

EISNERAMPER

BROOKLYN PUBLIC LIBRARY

FINANCIAL STATEMENTS

JUNE 30, 2020 and 2019



BROOKLYN PUBLIC LIBRARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Brooklyn Public Library

Report on the Financial Statements

We have audited the accompanying financial statements of the Brooklyn Public Library (the "Library"), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Public Library as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

EisnerAmper LLP

EISNERAMPER LLP
New York, New York
September 15, 2020



BROOKLYN PUBLIC LIBRARY

Statements of Financial Position (in thousands)

	June 30,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (including restricted cash of \$107 in both fiscal years)	\$ 32,461	\$ 20,086
Restricted cash segregated account	14,480	146
Contributions, grants and other receivables, net	25,881	21,016
Investments	42,411	63,511
Prepaid and other assets	604	1,054
Property and equipment, net	<u>58,637</u>	<u>45,338</u>
	<u>\$ 174,474</u>	<u>\$ 151,151</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable, accrued expenses	\$ 19,306	\$ 14,210
Deferred revenue	123	217
Funds received in advance	6,255	2,476
Line of credit payable	4,364	
Accrued wages and related liabilities	<u>23,811</u>	<u>17,388</u>
Total liabilities	<u>53,859</u>	<u>34,291</u>
Commitments and contingencies (Note L)		
Net Assets:		
Without donor restrictions:		
Undesignated, available for operations	76,216	73,858
Board-designated for building renovation	5,830	5,830
Board-designated for use in future fiscal years	<u>4,839</u>	<u>6,639</u>
Total net assets without donor restrictions	<u>86,885</u>	<u>86,327</u>
With donor restrictions:		
Restricted for time and purpose	30,997	27,827
Perpetual in nature	<u>2,733</u>	<u>2,706</u>
Total net assets with donor restrictions	<u>33,730</u>	<u>30,533</u>
Total net assets	<u>120,615</u>	<u>116,860</u>
Total net assets & liabilities	<u>\$ 174,474</u>	<u>\$ 151,151</u>

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statements of Activities (in thousands)

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues:						
City of New York appropriations	\$ 126,692		\$ 126,692	\$ 120,477		\$ 120,477
State of New York appropriations	7,594		7,594	7,840		7,840
Federal government grants	1,384		1,384	1,635		1,635
Contribution income	2,281	\$ 3,484	5,765	2,013	\$ 4,996	7,009
Purchase discount reimbursement contribution	433		433	700		700
Contributed facilities and utilities	33,837		33,837	34,433		34,433
Investment income designated for current operations	1,871	196	2,067	1,765	195	1,960
Contributed goods and services	1,011		1,011	387		387
Special events (net of direct benefit to donors of \$15 and \$104 in 2020 and 2019, respectively)	39		39	977		977
Fines, royalties, and other revenue	6,845		6,845	4,283		4,283
	<u>181,987</u>	<u>3,680</u>	<u>185,667</u>	<u>174,510</u>	<u>5,191</u>	<u>179,701</u>
Net assets released from restrictions for operations	2,674	(2,674)	0	5,653	(5,653)	0
Total operating support and revenues	<u>184,661</u>	<u>1,006</u>	<u>185,667</u>	<u>180,163</u>	<u>(462)</u>	<u>179,701</u>
Operating expenses:						
Program services:						
Central library	30,905		30,905	30,587		30,587
Neighborhood libraries	113,430		113,430	111,708		111,708
Special programs	15,900		15,900	15,672		15,672
Total program services	<u>160,235</u>		<u>160,235</u>	<u>157,967</u>		<u>157,967</u>
Supporting services:						
Management and general	14,911		14,911	12,569		12,569
Fund-raising	4,705		4,705	5,146		5,146
Total support services	<u>19,616</u>		<u>19,616</u>	<u>17,715</u>		<u>17,715</u>
Total operating expenses	<u>179,851</u>		<u>179,851</u>	<u>175,682</u>		<u>175,682</u>
Change in net assets from operating activities	<u>4,810</u>	<u>1,006</u>	<u>5,816</u>	<u>4,481</u>	<u>(462)</u>	<u>4,019</u>
Non-operating activities:						
Grants	1,430		1,430	2,032		2,032
Grants and capital contributions for improvements		20,309	20,309		13,315	13,315
With donor restrictions contributions – perpetual in nature contributions		27	27		85	85
Capital grants expenditures		(18,009)	(18,009)		(11,464)	(11,464)
Losses on disposals of property and equipment	(665)		(665)	(242)		(242)
Depreciation and amortization	(3,861)		(3,861)	(4,013)		(4,013)
Investment (losses) gains not designated for current operations	(1,156)	(136)	(1,292)	1,021	17	1,038
Change in net assets from non-operating activities	<u>(4,252)</u>	<u>2,191</u>	<u>(2,061)</u>	<u>(1,202)</u>	<u>1,953</u>	<u>751</u>
Increase in net assets	<u>558</u>	<u>3,197</u>	<u>3,755</u>	<u>3,279</u>	<u>1,491</u>	<u>4,770</u>
Net assets - beginning of year	<u>86,327</u>	<u>30,533</u>	<u>116,860</u>	<u>83,048</u>	<u>29,042</u>	<u>112,090</u>
Net assets - end of year	<u>\$ 86,885</u>	<u>\$ 33,730</u>	<u>\$ 120,615</u>	<u>\$ 86,327</u>	<u>\$ 30,533</u>	<u>\$ 116,860</u>

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses Year Ended June 30, 2020

(with comparative totals for June 30, 2019)
(in thousands)

