



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

Financial Statements and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

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KPMG LLP  
345 Park Avenue  
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## Independent Auditors' Report

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

We have audited the accompanying balance sheets of The New York Public Library, Astor, Lenox and Tilden Foundations (the Library) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Library's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New York Public Library, Astor, Lenox and Tilden Foundations as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 to the financial statements, the Library has adopted Accounting Standards Codification Topic 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA*, for classification of donor-restricted endowment funds in 2011.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Library taken as a whole. The 2011 supplemental information included in the Schedules 1 and 2 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

November 16, 2011

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

Balance Sheets

June 30, 2011 and 2010

(In thousands of dollars)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 102,888	85,481
Government and other receivables (note 4)	24,427	29,018
Contributions receivable, net (note 5)	82,432	107,756
Other assets	2,052	3,037
Funds held by bond trustee (notes 3 and 6)	4,002	3,849
Investments (notes 3 and 7)	814,313	678,390
Real estate investment used in operations (note 8)	1,084	1,084
Fixed assets, net (notes 9 and 16)	301,533	306,501
Collections		
Total assets	\$ 1,332,731	1,215,116
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities (notes 10 and 15)	\$ 54,110	58,903
Deferred revenue – City of New York and other (note 16)	104,858	93,178
Long-term debt (note 12)	88,490	92,295
Interest rate swaps (note 12)	11,662	13,501
Accrued postretirement benefits (note 11)	146,833	151,600
Total liabilities	405,953	409,477
Commitments and contingencies (notes 7, 11, 12, and 15)		
Net assets (note 8):		
Unrestricted	241,543	202,889
Temporarily restricted (note 13)	268,635	202,775
Permanently restricted (note 13)	416,600	399,975
Total net assets	926,778	805,639
Total liabilities and net assets	\$ 1,332,731	1,215,116

See accompanying notes to financial statements.

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

Statements of Activities

Years ended June 30, 2011 and 2010

(In thousands of dollars)

	2011			2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
City of New York	\$ 133,170	—	—	133,170	138,414	—	—	138,414
State of New York	18,108	—	—	18,108	18,638	—	—	18,638
Federal government	1,377	—	—	1,377	927	—	—	927
Contributed rent and utilities	10,005	—	—	10,005	10,702	—	—	10,702
Private contributions and grants	28,084	4,928	—	33,012	27,836	1,894	—	29,730
Investment return appropriated for spending (note 7)	29,153	5,829	—	34,982	25,400	7,088	—	32,488
Fines, royalties, and other revenue	14,094	—	—	14,094	14,438	—	—	14,438
	<u>233,991</u>	<u>10,757</u>	<u>—</u>	<u>244,748</u>	<u>236,355</u>	<u>8,982</u>	<u>—</u>	<u>245,337</u>
Net assets released from restrictions	15,266	(15,266)	—	—	12,263	(12,263)	—	—
Total operating revenues	<u>249,257</u>	<u>(4,509)</u>	<u>—</u>	<u>244,748</u>	<u>248,618</u>	<u>(3,281)</u>	<u>—</u>	<u>245,337</u>
Operating expenses (note 14):								
Library services	202,669	—	—	202,669	210,905	—	—	210,905
Fundraising and membership development	9,461	—	—	9,461	7,966	—	—	7,966
Management and general	27,337	—	—	27,337	25,351	—	—	25,351
Total operating expenses	<u>239,467</u>	<u>—</u>	<u>—</u>	<u>239,467</u>	<u>244,222</u>	<u>—</u>	<u>—</u>	<u>244,222</u>
Additions to research collections	12,299	—	—	12,299	11,109	—	—	11,109
Total operating expenses and additions to research collections	<u>251,766</u>	<u>—</u>	<u>—</u>	<u>251,766</u>	<u>255,331</u>	<u>—</u>	<u>—</u>	<u>255,331</u>
Change in net assets from operating activities	<u>(2,509)</u>	<u>(4,509)</u>	<u>—</u>	<u>(7,018)</u>	<u>(6,713)</u>	<u>(3,281)</u>	<u>—</u>	<u>(9,994)</u>
Nonoperating activities:								
Endowment contributions and funds designated for long-term investment	2,529	6,128	5,733	14,390	14,698	11,792	12,251	38,741
Appropriations and contributions for capital	11,910	1,170	—	13,080	32,305	2,034	—	34,339
Depreciation and amortization (note 14)	(20,547)	—	—	(20,547)	(18,570)	—	—	(18,570)
Investment return, net of amounts appropriated (note 7)	42,937	62,211	527	105,675	22,961	6,055	(4,334)	24,682
Postretirement benefits changes other than net periodic benefit cost (note 11)	13,720	—	—	13,720	3,826	—	—	3,826
Change in value of interest rate swaps	1,839	—	—	1,839	(2,077)	—	—	(2,077)
Net assets released from restrictions for capital and contributions receivable released from time restrictions and board designated for long-term investment	26,318	(26,318)	—	—	27,397	(27,397)	—	—
Change in donor designation	—	—	—	—	1,801	(772)	(1,029)	—
Reclassification in accordance with ASC 958-205 (note 8)	(37,543)	27,178	10,365	—	—	—	—	—
Change in net assets from nonoperating activities	<u>41,163</u>	<u>70,369</u>	<u>16,625</u>	<u>128,157</u>	<u>82,341</u>	<u>(8,288)</u>	<u>6,888</u>	<u>80,941</u>
Change in net assets	<u>38,654</u>	<u>65,860</u>	<u>16,625</u>	<u>121,139</u>	<u>75,628</u>	<u>(11,569)</u>	<u>6,888</u>	<u>70,947</u>
Net assets at beginning of year	202,889	202,775	399,975	805,639	127,261	214,344	393,087	734,692
Net assets at end of year	<u>\$ 241,543</u>	<u>268,635</u>	<u>416,600</u>	<u>926,778</u>	<u>202,889</u>	<u>202,775</u>	<u>399,975</u>	<u>805,639</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands of dollars)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 121,139	70,947
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(143,441)	(61,543)
Depreciation and amortization	20,547	18,570
Deferred rent expense	552	802
Postretirement benefits changes other than net periodic benefit cost	(13,720)	(3,826)
Change in value of interest rate swaps	(1,839)	2,077
Appropriations and contributions for capital	(13,080)	(34,339)
Endowment contributions	(5,733)	(12,251)
Permanently restricted investment income, net of expenses	11	12
Changes in operating assets and liabilities:		
Receivables, except for contributions and other receivables restricted for investment in endowment and capital projects	14,036	18,291
Other assets	952	(300)
Accounts payable and accrued liabilities, except for accounts payable and accrued liabilities relating to fixed assets and deferred rent	(1,531)	(2,428)
Accrued postretirement benefits	8,953	10,691
Deferred revenue, except for deferred revenue relating to sale of building and capital projects	(87)	(46,054)
Net cash used in operating activities	<u>(13,241)</u>	<u>(39,351)</u>
Cash flows from investing activities:		
Purchases of investments	(98,056)	(172,069)
Proceeds from sales of investments	105,574	145,215
Change in deferred revenue relating to sale of building	11,500	11,500
Purchases of fixed assets	(15,546)	(47,503)
Change in accounts payable and accrued liabilities relating to fixed assets	(3,814)	(9,649)
Net cash used in investing activities	<u>(342)</u>	<u>(72,506)</u>
Cash flows from financing activities:		
Change in contributions receivable restricted for investment in endowment	5,938	364
Change in contributions and other receivables restricted for capital projects	9,941	15,991
Change in deferred revenue relating to capital projects	267	(62)
Appropriations and contributions for capital	13,080	34,339
Endowment contributions	5,733	12,251
Permanently restricted investment income, net of expenses	(11)	(12)
Principal payments on long-term debt	(3,805)	(3,635)
Change in funds held by bond trustee	(153)	(73)
Net cash provided by financing activities	<u>30,990</u>	<u>59,163</u>
Net increase (decrease) in cash and cash equivalents	17,407	(52,694)
Cash and cash equivalents at beginning of year	<u>85,481</u>	<u>138,175</u>
Cash and cash equivalents at end of year	<u>\$ 102,888</u>	<u>85,481</u>
Supplemental disclosures:		
Unrelated business income taxes paid	\$ 19	172
Interest paid	3,321	3,437

