

# **The Queens Borough Public Library and Affiliate**

**Consolidated Financial Statements**  
Year Ended June 30, 2017

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Consolidated Financial Statements  
Year Ended June 30, 2017

# The Queens Borough Public Library and Affiliate

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## Independent Auditor's Report

Board of Directors  
The Queens Borough Public Library and Affiliate  
Jamaica, NY

We have audited the accompanying consolidated financial statements of The Queens Borough Public Library and Affiliate (the "Library"), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated statement of financial position of The Queens Borough Public Library and Affiliate as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As described in Note 12, the Library restated the June 30, 2016 net assets to reflect an adjustment to the net present value discount on pledges receivable, an adjustment to capitalize expenses improperly recorded in the prior year, and a reclassification of restrictions. Our opinion on the 2017 consolidated financial statements is not modified with respect to this matter.

### *Other Matters*

The consolidated financial statements of the Library for the year ended June 30, 2016, before restatement for the matter described in the *Emphasis of Matter* paragraph, were audited by other auditors, whose report dated September 8, 2016 on those statements was unmodified.

As part of our audit of the 2017 consolidated financial statements, we also audited the adjustments described in Note 12 that were applied to restate the 2016 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 consolidated financial statements of the Library other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 consolidated financial statements as a whole.

BDO USA, LLP

September 29, 2017

# The Queens Borough Public Library and Affiliate

## Consolidated Statement of Financial Position

June 30, 2017

**Assets**

Current:

Cash and cash equivalents (Note 3):	
Checking accounts - interest bearing	\$ 5,142,094
Money market accounts	200,206
Cash on hand	39,486

**Total Cash and Cash Equivalents** 5,381,786

Accounts receivable 43,889

Grants and contracts receivable (Note 3):

New York City	21,404,943
New York State	4,414,566
Federal government	1,711,461

**Total Grants and Contracts Receivable** 27,530,970

Contributions receivable (Note 3):

From New York State (Note 4)	5,501,970
From individuals, corporations and foundations (Note 5)	578,195

**Total Contributions Receivable** 6,080,165

Prepaid expenses:

Prepaid insurance	878,763
Prepaid rent	100,720
Other assets	11,537

**Total Prepaid Expenses** 991,020

**Total Current Assets** 40,027,830

Long-Term Investments, at Fair Value (Notes 3 and 6) 27,663,908

Fixed Assets, Net (Notes 3 and 7) 37,599,900

Security Deposits 25,667

**Total Assets** \$105,317,305

**Liabilities and Net Assets**

Current Liabilities:

Accounts payable and accrued expenses	\$ 4,753,519
Accrued payroll and related expenses	3,053,664
Line of credit (Note 8)	4,723,946
NYS Employee Retirement System, current portion (Notes 10 and 11)	1,453,225
Workers' compensation - self-insured incurred losses (Note 17)	283,825
Deferred revenue (Notes 3 and 9)	1,529,532

**Total Current Liabilities** 15,797,711

NYS Employee Retirement System, Long-Term Portion (Notes 10 and 11) 8,322,206

Compensated Absences Payable (Note 11) 6,196,356

**Total Liabilities** 30,316,273

Commitments and Contingencies (Notes 8, 11 and 17)

Net Assets (Note 3):

Unrestricted	51,167,340
Unrestricted - board designated	7,269,556
Temporarily restricted (Note 13)	7,860,402
Permanently restricted (Note 14)	8,703,734