	Program Services				Supporting Services			Total Expenses	
	Central Library	Neighborhood Libraries	Special Programs	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2020	2019
Operating expenses									
Salaries and related expenses:									
Salaries	\$ 10,102	\$ 46,722	\$ 6,314	\$ 63,138	\$ 5,766	\$ 2,330	\$ 8,096	\$ 71,234	\$ 67,028
Fringe benefits	5,145	23,795	3,216	32,156	2,937	1,187	4,124	36,280	35,347
Total salaries and related expenses	15,247	70,517	9,530	95,294	8,703	3,517	12,220	107,514	102,375
Other operating expenses:									
Professional fees and contract service payments	990	4,580	619	6,189	3,981	578	4,559	10,748	11,791
Office expenses and related supplies	304	1,406	190	1,900	218	97	315	2,215	2,937
Telephone and telecommunications	533	2,467	333	3,333	120	109	229	3,562	3,213
Occupancy	651	2,262	186	3,099	386	19	405	3,504	3,501
Donated rent and utilities	10,429	19,477	3,322	33,228	566	43	609	33,837	34,433
Advertising and public service messages	83	382	51	516	13	22	35	551	819
Staff development and training	55	256	35	346	176	20	196	542	880
Books and public library materials	1,955	9,042	1,222	12,219				12,219	10,374
Insurance	149	687	93	929	102		102	1,031	966
Repairs and maintenance	399	1,846	250	2,495	538	57	595	3,090	2,726
Catering and decorations						61	61	61	378
Other expense	110	508	69	687	108	197	305	992	1,393
Total expenses	30,905	113,430	15,900	160,235	14,911	4,720	19,631	179,866	175,786
Less: direct benefit to donors						(15)	(15)	(15)	(104)
Total operating expenses	30,905	113,430	15,900	160,235	14,911	4,705	19,616	179,851	175,682
Non-operating expenses:									
Depreciation and amortization	616	2,848	385	3,849	12		12	3,861	4,013
Total	\$ 31,521	\$ 116,278	\$ 16,285	\$ 164,084	\$ 14,923	\$ 4,705	\$ 19,628	\$ 183,712	\$ 179,695

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statement of Functional Expenses Year Ended June 30, 2019 (in thousands)

	Program Services			Supporting Services			Total Expenses	
	Central Library	Neighborhood Libraries	Special Programs	Total Program Services	Management and General	Fund-Raising		Total Supporting Services
Operating expenses								
Salaries and related expenses:								
Salaries	\$ 9,478	\$ 43,834	\$ 5,924	\$ 59,236	\$ 5,514	\$ 2,278	\$ 7,792	\$ 67,028
Fringe benefits	4,998	23,116	3,124	31,238	2,908	1,201	4,109	35,347
Total salaries and related expenses	14,476	66,950	9,048	90,474	8,422	3,479	11,901	102,375
Other operating expenses:								
Professional fees and contract service payments	1,432	6,622	895	8,949	2,022	820	2,842	11,791
Office expenses and related supplies	409	1,893	256	2,558	250	129	379	2,937
Telephone and telecommunications	482	2,231	301	3,014	105	94	199	3,213
Occupancy	657	2,284	188	3,129	348	24	372	3,501
Donated rent and utilities	10,566	19,869	3,382	33,817	573	43	616	34,433
Advertising and public service messages	121	560	76	757	25	37	62	819
Staff development and training	97	446	60	603	241	36	277	880
Books and public library materials	1,660	7,677	1,037	10,374				10,374
Insurance	139	644	87	870	96		96	966
Repairs and maintenance	390	1,802	243	2,435	200	91	291	2,726
Catering and decorations						378	378	378
Other expense	158	730	99	987	287	119	406	1,393
Total expenses	30,587	111,708	15,672	157,967	12,569	5,250	17,819	175,786
Less: direct benefit to donors						(104)	(104)	(104)
Total operating expenses	30,587	111,708	15,672	157,967	12,569	5,146	17,715	175,682
Non-operating expenses:								
Depreciation and amortization	642	2,969	402	4,013				4,013
Total	\$ 31,229	\$ 114,677	\$ 16,074	\$ 161,980	\$ 12,569	\$ 5,146	\$ 17,715	\$ 179,695

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Statements of Cash Flows (in thousands)

	Year Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 3,755	\$ 4,770
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,861	4,013
Bad debts expense	30	16
Losses on disposals of property and equipment	665	242
Unrealized losses(gains) on investments	409	(1,274)
Net realized gains on sales of investments	(79)	(159)
Proceeds from the sale of donated securities	77	43
Donated securities	(77)	(43)
Contributions from donors with restrictions to be held in perpetuity	(27)	(85)
Changes in:		
Contribution, grants and other receivables, net	(4,894)	(9,156)
Prepaid expenses and other assets	450	(690)
Accounts payable, accrued expenses	5,095	5,801
Deferred revenue	(94)	(6)
Funds received in advance	3,780	403
Accrued wages and related liabilities	6,423	2,779
	<u>19,374</u>	<u>6,654</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	31,602	6,935
Purchases of investments	(10,833)	(3,678)
Purchases of property and equipment	(17,825)	(7,034)
	<u>2,944</u>	<u>(3,777)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Proceeds from line of credit payable	17,200	
Repayment on line of credit payable	(12,836)	
Contributions from donors with restrictions to be held in perpetuity	27	85
	<u>4,391</u>	<u>85</u>
Net cash provided by financing activities		
Net change in cash, cash equivalents and restricted cash	26,709	2,962
Cash, cash equivalents and restricted cash - beginning of year	<u>20,232</u>	<u>17,270</u>
Cash, cash equivalents and restricted cash - end of year	\$ 46,941	\$ 20,232
Supplemental disclosures of cash flow of information:		
Taxes paid	<u>\$ 306</u>	<u>\$ 213</u>
Contributed goods and services	<u>\$ 1,011</u>	<u>\$ 387</u>
Contributed facilities and utilities	<u>\$ 33,837</u>	<u>\$ 34,433</u>
Interest paid	<u>\$ 177</u>	