See accompanying notes to financial statements.

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

June 30, 2011 and 2010

(In thousands of dollars)

**(1) The Organization**

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

Although the Library is not a governmental institution, it receives significant support through governmental appropriations in addition to the support received from private sources. In accordance with a 1901 agreement with the City of New York (the City), funding for the 87 branch libraries operated by the Library in the boroughs of Manhattan, the Bronx, and Staten Island is provided primarily by the City and the State of New York (the State), and the continuing operations of the branches is dependent upon such support. The Library also operates, at four locations in the borough of Manhattan, research libraries that are partially funded by the City, the State and the Federal government, and principally by private sources and investment income.

The Library is a tax-exempt organization, qualified under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code), and has been classified as a public charity under Section 509(a)(1) of the Code. The Library is exempt from Federal, State, and City income taxes, except for taxation on a limited amount of unrelated business taxable income. The State and City have classified the Library as not-for-profit in character.

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

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

**(b) Basis of Presentation**

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

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

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

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

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(In thousands of dollars)

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

**(c) *Grants and Appropriations***

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

**(d) *Contributions***

Contributions, including unconditional promises to give (pledges), are recorded as revenue in the period received or pledged. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Contributions are recorded at fair value, and in the case of pledges, net of estimated uncollectible amounts, and discounted if due in over one year.

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

**(e) *Contributed Properties for Use***

The Library occupies its landmark building and other properties under arrangements with the City and State in which the City and State retain legal title to the buildings. The properties are provided to the Library for its long-term use, free of charge, so long as the Library uses them as operating libraries. The Library records the fair value of such contributed properties for use as revenue and fixed assets at the time they are made available to the Library for its use. The Library did not receive contributed properties during fiscal years 2011 and 2010. The Library also receives capital appropriations from the City and State to fund construction and capital improvement projects directly managed by the Library. These appropriations are recorded as unrestricted revenues and fixed assets as costs are incurred.

**(f) *Contributed Rent and Utilities***

The City directly pays the cost of utilities (heat, light, and power) for properties occupied by the Library. Except for the Library for the Performing Arts, where the Library pays the cost of utilities directly as part of its general services expense and is subsequently reimbursed by the City



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June 30, 2011 and 2010

(In thousands of dollars)

(amounting to \$765 for fiscal years 2011 and 2010), the Library reports contributed utilities revenue for these transactions, offset by equal charges to the appropriate expense category. During the years ended June 30, 2011 and 2010, the Library recognized revenues and expenses totaling \$8,049 and \$8,781, respectively, for contributed utilities.

In addition, the Library recognizes contributed rent for certain properties occupied under short-term lease arrangements for which payments are below the fair rental value. During the years ended June 30, 2011 and 2010, the Library recognized revenues and expenses totaling \$1,956 and \$1,921, respectively, for contributed rent.

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

Fundraising and membership development expenses were \$9,461 and \$7,966 for the years ended June 30, 2011 and 2010, respectively. The Library's fundraising and membership development activities include working with program staff to develop statements of need for private fundraising, including endowment and capital contributions reported as nonoperating activities; soliciting contributions for those needs and for the Annual Fund from individuals, corporations, and foundations; conducting outreach efforts to secure membership contributions and create awareness of the Library and its programs; and conducting special fundraising events. Revenues raised from special fundraising events are \$6,234 and \$5,225 for the years ended June 30, 2011 and 2010, respectively, and are included in private contributions and grants in the accompanying statements of activities. The costs for these events totaled approximately \$1,945 and \$1,211, respectively, for the same periods and are included in fundraising and membership development in the accompanying statements of activities. Fundraising costs are expensed as incurred.

**(h) *Operating Leases***

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

**(i) *Measure of Operations***

The Library includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Endowment contributions, certain unrestricted bequests and funds designated by the Library's Board of Trustees for long-term investment, appropriations and contributions for capital, depreciation and amortization, investment return, net of amounts appropriated for spending pursuant to the Library's endowment spending policy (notes 7 and 8), postretirement benefit changes other than net periodic benefit cost, the change in value of interest rate swaps, and other nonrecurring items are recognized as nonoperating activities.

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Notes to Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

**(j) Investments**

Investments with readily determinable fair values are reported at fair value based upon quoted market prices. Alternative investments, which include commingled investment funds, hedge funds, and private market funds, are reported at estimated fair value based on, as a practical expedient, net asset values (NAVs) provided by investment managers. These values are reviewed and evaluated by Library management for reasonableness. The reported values may differ from the values that would have been reported had a ready market for these investments existed.

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

**(k) Cash and Cash Equivalents**

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

**(l) Split-Interest Agreements**

The Library's split-interest agreements consist primarily of charitable gift annuities and pooled income funds. Contribution revenue is recognized at the date the assets are received after recording liabilities for the present value of estimated future payments to be made to the donors and/or other beneficiaries. These liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, 2.8% and 3.2% at June 30, 2011 and 2010, respectively, and other changes in the estimates of future benefits. The liabilities for beneficiary payments in the amount of \$5,123 and \$4,996 at June 30, 2011 and 2010, respectively, are included in accounts payable and accrued liabilities. Assets related to the split-interest agreements amounted to \$6,564 and \$6,087 at June 30, 2011 and 2010, respectively, and are included in investments in the accompanying balance sheets.

