u>	<u>51,213</u>	<u>5,858</u>	<u>140,472</u>	<u>31,753</u>
Net assets at beginning of year	<u>—</u>	<u>295,593</u>	<u>295,593</u>	<u>236,691</u>	<u>426,247</u>	<u>958,531</u>	<u>926,778</u>
Net assets at end of year	<u>\$ —</u>	<u>378,994</u>	<u>378,994</u>	<u>287,904</u>	<u>432,105</u>	<u>1,099,003</u>	<u>958,531</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, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

(In thousands of dollars)

	<b>2013</b>	<b>2012</b>
Cash flows from operating activities:		
Change in net assets	\$ 140,472	31,753
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(123,345)	18,653
Depreciation and amortization	22,210	23,158
Deferred rent expense	463	491
Postretirement benefits changes other than net periodic benefit cost	(26,138)	29,306
Change in value of interest rate swaps	(5,447)	5,255
Appropriations and contributions for capital	(16,966)	(13,118)
Endowment contributions	(5,118)	(9,438)
Permanently restricted investment income, net of expenses	(1,290)	(209)
Gains on sales of real estate	—	(80,767)
Contributed property for use from the City of New York	—	(14,466)
Changes in operating assets and liabilities:		
Receivables, except for contributions and other receivables restricted for investment in endowment and capital projects	(6,727)	7,073
Other assets	(664)	7
Accounts payable and accrued liabilities, except for accounts payable and accrued liabilities relating to fixed assets and deferred rent	7,546	191
Accrued postretirement benefits	9,549	6,618
Deferred revenue, except for deferred revenue relating to sale of building and capital projects	138	(43,884)
Net cash used in operating activities	(5,317)	(39,377)
Cash flows from investing activities:		
Purchases of investments	(309,678)	(300,101)
Proceeds from sales of investments	291,572	206,437
Purchases of fixed assets	(31,735)	(14,210)
Proceeds from sales of real estate	—	131,060
Change in accounts payable and accrued liabilities relating to fixed assets	(867)	2,613
Net cash (used in) provided by investing activities	(50,708)	25,799
Cash flows from financing activities:		
Change in contributions receivable restricted for investment in endowment	477	13,488
Change in contributions and other receivables restricted for capital projects	(5,737)	(2,128)
Change in deferred revenue relating to capital projects	(715)	(1,516)
Appropriations and contributions for capital	16,966	13,118
Endowment contributions	5,118	9,438
Permanently restricted investment income, net of expenses	1,290	209
Principal payments on long-term debt	(4,150)	(3,980)
Change in funds held by bond trustee	3,501	(20,629)
Net cash provided by financing activities	16,750	8,000
Net decrease in cash and cash equivalents	(39,275)	(5,578)
Cash and cash equivalents at beginning of year	97,310	102,888
Cash and cash equivalents at end of year	\$ 58,035	97,310
Supplemental disclosures:		
Unrelated business income taxes paid	\$ 206	529
Interest paid	2,967	3,082

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(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 86 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 principally 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).



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

Notes to Financial Statements

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

The Library presents unrestricted activities into the following categories:

Operating budget activities – Represents operating activities that are approved annually in the budget set by the Board of Trustees.

Other activities – Includes non-current portions of postretirement benefits and pension expenses not funded in the current year’s operating budget, contributed rent expense, capital budget expenses not capitalizable, and their related revenues, in addition to nonoperating activities.

*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.

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) ***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.

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

Notes to Financial Statements

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

**(d) 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. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy, as defined in note 3. 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.

**(e) 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.

**(f) 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 2013 and 2012), the Library reports contributed utilities revenue for these transactions, offset by equal charges to the appropriate expense category. During the years ended June 30, 2013 and 2012, the Library recognized revenues and expenses totaling \$9,160 and \$8,134, 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, 2013 and 2012, the Library recognized revenues and expenses totaling \$1,980 and \$1,938, respectively, for contributed rent.

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

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

**(g) *Fundraising and Membership Development***

Fundraising and membership development expenses were \$8,517 and \$8,170 for the years ended June 30, 2013 and 2012, 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 \$4,308 and \$4,833 for the years ended June 30, 2013 and 2012, respectively, and are included in private contributions and grants in the accompanying statement of activities. The costs for these events totaled approximately \$889 and \$1,146, respectively, for the same periods and are included in fundraising and membership development in the accompanying statement of activities. Fundraising costs are expensed as incurred.

**(h) *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.

**(i) *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. Endowment contributions, certain unrestricted bequests and funds designated by the Library's Board of Trustees for long-term investment, appropriations and contributions for capital, 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, the change in value of interest rate swaps, and other nonrecurring items are recognized as nonoperating activities.

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

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

**(j) Investments**

Investments with readily determinable fair values are reported at fair value based upon quoted market prices. Alternative investments, which include commingled investment funds, hedge funds, and private market funds, are reported at estimated fair value based on, as a practical expedient, net asset values (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.