See notes to financial statements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

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

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

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

[2] Basis of accounting:

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

[3] Use of estimates:

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

[4] Cash, cash equivalents and restricted cash:

The Library considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents, except for those highly liquid assets held as a part of the investment portfolio. Cash and cash equivalents at both June 30, 2020 and 2019 included \$107, which is restricted for disbursements to entities involved in the Net-Working, NYC program. Additionally at June 30, 2020 and 2019, the Library held restricted cash of \$14,480 and \$146, respectively, resulting from the proceeds from the disposition of the Brooklyn Heights Branch Library building by The City of New York, for the construction of several new branches of the library, which include a new Brooklyn Heights and Sunset Park branches (see Note L[8]).

[5] Investments:

Investments are reported at fair value based on quoted market prices. The Library's investments consist of U.S. equity securities, international equity securities from developed markets, emerging market equity securities, and mutual funds trading in fixed income securities. During fiscal year 2020, the Library fully redeemed its corporate bond funds. The Library also has an investment in an offshore hedge fund which is not readily marketable. The fair value of the hedge fund has been estimated based on the respective net asset value ("NAV") per share of the investment, as reported by the investment manager. The hedge fund is an event driven long/short fund focused on the community and regional banking sectors.

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[5] Investments: (continued)

Investment transactions are recorded on a trade date basis. Realized gains and losses on investments sold, and unrealized appreciation and depreciation on investments held, are reported in the statements of activities as increases and decreases in net assets without donor restrictions, unless their use is limited through donor stipulation. Realized gains and losses on investments are determined by comparison of the cost at the time of acquisition to proceeds at the time of disposition. Distributions from the hedge fund that represent a return of contributed capital reduce the cumulative costs basis of the investment. Distributions received from the hedge fund in excess of the Library's cumulative cost basis are recognized as realized gains. Unrealized gains and losses on investments are determined by comparing the investment's cost to the fair value at the end of each year. The earnings from dividends and interest are recognized when earned.

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

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

[6] Property and equipment:

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

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2020 and 2019, respectively, and in the opinion of management, there were no impairments. However, it is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[7] Collections:

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

The cost of collections purchased by the Library is expensed in the year of purchase. The costs of circulating books and other library materials are not recorded as collections, but are recorded as an expense in the year purchased, as the useful lives of such items are relatively short.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[8] Annual and terminal leave policies:

(i) Annual leave:

Library employees accrue vacation each year based on tenure. Union employees accrue vacation at the start of the fiscal year, and non-union employees accrue on hours earned per pay period. Employees are entitled to be paid for unused vacation time, in the event the employees leave the Library and therefore the Library must recognize a liability for the amount that would be incurred if employees with unused vacation time were to leave.

(ii) Terminal Leave:

The Library pays terminal leave benefit to employees who retire from the system with at least ten years of service. The amount paid to each employee is based on the greater of up to one month for each ten year of service, or half of the employees accrued sick leave balance at retirement, not to exceed six months.

[9] Net assets:

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

(i) *Net assets without donor restrictions:*

Net assets without donor restrictions represent those resources that are not subject to donor-imposed restrictions and are available for current operations. The Library's Board-designated funds represent the portion of expendable funds that are available for support of the Library's operations, at the discretion of the Library's Board of Trustees (the "Board"). At June 30, 2020 and 2019, the Board has designated amounts for the subsequent fiscal-year's operations and building renovation and improvements.

(ii) *Net assets with donor restrictions:*

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

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[10] Revenue recognition:

(i) *Contributions, grants and pledges:*

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

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

The Library programs for Net-Working NYC, Mi-Fi and Summer Camp are treated as exchange transactions and accordingly, any amounts received before the service is provided are reported as deferred revenue. Revenue is only recognized when the performance obligations for each program are satisfied (see Note E).

(iii) *Bequests:*

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

(iv) *Donated goods and services:*

For recognition of donated services in the Library’s financial statements, such services must: (i) create or enhance non-financial assets; and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must: (i) require a specialized skill; and (ii) be provided by individuals possessing these skills.

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

Donated goods are recognized at their fair values at the time of donation. Donated goods and services are recorded as without donor restrictions unless the donor has restricted the donated assets for a specific purpose. Donated goods and services are reported as both contributions and offsetting expenses in the statements of activities.

(v) *Contributed facilities:*

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[11] Functional allocation of expenses:

The costs of providing various programs and supporting services have been reported on a functional basis in the statements of functional expenses, except for direct investment fees that have been offset against revenue in the statements of activities. The statements of functional expenses present the Library's expenses by natural classification and function. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas, and expenses benefiting multiple areas have been allocated amongst those areas using the full-time equivalent employee ("FTE") method and square footage. The expenses allocated using the FTE method included the following: salaries and benefits, professional fees, books, public library materials, telephone and other office related expenses, with the exception of occupancy and donated rent utilities which has been allocated over square footage.