**(m) Fixed Assets**

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

Depreciation and amortization of buildings, building improvements, and furniture and equipment are provided over the estimated useful lives, which range from 5 to 40 years, on the straight-line basis. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvement.

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(In thousands of dollars)

Amounts paid directly by the City from its capital budget to third-party vendors for certain capital improvements made to City-owned properties occupied by the Library, which are managed directly by the City, are not recorded by the Library.

**(n) Collections**

The Library has extensive research collections of library materials, including books, periodicals, and other items. These collections are maintained by the research libraries under curatorial care and are held for research, education, and public exhibition in furtherance of public service. Proceeds from the sales of collections are used to acquire other items for collections. The cost of collections purchased by the Library for the research libraries is charged to expense when incurred and donated collection items are not recorded. The value of the Library's research collections cannot be determined.

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

**(o) Volunteers**

A number of volunteers, including the members of the Board of Trustees, have made significant contributions of time to the Library's policy-making, program, and support functions. The value of this contributed time does not meet criteria for recognition as contributed services and, accordingly, is not reflected in the accompanying financial statements.

**(p) Deferred Revenue**

The Library received advances of \$71,915 from the City at each of the years ended June 30, 2011 and 2010 to be used for fiscal 2012 and 2011 operations, respectively. This amount is reflected as deferred revenue at June 30, 2011 and 2010. In addition, the Library received payments on certain State grants in advance of incurring expenses and deposits relating to the sale of one of its buildings (note 16), which are also included in deferred revenue at June 30, 2011 and 2010.

**(q) Derivative Instruments**

The Library uses derivative instruments (i.e., interest rate swaps) to manage its exposure to interest rate fluctuations on its outstanding variable rate long-term debt (note 12). The Library reports such derivative instruments at fair value, which is based upon regular "mid-market" valuations provided by the Library's counterparties. Mid-market prices are derived from proprietary valuation models utilized by the Library's counterparties, and they do not take into account certain factors including the creditworthiness of the parties, funding implications (including estimated funding costs and/or benefits associated with any credit support or margin arrangement), and portfolio level adjustments, which the Library estimates to be immaterial. The Library believes that the proprietary valuation models reflect the zero-coupon method, which calculates a net present value of projected and known contractual cash flows of a swap discounted by the benchmark rates that the market uses as risk-free

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(In thousands of dollars)

rates for each respective period. The projected cash flows would be determined using a certainty equivalent, (i.e. the amount for which a floating rate future cash flow could be exchanged for a fixed future cash flow in the interest rate swap or other related market). As such, this would be an implementation of Expected Present Value Method 1 as described in ASC 820-10-55-15, *Fair Value Measurement*.

**(r) *Asset Retirement Obligations***

The Library has recognized a liability for the fair value of legally required asset retirement obligations (e.g., asbestos remediation) associated with fixed assets that are owned by the Library. The fair value of the Library's asset retirement obligations was \$2,284 and \$2,450 at June 30, 2011 and 2010, respectively, and is reflected in accounts payable and accrued liabilities in the accompanying financial statements. For City-owned buildings, by law and written agreement, the City is responsible for maintenance and repair of the buildings, which, supported by a long-term pattern of practice, includes provision of funds for remediation costs associated with asbestos and other hazardous materials in those buildings. Therefore, the Library has not recorded a liability in its financial statements for asset retirement obligations associated with City-owned buildings.

**(s) *Related Party Transactions***

Members of the Library's Board of Trustees and senior management may, from time to time, be associated, either directly or indirectly, with companies doing business with the Library. The Library has a written ethics and conflicts policy that requires, among other things, annual disclosure of interests or affiliations that could be construed as creating a conflict or the appearance of a conflict with the interests of the Library. The ethics and conflicts policy requires that no member of the Board of Trustees or senior management can participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each trustee and member of senior management is required to certify compliance with the ethics and conflicts policy on an annual basis and indicate whether the Library does business with an entity in which he or she has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of the Library, and in accordance with applicable conflict of interest laws. No such associations are considered to be significant as of and for the years ended June 30, 2011 and 2010.

**(t) *Use of Estimates***

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

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Notes to Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

**(u) *Accounting for Uncertainty in Income Taxes***

The Library prescribes to a threshold of more-likely than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. As of June 30, 2011 and 2010, the Library does not have any uncertain tax positions or any unrelated business income tax liability which would have a material impact upon its financial statements.

**(v) *Reclassifications***

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

**(3) Fair Value Measurements**

At June 30, 2011 and 2010, the carrying values of the Library's cash and cash equivalents, government and other receivables, other assets, accounts payable and accrued liabilities, and deferred revenue approximated their fair values because of their short-term nature.

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

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

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

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

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

*Level 3 inputs* are unobservable for the assets or liabilities.

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

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

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(In thousands of dollars)

The Library's assets and liabilities that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy at June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Managed accounts:				
Short-term investments	\$ 48,626	—	—	48,626
Domestic common stocks	65,529	—	—	65,529
Corporate bonds	14,765	—	—	14,765
Commingled investment funds:				
Domestic equity funds	—	61,988	—	61,988
Global/international equity funds	—	220,076	—	220,076
Fixed income funds	—	29,600	—	29,600
Hedge funds:				
Long/short equity funds	—	84,848	80,560	165,408
Multi-strategy funds	—	21,570	93,229	114,799
Commodity-related funds	—	13,207	—	13,207
Private market funds:				
Venture capital	—	—	9,140	9,140
Private equity	—	—	51,501	51,501
Real estate	—	—	19,674	19,674
Total investments	128,920	431,289	254,104	814,313
Other assets:				
Funds held by bond trustee	4,002	—	—	4,002
Total assets	\$ 132,922	431,289	254,104	818,315
Liabilities – interest rate swaps	\$ —	11,662	—	11,662