**Total Net Assets** 75,001,032

**Total Liabilities and Net Assets** \$105,317,305

*See accompanying notes to consolidated financial statements.*

**The Queens Borough Public Library and Affiliate**  
**Consolidated Statement of Activities and Changes in Net Assets**

*Year ended June 30, 2017*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue and Support:</b>				
Operating revenue:				
Grants and contracts:				
City of New York	\$100,400,469	\$ 11,811,904	\$ -	\$112,212,373
State of New York	-	2,404,280	-	2,404,280
United States of America	-	2,088,176	-	2,088,176
Contributions from individuals, corporations and foundations	460,132	1,344,843	25,020	1,829,995
Contributions from New York State	5,680,733	-	-	5,680,733
Use of contributed facilities (Note 3)	-	26,847,228	-	26,847,228
Contributed services (Note 3)	154,980	-	-	154,980
Net assets released from restrictions (Note 13)	45,442,136	(45,442,136)	-	-
<b>Total Operating Revenue</b>	<b>152,138,450</b>	<b>(945,705)</b>	<b>25,020</b>	<b>151,217,765</b>
Support:				
Fines and fees	1,446,460	-	-	1,446,460
Net investment income (Note 6)	1,117,010	1,577,042	-	2,694,052
Other	183,551	(14,271)	-	169,280
<b>Total Support</b>	<b>2,747,021</b>	<b>1,562,771</b>	<b>-</b>	<b>4,309,792</b>
<b>Total Revenue and Support</b>	<b>154,885,471</b>	<b>617,066</b>	<b>25,020</b>	<b>155,527,557</b>
<b>Expenses:</b>				
Library services:				
Wages	59,479,720	-	-	59,479,720
Fringe benefits	30,482,535	-	-	30,482,535
Books and other library materials	5,955,259	-	-	5,955,259
Programs (contracted services and exhibits)	896,349	-	-	896,349
Information technology	2,398,056	-	-	2,398,056
Building maintenance and renovations	2,237,837	-	-	2,237,837
Telecommunications	1,737,189	-	-	1,737,189
Building lease (Note 17)	1,110,238	-	-	1,110,238
Contractual services	1,033,044	-	-	1,033,044
Supplies, equipment and furniture	1,903,188	-	-	1,903,188
Use of contributed facilities	26,847,228	-	-	26,847,228
Use of contributed services	154,980	-	-	154,980
Depreciation	1,763,844	-	-	1,763,844
Other	137,681	-	-	137,681
<b>Total Library Services</b>	<b>136,137,148</b>	<b>-</b>	<b>-</b>	<b>136,137,148</b>
Supporting services:				
Fundraising and development:				
Wages	428,378	-	-	428,378
Fringe benefits	79,732	-	-	79,732
Contractual services	227,347	-	-	227,347
Supplies, equipment and furniture	14,576	-	-	14,576
Other	1,947	-	-	1,947
Management and general:				
Wages	8,165,778	-	-	8,165,778
Fringe benefits	1,662,068	-	-	1,662,068
Information technology	287,400	-	-	287,400
Contractual services	2,590,936	-	-	2,590,936
Supplies, equipment and furniture	493,225	-	-	493,225
Property and casualty insurance	820,623	-	-	820,623
Depreciation	417,999	-	-	417,999
Other	334,110	-	-	334,110
<b>Total Supporting Services</b>	<b>15,524,119</b>	<b>-</b>	<b>-</b>	<b>15,524,119</b>
<b>Total Expenses</b>	<b>151,661,267</b>	<b>-</b>	<b>-</b>	<b>151,661,267</b>
Change in Net Assets	3,224,204	617,066	25,020	3,866,290
Net Assets, Beginning of Year, Restated (Note 12)	55,212,692	7,243,336	8,678,714	71,134,742
Net Assets, End of Year	\$ 58,436,896	\$ 7,860,402	\$8,703,734	\$ 75,001,032

*See accompanying notes to consolidated financial statements.*

# The Queens Borough Public Library and Affiliate

## Consolidated Statement of Cash Flows

*Year ended June 30, 2017*

**Cash Flows From Operating Activities:**

Cash received - New York City	\$ 113,156,432
Cash received - New York State	8,069,993
Cash received - Federal government	3,254,111
Cash received - individuals, corporation and foundations	2,447,306
Cash received from customers	1,615,740
Cash received - investing	311,211
Payments for interest	(26,844)
Payments of employees' wages and fringe benefits	(100,976,325)
Payments to vendors and suppliers	(24,675,754)

**Net Cash Provided By Operating Activities** 3,175,870

**Cash Flows From Financing Activities:**

Proceeds from line of credit	4,723,946
Payments of line of credit	(4,723,946)

**Net Cash Used In Financing Activities** -

**Cash Flows From Investing Activities:**

Proceeds from sales and maturities of investments	7,557,842
Purchase of property, equipment and computer software	(3,984,233)
Purchase of investments	(7,838,816)

**Net Cash Used In Investing Activities** (4,265,207)

**Net Decrease in Cash and Cash Equivalents** (1,089,337)

**Cash and Cash Equivalents, Beginning of Year** 6,471,123

**Cash and Cash Equivalents, End of Year** \$ 5,381,786

**Reconciliation of Change In Net Assets to Net Cash Provided By Operating Activities:**

Change in net assets	\$ 3,866,290
Depreciation and amortization expense	2,181,843
Net realized and unrealized gain on investments	(2,382,842)
Changes in assets and liabilities:	
Accounts receivable	223,494
Grants and contracts receivable	2,097,937
Contributions receivable	390,856
Prepaid expenses	(182,057)
Accounts payable and accrued expense	(2,903,864)
Accrued payroll and related expenses	447,598
New York State employees' retirement system	(1,247,254)
Compensated absences payable and self-insured incurred losses	(66,715)
Deferred revenue	750,584