[12] Measure of operations:

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

[13] Income taxes:

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

[14] Adoption of accounting pronouncements:

(i) *Revenue from Contracts with Customers:*

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. This guidance requires an entity to recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods and services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. It is effective for fiscal-years beginning after December 15, 2019. The Library has early adopted this ASU for its fiscal-year ending June 30, 2020. The ASU permits the use of either the retrospective or cumulative effect transition method. Analysis of various provisions of this standard resulted in no significant changes in the way the Library recognized revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[14] Adoption of accounting pronouncements: (continued)

(ii) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:*

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard provides a framework for evaluating whether grants should be accounted for as exchange transactions or as non-exchange transactions. For non-exchange transactions, the new guidance clarifies whether arrangements are conditional or unconditional. The effective date for the standard was staggered as follows: (i) the standard is effective for resource recipients for years beginning after December 15, 2018; accordingly, the Library is required to adopt this portion of the ASU for its fiscal-year ending June 30, 2020; (ii) the standard is effective for resource providers for years beginning after December 15, 2019. The Library is currently assessing what impact, if any, the resource provider section of the standard will have on its fiscal-year 2021 financial statements. Analysis of various provisions of this standard resulted in no significant changes in the way the Library recognized revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

(iii) *Disclosure Requirements for Fair-Value Measurements:*

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modified the disclosure requirements for fair value measurements and is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The effect of adopting this accounting guidance will result in the removal or modification of certain fair value measurement disclosures presented in the Library's financial statements. The Library has early adopted this pronouncement for its fiscal year ending June 30, 2020, which under U.S. GAAP, is a change in accounting principle requiring retroactive application in the financial statements for all periods.

[15] Upcoming accounting pronouncements:

(i) *Leases:*

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which will require entities to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on the statements of financial position. The ASU is effective for fiscal years beginning after December 15, 2021. Earlier adoption is permitted. Management is in the process of assessing the impact of this ASU on the financial statements.

(ii) *Collections:*

In March 2019, the FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections.*, to align the definition of collections with the American Alliance of Museums' Code of Ethics for Museums, thereby changing the types of collections that are eligible to not be reported as assets in the statements of financial position. The ASU modifies the definition of the term *collections* by expanding the acceptable uses of the proceeds of sales of collection items so that the proceeds can be used to support the direct care of existing collections, in addition to the current requirement that proceeds be used to acquire other items for collections. ASU No. 2019-03 is effective for annual periods beginning after December 15, 2019. Earlier application is permitted. Management is in the process of assessing the impact of this ASU on the financial statements.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

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

[16] Reclassification:

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

[17] Subsequent events:

The Library evaluated subsequent events through September 15, 2020, the date on which the financial statements were available to be issued.

NOTE B - RECEIVABLES

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

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Appropriations and grants - State of New York	\$ 5,108	\$ 4,187
Appropriations and grants - The City of New York	<u>14,581</u>	<u>12,715</u>
Total appropriations and grants	<u>19,689</u>	<u>16,902</u>
Contributions receivables: less than one year	2,896	3,448
Contributions receivables: one to five years	<u>144</u>	<u>136</u>
	3,040	3,584
Less: discount to present value (at a discount rate ranging from 0.66%- 3.25%)	(1)	(10)
Less: allowance for doubtful accounts	<u>(13)</u>	<u>(30)</u>
Total net contribution receivables	3,026	3,544
Purchase discount reimbursement contributions receivable	583	309
Employee retention credit receivables	1,966	
Other receivables, net of allowance for doubtful accounts of \$26 in 2020 and \$9 in 2020 and 2019, respectively	<u>617</u>	<u>261</u>
	<u>\$ 25,881</u>	<u>\$ 21,016</u>

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE B - RECEIVABLES (CONTINUED)

Purchase discount reimbursement contributions receivable arose from an agreement between the Library and the Universal Service Fund ("USF"), a not-for-profit organization, whereby USF grants to the Library an amount equal to an agreed-upon percentage of expenditures made by the Library in connection with certain public access/information technology initiatives (90% for internal connections and Internet access in fiscal-year 2020 and fiscal-year 2019). Items and services are purchased by the Library from vendors specified in the agreement, and consequently, a contribution at the specified level is made by USF to the Library. Total expenditures related to the agreement were approximately \$481 and \$880 for fiscal years 2020 and 2019, respectively.

NOTE C - INVESTMENTS

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

	June 30,	
	2020	2019
Stocks/Bonds/Mutual funds:		
U.S. equity securities	\$ 17,948	\$ 18,105
International equity securities from developed markets	12,660	12,069
Emerging market equity securities	200	386
Fixed income funds	10,325	11,830
Corporate bond funds		19,468
Hedge fund	1,278	1,653
	<u>\$ 42,411</u>	<u>\$ 63,511</u>

Investment income for each fiscal year consisted of the following:

	Year Ended June 30, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest (net of investment expenses of \$227)	\$ 1,006	\$ 99	\$ 1,105
Net realized gains on sale of investments	72	7	79
Net unrealized losses on investments	<u>(363)</u>	<u>(46)</u>	<u>(409)</u>
Investment earnings, net	715	60	775
Less: Investment earnings designated for current operations	<u>(1,871)</u>	<u>(196)</u>	<u>(2,067)</u>
Investment gains not designated for current operations, net	<u>\$ (1,156)</u>	<u>\$ (136)</u>	<u>\$ (1,292)</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

	Year Ended June 30, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Dividends and interest (net of investment expenses of \$146)	\$ 1,422	\$ 143	\$ 1,565
Net realized gains on sale of investments	145	14	159
Net unrealized gains on investments	<u>1,219</u>	<u>55</u>	<u>1,274</u>
Investment earnings, net	2,786	212	2,998
Less: Investment earnings designated for current operations	<u>(1,765)</u>	<u>(195)</u>	<u>(1,960)</u>
Investment gains not designated for current operations, net	<u>\$ 1,021</u>	<u>\$ 17</u>	<u>\$ 1,038</u>

At June 30, 2020 and 2019, concentrations of the Library's investments in excess of 10% of the fair values of its portfolio included approximately: (i) 0% and 31% in corporate bonds respectively, (ii) 42% and 29% invested in U.S. equity securities, respectively (iii) 24% and 19% invested in fixed income funds, respectively, and (iv) 30% and 19% invested in international equity securities from developed markets, respectively.