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The Library's assets and liabilities that are reported at fair value on an annual basis are summarized in the following table by their fair value hierarchy at June 30, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Investments:				
Managed accounts:				
Short-term investments	\$ 69,220	—	—	69,220
Domestic common stocks	45,557	—	—	45,557
Corporate bonds	20,888	—	—	20,888
Commingled investment funds:				
Domestic equity funds	—	46,422	—	46,422
Global/international equity funds	—	152,624	8,035	160,659
Fixed income funds	—	28,706	—	28,706
Hedge funds:				
Long/short equity funds	—	56,342	73,717	130,059
Multi-strategy funds	—	19,773	81,840	101,613
Commodity-related funds	—	17,694	—	17,694
Private market funds:				
Venture capital	—	—	7,896	7,896
Private equity	—	—	37,521	37,521
Real estate	—	—	12,155	12,155
Total investments	<u>135,665</u>	<u>321,561</u>	<u>221,164</u>	<u>678,390</u>
Other assets:				
Funds held by bond trustee	<u>3,849</u>	<u>—</u>	<u>—</u>	<u>3,849</u>
Total assets	<u>\$ 139,514</u>	<u>321,561</u>	<u>221,164</u>	<u>682,239</u>
Liabilities – interest rate swaps	\$ —	13,501	—	13,501

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The following table presents the Library's activity for the fiscal years ended June 30, 2011 and 2010 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<b>Commingled investment funds</b>	<b>Hedge funds</b>	<b>Private market funds</b>	<b>Total</b>
Balance, June 30, 2009	\$ 55,956	120,176	48,655	224,787
Transfer from Level 3 to Level 2	(49,544)	—	—	(49,544)
Acquisitions	—	35,000	11,193	46,193
Dispositions	(22)	(21,306)	(6,182)	(27,510)
Realized and unrealized gains	1,645	21,687	3,906	27,238
Balance, June 30, 2010	8,035	155,557	57,572	221,164
Transfer from Level 3 to Level 2	(8,035)	(8,661)	—	(16,696)
Acquisitions	—	10,000	28,326	38,326
Dispositions	—	(8,234)	(18,067)	(26,301)
Realized and unrealized gains	—	25,127	12,484	37,611
Balance, June 30, 2011	\$ —	173,789	80,315	254,104

Unrealized gains amounted to \$35,830 and \$21,175 for the years ended June 30, 2011 and 2010, respectively, related to Level 3 assets still held at June 30, 2011 and 2010 and are reflected in investment return in the accompanying statements of activities.

**(4) Government and Other Receivables**

At June 30, 2011 and 2010, government and other receivables consisted of the following:

	<b>2011</b>	<b>2010</b>
City of New York (construction receivables)	\$ 5,680	10,516
City of New York – other	6,900	3,650
State of New York	8,242	11,986
Other	3,605	2,866
Total	\$ 24,427	29,018

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



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**(5) Contributions Receivable**

Contributions receivable are expected to be collected as follows at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Amounts expected to be collected in:		
Less than one year	\$ 41,710	38,229
One to five years	42,305	69,987
More than five years	4,710	6,820
	88,725	115,036
Less allowance for uncollectible amounts	(2,868)	(728)
Less discount to present value (at rates ranging from 2.3% to 5.9% at June 30, 2011 and 2010)	(3,425)	(6,552)
	<b>\$ 82,432</b>	<b>107,756</b>

At June 30, 2011 and 2010, the amount receivable from one donor represents approximately 45% and 52%, respectively, of the gross contributions receivable.

As of June 30, 2011 and 2010, the Library has received conditional promises to give of approximately \$15,541 and \$14,125, respectively, in the form of matching grants and other conditions that have not been reflected in the accompanying financial statements because the conditions on which they depend have not been substantially met.

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

Funds held by bond trustee consist of amounts designated for debt service under the terms of the Series 1999 bond agreement (note 12). Such amounts are invested in cash and U.S. Treasury bills and are reported at fair value. The carrying value of funds held by bond trustee was \$4,002 and \$3,849 at June 30, 2011 and 2010, respectively.

**(7) Investments**

The components of the Library's investments at June 30, 2011 and 2010 were as follows:

	<b>Fair value</b>	
	<b>2011</b>	<b>2010</b>
Managed accounts	\$ 128,920	135,665
Commingled investment funds	311,664	235,787
Hedge funds	293,414	249,366
Private market funds	80,315	57,572
Total	<b>\$ 814,313</b>	<b>678,390</b>

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

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

***Commingled Investment Funds:*** Commingled investment funds typically include traditional strategies employed by investment managers that invest in publicly traded equity and fixed income securities. These strategies include, but are not limited to, diversified portfolios of U.S. equities, international equities, corporate bonds, and government-issued debt securities. The funds are typically structured as pooled investment vehicles, which may include private limited partnerships or institutional mutual funds that do not necessarily issue a daily NAV. For the Library's current investments in such commingled funds, redemptions are allowed at a frequency that ranges from daily to quarterly and the notice period ranges from 3 days to 60 days.

***Hedge Funds:*** Hedge funds include a large number of investment strategies for which the underlying manager's investments are typically made in public exchange-traded securities or other types of assets that are actively traded and priced in the broker-dealer markets. For example, long/short equity managers generally build diversified portfolios of long and short investments in publicly listed equity securities based upon their positive or negative fundamental outlook for the prospects of the underlying businesses. Multi-strategy managers employ an opportunistic approach across strategies, and the manager will allocate capital based on their assessment of the relative top-down opportunity set. This includes, but is not limited to, investment opportunities in fundamental corporate equities and credit, event-driven situations such as bankruptcies and mergers, and relative value arbitrage strategies in securities that are mis-priced relative to their intrinsic value due to a market dislocation or inefficiency. Commodity-oriented strategies typically include long and short positions in exchange-traded commodity futures, options, and equities based upon the underlying manager's fundamental analysis of the supply/demand characteristics for a given commodity market. Hedge funds are typically structured as onshore or offshore private limited partnerships, which may include lock-ups and/or limited redemption terms. For the Library's hedge fund portfolio, the lock-up provisions for investments subject to such terms range from one year to three years. At June 30, 2011 and 2010, \$71,906 and \$121,347, respectively, of the Library's hedge fund portfolio is within a specified lock-up period. For the remaining \$221,508 and \$128,019 of hedge fund investments at June 30, 2011 and 2010, respectively, that are not subject to a lock-up provision, redemptions are allowed on an ongoing basis that range from quarterly to annually. Redemption notice periods range from 45 to 180 days prior to the stipulated redemption date.