**Net Cash Provided By Operating Activities** \$ 3,175,870

*See accompanying notes to consolidated financial statements.*

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### 1. Description of the Organization

The Queens Borough Public Library ("Queens Library") is a body politic and corporate, incorporated by an Act of Incorporation of the New York State Legislature in 1907, which merged the Queens Borough Library, a not-for-profit corporation incorporated by the Regents of the University of the State of New York, into it. It is a free association library. In accordance with 1902 and 1907 agreements with the City of New York (the "City"), Queens Library provides free public library service in the Borough of Queens. In exchange, the City provides funding for Queens Library.

Although Queens Library is not a governmental institution, Queens Library receives a substantial amount of its support from the City of in addition to support from other governmental entities and private sources. A significant reduction in the level of support provided by the City, if this were to occur, may have an effect on Queens Library's programs and activities. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by Queens Library with the terms of the grants/contracts.

### 2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Queens Library and its affiliate, The Queens Library Foundation, Inc. (the "Foundation") (collectively, the "Library"). The individual entities have common Trustees and share common facilities and personnel. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany balances and transactions have been eliminated in consolidation.

### 3. Summary of Significant Accounting Policies

#### (a) *Basis of Presentation*

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with GAAP. In the consolidated statement of financial position, assets and liabilities are presented in the order of liquidity or conversion to cash and their maturity resulting in the use of cash.

These classes of net assets are briefly defined as follows:

***Unrestricted*** - The part of net assets that is neither permanently nor temporarily restricted by donor or other imposed stipulations.

***Unrestricted - Board Designated*** - Net assets consisting of all assets or monies contributed to the Library, which are designated for future operations by the Board of Directors of the Library.

***Temporarily Restricted*** - Net assets resulting from contributions and other inflows of assets whose use by the Library is limited by donor or other imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Library pursuant to those stipulations. When such stipulations end or are fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions.

***Permanently Restricted*** - Net assets resulting from contributions and other inflows of assets whose use by the Library is limited by donor or other imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Library.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### *(b) Cash and Cash Equivalents*

For purposes of the accompanying consolidated statement of cash flows, cash and cash equivalents include highly liquid short-term investments with original maturities of three months or less. Cash and cash equivalents do not include the Library's money market funds, which are reflected with investments.

### *(c) Investments and Fair Value Measurements*

Investments include money market funds, equity securities, exchange-traded funds, mutual funds, and fixed income and hedge funds. These securities and funds are measured at fair market value in the accompanying consolidated statement of financial position. Investment income, net realized gains or losses on investment transactions and net unrealized gains or losses on investments are recorded as non-operating income in the accompanying consolidated statement of activities and changes in net assets.

Accounting Standards Codification ("ASC") 820, "Fair Value Measurement," provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

### *(d) Third-party Reimbursements and Revenue Recognition*

The Library receives contract and grant revenue from various governmental entities including New York State, New York City, and the Federal Government.

These contracts are funded primarily on a cost reimbursement basis and in some instances involve the advance of funds. The Library recognizes revenue under these contracts when the expenses allowed under the contract have been incurred. In instances where the Library receives an advance of funds from the funding source, the entire amount will be recorded as deferred revenue and recognized in subsequent periods as the underlying expenses are incurred.

### *(e) Accounts Receivable and Doubtful Accounts*

Accounts receivable are recorded at the reimbursable or contracted amount and do not bear interest. Periodically, the receivables are reviewed and evaluated as to their collectability. A receivable balance is considered past due once it has not been received by its scheduled due date. If necessary, an allowance is recorded based on these evaluations. At June 30, 2017, management determined that there was no allowance to be recorded.

### *(f) Contributions Receivable*

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions. Contributions restricted by the donor are recorded as increases in unrestricted net

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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assets if the restriction expired in the fiscal year in which the contribution is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

A promise to give to the Library that is, in substance, unconditional is recognized when the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

### *(g) Fixed Assets*

Fixed assets are stated at cost, except for donated assets which are recorded at fair market value at the date of donation. The Library capitalizes all fixed asset acquisitions in excess of \$5,000 and with an estimated useful life of at least two years. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets based on industry guidelines. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets. The estimated useful lives of various asset classes are as follows:

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Building	39 years
Building improvements	7-39 years
Office furniture, fixtures and equipment	5-7 years
Leasehold improvements	3-39 years
Vehicles	5 years
Computer, related equipment and computer software	3-5 years

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### *(h) Impairment of Long-Lived Assets*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeded the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment charges recorded during the year ended June 30, 2017.