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

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

The Library's hedge fund is valued using NAV per share (or its equivalent unit) as a practical expedient of fair value. This applies to investments which: (i) do not have a readily determinable fair value; and (ii) the financial statements of which were prepared by the respective investment manager, in a manner consistent with the measurement principles of either an investment company or an entity which has the attributes of an investment company. Investments that are valued using NAV per share (or its equivalent unit) are not required to be categorized within the fair value hierarchy and, accordingly, have been excluded from the fair-value hierarchy.

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

The availability of market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or valuation techniques may require the transfer of financial instruments from one level to another. In such instances, the transfer is reported at the beginning of the reporting period.

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

	June 30, 2020		
	Amounts Within the Fair-Value Hierarchy		Measured at NAV
	Level 1	Total	
Stocks/Bonds/Mutual funds:			
U.S. equity securities	\$ 17,948		\$ 17,948
International equity securities from developed markets	12,660		12,660
Emerging markets equity securities	200		200
Fixed income funds	10,325		10,325
Hedge fund		\$ 1,278	1,278
Total	\$ 41,133	\$ 1,278	\$ 42,411

	June 30, 2019			
	Amounts Within the Fair-Value Hierarchy		Measured at NAV	Total
	Level 1	Level 2		
Stocks/Bonds/Mutual funds:				
U.S. equity securities	\$ 18,105			\$ 18,105
International equity securities from developed markets	12,069			12,069
Emerging markets equity securities	386			386
Fixed income funds	11,830			11,830
Corporate bond funds		\$ 19,468		19,468
Hedge fund			\$ 1,653	1,653
Total	\$ 42,390	\$ 19,468	\$ 1,653	\$ 63,511

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE C - INVESTMENTS (CONTINUED)

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

	June 30, 2020			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Hedge fund	\$ 1,278	None	Quarterly	30 days

NOTE D - PROPERTY AND EQUIPMENT

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

In fiscal years 2020 and 2019, The City of New York paid approximately \$10,706 and \$16,860, respectively, for capital appropriations relating to renovations of City-owned branches. During the previous ten fiscal years 2010 to 2019, The City of New York contributed approximately \$209,660 for branch capital-improvement expenses. The City of New York total commitment as of June 30, 2020, to branch capital improvement, is approximately \$276,607 over the next five fiscal years.

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

	June 30,	
	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 15,484	\$ 15,230
Leasehold improvements	32,380	31,812
Computer equipment	<u>5,064</u>	<u>6,195</u>
	52,928	53,237
Less: accumulated depreciation and amortization	<u>(20,582)</u>	<u>(18,820)</u>
	32,346	34,417
Construction-in-progress	<u>26,291</u>	<u>10,921</u>
	<u>\$ 58,637</u>	<u>\$ 45,338</u>

During fiscal-years 2020 and 2019, the Library wrote off of approximately \$1,720 and \$940, respectively, of fully depreciated computer equipment and furniture and fixtures that were no longer in use. In addition, the Library disposed of furniture and fixtures, equipment and leasehold improvements in the amounts of approximately \$1,046 and \$362, respectively, which resulted in a loss on disposal of approximately \$665 and \$242.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE E- DEFERRED REVENUE

The following table provide information about significant changes in deferred revenue at each fiscal year-end, consisting of the following:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Deferred revenue, beginning year	\$ 217	\$ 223
Revenue recognized that was included in the deferred at the beginning of the year	(94)	(11)
Increase in deferred revenue due to cash received during the period	<u> </u>	<u>5</u>
Deferred revenue, end of year	<u>\$ 123</u>	<u>\$ 217</u>

NOTE F- FUNDS RECEIVED IN ADVANCE

The Library has received funding related to certain contracts and grants from the State of New York and The City of New York prior to the Library satisfying the conditions stipulated in the agreements, which include performing the related services as required by the contracts. Revenue for these agreements is recognized as the related conditions are satisfied. At June 30, 2020 and 2019, funds received in advance were approximately \$6,255 and \$2,476, respectively.

NOTE G- ACCRUED VACATION BENEFITS

The financial statements include a liability for unused vacation benefits earned by employees and carried forward at each fiscal year-end, which amounted to approximately \$6,906 and \$5,036 for fiscal years 2020 and 2019, respectively. Management believes that through future appropriations, The City of New York will fund such vacation benefits as they are paid to the employees. Such amounts have been reported in the statements of financial position as part of accrued wages and related liabilities.

NOTE H- ACCRUED TERMINAL LEAVE OBLIGATION

The Library provides terminal leave with pay upon retirement, not to exceed one month for every ten years of service, prorated for fractional parts thereof. The Library has estimated the actuarial present value of the accumulated terminal leave benefit to be \$11,611 and \$9,089 as of June 30, 2020 and 2019, respectively. Such amounts have been reported in the statements of financial position as part of accrued wages and related liabilities.