Realized and unrealized gains and losses on investments, as well as dividends, interest, and other investment income, unless temporarily or permanently restricted by a donor's explicit stipulation or by law, are recorded as changes in unrestricted net assets.

**(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 and pooled income funds. Contribution revenue is recognized at the date the assets are received after recording liabilities for the present value of estimated future payments to be made to the donors and/or other beneficiaries. These liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, 1.2% at June 30, 2013 and 2012, and other changes in the estimates of future benefits. The carrying amount of split-interest obligations approximates fair value because these instruments are recorded at the estimated net present value of future cash flows. The estimated fair value, however, involves unobservable inputs considered to be Level 3 in the fair value hierarchy, as defined in note 3. The liabilities for beneficiary payments in the amount of \$6,229 and \$6,265 at June 30, 2013 and 2012, respectively, are included in accounts payable and accrued liabilities. Assets related to the split-interest agreements amounted to \$7,235 and \$6,729 at June 30, 2013 and 2012, respectively, 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, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

**(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 40 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 to third-party vendors for certain technology expenditures and capital improvements made to properties occupied by the Library, which are typically managed directly by the City, are not recorded by the Library.

**(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,  
LENOX AND TILDEN FOUNDATIONS**

Notes to Financial Statements

June 30, 2013

(with summarized comparative financial information as of and for the  
year ended June 30, 2012)

(In thousands of dollars)

**(p) *Deferred Revenue***

The Library received advances of \$27,901 from the City at each of the years ended June 30, 2013 and 2012 to be used for fiscal 2014 and 2013 operations, respectively. These amounts are reflected as deferred revenue at June 30, 2013 and 2012. In addition, deferred gain relating to the sale of one of its buildings (note 9) is also included in deferred revenue at June 30, 2013 and 2012.

**(q) *Derivative Instruments***

The Library uses derivative instruments (i.e., interest rate swaps) to manage its exposure to interest rate fluctuations on its outstanding variable rate long-term debt (note 12). The Library reports such derivative instruments at fair value, which is based upon regular “mid-market” valuations provided by the Library’s counterparties. Mid-market prices are derived from proprietary valuation models utilized by the Library’s counterparties, and they do not take into account certain factors including the creditworthiness of the parties, funding implications (including estimated funding costs and/or benefits associated with any credit support or margin arrangement), and portfolio level adjustments, which the Library estimates to be immaterial. The Library believes that the proprietary valuation models reflect the zero-coupon method, which calculates a net present value of projected and known contractual cash flows of a swap discounted by the benchmark rates that the market uses as risk-free rates for each respective period. The projected cash flows would be determined using a certainty equivalent (i.e., the amount for which a floating rate future cash flow could be exchanged for a fixed future cash flow in the interest rate swap or other related market). As such, this would be an implementation of Expected Present Value Method 1 as described in Accounting Standards Codification (ASC) 820-10-55-15, *Fair Value Measurement*.

**(r) *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 fair value of the Library’s asset retirement obligations was \$464 and \$460 at June 30, 2013 and 2012, 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, includes 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.

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

Notes to Financial Statements

June 30, 2013

(with summarized comparative financial information as of and for the  
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(s) ***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, 2013 and 2012.

(t) ***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 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 interest rate swaps, 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.

(u) ***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, 2013 and 2012, 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.

(v) ***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, 2012 from which the summarized information was derived.

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**(3) Fair Value Measurements**

Assets and liabilities, which are reported at fair value on a recurring basis by the Library, are investments, funds held by bond trustees, and interest rate swaps.

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 (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.

With respect to those investments reported at estimated fair value based upon NAVs provided by investment managers, classification in Level 2 or 3 is based on the Library's ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term (within 90 days), the investment is classified as Level 2.

At June 30, 2013 and 2012, the carrying values of the Library's cash equivalents, government and other receivables, other assets, accounts payable and accrued liabilities, and deferred revenue approximate their fair values because of their terms and relatively short maturities. The fair value of cash equivalents would be considered to be Level 1 in the fair value hierarchy. The fair value of government and other receivables, other assets, accounts payable and accrued liabilities, and deferred revenue involve unobservable inputs and would be considered to be Level 3 in the fair value hierarchy.



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The Library's assets and liabilities that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy at June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Managed accounts:				
Short-term investments	\$ 22,168	—	—	22,168
Currency futures	837	—	—	837
Domestic common stocks	65,222	—	—	65,222
Corporate bonds	87,973	—	—	87,973
Government bonds	14,523	—	—	14,523
Commingled investment funds:				
Domestic equity funds	42,289	142,816	—	185,105
Global/international equity funds	—	297,561	—	297,561
Fixed income funds	—	2,322	—	2,322
Hedge funds:				
Long/short equity funds	—	74,403	21,670	96,073
Multi-strategy funds	—	23,937	123,534	147,471
Commodity-related funds	—	9,773	—	9,773
Private market funds:				
Venture capital	—	—	5,516	5,516
Private equity	—	—	69,914	69,914
Real estate	—	—	26,317	26,317
	<u>233,012</u>	<u>550,812</u>	<u>246,951</u>	<u>1,030,775</u>
Other assets:				
Funds held by bond trustee:				
Cash	4,366	—	—	4,366
U.S. Treasury bills and notes	16,764	—	—	16,764
	<u>21,130</u>	<u>—</u>	<u>—</u>	<u>21,130</u>
Total assets	<u>\$ 254,142</u>	<u>550,812</u>	<u>246,951</u>	<u>1,051,905</u>
Liabilities – interest rate swaps	\$ —	11,470	—	11,470