### *(i) Contributed Facilities*

The Library occupies, without charge, certain buildings owned by the City. In addition, the Library occupies a building at below-market rent. The estimated fair rental value of these buildings is reported as support and expense in the period in which the premises are used. The City pays the utility costs of properties occupied by the Library. These costs are reported as use of contributed facilities support with a corresponding expense. Amounts paid directly by the City for improvements to its existing Library-occupied buildings and new branch construction are not recorded by the Library as amounts are not readily determinable or available and are considered the City's assets.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### *(j) Contributed Services*

During the year ended June 30, 2017, the Library received contributed services from a significant number of individuals who volunteered their time and provided professional instructional services to the community. The value of these services is estimated at \$154,980 and has been provided for in the consolidated financial statements.

During the year ended June 30, 2017, the Library received a substantial amount of contributed clerical services from volunteers. Since these contributed services do not meet the criteria for accounting for contributions received and contributions made under Accounting Standards Update ("ASU") 2013-06, "Services Received from Personnel of an Affiliate," no amounts have been reflected in the consolidated financial statements for these contributed services.

### *(k) Applicability of the New York Prudent Management of Institutional Funds Act*

ASC 958-205, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for all Endowment Funds," requires that disclosures be made on the Library's endowments by net asset classifications.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act ("NYPMIFA"). This law, which is a modified version of UPMIFA, makes significant changes to the rules governing how New York not-for-profit organizations may manage, invest and spend their endowment funds. The new law is designed to allow organizations to cope more easily with fluctuations in the value of their endowments and to afford them greater access to funds needed to support their programs and services in difficult financial times. This should provide some relief to organizations that, due to the recent economic downturn, have found themselves with underwater endowments. It also expands the options available to organizations seeking relief from donor restrictions on funds that have become obsolete, impracticable or wasteful. NYPMIFA applies to New York not-for-profit, education and religious corporations, associations organized and operated exclusively for charitable purposes, and certain trusts.

### *(l) Deferred Revenue*

Funds received under exchange contracts in advance of their usage are classified as deferred revenue in the accompanying consolidated statement of financial position.

### *(m) Tax Status*

The Library qualifies as a tax-exempt, not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, and as a not-for-profit organization under the laws of New York State. Accordingly, no provision for federal or state income taxes is required.

The Library adopted the provisions of ASC 740, "Accounting for Uncertainty in Income Taxes," on January 1, 2009. Under ASC 740, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not that the position will not be sustained. The implementation of ASC 740 had no impact on the Library's consolidated financial statements. The Library does not believe there are any material uncertain tax positions and, accordingly, it has not recorded any liability for unrecognized tax benefits. The Library has filed for and received income tax exemptions in the jurisdictions where it is required to do so. Additionally, the Library has filed the Internal Revenue Service Form 990 tax returns as required, and all other applicable returns in jurisdictions where so required. For the year ended June 30, 2017, there was no interest or penalties recorded or included in the consolidated statement of activities and changes in net assets. The Library is subject to routine audits by a taxing authority. As of June 30, 2017, the

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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Library was not subject to any examination by a taxing authority. For the year ended June 30, 2017, the Library had no unrelated business income.

**(n) Concentration of Credit Risk**

Financial instruments that potentially subject the Library to concentrations of credit risk consist principally of cash balances in checking and savings accounts with financial institutions. The cash balances in financial institutions may periodically during the year exceed federally insured limits. The Library has not experienced any losses in such accounts.

**(o) Use of Estimates**

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

**(p) New Accounting Pronouncements**

**(i) Revenue From Contracts With Customers**

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14, which deferred the effective date for the Library until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management of the Library is currently evaluating the impact of this ASU on its consolidated financial statements.

**(ii) Leases**

On February 25, 2016, the FASB issued ASU 2016-02, "Leases," which will require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard is effective for non-public business entities for fiscal years beginning after December 15, 2019 and the Library was currently evaluating the impact of the pending adoption of ASU 2016-02.