***Private Market Funds:*** Private market funds include a variety of investment strategies for which the underlying manager's investments are made in companies or assets that do not trade on a public exchange. For example, private equity strategies can include investments in mature private companies in which the manager acquires a controlling equity stake and attempts to improve the operating characteristics,

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management team, or capital structure of the underlying businesses. Venture capital strategies include investments in less-mature private companies that require equity capital to achieve strong sales growth for their products and services. Real estate strategies include equity or debt investments that are secured by the value of physical properties such as office, multi-family residential, hotel, retail, and industrial buildings and assets. Private market funds are usually structured as onshore private limited partnerships to which limited partners commit a specified amount of capital that is called down over time as investment opportunities are identified, typically over a 4 to 5 year fixed initial investment period. Investments cannot be redeemed during the fund's stated life, which is usually 10 to 15 years from the initial commitment date. Incremental extensions can also be granted at the expiration of a fund's life, but they typically require the consent of the majority of the limited partners. At June 30, 2011 and 2010, the Library had \$53,460 and \$50,292, respectively, in unfunded commitments to private market funds. Additionally, at June 30, 2011, the Library's investments in these partnerships had remaining lives of between 5 and 20 years, with an average of 10.8 years assuming all of the potential extension periods are granted at expiration.

As a result of the enactment of the New York Prudent Management of Institutional Funds Act (NYPMIFA) in fiscal year 2011 and the adoption of the accounting guidance related to NYPMIFA, investment return earned on donor-restricted endowment funds, not yet appropriated by the Board of Trustees, is classified as temporarily restricted net assets. Temporarily restricted investment return that is appropriated for spending by the Board of Trustees and expended in the same period is reflected in the unrestricted net asset class. The following tables summarize the Library's investment return and classification thereof in the accompanying statements of activities for the years ended June 30, 2011 and 2010:

	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Dividends and interest	\$ 3,462	3,265	25	6,752
Net realized and unrealized gains	73,517	69,386	538	143,441
Less investment expenses	(4,889)	(4,611)	(36)	(9,536)
Total investment return	72,090	68,040	527	140,657
Investment return appropriated for spending pursuant to the Library's spending policy	(29,153)	(5,829)	—	(34,982)
Investment return reported as nonoperating	\$ 42,937	62,211	527	105,675

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	2010			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Dividends and interest	\$ 3,750	766	11	4,527
Net realized and unrealized gains	50,969	10,414	160	61,543
Less investment expenses	(7,371)	(1,506)	(23)	(8,900)
Total investment return	47,348	9,674	148	57,170
Donor-permitted spending from permanently restricted net assets to support operations	1,013	3,469	(4,482)	—
Investment return appropriated for spending pursuant to the Library's spending policy	(25,400)	(7,088)	—	(32,488)
Investment return reported as nonoperating	\$ 22,961	6,055	(4,334)	24,682

**(8) Endowment Funds**

The Library's endowment consists of 399 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 17, 2010, New York State enacted NYPMIFA, which imposes guidelines on the management and investment of endowment funds. The Board of Trustees of the Library has interpreted NYPMIFA as allowing the Library to appropriate for expenditure or accumulate so much of an endowment fund as the Library determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the Library continues to classify as permanently restricted net asset (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations of income to the permanent endowment made in accordance with the direction of the applicable donor gift instruments. Accounting guidance associated with the enactment of NYPMIFA as set forth in Accounting Standards Codification Topic 958-205-45, *Classification of Donor-Restricted Endowment Funds Subject to UPMIFA* (ASC 958-205), requires the portion of a donor-restricted

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endowment fund that is not classified as permanently restricted to be classified as temporarily restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA. Accordingly, upon the adoption of ASC 958-205, the Library reclassified \$37,543 of appreciation on donor-restricted endowment funds from unrestricted net assets to temporarily restricted net assets (\$27,178) and permanently restricted net assets (\$10,365).

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

- i The duration and preservation of the endowment fund
- ii The purposes of the Library and the endowment fund
- iii General economic conditions
- iv The possible effect of inflation and deflation
- v The expected total return from income and the appreciation of investments
- vi Other resources of the Library
- vii Alternatives to expenditure of the endowment fund
- viii The investment policies of the Library

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. At June 30, 2011 and 2010, the fair values of 47 and 98 donor-restricted endowment funds, respectively, were less than their original fair value (i.e., underwater) by a total of \$13,241 and \$23,853, respectively.

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

The Library makes available to be spent each year a percentage of the average fair value of the long-term endowment portfolio for the three preceding years, as authorized by the Library's Board of Trustees, to fund operations of the Library. Any excess is reinvested. The spending rate approved by the Library's Board of Trustees was 5% in 2011 and 2010.

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Endowment net assets (excluding pledges and split interest agreements) consisted of the following at June 30, 2011 and 2010:

		<b>2011</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted funds	\$	(13,241)	183,636	394,385	564,780
Board-designated funds functioning as endowment		250,153	—	—	250,153
Total	\$	236,912	183,636	394,385	814,933
		<b>2010</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted funds	\$	11,698	94,247	371,822	477,767
Board-designated funds functioning as endowment		192,998	—	—	192,998
Total	\$	204,696	94,247	371,822	670,765

Donor-restricted amounts reported above as unrestricted net assets at June 30, 2011 represent underwater amount of endowment funds. Donor-restricted amounts reported above as unrestricted net assets at June 30, 2010 include underwater amount of endowment funds, as well as unrestricted appreciation, which has been reclassified to temporarily restricted net assets in 2011 due to the adoption of ASC 958-205. Board-designated amounts include real estate investment used in operations of \$1,084 at June 30, 2011 and 2010.

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Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2010 were as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2009	\$ 142,038	86,643	364,570	593,251
Interest and dividends, net of expenses	(3,760)	(740)	(12)	(4,512)
Realized and unrealized gains	50,400	10,414	160	60,974
Contributions and other additions	38,146	—	15,304	53,450
Appropriated for spending	(25,400)	(7,088)	—	(32,488)
Transfers	3,272	5,018	(8,200)	90
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at June 30, 2010	204,696	94,247	371,822	670,765
Reclassification in accordance with ASC 958-205	(37,543)	27,178	10,365	—
Interest and dividends, net of expenses	(1,564)	(1,346)	(11)	(2,921)
Realized and unrealized gains	72,585	69,386	538	142,509
Contributions and other additions	27,891	—	11,671	39,562
Appropriated for spending	(29,153)	(5,829)	—	(34,982)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at June 30, 2011	\$ <u>236,912</u>	<u>183,636</u>	<u>394,385</u>	<u>814,933</u>

**(9) Fixed Assets**

Fixed asset balances at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,308	3,308
Buildings and improvements	471,445	421,773
Leasehold improvements	48,723	48,460
Equipment	35,274	34,543
Construction in progress	4,672	39,792
	<hr/>	<hr/>
	563,422	547,876
Less accumulated depreciation and amortization	<u>(261,889)</u>	<u>(241,375)</u>
	<hr/>	<hr/>
	\$ <u>301,533</u>	<u>306,501</u>

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**(10) Pensions and Postemployment Benefits**

Substantially all of the Library's salaried employees are participants in the New York State and Local Retirement System (NYSLRS). NYSLRS is a cost sharing, multiple employer public employee retirement system that offers plans and benefits related to years of service and final average salary. All benefits generally vest after five years of accredited service. Pension expense for these employees was approximately \$14,259 and \$8,716 for the years ended June 30, 2010 and 2011, respectively.