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The Library's assets and liabilities that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Managed accounts:				
Short-term investments	\$ 39,456	—	—	39,456
Domestic common stocks	32,042	—	—	32,042
Corporate bonds	142,395	—	—	142,395
Government bonds	30,962	—	—	30,962
Commingled investment funds:				
Domestic equity funds	—	64,886	—	64,886
Global/international equity funds	—	247,494	—	247,494
Fixed income funds	—	2,785	—	2,785
Hedge funds:				
Long/short equity funds	—	87,254	18,287	105,541
Multi-strategy funds	—	21,707	101,201	122,908
Commodity-related funds	—	10,143	—	10,143
Private market funds:				
Venture capital	—	—	7,571	7,571
Private equity	—	—	60,693	60,693
Real estate	—	—	22,448	22,448
Total investments	<u>244,855</u>	<u>434,269</u>	<u>210,200</u>	<u>889,324</u>
Other assets:				
Funds held by bond trustee:				
Cash	5,325	—	—	5,325
U.S. Treasury bills and notes	19,306	—	—	19,306
Total funds held by bond trustee	<u>24,631</u>	<u>—</u>	<u>—</u>	<u>24,631</u>
Total assets	<u>\$ 269,486</u>	<u>434,269</u>	<u>210,200</u>	<u>913,955</u>
Liabilities – interest rate swaps	\$ —	16,917	—	16,917

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The following table presents the Library's activity for the fiscal years ended June 30, 2013 and 2012 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Hedge funds</u>	<u>Private market funds</u>	<u>Total</u>
Balance, June 30, 2011	\$ 173,789	80,315	254,104
Transfer from Level 3 to Level 2	(23,703)	—	(23,703)
Acquisitions	9,750	24,860	34,610
Dispositions	(38,137)	(19,143)	(57,280)
Realized and unrealized (losses) gains	(2,211)	4,680	2,469
Balance, June 30, 2012	119,488	90,712	210,200
Transfer from Level 2 to Level 3	21,452	—	21,452
Acquisitions	9,525	22,255	31,780
Dispositions	(25,230)	(23,651)	(48,881)
Realized and unrealized gains	19,969	12,431	32,400
Balance, June 30, 2013	<u>\$ 145,204</u>	<u>101,747</u>	<u>246,951</u>

There were no transfers between Level 1 and Level 2 during fiscal years 2013 and 2012. Transfer from Level 2 to Level 3 during fiscal year 2013 was due to investment in liquidating side-pocket. Transfer from Level 3 to Level 2 during fiscal year 2012 was due to the expiration of lock-up requirement.

Unrealized gains (losses) amounted to \$15,924 and \$(31,381) for the years ended June 30, 2013 and 2012, respectively, related to Level 3 assets still held at June 30, 2013 and 2012 and are reflected in investment return in the accompanying statement of activities.

**(4) Government and Other Receivables**

At June 30, 2013 and 2012, government and other receivables consisted of the following:

	<u>2013</u>	<u>2012</u>
City of New York (construction receivables)	\$ 9,295	9,583
City of New York – other	16,196	7,620
State of New York	6,505	6,851
Other	2,109	2,156
Total	<u>\$ 34,105</u>	<u>26,210</u>

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

**(5) Contributions Receivable**

Contributions receivable are expected to be collected as follows at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Amounts expected to be collected in:		
Less than one year	\$ 43,372	51,331
One to five years	18,078	12,171
More than five years	6,588	2,908
	68,038	66,410
Less allowance for uncollectible amounts	—	(2,879)
Less discount to present value (at rates ranging from 1.2% to 5.8%)	(1,730)	(1,315)
	<b>\$ 66,308</b>	<b>62,216</b>

At June 30, 2013, the amounts receivable from two donors represent approximately 32% of the gross contributions receivable. At June 30, 2012, the amounts receivable from three donors represent approximately 56% of the gross contributions receivable.

As of June 30, 2013 and 2012, the Library has received conditional promises to give of approximately \$25,796 and \$10,150, respectively, in the form of matching grants and other conditions, that have not been reflected in the accompanying financial statements because the conditions on which they depend have not been substantially met.