**(iii) Not-for-Profit Financial Statement Reporting**

In August 2016, the FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities." The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Library's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management of the Library is currently evaluating the impact of this ASU on its consolidated financial statements.

### 4. New York State Contributions Receivable

The Library receives aid from New York State in the form of grants to help support ongoing Library activities. The Library recognizes these amounts when they are earned and payment is anticipated. These amounts are recorded as increases in unrestricted net assets. At June 30, 2017, the outstanding receivable amount owed from New York State was \$5,501,970.

### 5. Contributions Receivable, Net

Contributions receivable from individuals, corporations and foundations at June 30, 2017 consist of the following:

*June 30, 2017*

Restricted for literacy programs	\$500,000
Restricted for library materials	90,865
Less: Discount	(12,670)
Net contributions receivable	\$578,195
Amounts due in:	
Less than one year	\$578,195

Contributions receivable are reflected at the present value of estimated future cash flows using an annual discount rate of 6% for balances due after one year from the balance sheet date.

Based on management's evaluation of collectibility, an allowance for uncollectible contributions receivable is not required.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

### 6. Investments, at Fair Value

Cost and market values of investments at June 30, 2017 are as follows:

*June 30, 2017*

	Cost	Market Value
Money market	\$ 856,181	\$ 856,181
Equity	11,570,545	13,431,823
Exchange traded funds	2,083,220	2,173,835
Fixed income	1,625,185	1,615,403
Mutual funds	9,501,754	9,586,666
Total assets at fair value	\$25,636,885	\$27,663,908

The Library's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820. See Note 3 for a discussion of the Library's policies regarding this hierarchy. The following are descriptions of the Library's investment categories:

#### *Money Market Funds*

Money market instruments are invested in dollar-denominated, high-quality, short-term instruments. These investments are classified as Level 1.

#### *Equities*

Equities consist of investments in publicly traded U.S. and foreign common stocks. The fair value of these investments is based on quoted market prices. Investments that are listed on an exchange are valued, in general, at the last reported sale price. These investments are classified as Level 1.

#### *Mutual Funds/Exchange-Traded Funds*

For the Library's investments in the funds, the Library has ownership interest in the fund but not in the individual securities held by the fund. The assets of each fund consist primarily of shares of the underlying holdings. These funds are invested primarily in fixed income and equity securities. These funds are valued at the NAV of each share. Since the funds are comprised of many different stocks, which are constantly changing in value, NAV is calculated once daily. These investments are classified as Level 1.

#### *Fixed Income Securities*

The Library has investments in fixed income securities comprised of open-end funds. These investments are priced by the Library's investment manager using nationally recognized pricing services based on observable market data and are classified as Level 1.

The following summarizes the Library's net investment income for the year ended June 30, 2017:

Realized gain on investments	\$ 355,818
Change in unrealized gain on investments	2,027,024
Interest and dividend income	484,184
Investment fees	(172,974)
Investment income, net	\$2,694,052

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

The following table presents the Library's fair value hierarchy for its financial assets (investments) that are measured at fair value on a recurring basis as of June 30, 2017:

*June 30, 2017*

	Fair Market Value	Fair Value Measurement Using			Total
		Level 1	Level 2	Level 3	
Money market	\$ 856,181	\$ 856,181	\$ -	\$ -	\$ 856,181
Equity	13,431,823	13,431,823	-	-	13,431,823
Exchange traded funds	2,173,835	2,173,835	-	-	2,173,835
Fixed income	1,615,403	1,615,403	-	-	1,615,403
Mutual funds	9,586,666	9,586,666	-	-	9,586,666
<b>Total assets at fair value</b>	<b>\$27,663,908</b>	<b>\$27,663,908</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$27,663,908</b>

### 7. Fixed Assets, Net

Land, building and operating assets at June 30, 2017 consist of the following:

*June 30, 2017*

Buildings and building improvements	\$42,033,988
Leasehold improvements	1,874,671
Computers, related equipment, and computer software	13,282,248
Office furniture, fixtures, and equipment	5,129,698
Vehicles	1,234,438
<b>Total capital assets</b>	<b>63,555,043</b>
Less: Accumulated depreciation and amortization	(26,142,902)
Construction-in-progress	187,759
<b>Total capital assets, net</b>	<b>\$37,599,900</b>

The estimated cost to complete the construction-in-progress is approximately \$1,606,000.

Depreciation and amortization expense for the year ended June 30, 2017 applicable to the above assets amounted to \$2,181,843.