The significant assumptions used in calculating the actuarial present value of the terminal leave benefit were: (i) an interest rate of 2.50% per annum (3.35% per annum in fiscal-year 2019); (ii) a salary increase rate of 3.10% per annum for union employees and 3.50% for non-union employees (2.75% per annum for all employees in fiscal-year 2019); and (iii) withdrawal rates ranging from 9.50% at age 20 to 3.70% at age 55 for both fiscal years 2020 and 2019, with a retirement age of 65 in both fiscal years 2020 and 2019. Terminal leave benefits are funded as they are paid to employees. Management believes that through future appropriations, The City of New York will fund such terminal-leave benefits as they are paid to employees.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

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

	June 30,	
	2020	2019
Purpose restricted:		
Operating:		
Library materials acquisitions*	\$ 211	\$ 260
Branch library support	1,545	1,249
Special programs and other:		
Central Library Information Commons	99	119
Child's Place	22	8
Plaza and auditorium	268	248
Summer reading	31	13
Summer Camp	462	598
Artist in residence	18	30
Other*	4,174	3,435
	<u>6,830</u>	<u>5,960</u>
Non-operating:		
Capital projects (see Note L[8])	<u>24,167</u>	<u>21,867</u>
Restricted for time and purpose	<u>30,997</u>	<u>27,827</u>
Perpetual in nature	<u>2,733</u>	<u>2,706</u>
	<u>\$ 33,730</u>	<u>\$ 30,533</u>

- Collectively, these categories include accumulated endowment income of \$1,244 and \$1,380, as of June 30, 2020 and 2019, respectively.

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

	Year Ended June 30,	
	2020	2019
Operating:		
Library materials acquisitions	\$ 163	\$ 100
Branch library support	209	470
Special programs and other:		
Central Library Information Commons	29	29
Child's Place	3	6
Plaza and auditorium	64	44
Summer reading	61	71
Summer Camp	151	125
Artist in residence	113	2,769
Other	1,881	2,039
	<u>2,674</u>	<u>5,653</u>
Non-operating:		
Capital grant expenditures	<u>18,009</u>	<u>11,464</u>
	<u>\$ 20,683</u>	<u>\$ 17,117</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE J - ENDOWMENT

[1] The endowment:

The endowment consists of 48 individual, donor-restricted funds, established for a variety of purposes. The Library does not have any funds designated by the Board of Trustees to function as an endowment.

[2] Interpretation of relevant law:

As discussed in Note A[9][ii], NYPMIFA is applicable to all of the Library's institutional funds, including its donor-restricted endowment funds. The Board of Trustees adheres to NYPMIFA's requirements.

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

	June 30, 2020		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Donor-restricted endowment funds:			
Adult Literacy Program	\$ (2)	\$ 127	\$ 125
Books	151	301	452
Branch Humanities	336	458	794
Central Library Information Commons	70	500	570
Staff Welfare	57	112	169
Plaza and Auditorium Programming	176	310	486
Youth and Children Programming	398	766	1,164
Willendorf Lecture Series	31	50	81
Others - undesignated	27	109	136
	<u>1,244</u>	<u>2,733</u>	<u>3,977</u>
Total funds	<u>\$ 1,244</u>	<u>\$ 2,733</u>	<u>\$ 3,977</u>
	June 30, 2019		
	With Donor Restrictions		
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	Total
Donor-restricted endowment funds:			
Adult Literacy Program	\$ 2	\$ 123	\$ 125
Books	167	301	468
Branch Humanities	365	458	823
Central Library Information Commons	90	500	590
Staff Welfare	65	112	177
Plaza and Auditorium Programming	189	310	499
Youth and Children Programming	439	766	1,205
Willendorf Lecture Series	34	50	84
Others - undesignated	29	86	115
	<u>1,380</u>	<u>2,706</u>	<u>4,086</u>
Total funds	<u>\$ 1,380</u>	<u>\$ 2,706</u>	<u>\$ 4,086</u>

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements
June 30, 2020 and 2019
(in thousands)

NOTE J - ENDOWMENT (CONTINUED)

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

	June 30, 2020		
	With Donor Restrictions		Total
	Amounts Subject to Appropriation	Amounts Held in Perpetuity	
Endowment net assets, beginning of year	\$ 1,380	\$ 2,706	\$ 4,086
Dividends and interest, net	100		100
Net realized and unrealized depreciation	(40)		(40)
Contributions		27	27
Appropriation of endowment assets for expenditures	<u>(196)</u>		<u>(196)</u>
Endowment net assets, end of year	<u>\$ 1,244</u>	<u>\$ 2,733</u>	<u>\$ 3,977</u>

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

[5] Return objectives and risk parameters:

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements June 30, 2020 and 2019 (in thousands)

NOTE J - ENDOWMENT (CONTINUED)

[6] Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Board relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Board targets a diversified asset allocation that places a significant emphasis on equity-based investments to achieve its long-term return objectives, within prudent risk constraints.

[7] Spending policy:

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

The Library has a policy that permits spending from underwater endowment funds so long as the fair values of the funds are 90% or more of the endowed amount required by the donor or any applicable laws or regulations. Amounts totaling approximately \$11 were spent from the underwater funds during 2020 fiscal year.

[8] Funds with deficiencies:

Due to unfavorable market fluctuations, from time to time, the fair value of assets associated with individual donor-restricted endowment funds may decline below the level that the donor or NYPMIFA may require the Library to retain as a fund of perpetual duration. Under the terms of NYPMIFA, the Library has no responsibility to restore such decreases in value. The original donated and fair market value of the three funds were approximately \$256, and \$252, respectively and accordingly they were underwater by \$4 as of June 30, 2020. There were no deficiencies as of June 30, 2019.