**(6) Funds Held by Bond Trustee**

Funds held by bond trustee consist of amounts designated for debt service under the terms of the Series 1999 bond agreement (note 12) and proceeds from the sale of a bond-financed property held in escrow as construction funds. Such amounts are invested in cash and U.S. Treasury bills and notes, and are reported at fair value. The carrying value of funds held by bond trustee at June 30, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Debt service fund	\$ 4,378	4,176
Construction fund	16,752	20,455
Total	<b>\$ 21,130</b>	<b>24,631</b>

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**(7) Investments**

The components of the Library's investments at June 30, 2013 and 2012 were as follows:

	Fair value	
	2013	2012
Managed accounts	\$ 190,723	244,855
Commingled investment funds	484,988	315,165
Hedge funds	253,317	238,592
Private market funds	101,747	90,712
Total	\$ 1,030,775	889,324

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

**Managed Accounts:** Investments held in five 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 four separate investment managers and include short-term investments, currency futures, domestic public equities, 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 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 mis-priced relative to their intrinsic value due to a market dislocation or inefficiency. Commodity-oriented strategies typically

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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 range from one year to three years. At June 30, 2013 and 2012, \$75,432 and \$58,741, respectively, of the Library's hedge fund portfolio is within a specified lock-up period. For the remaining \$177,885 and \$179,851 of hedge fund investments at June 30, 2013 and 2012, respectively, that are not subject to a lock-up provision, redemptions are allowed on an ongoing basis that range from quarterly to annually. Redemption notice periods range from 45 to 180 days prior to the stipulated redemption date. At June 30, 2013 and 2012, the Library had \$40,725 and \$50,250, respectively, in 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, 2013 and 2012, the Library had \$55,377 and \$70,498, respectively, in unfunded commitments to private market funds. Additionally, at June 30, 2013, the Library's investments in these partnerships had remaining lives of between 3 and 18 years, with an average of 9 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 and classification thereof in the accompanying statement of activities for the years ended June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Dividends and interest	\$ 14,379	10,071
Net realized and unrealized gains (losses)	123,345	(18,653)
Less investment expenses	(10,997)	(8,441)
Total investment return	126,727	(17,023)
Investment return appropriated for spending	(41,902)	(38,234)
Investment return reported as nonoperating	\$ 84,825	(55,257)

**(8) Endowment Funds**

The Library's endowment consists of 407 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 ASC 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

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- iii General economic conditions
- 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, 2013 and 2012, the fair values of 32 and 83 donor-restricted endowment funds, respectively, were less than their original fair value (i.e., underwater) by a total of \$10,601 and \$20,611, 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 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.



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Endowment net assets (excluding pledges and split interest agreements) consisted of the following at June 30, 2013 and 2012:

		<b>2013</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
	Donor-restricted funds	\$ (10,601)	195,882	424,405	609,686
	Board-designated funds functioning as endowment	334,338	12,655	—	346,993
	Total	\$ 323,737	208,537	424,405	956,679
		<b>2012</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
	Donor-restricted funds	\$ (20,611)	152,711	417,520	549,620
	Board-designated funds functioning as endowment	268,097	7,500	—	275,597
	Total	\$ 247,486	160,211	417,520	825,217

Donor-restricted amounts reported above as unrestricted net assets at June 30, 2013 and 2012 represent underwater amount of endowment funds. Board-designated amounts include real estate investment used in operations of \$1,084 at June 30, 2013 and 2012.

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Changes in endowment net assets for the fiscal years ended June 30, 2013 and 2012 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2011	\$ 236,912	183,636	394,385	814,933
Interest and dividends, net of expenses	459	—	209	668
Realized and unrealized losses	(11,051)	(6,846)	—	(17,897)
Contributions and other additions	35,154	7,500	22,926	65,580
Appropriated for spending	(11,837)	(26,230)	—	(38,067)
Transfers	(2,151)	2,151	—	—
Net assets at June 30, 2012	247,486	160,211	417,520	825,217
Interest and dividends, net of expenses	377	250	6	633
Realized and unrealized gains	73,524	49,981	1,284	124,789
Contributions and other additions	37,347	4,327	5,595	47,269
Appropriated for spending	(34,997)	(6,232)	—	(41,229)
Net assets at June 30, 2013	\$ <u>323,737</u>	<u>208,537</u>	<u>424,405</u>	<u>956,679</u>

**(9) Fixed Assets**

Fixed asset balances at June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 3,109	3,109
Buildings and improvements	445,321	442,604
Leasehold improvements	48,723	48,723
Furniture and equipment	39,859	37,687
Construction in progress	39,580	12,734
	<u>576,592</u>	<u>544,857</u>
Less accumulated depreciation and amortization	(282,213)	(260,036)
	\$ <u>294,379</u>	<u>284,821</u>

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On July 6, 2011, the Library entered into an initial closing on the sale of one of its fully depreciated buildings in which it received gross proceeds of \$59,000, before transaction fees of \$673, representing partial consideration of the total purchase price of the building. The remaining consideration is an interest in a condominium unit whose value has not yet been determined. The condominium unit will be transferred to the Library at the completion of construction, which is expected to occur in fiscal year 2015. The Library will own the condominium unit and intends to use it as a new branch library. The proceeds from the sale, beyond what will be needed for the new library, will be used to support the needs of other branch libraries and library-wide activities. Because the Library has not received all consideration pertaining to the sale of the building as of the dates of the accompanying financial statements, the Library has not recorded the gain on the sale and has recorded the partial consideration received of \$58,128 in deferred revenue at June 30, 2013 and 2012.