### 8. Line of Credit

The Library has a \$10,000,000 line of credit from a financial institution for working capital purposes. Borrowings under the line of credit are collateralized by all of the Library's assets. The interest rate on the line of credit at June 30, 2017 was 2.6%. The line of credit expires on March 31, 2018. As of June 30, 2017, the outstanding amount on the line of credit was \$4,723,946.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### 9. Deferred Revenue

Deferred revenue at June 30, 2017 is comprised of the following:

*June 30, 2017*

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NYS grants not utilized	\$1,529,532
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### 10. Pension Plans

#### *General Information*

The Library participates in the New York State Employees' Retirement System (the "NYSERS"). This is a cost-sharing multiple employer public employee retirement system. The NYSERS offers a wide range of plans and benefits, which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For State fiscal year 2013-14, the amount in excess of the graded rate of 11.5% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to 1% depending on the gap between the increase or decrease in the NYSERS's average rate and the previous graded rate.
- For subsequent State fiscal years in which the NYSERS's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortization, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the NYSERS's fiscal years when the local employer opts to participate in the program. The total unpaid liability was \$9,775,431 at June 30, 2017.

#### *Funding Policies*

The NYSERS is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the NYSERS after July 27, 1976, and prior to January 1, 2010, employees contribute 3% to 3.5% of their salary. With the exception of ERS tier V and VI employees, employees in the NYSERS more than ten years are no longer required to contribute. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' pension accumulation fund.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

The Library is required to contribute at an actuarially determined rate. Library contributions made to the NYSERS were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

	NYSERS
2016-2017	\$ 9,819,445
2015-2016	11,385,537
2014-2015	10,652,258

Pension expense recorded for fiscal year 2017 is \$8,602,458.

The Library's obligation to the NYSERS is funded annually by the City of New York as payments come due.

The Library was not listed in the plan's most recent available audited consolidated financial statements for providing more than five percent of the total contributions to the plan for the year ended March 31, 2017. The Employer Identification Number for NYSERS is 14-6020869. The most recent Pension Protection Act ("PPA") zone status is green at March 31, 2017, which is based on the funded ratio as of April 1, 2016 and is disclosed in the plan's audited consolidated financial 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.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status	
			2017	2016
New York State Employee Retirement System	14-602869	50087	Green as of 3/31/17	Green as of 3/31/16

### *Provisions and Administration*

NYSERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law govern obligations of employers and employees to contribute, and benefits to employees. NYSERS issues a publicly available financial report that includes consolidated financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

### 11. Long-Term Debt

The changes in the Library's long-term indebtedness for the year ended June 30, 2017 are as follows:

*Year ended June 30, 2017*

	Balance, July 1, 2016	New Issues and/or Additions	Maturities and/or Payments	Total Long-Term Debt	Less Current Portion	Long-Term Debt, Less Current Portion
Employee's retirement system obligations	\$11,022,685	\$ -	\$(1,247,254)	\$ 9,775,431	\$(1,453,225)	\$ 8,322,206
Compensated absences	6,101,660	434,307	(339,611)	6,196,356	-	6,196,356
	\$17,124,345	\$434,307	\$(1,586,865)	\$15,971,787	\$(1,453,225)	\$14,518,562

Payments to Maturity - Included in the current portion above is \$187,749 of accrued interest payable outstanding and owed at June 30, 2017. The annual requirements to amortize the employee's retirement system obligations outstanding as of June 30, 2017 including interest are as follows:

*Year ending June 30,*

	Principal	Interest	Total
2018	\$1,265,476	\$ 325,253	\$ 1,590,729
2019	1,309,291	281,438	1,590,729
2020	1,354,659	236,070	1,590,729
2021	1,401,632	189,097	1,590,729
2022	1,339,283	140,455	1,479,738
2023-2026	2,917,341	184,922	3,102,263
	\$9,587,682	\$1,357,235	\$10,944,917

### 12. Restatement of Net Assets

The net assets of the Library were restated to reflect the adjustment made to correct the net present value discount on the outstanding pledge receivable balance for a permanently restricted contribution as of June 30, 2016, as well as to reflect an adjustment to capitalize expenses that were improperly recorded in the prior year. Net assets were reclassified across net asset groupings due to the determination that particular permanently restricted net assets should actually be recorded as unrestricted net assets as of June 30, 2016.