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

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

The Library provides certain severance and sick leave benefits under its Service Credit Program to all employees who meet certain age and service requirements. The present value of the Service Credit Leave obligation amounted to \$4,049 and \$4,107 at June 30, 2011 and 2010, respectively, which is included in accounts payable and accrued liabilities in the accompanying balance sheets. The liability is funded on a pay-as-you-go basis. Benefits paid and expenses recognized by the Library were \$946 and \$888, respectively, for the year ended June 30, 2011, and \$3,714 and \$1,294, respectively, for the year ended June 30, 2010. The Library believes that, through future appropriations, the City will fund a significant portion of such benefits as they are paid to employees. Effective December 31, 2008, the Library froze participation in the severance-based portion of the Service Credit Program to those who became eligible as of December 31, 2009.

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

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

The Library funds its postretirement benefits on a pay-as-you-go basis; however, for financial reporting purposes, the Library records these benefits as employees earn them by rendering service. The Library recognizes the funded status of the postretirement benefit plan on its balance sheets as accrued postretirement benefits.



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The following table sets forth the changes in the postretirement benefit obligation as of and for the years ended June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Change in benefit obligation:		
Accumulated postretirement obligation at beginning of year	\$ 151,600	144,735
Service cost	5,143	4,685
Interest cost	8,287	9,689
Amendments*	—	(29,986)
Participant contributions	559	471
Actuarial net (gain) loss	(13,184)	27,349
Benefits paid	(5,686)	(5,527)
Federal subsidy on benefits paid	114	184
	<u>146,833</u>	<u>151,600</u>
Accumulated postretirement obligation at end of year		
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contribution	5,013	4,872
Participant contributions	559	471
Federal subsidy on benefits paid	114	184
Benefits paid	(5,686)	(5,527)
	<u>—</u>	<u>—</u>
Fair value of plan assets at end of year		
Accrued postretirement benefits as reflected in the balance sheets	\$ 146,833	151,600

\* Effective January 1, 2010, the Library amended its postretirement benefit plan as follows:

- Supplemental benefits for privately-funded union active and retired employees, whose benefits effective January 1, 2010 are funded through a trust, are deemed not to participate in the plan.
- Nonunion employees retiring after August 31, 2010 will be offered enrollment in the City medical benefit plan, a dental plan, and a prescription drug plan.
- Current and future nonunion retirees will no longer be eligible to receive certain welfare benefits.

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Net periodic postretirement benefit cost for the years ended June 30, 2011 and 2010 includes the following components:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 5,143	4,685
Interest cost	8,287	9,689
Net amortization and deferral	536	1,189
Net periodic postretirement benefit cost	<u>\$ 13,966</u>	<u>15,563</u>
Weighted average assumptions used to determine benefit obligations – discount rate	5.65%	5.55%
Weighted average assumptions used to determine net periodic benefit cost – discount rate	5.55	6.85

Accumulated amounts recorded in unrestricted net assets other than through net periodic postretirement benefit cost at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Net loss	\$ 45,085	61,058
Prior service cost	(27,733)	(29,986)
Total	<u>\$ 17,352</u>	<u>31,072</u>

The expected amortization to be included in net periodic postretirement benefit cost for fiscal year 2012 is \$(1,831) and \$2,253 of net actuarial loss and prior service cost, respectively.

Other changes recognized in unrestricted net assets other than net periodic postretirement benefit cost during the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Net (gain) loss	\$ (13,184)	27,349
Prior service credit	—	(29,986)
Amortization of net loss	(536)	(1,189)
Total	<u>\$ (13,720)</u>	<u>(3,826)</u>

The weighted average annual assumed rate of increase in the per capita cost of health care benefits (i.e., health care cost trend rate) begins at an initial rate of 8.2% and 8.6% for pre-65 participants and post-65 participants, respectively, and decreases gradually to 4.5% by 2028 and remains at that level thereafter. All other benefits are assumed to increase at an annual rate of 4.0%.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the plan. A 1% change in assumed health care cost trend rates would have the following effects as of June 30, 2011:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$ 2,934	(2,633)
Effect on the postretirement benefit obligation	26,469	(21,125)

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

	<u>Gross benefit payments</u>	<u>Gross subsidy receipts</u>	<u>Net benefit payment</u>
Fiscal year(s) ending:			
2012	\$ 5,388	(120)	5,268
2013	5,709	(141)	5,568
2014	6,076	(160)	5,916
2015	6,508	(178)	6,330
2016	6,998	(196)	6,802
2017 – 2021	42,448	(1,313)	41,135

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

As of June 30, 2011 and 2010, the Library has considered any provisions of health care reform that would be expected to have a significant impact on the measured obligation.

The Library also contributes to a Taft-Hartley trust that provides certain welfare benefits to active and eligible retired employees of the Library covered by a collective bargaining agreement. The Library records related expense as contributions are made. Total expense recognized under this plan was \$3,641 and \$3,444 in the fiscal years ended June 30, 2011 and 2010, respectively.

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June 30, 2011 and 2010

(In thousands of dollars)

**(12) Long-Term Debt**

Outstanding long-term debt at June 30, 2011 and 2010, all of which was borrowed through the Dormitory Authority of the State of New York (the Dormitory Authority), consisted of the following:

	<b>2011</b>	<b>2010</b>
Adjustable rate bonds, maturing July 1, 2028, subject to serial redemption (Series 1999A)	\$ 59,880	62,745
Adjustable rate bonds, maturing July 1, 2028, subject to serial redemption (Series 1999B)	28,610	29,550
Total	\$ 88,490	92,295

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

On November 26, 2008, the Library reoffered the Series 1999 Bonds to terminate the insurance on the bonds and substitute two separate irrevocable direct pay letters of credit, for which it pays an annual fee of 0.60% of the aggregate principal amount of the bonds outstanding plus 35 days of accrued interest thereon (calculated at the rate of 12% on a year of 365 days and the actual number of days elapsed). The Library's debt is secured by the letters of credit, which will expire, unless extended or earlier terminated, on November 26, 2013.

The Series 1999 Bonds bear interest at a weekly rate based on the prevailing market conditions for bonds of the same general nature, unless and until they are converted to a fixed rate. The adjustable rate on the Series 1999 Bonds ranged from 0.05% to 0.34% during the year ended June 30, 2011 and 0.10% and 0.35% during the year ended June 30, 2010.