In addition, on August 17, 2011, the Library closed on the sale of an administrative building, which was fully depreciated. The sale price was \$45,000, before transaction fees of \$501 and the gain recognized on the sale was \$44,312. The Library expects to use the proceeds from the sale in furtherance of its strategic priorities.

Furthermore, on June 12, 2012, the Library closed on the sale of five floors of a condominium unit for \$60,800, before transaction fees of \$2,468, of which \$20,460 was held in escrow by the bond trustee as construction funds (the amount held in escrow by bond trustee as of June 30, 2013 was \$16,752, note 6); the Library recognized a gain on the sale of \$36,455. In conjunction with this transaction, the Library entered into two agreements: 1) a lease of administrative office space for a term of one year commencing on July 1, 2013; and 2) a short-term lease back of one of the five floors sold to be used as temporary office space through September 2013.

During fiscal year 2012, the Library received contributed property for use of \$14,466 from the City. Such amount is recorded as fixed assets and contributed property for use in the accompanying balance sheet and statement of activities. The Library did not receive contributed properties for use during fiscal year 2013.

**(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 \$18,549 and \$14,670 for the years ended June 30, 2013 and 2012, respectively. There have been no significant changes that affect the comparability of fiscal years 2013 and 2012 contributions. The Library was not listed in the plan's most recent available audited financial statements for providing more than five percent of the total contributions to the plan for the years ended March 31, 2013 and 2012. The Employer Identification Number for NYSLRS is 14-6020869. The most recent Pension Protection Act (PPA) zone status is green at March 31, 2013 and 2012, which is based on the funded ratio as of April 1, 2012 and 2011, respectively, and are disclosed in the plan's audited financial

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statements. 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.

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.

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 \$4,466 and \$4,584 at June 30, 2013 and 2012, respectively, 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 \$414 and \$296, respectively, for the year ended June 30, 2013, and \$596 and \$1,131, respectively, for the year ended June 30, 2012. The Library believes that, through future appropriations, the City will fund a significant portion of such benefits as they are paid to employees.

**(11) Postretirement Benefits Other than Pensions**

In addition to providing pension benefits, the Library provides certain postretirement health and supplemental benefits for retired employees. Substantially all of the Library's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the Library.

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. The Library recognizes the funded status of the postretirement benefit plan on its balance sheet as accrued postretirement benefits.

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The following table sets forth the changes in the postretirement benefit obligation as of and for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Change in benefit obligation:		
Accumulated postretirement obligation at beginning of year	\$ 182,757	146,833
Service cost	6,616	4,640
Interest cost	7,456	8,106
Participant contributions	805	633
Actuarial net (gain) loss	(25,227)	28,871
Benefits paid	(6,379)	(6,457)
Federal subsidy on benefits paid	140	131
	<u>166,168</u>	<u>182,757</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	5,434	5,693
Participant contributions	805	633
Federal subsidy on benefits paid	140	131
Benefits paid	(6,379)	(6,457)
	<u>—</u>	<u>—</u>
Accrued postretirement benefits as reflected in the balance sheet	<u>\$ 166,168</u>	<u>182,757</u>

Net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012 includes the following components:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 6,616	4,640
Interest cost	7,456	8,106
Net amortization and deferral	911	(435)
	<u>14,983</u>	<u>12,311</u>
Net periodic postretirement benefit cost	<u>\$ 14,983</u>	<u>12,311</u>
Weighted average assumptions used to determine benefit obligations – discount rate	4.70%	4.20%
Weighted average assumptions used to determine net periodic benefit cost – discount rate	4.20	5.65

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Accumulated amounts recorded in unrestricted net assets other than through net periodic postretirement benefit cost at June 30, 2013 and 2012 consist of the following:

	<b>2013</b>	<b>2012</b>
Net loss	\$ 43,747	72,138
Prior service credit	(23,227)	(25,480)
Total	\$ 20,520	46,658

The expected amortization to be included in net periodic postretirement benefit cost for fiscal year 2014 is \$(1,657) and \$2,253 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, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Net (gain) loss	\$ (25,227)	28,871
Prior service credit	2,253	2,253
Amortization of net loss	(3,164)	(1,818)
Total	\$ (26,138)	29,306

The weighted average annual assumed rate of increase in the per capita cost of health care benefits (i.e., health care cost trend rate) begins at an initial rate of 7.7% and 8.0% for pre-65 participants and post-65 participants, respectively, and decreases gradually to 4.5% by 2028 and remains at that level thereafter. All other benefits are assumed to increase at an annual rate of 4.0%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the plan. A 1% change in assumed health care cost trend rates would have the following effects as of June 30, 2013:

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components	\$ 3,568	(2,655)
Effect on the postretirement benefit obligation	33,383	(26,346)

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Projected contributions and expected benefit payments, net of Medicare Part D subsidy, are as follows:

	<u>Gross benefit payments</u>	<u>Gross subsidy receipts</u>	<u>Net benefit payment</u>
Fiscal year(s) ending:			
2014	\$ 5,406	(145)	5,261
2015	5,758	(161)	5,597
2016	6,176	(179)	5,997
2017	6,572	(199)	6,373
2018	7,080	(218)	6,862
2019–2023	45,489	(1,489)	44,000

As of June 30, 2013 and 2012, the Library has considered any provisions of health care 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), that 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 \$3,564 and \$3,582 in the fiscal years ended June 30, 2013 and 2012, respectively. 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, 2012, the Plan's most recently issued financial statements, the Plan had net assets available for benefits of \$7,820. The actuarial present value of estimated future benefits to plan participants who have provided services as of June 30, 2012 amounted to \$77,048 (\$301 currently payable, \$16,298 for actives fully eligible, \$31,839 for actives not fully eligible, and \$28,610 for retirees). There is no liability for the 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.

The Library believes that, through future appropriations, the City will fund a significant portion of postretirement benefits as they become due.

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**(12) Long-Term Debt**

Outstanding long-term debt at June 30, 2013 and 2012, all of which was borrowed through the Dormitory Authority of the State of New York (the Dormitory Authority), consisted of the following:

	<b>2013</b>	<b>2012</b>
Adjustable rate bonds, maturing July 1, 2028, subject to serial redemption (Series 1999A)	\$ 53,780	56,890
Adjustable rate bonds, maturing July 1, 2028, subject to serial redemption (Series 1999B)	26,580	27,620
Total	\$ 80,360	84,510

In April 1999, the Dormitory Authority issued the Series 1999 adjustable rate bonds on behalf of the Library in two tax-exempt components: (1) the Series 1999A Bonds in the amount of \$82,075 and (2) the Series 1999B Bonds in the amount of \$35,560. The proceeds were used to advance refund and redeem outstanding debt and for various construction projects.

On November 26, 2008, the Library reoffered the Series 1999 Bonds to terminate the insurance on the bonds and substitute two separate irrevocable direct pay letters of credit, for which it pays an annual fee of 0.60% of the aggregate principal amount of the bonds outstanding plus 35 days of accrued interest thereon (calculated at the rate of 12% on a year of 365 days and the actual number of days elapsed). The Library's debt is secured by the letters of credit, which will expire, unless extended or earlier terminated, on November 26, 2015.

The Series 1999 Bonds bear interest at a weekly rate based on the prevailing market conditions for bonds of the same general nature, unless and until they are converted to a fixed rate. The adjustable rate on the Series 1999 Bonds ranged from 0.05% to 0.21% during the year ended June 30, 2013 and 0.02% to 0.24% during the year ended June 30, 2012.

The Letters of Credit and Reimbursement Agreement (the Agreement) requires that the Library's available assets will be at least 1.5 times its general liabilities, as tested semi-annually at December 31 and June 30 of each fiscal year. Available assets, as defined by the Agreement, are total assets of the Library less permanently restricted net assets. General liabilities are defined as total liabilities of the Library.

The fair value of the Library's long-term debt approximates carrying value which is based on observable interest rates that fall within Level 2 of the fair value hierarchy.



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Aggregate maturities of long-term debt, including sinking fund requirements, are as follows at June 30:

2014	\$	4,360
2015		4,560
2016		4,780
2017		5,000
2018		5,245
Thereafter		56,415
Total	\$	80,360

For the years ended June 30, 2013 and 2012, interest expense and paid was \$2,967 and \$3,082, respectively.

In connection with the Series 1999A Bonds, effective July 12, 2005, the Library entered into a swap agreement, whereby the Library pays the swap counterparty a fixed rate of 3.852% on the notional amount outstanding, in return for payments from the swap counterparty, calculated at a rate equal to 54.500% of the one-month British Bankers' Association LIBOR (U.S. dollar), plus 0.310%. The notional amount of the swap agreement at June 30, 2013 and 2012 was \$53,780 and \$56,890, respectively. The swap agreement terminates on July 1, 2028. The Dormitory Authority is not a party to the agreement, and has no right to receive payments from, and no liability to make payments to, the counterparty. The fair value of the interest rate swap is a liability of \$7,225 and \$10,438 at June 30, 2013 and 2012, respectively, and is reflected in interest rate swaps in the accompanying balance sheet.

