



THE NEW-YORK HISTORICAL SOCIETY

Financial Statements and Schedule

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



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

Independent Auditors' Report

The Board of Trustees
The New-York Historical Society:

We have audited the accompanying financial statements of The New-York Historical Society, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New-York Historical Society as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Supplementary and Other Information

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

KPMG LLP

December 28, 2016

THE NEW-YORK HISTORICAL SOCIETY

Balance Sheets

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 3,003,630	3,914,456
Prepaid expenses	1,992,594	2,321,674
Other assets	934,046	695,158
Contributions and grants receivable (note 8)	17,107,442	14,527,289
Investments (note 4)	46,450,134	49,285,225
Fixed assets, net (note 5)	75,297,646	73,601,999
Collections (note 2 (d))	—	—
Total assets	\$ 144,785,492	144,345,801
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 4,960,127	3,867,659
Deferred revenue	981,305	744,132
Asset retirement obligation (note 10)	2,837,373	2,767,872
Total liabilities	8,778,805	7,379,663
Commitments (notes 6, 11, and 13)		
Net assets:		
Unrestricted (note 12):		
Available for operations	424,377	383,562
Available for nonoperating projects	1,061,897	3,481,314
Designated for fixed assets	58,052,924	63,176,102
Total unrestricted	59,539,198	67,040,978
Temporarily restricted (notes 9 and 12)	39,512,481	35,646,707
Permanently restricted (notes 9 and 12)	36,955,008	34,278,453
Total net assets	136,006,687	136,966,138
Total liabilities and net assets	\$ 144,785,492	144,345,801

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2016

(with comparative summarized totals for the year ended June 30, 2015)

	2016						
	Available for operations	Unrestricted Available for nonoperating projects and designated for fixed assets	Total	Temporarily restricted	Permanently restricted	Total	Total 2015
Revenue, gains, and other support:							
Private contributions and grants	\$ 6,924,203	—	6,924,203	11,668,999	2,676,555	21,269,757	21,863,656
Government grants	245,438	—	245,438	1,066,124	—	1,311,562	532,658
Special events, net of expenses of \$919,854	4,896,927	—	4,896,927	—	—	4,896,927	4,164,424
Membership	1,098,350	—	1,098,350	—	—	1,098,350	991,560
Admissions	1,694,255	—	1,694,255	—	—	1,694,255	1,680,394
Fees and other	2,524,748	10,714	2,535,462	—	—	2,535,462	2,260,493
Auxiliary activities	2,648,944	—	2,648,944	—	—	2,648,944	2,818,506
Net investment return (notes 4 and 12)	2,556,316	(1,257,477)	1,298,839	(3,333,486)	—	(2,034,647)	(26,886)
	<u>22,589,181</u>	<u>(1,246,763)</u>	<u>21,342,418</u>	<u>9,401,637</u>	<u>2,676,555</u>	<u>33,420,610</u>	<u>34,284,805</u>
Net assets released from restrictions	5,211,056	324,807	5,535,863	(5,535,863)	—	—	—
Total revenue, gains, and other support	<u>27,800,237</u>	<u>(921,956)</u>	<u>26,878,281</u>	<u>3,865,774</u>	<u>2,676,555</u>	<u>33,420,610</u>	<u>34,284,805</u>
Expenses:							
Program services:							
Library services	5,129,292	673,252	5,802,544	—	—	5,802,544	5,596,084
Museum programs and exhibitions	11,615,947	3,369,162	14,985,109	—	—	14,985,109	31,359,732
Public and education programs	4,640,314	1,058,771	5,699,085	—	—	5,699,085	5,144,908
Auxiliary activities	2,214,120	1,273,594	3,487,714	—	—	3,487,714	3,409,346
Total program services	<u>23,599,673</u>	<u>6,374,779</u>	<u>29,974,452</u>	<u>—</u>	<u>—</u>	<u>29,974,452</u>	<u>45,510,070</u>
Supporting services:							
Management and general	2,441,375	71,792	2,513,167	—	—	2,513,167	2,794,292
Development	1,718,374	174,068	1,892,442	—	—	1,892,442	1,663,348
Total supporting services	<u>4,159,749</u>	<u>245,860</u>	<u>4,405,609</u>	<u>—</u>	<u>—</u>	<u>4,405,609</u>	<u>4,457,640</u>
Total expenses	<u>27,759,422</u>	<u>6,620,639</u>	<u>34,380,061</u>	<u>—</u>	<u>—</u>	<u>34,380,061</u>	<u>49,967,710</u>
Increase (decrease) in net assets	40,815	(7,542,595)	(7,501,780)	3,865,774	2,676,555	(959,451)	(15,682,905)
Net assets at beginning of year	383,562	66,657,416	67,040,978	35,646,707	34,278,453	136,966,138	152,649,043
Net assets at end of year	\$ <u>424,377</u>	<u>59,114,821</u>	<u>59,539,198</u>	<u>39,512,481</u>	<u>36,955,008</u>	<u>136,006,687</u>	<u>136,966,138</u>

See accompanying notes to financial statements.