*June 30, 2016*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, as previously reported at June 30, 2016	\$54,306,567	\$7,243,336	\$8,406,419	\$69,956,322
To adjust the net present value discount on pledge receivables	-	-	419,718	419,718
To capitalize for expenses improperly recorded in the prior year	758,702	-	-	758,702
To re-allocate net assets for reclassification of restrictions	147,423	-	(147,423)	-
Net assets at June 30, 2016, as restated	\$55,212,692	\$7,243,336	\$8,678,714	\$71,134,742

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### 13. Temporarily Restricted Net Assets

At June 30, 2017 the Foundation maintained the following temporarily restricted net assets:

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Futures Fund for Children Services	\$4,406,217
Library renovations	146,845
Children's Programs	23,769
Literacy Programs	121,177
Adult Programs	203,735
New Americans Services	48,732
Young Adult Programs	40,950
Buy-A-Book	74,121
Technology	380,340
Library materials	2,414,516
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	\$7,860,402

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Temporarily restricted net assets that were released from restrictions by incurring expenses satisfying the restricted purpose during the year ended June 30, 2017 are as follows:

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Futures Fund for Children Services	\$ 33,438
Library renovations	2,293,151
Children's Programs	1,168,146
Job Training Programs	87,945
Literacy Programs	1,222,998
Adult Programs	1,767,199
New Americans Services	456,039
Young Adult Programs	645,427
Buy-A-Book	108,745
Technology	845,105
Library materials	1,634,579
Contributed Facilities	26,847,228
Other	8,332,136
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	\$45,442,136

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### 14. Permanently Restricted Net Assets

The State of New York enacted a version of UPMIFA (or the "Act"), known as NYPMIFA that governs the investment and management of donor-restricted endowment funds by New York not-for-profit organizations.

NYPMIFA gives the Board of Directors authority to spend donor-restricted endowment funds that are not wholly expendable on a current basis due to donor-imposed restrictions on spending. In particular, and unlike prior law, it allows institutions to spend endowment funds below their original dollar amount ("historic dollar value") without court approval or Attorney General review, if the institution's Board of Directors concludes that such spending is prudent. NYPMIFA also provides standards for the prudent management and investment of institutional funds, the delegation of

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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management and investment functions to outside advisors, and procedures for lifting or modifying donor-imposed restrictions on the management, expenditure or use of institutional funds. NYPMIFA requires that Boards determine whether it is appropriate to consider alternatives before deciding whether to authorize expenditure of an endowment fund. It also requires that a notice be given to available donors of endowment funds who executed the gift instrument before September 17, 2010, allowing these donors to opt out of the new rule permitting institutions to spend below the historic dollar value of endowment funds. The Act also requires that the Library act "in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances," and must consider various factors such as economic conditions, purpose of endowment fund, etc. in managing and investing the endowment assets.

The Library has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Library classifies as permanently restricted net assets (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 to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence prescribed by the Act. In accordance with NYPMIFA, the Library considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Library, and (7) the Library's investment policies.

The Library has adopted investment and spending policies, approved by its Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make any required annual distribution, while growing the funds if possible.

The Library's spending policy is limited to spending amounts prescribed by the grantors. The Library expects the current spending policy to allow its endowment funds to maintain their purchasing power as well as to provide additional real growth through investment return.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

The balance in the endowments which are all classified as permanently restricted on the consolidated statement of financial position at June 30, 2017 is as follows:

*June 30, 2017*

Starr Endowment - income generated from endowment investments to be used for the International Resource Center at the Flushing Branch Library	\$ 700,000
Applebaum Endowment - income generated from endowment investments to be used for Mail-A-Book program; Latchkey program and adult reference books for Central Library and the Pomonok Branch Library	318,000
Elmezzi Foundation Endowment - income generated from endowment investments to be used for the Long Island City Adult Learning Center operating costs beginning in 2017 if the value of the endowment is at least \$6 million plus Consumer Price Index for each year through 2017	5,987,329
NEH Endowment - investment income - 50% to be used for adult humanities programs and 50% reinvested in endowment	527,798
Forever Fausta - Language and Learning Endowment to be used for the Hunters Point Library	45,650
The Hebrew Technical Institute - income generated from endowment investments to support programs that support high school and college students in computer skills	500,000
The Women's Club of Malba to support the Whitestone Library and its gardens	24,957
Mr. & Mrs. Ahmad Endowment to support the Children's Library Discovery Center STEM materials and resources	50,000
The Francis Hornik Endowment to be used to support programs for women and girls	50,000
Altman Endowment - investment income to be used for the Futures Fund	500,000
	<u>\$8,703,734</u>

Changes in the endowment net assets for the year ended June 30, 2017 are as follows:

*Year ended June 30, 2017*

	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year, restated	\$1,928,929	\$8,678,714	\$10,607,643
Current year change in net present value of pledge receivable	-	25,020	25,020
Investment income	1,017,438	-	1,017,438
Investment management fees	(202,044)	-	(202,044)
Endowment net assets, end of year	<u>\$2,744,323</u>	<u>\$8,703,734</u>	<u>\$11,448,057</u>

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### 15. Functional Expenses

The Library provides free public library service in the Borough of Queens. Expenses related to providing these services included in the accompanying consolidated statement of activities and changes in net assets for the year ended June 30, 2017 are as follows:

*Year ended June 30, 2017*

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Library services	\$136,137,148
Fundraising and development	751,980
Management and general	14,772,139
<b>Total expenses</b>	<b>\$151,661,267</b>

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### 16. Transactions With Affiliates

The Foundation was created to fundraise and obtain funding to help support the Library and its programs. The Foundation receives and records the contribution and grant revenue received from outside donors on their books. These donations received are earmarked for specific programs and supplies. In turn, through intercompany activity, the Foundation transfers these funds to the Library to help support the Library's programs. The Foundation only maintains expenses on its books for management and general and fundraising. All program-related expenditures are reflected on the books of the Library.

At June 30, 2017, the Library had a balance due to the Foundation of \$761,045 and the Foundation had a balance due from the Library of \$761,045.

### 17. Commitments and Contingencies

#### *Operating Leases*

The Library is obligated under several noncancelable operating leases for facilities expiring at various dates through July 2025. Minimum annual rental commitments at June 30, 2017 under noncancelable leases, exclusive of renewal options, are as follows:

*Year ending June 30,*

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2018	\$1,120,950
2019	1,039,051
2020	1,009,515
2021	676,541
2022	475,091
2023 and thereafter	1,837,080
	<b>\$6,158,228</b>

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Rental expense for the year ended June 30, 2017 was \$1,110,238.

# The Queens Borough Public Library and Affiliate

## Notes to Consolidated Financial Statements

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### *Self-Funded Workers' Compensation Program*

Effective July 1, 1995, the Library elected to self-insure workers' compensation. This election has been approved by the Workers' Compensation Board for the State of New York and a letter of credit in the amount of \$1,692,530 to the New York State Workers' Compensation Board, Office of Self-Insurance, to secure the program. The amount has been determined by the State of New York based upon the Library's loss exposure. The letter of credit is collateralized by the \$10 million line of credit with TD Bank.

An excess loss insurance policy has been purchased to provide excess coverage for catastrophic loss exposures for claims occurring since the inception of the program. A third-party administrator specializing in the management of workers' compensation self-insurance is required and has been retained to manage the program.

### *Litigation*

The Library is a defendant in several employment-related lawsuits and arbitration matters. The Library intends to defend itself vigorously in these matters. The Library's experience to date is that losses, if any, from such claims have not had, nor are they expected to have, a material effect on the Library's financial position or results of operations.

In November 2015, a former employee commenced a lawsuit in federal court against the Library alleging that the Library had breached his employment agreement, as well as the covenant of good faith and fair dealing implicit in such agreement, by wrongfully terminating his employment for cause and not paying him severance pay of \$2.2 million. He also asserted claims against the Library for breach of indemnification for having stopped paying his defense costs in connection with the U.S. Attorney's Office investigation and for negligence based on the Library's alleged failure to prevent the disclosure of confidential information about him which ultimately lead to his termination. The complaint also includes claims against two Trustees in their personal capacities for prima facie and intentional tort based on their alleged disclosure of confidential and other information to the press and other third parties which allegedly lead to his loss of employment.

This lawsuit was settled by an agreement dated November 7, 2016 for the gross amount of \$1,500,000 which was paid in full during fiscal year 2017. The Library's insurance carriers funded \$750,000 of the settlement.

### *Grants*

The Library participates in a number of federal, state and city assisted programs which are subject to periodic program compliance audits by grantors or their representatives. Audits of the Library by federal and city agencies are currently ongoing. Any noncompliance by the Library with the applicable programs determined as a result of these or other audits could have a material effect on the financial condition of the Library at some future date.

## **18. Subsequent Events**

The Library has evaluated subsequent events occurring after the consolidated statement of financial position date of June 30, 2017 through the date of September 29, 2017, which is the date the consolidated financial statements were available to be issued. No events arose during the period which would require adjustment or additional disclosure.