NOTE K - NON-CASH CONTRIBUTIONS

[1] Contributed facilities and utilities:

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

	Year Ended June 30,	
	2020	2019
Estimated rental value of properties	\$ 31,550	\$ 31,961
Heat, light and power	2,287	2,472
	<u>\$ 33,837</u>	<u>\$ 34,433</u>

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE K - NON-CASH CONTRIBUTIONS (CONTINUED)

[2] Contributed goods and services:

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

	Year Ended June 30,	
	2020	2019
Public service announcements	\$ 240	\$ 322
Contributed legal services	771	65
	<u>\$ 1,011</u>	<u>\$ 387</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

[1] Pension benefits:

Substantially all of the Library's employees are participants in the New York State and Local Employees' Retirement System ("NYSLRS"). NYSLRS is a cost-sharing, multiple-employer, public employee retirement system that offers plans and benefits related to years of service and final average salary. Members who joined the retirement system prior to January 1, 2010 require five years of service to be fully vested, and members who joined on or after January 1, 2010 need ten years of service to be fully vested. The amount of pension charged to expenses for fiscal years 2020 and 2019 amounted to approximately \$9,532 and \$9,419, respectively. Under a 1937 agreement between the Library and The City of New York, the City appropriate funds to cover the full cost of pension contribution for the Library employees whose salaries are funded by the City.

The Library was not listed in the plan's most recent available audited financial statements for providing more than five percent of the total contribution to the plan for the years ended March 31, 2020, and 2019. The Employer Identification Number for NYSLRS is 14-6020869. The most recent Pension Protection Act ("PPA") zone status is green at March 31, 2020 and 2019. Among other factors, plans in red zone are generally less than 65% funded, plans in yellow zone are less than 80% funded, and plans in green zone are at least 80% funded.

For participants who joined the system before July 27, 1976, the system is noncontributory. Participants who joined on or after July 27, 1976 are required to contribute 3% to 6% of their gross salary. Effective July 1, 2013, certain newly hired non-union exempt staff have the option of participating in either the NYSLRS program or the New York State Voluntary Defined Contribution ("VDC") pension program. VDC participants are required to contribute 4.5% to 6% of their gross salary, and the Library contributes 8%. The VDC amount charged to expenses for fiscal years 2020 and 2019 amounted to approximately \$194 and \$210, respectively.

[2] Post-retirement benefits:

The Library contributes to a multi-employer, post-retirement benefit plan that provides defined-benefit health-care benefits to substantially all employees upon retirement. The Library records related expense as payments are made. The City of New York appropriates funds to cover the full cost of post-retirement benefits for Library employees each year as payments are made. Amounts charged to expense amounted to approximately \$3,406 and \$3,007 in fiscal years 2020 and 2019, respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements
June 30, 2020 and 2019
(in thousands)

NOTE L - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[3] Lease obligations:

The Library is a party to a number of operating leases that expire at various dates through June 30, 2045. Various leases provide for increases in annual base rentals based on various expenses and other criteria. Aggregate rent expense amounted to approximately \$1,281 and \$1,233 in fiscal years 2020 and 2019, respectively.

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

Aggregate future minimum lease payments under non-cancelable operating leases that have remaining terms in excess of one year as of June 30, 2020, are approximately as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,488
2022	1,503
2023	1,527
2024	1,513
2025	953
Thereafter	<u>9,331</u>
	<u>\$ 16,315</u>

[4] Litigation:

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

[5] Grantor audits:

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

[6] BookOps:

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

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE L - COMMITMENTS AND CONTINGENCIES (CONTINUED)

[6] BookOps: (continued)

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

The actual total cost and expenses incurred in the provision of the BookOps services is shared by each party, based on agreed-upon allocation percentages. Such allocation percentages are based on the service usage level as determined by the relevant cost drivers. The books and records are to be reviewed by an independent accountant following the end of each fiscal year, to evaluate the completeness and accuracy of the costs and expenses reported by BookOps and to determine the reasonableness of the allocation percentages. Expenses incurred by the Library under this agreement were approximately \$3,900 and \$3,700 for fiscal years 2020 and 2019, respectively, and are included in professional fees and contract service payments in the statements of activities.

[7] Other contracts:

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

[8] Construction related to grants:

(i) Greenpoint:

In March 2015, the Library entered into a grant agreement with the National Fish and Wildlife Foundation in the amount of approximately \$4,400. In addition, in April 2018, the Library entered into an agreement with The City of New York for an amount not to exceed \$13,998. The agreement with the City requires the Library to maintain a project reserve of at least 2,000, through substantial completion, to fund any cost overruns. Both grants requires the Library to design and build a LEED Silver standard Greenpoint Library and Environmental Educational Center at the site of the current Greenpoint branch library. It is expected that the new facility would be opened to the public in September 2020. In August 2018, the Library awarded a construction management contract to Westerman Construction Co. Inc. for approximately \$15,900 for construction of the new Greenpoint Library and Educational Environmental Center, of which approximately \$7,000 and \$4,300 is included in construction in progress at June 30, 2020 and 2019, respectively.