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

The fair value of the Library's long-term debt approximates carrying value.

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

2012	\$	3,980
2013		4,150
2014		4,360
2015		4,560
2016		4,780
Thereafter		<u>66,660</u>
Total	\$	<u><u>88,490</u></u>

For the years ended June 30, 2011 and 2010, interest expense and paid was \$3,321 and \$3,437, respectively.

In connection with the Series 1999A Bonds, effective July 12, 2005, the Library entered into a swap agreement, whereby the Library pays the swap counterparty a fixed rate of 3.852% on the notional amount outstanding, in return for payments from the swap counterparty, calculated at a rate equal to 54.500% of the 1-month British Bankers' Association LIBOR (U.S. dollar), plus 0.310%. The notional amount of the swap agreement at June 30, 2011 and 2010 was \$59,880 and \$62,745, respectively. The swap agreement terminates on July 1, 2028. The Dormitory Authority is not a party to the agreement, and has no right to receive payments from, and no liability to make payments to, the counterparty. The fair value of the interest rate swap is a liability of \$7,723 and \$8,925 at June 30, 2011 and 2010, respectively, and is reflected in interest rate swaps in the accompanying balance sheets.

In connection with the Series 1999B Bonds, effective August 23, 2004, the Library entered into a swap agreement, whereby the Library pays the swap counterparty a fixed rate of 4.009% on the notional amount outstanding, in return for payments from the swap counterparty, calculated at a rate equal to the lower of LIBOR or 1-month LIBOR, where LIBOR is equal to the greater of (a) 1-month LIBOR x 68.000% or (b) (1-month LIBOR x 56.000%) plus 0.440%. The notional amount of the swap agreement at June 30, 2011 and 2010 was \$28,610 and \$29,550, respectively. The swap agreement terminates on July 1, 2028. The Dormitory Authority is not a party to the agreement, and has no right to receive payments from, and no liability to make payments to, the counterparty. The fair value of the interest rate swap is a liability of \$3,939 and \$4,576 at June 30, 2011 and 2010, respectively, and is reflected in interest rate swaps in the accompanying balance sheets.

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

**THE NEW YORK PUBLIC LIBRARY, ASTOR,  
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June 30, 2011 and 2010

(In thousands of dollars)

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

Temporarily and permanently restricted net assets were for the following purposes at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Temporarily restricted net assets:		
Program activities:		
Branch libraries	\$ 8,860	6,320
Research libraries	99,933	74,541
Conservation and cataloging	14,465	11,352
Exhibitions and public education programs	9,102	8,964
Other – principally, time restricted and for the general operations of the research libraries and library-wide programs	128,486	92,476
Net investment in plant not yet placed in service	2,442	822
Acquisition of fixed assets	5,347	8,300
Total	\$ 268,635	202,775
	<b>2011</b>	<b>2010</b>
Permanently restricted net assets:		
Program activities:		
Branch libraries	\$ 25,903	17,112
Research libraries	226,981	214,906
Conservation and cataloging	16,534	16,198
Exhibitions and public education programs	15,263	15,436
Other – principally, for the general operations of the research libraries and library-wide programs	131,919	136,323
Total	\$ 416,600	399,975

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Notes to Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

**(14) Functional Expense Classification**

Expenses by functional classification for the years ended June 30, 2011 and 2010 were as follows:

	<b>2011</b>	<b>2010</b>
Total operating expenses and additions to research collections from the statements of activities	\$ 251,766	255,331
Depreciation and amortization	20,547	18,570
Total expenses	\$ 272,313	273,901
Library services	\$ 235,298	240,293
Fundraising and membership development	9,461	7,966
Management and general	27,554	25,642
Total expenses	\$ 272,313	273,901

**(15) Commitments and Contingencies**

**(a) *Litigation and Claims***

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

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

At June 30, 2011 and 2010, approximately 67% and 66%, respectively, of the Library's employees are unionized and are employed under collective bargaining agreements that expired on March 2, 2010. The City and union officials have not yet commenced negotiations. The Library and the union continue to abide by the terms and conditions of the expired agreements.

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

Effective October 31, 2011, the Library has available an unsecured line of credit from a bank in the amount of \$15,000, replacing the previous line of credit with another bank, which was available through June 30, 2011. The predecessor bank continues to provide the Library with a \$750 standby letter of credit associated with the Library's paid-loss workers' compensation insurance program. The line of credit is available for one year, subject to extension, and carries an interest rate equal to the prime rate or LIBOR plus 0.45%, as the Library may elect.

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Notes to Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

**(d) Leases**

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

2012		\$	5,896
2013			5,710
2014			5,235
2015			3,762
2016			3,731
Thereafter			74,420
Total		\$	98,754

Various leases provide for increases in annual base rentals based on various expenses and other increases. Rent expense for fiscal year 2011 and 2010 was approximately \$6,676 and \$6,865, respectively. Deferred rent obligation was \$5,044 and \$4,492 at June 30, 2011 and 2010, respectively, and is included in accounts payable and accrued liabilities in the accompanying balance sheets.

**(e) Construction-Related Purchase Commitments**

The Library has entered into construction-related purchase commitments of approximately \$1,716 and \$7,040 as of June 30, 2011 and 2010.

**(16) Subsequent Events**

On July 6, 2011, the Library closed on the sale of one of its buildings, which was fully depreciated as of June 30, 2011 and 2010. The Library received \$59,000 in cash, in addition to an interest in a condominium unit whose value has not yet been determined. The Library will own the condominium unit and intends to use it as a new branch library. The proceeds from the sale, beyond what will be needed for the new library, will be used to support the needs of other branch libraries and library-wide activities. As of June 30, 2011 and 2010, the Library received deposits totaling \$30,098 and \$18,598, respectively, which are included in deferred revenue in the accompanying balance sheets.

In addition, on August 17, 2011, the Library closed on the sale of an administrative building, which was fully depreciated as of June 30, 2011. The sale price was \$45,000. The Library expects to use the proceeds from the sale in furtherance of its strategic priorities.

On July 13, 2011, the Library entered into an agreement to sell five floors of a condominium unit for \$60,800, of which \$6,080 was deposited into an escrow account for the benefit of the Library and the balance payable upon closing. The expected closing date of the sale is December 1, 2011, as may be extended from time to time, based on provisions of the purchase and sale agreement. In conjunction with this transaction, the Library entered into an agreement to lease administrative office space for a term of 32 years.