In connection with the Series 1999B Bonds, effective August 23, 2004, the Library entered into a swap agreement, whereby the Library pays the swap counterparty a fixed rate of 4.009% on the notional amount outstanding, in return for payments from the swap counterparty, calculated at a rate equal to the lower of LIBOR or one-month LIBOR, where LIBOR is equal to the greater of (a) one-month LIBOR x 68.000% or (b) (one-month LIBOR x 56.000%) plus 0.440%. The notional amount of the swap agreement at June 30, 2013 and 2012 was \$26,580 and \$27,620, respectively. The swap agreement terminates on July 1, 2028. The Dormitory Authority is not a party to the agreement, and has no right to receive payments from, and no liability to make payments to, the counterparty. The fair value of the interest rate swap is a liability of \$4,245 and \$6,479 at June 30, 2013 and 2012, respectively, and is reflected in interest rate swaps in the accompanying balance sheet.

The gain or loss on interest rate swap agreements is recorded annually and is reported as change in value of interest rate swaps in the accompanying statement of activities.

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**(13) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets and the income on permanently restricted net assets were for the following purposes at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Temporarily restricted net assets:		
Program activities:		
Branch libraries	\$ 36,568	15,073
Research libraries	124,102	99,028
Conservation and cataloging	15,442	12,591
Exhibitions and public education programs	8,288	7,529
Other – principally, time restricted and for the general operations of the research libraries and library-wide programs	91,272	96,742
Net investment in plant not yet placed in service	1,329	1,810
Acquisition of fixed assets	10,903	3,918
Total	\$ 287,904	236,691

Permanently restricted net assets were for the following purposes at June 30, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Permanently restricted net assets:		
Program activities:		
Branch libraries	\$ 30,627	29,890
Research libraries	234,776	230,369
Conservation and cataloging	19,133	18,334
Exhibitions and public education programs	15,263	15,263
Other – principally, for the general operations of the research libraries and library-wide programs	132,306	132,391
Total	\$ 432,105	426,247

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**(14) Functional Expense Classification**

Expenses by functional classification for the years ended June 30, 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
Total operating expenses and additions to research collections from the statement of activities	\$ 269,606	253,276
Depreciation and amortization	22,210	23,158
Total expenses	\$ 291,816	276,434
Library services	\$ 259,803	244,638
Fundraising and membership development	8,517	8,170
Management and general	23,496	23,626
Total expenses	\$ 291,816	276,434

**(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 coverages, if any, would not have a material effect on the accompanying financial statements.

**(b) *Collective Bargaining Agreements***

At June 30, 2013 and 2012, approximately 77% and 78%, respectively, of the Library's salaried employees are unionized and are employed under collective bargaining agreements that expired on March 2, 2010. The City and union officials have commenced negotiations. The Library and the union continue to abide by the terms and conditions of the expired agreements.

**(c) *Line of Credit***

The Library has available an unsecured line of credit from a bank in the amount of \$15,000, of which \$830 has been applied towards a standby letter of credit associated with the Library's paid-loss workers' compensation insurance program. The line of credit is available through February 28, 2014, 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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**(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:

2014	\$	6,302
2015		5,084
2016		5,066
2017		5,169
2018		5,358
Thereafter		<u>94,211</u>
Total	\$	<u><u>121,190</u></u>

Various leases provide for increases in annual base rentals based on various expenses and other increases. Rent expense for fiscal years 2013 and 2012 was approximately \$7,281 and \$6,664, respectively. Deferred rent obligation was \$5,998 and \$5,535 at June 30, 2013 and 2012, respectively, 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 \$40,873 and \$3,366 as of June 30, 2013 and 2012, respectively.

**(16) Subsequent Events**

In conjunction with the preparation of the financial statements, the Library evaluated subsequent events from July 1, 2013 through October 30, 2013, the date on which the financial statements were issued, and has concluded that there are no further disclosures required.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,  
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Schedule of Activities – Branch and Research Libraries

Year ended June 30, 2013

(In thousands of dollars)