(ii) South Site project:

In June 2015, the Library entered into a Memorandum of Understanding with the New York City Economic Development Corporation ("NYCEDC") and the New York City Department of Cultural Affairs ("DCLA") for a joint capital project for a multi-tenant cultural programming space. NYCEDC, on behalf of DCLA, will undertake the design and construction of the Library's portion of the project. DCLA will use City capital funds to pay for some of the Library's portion of the project, with the expectation that the Library will fund the balance of the project using non-City capital funds. The Library will initially contribute approximately \$2,000 in non-City (private) funds to complement the City funds for the project. The final amount of the Library's non-City contribution will be agreed upon in accordance with the cost estimates for the Library's portion of the project. The amount included in construction in progress was \$3,000 and \$2,000 at June 30, 2020 and 2019, respectively.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE L- COMMITMENTS AND CONTINGENCIES (CONTINUED)

[8] Construction related to grants: (continued)

(iii) *Brooklyn Heights:*

In fiscal year 2017, the Library entered into a Memorandum of Understanding with The City of New York, and the NYCEDC for a joint construction project. The City disposed of one of its building (which was previously occupied by the Brooklyn Heights Branch Library) and received proceeds in the amount of \$52,000. The Library received \$22,000 of the proceeds directly for the construction of eligible projects, including a new Brooklyn Heights Branch. Approximately \$20,000 of the proceeds received by the Library was invested in a series of short-term corporate bonds that are set to mature at different times during the various construction projects. The remaining \$30,000 will be appropriated to the Library as capital funds from the City. The property will be developed into a condominium. At the completion of the development, a condominium unit will be transferred to the City for use by the Library as the new Brooklyn Heights Branch Library. In conjunction with retrofitting the space, the Library entered into an agreement with Marvel Architect, PLLC for the design of a new Brooklyn Heights Branch Library facility in the amount of \$941. At June 30, 2020 and 2019, the amount included in construction in progress was approximately \$9,200 and \$862, respectively.

(iv) *Central library renovation:*

On June 17, 2019, the Library entered into a capital grant agreement with The City of New York for an amount not to exceed \$35,000 for the Phase One renovation of the Central Library facility. The agreement requires the Library to maintain a project reserve of at least \$3,500, through substantial completion of the renovation, for the purpose of funding any cost overruns relating to the project. In fiscal year 2017, the Library entered into a "cost-plus" construction management contract with Gilbane Building Company for the Phase One renovation of the Central Library facility. At June 30, 2020 and 2019, the amount included in construction in progress was approximately \$1,033 and \$169, respectively.

[9] COVID-19:

The extent of the impact of the coronavirus ("COVID-19") outbreak on the operational and financial performance of the Library's services will depend on the continued future developments, including the duration and spread of the outbreak, related travel advisories and restrictions, and the impact of COVID-19 on overall demand for the Library's programs and services, some of which are highly uncertain and cannot be predicted. On March 16, 2020, the Library closed its buildings in response to the shelter-in-place State mandated order in New York due to COVID-19. Sixty five percent (39 out of 60 locations) of the Library remains closed to the public as of the issuance of these financial statements, and therefore, the Library has moved its programming to a webcast platform but is unable to generate revenues for its previously scheduled live events. If demand for the Library's services are impacted for an extended period, results of operations may be materially adversely affected.

The Employee Retention Credit is a refundable tax credit against certain employment taxes equal to 50 percent of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. Eligible employers can get immediate access to the credit by reducing employment tax deposits they are otherwise required to make. For each employee, wages (including certain health plan costs) up to \$10 can be counted to determine the amount of the 50% credit. Employers are eligible for the credit if they operate a business during the calendar 2020 that experienced a full or partial suspension of their operations during any calendar quarter because of governmental orders limiting commerce, travel or group meetings due to COVID-19, or a significant decline in gross receipts. The Library received approximately \$3,870 in employee retention income as of June 30, 2020.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE M - LINE-OF-CREDIT AGREEMENT

On October 8, 2019, the Library obtained a two-year revolving construction line of credit from TD Bank, N.A., in the amount of \$15,000. The interest rate is based on a variable rate for a two-year term at LIBOR plus 1%. The line of credit is unsecured, but dependent on the Library maintaining its banking relationship with TD bank. The line is drawn to pay contractors for capital improvements. The payments will be reimbursed in full by the City of New York under the various pass-through or capital grant agreements between the City of New York and the Library. Certain covenants exist under the terms of the agreement, which the Library has complied with as of June 30, 2020. During the year, the Library drew down \$17,200 and paid back \$12,836, resulting in an outstanding balance of \$4,364 as of June 30, 2020.

In addition, the Library had an existing line-of-credit agreement with a bank under which it could borrow up to \$3,500, with an interest rate of the Citibank prime rate subject to changes from time to time, and which was 5.5% at 2019. The Library had to maintain a minimum of \$50,000 in the category of without donor restrictions within net assets. The line of credit was terminated by the client during the 2020 fiscal year.

NOTE N - CONCENTRATION OF CREDIT RISK

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

NOTE O - LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Library's financial assets as of the statements of financial position date, reduced by amounts not available for general use within one year of June 30, 2020, because of contractual or donor-imposed restrictions or internal designations.

BROOKLYN PUBLIC LIBRARY

Notes to Financial Statements

June 30, 2020 and 2019

(in thousands)

NOTE O - LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

Accordingly, the Library's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	Year Ended June 30,	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents and restricted cash	\$ 46,941	\$ 20,232
Contribution, grants and other receivable, net	25,881	21,016
Investments	<u>42,411</u>	<u>63,511</u>
Total financial assets available within one year	<u>115,233</u>	<u>104,759</u>
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Restricted cash	(107)	(107)
Restrictions by donors with purpose and time restrictions	(30,997)	(27,828)
Restricted by donors in perpetuity	<u>(2,733)</u>	<u>(2,706)</u>
Total amounts unavailable for general expenditure within one year	<u>(33,837)</u>	<u>(30,641)</u>
Amounts unavailable to management without Board approval:		
Board-designated for building renovation	(5,830)	(5,830)
Board-designated for use in future fiscal years	<u>(4,839)</u>	<u>(6,639)</u>
	<u>(10,669)</u>	<u>(12,469)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 70,727</u>	<u>\$ 61,649</u>

Liquidity policy:

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