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Notes to Financial Statements

June 30, 2011 and 2010

(In thousands of dollars)

In conjunction with the preparation of the financial statements, the Library evaluated subsequent events from July 1, 2011 through November 16, 2011, the date on which the financial statements were issued, and has concluded that there are no further disclosures required, except as noted above.

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

Year ended June 30, 2011

(In thousands of dollars)

	The branch libraries				The research libraries and library-wide programs				All funds			Total
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	
Operating revenues:												
City of New York	\$ 112,033	—	—	112,033	21,137	—	—	21,137	133,170	—	—	133,170
State of New York	9,360	—	—	9,360	8,748	—	—	8,748	18,108	—	—	18,108
Federal government	355	—	—	355	1,022	—	—	1,022	1,377	—	—	1,377
Contributed rent and utilities	7,590	—	—	7,590	2,415	—	—	2,415	10,005	—	—	10,005
Private contributions and grants	5,417	1,218	—	6,635	22,667	3,710	—	26,377	28,084	4,928	—	33,012
Investment return appropriated for spending	2,907	267	—	3,174	26,246	5,562	—	31,808	29,153	5,829	—	34,982
Fines, royalties, and other revenue	5,404	—	—	5,404	8,690	—	—	8,690	14,094	—	—	14,094
	143,066	1,485	—	144,551	90,925	9,272	—	100,197	233,991	10,757	—	244,748
Net assets released from restrictions	1,965	(1,965)	—	—	13,301	(13,301)	—	—	15,266	(15,266)	—	—
Total operating revenues	145,031	(480)	—	144,551	104,226	(4,029)	—	100,197	249,257	(4,509)	—	244,748
Operating expenses:												
Library services	130,111	—	—	130,111	72,558	—	—	72,558	202,669	—	—	202,669
Fundraising and membership development	1,045	—	—	1,045	8,416	—	—	8,416	9,461	—	—	9,461
Management and general	13,887	—	—	13,887	13,450	—	—	13,450	27,337	—	—	27,337
Total operating expenses	145,043	—	—	145,043	94,424	—	—	94,424	239,467	—	—	239,467
Additions to research collections	—	—	—	—	12,299	—	—	12,299	12,299	—	—	12,299
Total operating expenses and additions to research collections	145,043	—	—	145,043	106,723	—	—	106,723	251,766	—	—	251,766
Change in net assets from operating activities	(12)	(480)	—	(492)	(2,497)	(4,029)	—	(6,526)	(2,509)	(4,509)	—	(7,018)
Nonoperating activities:												
Endowment contributions and funds designated for long-term investment	—	—	162	162	2,529	6,128	5,571	14,228	2,529	6,128	5,733	14,390
Appropriations and contributions for capital	2,554	385	—	2,939	9,356	785	—	10,141	11,910	1,170	—	13,080
Depreciation and amortization	(8,739)	—	—	(8,739)	(11,808)	—	—	(11,808)	(20,547)	—	—	(20,547)
Investment return, net of amounts appropriated	1,289	2,936	3	4,228	41,648	59,275	524	101,447	42,937	62,211	527	105,675
Postretirement benefits changes other than net periodic benefit cost	8,190	—	—	8,190	5,530	—	—	5,530	13,720	—	—	13,720
Change in value of interest rate swaps	—	—	—	—	1,839	—	—	1,839	1,839	—	—	1,839
Net assets released from restrictions for capital and contributions receivable released from time restrictions and board designated for long-term investment	272	(272)	—	—	26,046	(26,046)	—	—	26,318	(26,318)	—	—
Resignation of net assets	—	(124)	8,199	8,075	—	124	(8,199)	(8,075)	—	—	—	—
Reclassification in accordance with ASC 958-205	(636)	209	427	—	(36,907)	26,969	9,938	—	(37,543)	27,178	10,365	—
Change in net assets from nonoperating activities	2,930	3,134	8,791	14,855	38,233	67,235	7,834	113,302	41,163	70,369	16,625	128,157
Change in net assets	2,918	2,654	8,791	14,363	35,736	63,206	7,834	106,776	38,654	65,860	16,625	121,139
Net assets (deficit) at beginning of year	(2,868)	12,746	17,112	26,990	205,757	190,029	382,863	778,649	202,889	202,775	399,975	805,639
Net assets at end of year	\$ 50	15,400	25,903	41,353	241,493	253,235	390,697	885,425	241,543	268,635	416,600	926,778

See accompanying independent auditors' report.

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

Year ended June 30, 2011

(In thousands of dollars)

	Program services			Fundraising and membership development			Supporting services				Total
	Library services			Management and general							
	The branch libraries	The research libraries and library-wide programs	Total program services	The branch libraries	The research libraries and library-wide programs	Total fundraising and membership development	The branch libraries	The research libraries and library-wide programs	Total management and general	Total supporting services	
Salaries	\$ 57,312	34,239	91,551	512	3,248	3,760	7,216	6,136	13,352	17,112	108,663
Fringe benefits	30,215	17,903	48,118	278	1,717	1,995	3,782	3,247	7,029	9,024	57,142
Books and library materials	12,254	—	12,254	—	—	—	—	—	—	—	12,254
Binding and conservation expenditures	260	539	799	—	—	—	—	—	—	—	799
Office-related expenditures	667	495	1,162	45	328	373	35	132	167	540	1,702
Equipment rental and maintenance	1,602	945	2,547	—	71	71	254	222	476	547	3,094
Telecommunications	1,134	743	1,877	—	5	5	41	80	121	126	2,003
Building repairs and related expenditures	13,622	4,693	18,315	—	—	—	195	103	298	298	18,613
Contributed rent and utilities	7,590	2,415	10,005	—	—	—	—	—	—	—	10,005
Professional services	3,281	7,257	10,538	111	878	989	1,073	1,481	2,554	3,543	14,081
Promotional and special event expenses	222	547	769	99	2,155	2,254	106	701	807	3,061	3,830
Interest and accretion expense	1,764	1,515	3,279	—	—	—	66	66	132	132	3,411
Insurance expense	40	104	144	—	—	—	989	782	1,771	1,771	1,915
Other expenses	148	1,163	1,311	—	14	14	130	500	630	644	1,955
Total functional expenses before additions to research collections and depreciation and amortization	130,111	72,558	202,669	1,045	8,416	9,461	13,887	13,450	27,337	36,798	239,467
Additions to research collections	—	12,299	12,299	—	—	—	—	—	—	—	12,299
Depreciation and amortization	8,624	11,706	20,330	—	—	—	115	102	217	217	20,547
Total expenses	\$ 138,735	96,563	235,298	1,045	8,416	9,461	14,002	13,552	27,554	37,015	272,313

See accompanying independent auditors' report.