	The branch libraries				The research libraries and library-wide programs				All funds			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:												
City of New York	\$ 114,936	—	—	114,936	22,019	—	—	22,019	136,955	—	—	136,955
State of New York	9,974	—	—	9,974	8,711	—	—	8,711	18,685	—	—	18,685
Federal government	1,416	—	—	1,416	699	—	—	699	2,115	—	—	2,115
Contributed utilities and rent	8,392	—	—	8,392	2,748	—	—	2,748	11,140	—	—	11,140
Private contributions and grants	6,741	23,373	—	30,114	19,530	7,878	—	27,408	26,271	31,251	—	57,522
Investment return appropriated for spending	965	715	—	1,680	34,701	5,521	—	40,222	35,666	6,236	—	41,902
Fines, royalties, and other revenue	4,954	—	—	4,954	7,817	—	—	7,817	12,771	—	—	12,771
	147,378	24,088	—	171,466	96,225	13,399	—	109,624	243,603	37,487	—	281,090
Net assets released from restrictions	2,664	(2,664)	—	—	10,104	(10,104)	—	—	12,768	(12,768)	—	—
Total operating revenues	150,042	21,424	—	171,466	106,329	3,295	—	109,624	256,371	24,719	—	281,090
Operating expenses:												
Library services	143,578	—	—	143,578	83,401	—	—	83,401	226,979	—	—	226,979
Fundraising and membership development	1,192	—	—	1,192	7,325	—	—	7,325	8,517	—	—	8,517
Management and general	11,709	—	—	11,709	11,689	—	—	11,689	23,398	—	—	23,398
Total operating expenses	156,479	—	—	156,479	102,415	—	—	102,415	258,894	—	—	258,894
Additions to research collections	—	—	—	—	10,712	—	—	10,712	10,712	—	—	10,712
Total operating expenses and additions to research collections	156,479	—	—	156,479	113,127	—	—	113,127	269,606	—	—	269,606
Change in net assets from operating activities	(6,437)	21,424	—	14,987	(6,798)	3,295	—	(3,503)	(13,235)	24,719	—	11,484
Nonoperating activities:												
Endowment contributions and funds designated for long-term investment	—	—	728	728	7,832	4,872	4,390	17,094	7,832	4,872	5,118	17,822
Appropriations and contributions for capital	8,142	221	—	8,363	1,245	7,358	—	8,603	9,387	7,579	—	16,966
Depreciation and amortization	(9,511)	—	—	(9,511)	(12,699)	—	—	(12,699)	(22,210)	—	—	(22,210)
Investment return, net of amounts appropriated	1,830	2,222	9	4,061	37,707	41,776	1,281	80,764	39,537	43,998	1,290	84,825
Postretirement benefits changes other than net periodic benefit cost	15,053	—	—	15,053	11,085	—	—	11,085	26,138	—	—	26,138
Change in value of interest rate swaps	—	—	—	—	5,447	—	—	5,447	5,447	—	—	5,447
Net assets released from restrictions for capital and contributions receivable released from time restrictions and board designated for long-term investment	3,792	(3,792)	—	—	26,713	(26,713)	—	—	30,505	(30,505)	—	—
Change in donor designation	—	500	—	500	—	50	(550)	(500)	—	550	(550)	—
Redesignation of net assets	5,336	99	—	5,435	(5,336)	(99)	—	(5,435)	—	—	—	—
Change in net assets from nonoperating activities	24,642	(750)	737	24,629	71,994	27,244	5,121	104,359	96,636	26,494	5,858	128,988
Change in net assets	18,205	20,674	737	39,616	65,196	30,539	5,121	100,856	83,401	51,213	5,858	140,472
Net (deficit) assets at beginning of year	(9,457)	19,342	29,890	39,775	305,050	217,349	396,357	918,756	295,593	236,691	426,247	958,531
Net assets at end of year	\$ 8,748	40,016	30,627	79,391	370,246	247,888	401,478	1,019,612	378,994	287,904	432,105	1,099,003

See accompanying independent auditors' report.

**THE NEW YORK PUBLIC LIBRARY, ASTOR,  
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Schedule of Functional Expenses and Additions to Research Collections

Year ended June 30, 2013

(In thousands of dollars)

	Program services			Fundraising and membership development			Supporting services			Total	
	Library services			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	\$ 56,272	37,097	93,369	532	3,175	3,707	6,572	5,725	12,297	16,004	109,373
Fringe benefits	33,458	22,032	55,490	322	1,920	2,242	3,827	3,438	7,265	9,507	64,997
Books and library materials	14,150	—	14,150	—	—	—	—	—	—	—	14,150
Binding and conservation expenditures	157	498	655	—	—	—	—	—	—	—	655
Office-related expenditures	743	543	1,286	60	263	323	13	161	174	497	1,783
Equipment rental and maintenance	3,347	1,767	5,114	—	57	57	61	88	149	206	5,320
Telecommunications	1,734	575	2,309	—	4	4	47	77	124	128	2,437
Building repairs and related expenditures	15,261	7,021	22,282	—	10	10	53	149	202	212	22,494
Contributed utilities and rent	8,392	2,748	11,140	—	—	—	—	—	—	—	11,140
Professional services	6,637	6,876	13,513	132	770	902	741	1,240	1,981	2,883	16,396
Promotional and special event expenses	543	410	953	146	1,094	1,240	168	297	465	1,705	2,658
Interest and accretion expense	1,666	1,305	2,971	—	—	—	—	—	—	—	2,971
Insurance expense	897	765	1,662	—	—	—	47	31	78	78	1,740
Other expenses	321	1,764	2,085	—	32	32	180	483	663	695	2,780
Total functional expenses before additions to research collections and depreciation and amortization	143,578	83,401	226,979	1,192	7,325	8,517	11,709	11,689	23,398	31,915	258,894
Additions to research collections	—	10,712	10,712	—	—	—	—	—	—	—	10,712
Depreciation and amortization	9,469	12,643	22,112	—	—	—	42	56	98	98	22,210
Total expenses	\$ 153,047	106,756	259,803	1,192	7,325	8,517	11,751	11,745	23,496	32,013	291,816

See accompanying independent auditors' report.