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Statement of Activities

Year ended June 30, 2015

2015

	Available for operations	Unrestricted Available for nonoperating projects and designated for fixed assets	Total	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:						
Private contributions and grants	\$ 5,015,648	—	5,015,648	12,317,329	4,530,679	21,863,656
Government grants	212,048	—	212,048	320,610	—	532,658
Special events, net of expenses of \$713,992	4,164,424	—	4,164,424	—	—	4,164,424
Membership	991,560	—	991,560	—	—	991,560
Admissions	1,680,394	—	1,680,394	—	—	1,680,394
Fees and other	2,205,712	54,781	2,260,493	—	—	2,260,493
Auxiliary activities	2,818,506	—	2,818,506	—	—	2,818,506
Net investment return (notes 4 and 12)	2,506,858	(325,752)	2,181,106	(2,207,992)	—	(26,886)
	<u>19,595,150</u>	<u>(270,971)</u>	<u>19,324,179</u>	<u>10,429,947</u>	<u>4,530,679</u>	<u>34,284,805</u>
Net assets released from restrictions	5,024,153	12,652,923	17,677,076	(17,677,076)	—	—
Total revenue, gains, and other support	<u>24,619,303</u>	<u>12,381,952</u>	<u>37,001,255</u>	<u>(7,247,129)</u>	<u>4,530,679</u>	<u>34,284,805</u>
Expenses:						
Program services:						
Library services	4,921,180	674,904	5,596,084	—	—	5,596,084
Museum programs and exhibitions	9,359,937	21,999,795	31,359,732	—	—	31,359,732
Public and education programs	4,104,938	1,039,970	5,144,908	—	—	5,144,908
Auxiliary activities	2,145,239	1,264,107	3,409,346	—	—	3,409,346
Total program services	<u>20,531,294</u>	<u>24,978,776</u>	<u>45,510,070</u>	<u>—</u>	<u>—</u>	<u>45,510,070</u>
Supporting services:						
Management and general	2,679,753	114,539	2,794,292	—	—	2,794,292
Development	1,379,430	283,918	1,663,348	—	—	1,663,348
Total supporting services	<u>4,059,183</u>	<u>398,457</u>	<u>4,457,640</u>	<u>—</u>	<u>—</u>	<u>4,457,640</u>
Total expenses	<u>24,590,477</u>	<u>25,377,233</u>	<u>49,967,710</u>	<u>—</u>	<u>—</u>	<u>49,967,710</u>
Increase (decrease) in net assets	28,826	(12,995,281)	(12,966,455)	(7,247,129)	4,530,679	(15,682,905)
Net assets at beginning of year	354,736	79,652,697	80,007,433	42,893,836	29,747,774	152,649,043
Net assets at end of year	\$ <u>383,562</u>	<u>66,657,416</u>	<u>67,040,978</u>	<u>35,646,707</u>	<u>34,278,453</u>	<u>136,966,138</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	\$ (959,451)	(15,682,905)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Contributions and grants restricted for capital expenditures	(4,748,149)	(9,164,982)
Contributions and grants restricted for permanently restricted endowment	(2,676,555)	(4,530,679)
Contributions and grants restricted for collection acquisitions	(33,800)	(171,665)
Collection acquisitions	143,991	12,610,438
Depreciation and amortization	6,267,546	6,259,076
Loss on write-off of fixed assets	—	5,627,628
Accretion of asset retirement obligation	69,501	4,499
Net realized and unrealized losses on investments	2,198,350	197,973
Changes in operating assets and liabilities:		
Prepaid expenses	329,080	149,184
Contributions and grants receivable, net of amounts classified as financing activities	(1,510,125)	1,304,980
Other assets	(238,888)	(67,902)
Accounts payable and accrued expenses	22,818	272,198
Deferred revenue	237,173	(724,923)
Net cash used in operating activities	(898,509)	(3,917,080)
Cash flows from investing activities:		
Proceeds from sales of investments	9,748,434	16,009,781
Purchases of investments	(9,111,693)	(13,552,785)
Fixed asset additions	(7,963,193)	(7,832,159)
Change in accounts payable related to construction	1,069,650	488,072
Collection acquisitions	(143,991)	(12,610,438)
Net cash used in investing activities	(6,400,793)	(17,497,529)
Cash flows from financing activities:		
Collection of contributions restricted for capital expenditures	4,536,278	4,477,042
Collection of contributions and grants restricted for permanently restricted endowment	1,768,398	2,165,959
Collection of contributions restricted for collection acquisitions	83,800	177,665
Net cash provided by financing activities	6,388,476	6,820,666
Net decrease in cash and cash equivalents	(910,826)	(14,593,943)
Cash and cash equivalents at beginning of year	3,914,456	18,508,399
Cash and cash equivalents at end of year	\$ 3,003,630	3,914,456

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2016 and 2015

(1) Organization

The New-York Historical Society (the Society), founded in 1804, is organized as a not-for-profit institution to collect, preserve, and interpret historical artifacts, American art, and other materials documenting the history of the United States as seen through the prism of New York City and State. The Society's mission is to make its library and museum collections accessible to the broadest possible public through exhibitions, student and teacher education programs, adult public programs, and scholarly research. For more information, see the Society's Web site at www.nyhistory.org.

(2) Summary of Significant Accounting Policies

The Society's financial statements have been prepared on the accrual basis of accounting in accordance with standards established by the Financial Accounting Standards Board (FASB) for external financial reporting by not-for-profit organizations. All contributions are considered to be available for unrestricted use unless specifically restricted by donor or by law. Other significant accounting policies are as follows:

(a) Basis of Presentation

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

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations or law

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities, except gains and losses on investments of temporarily restricted net assets, are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions, including unconditional promises to give (pledges), are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

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Notes to Financial Statements

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(b) Depreciation and Amortization of Fixed Assets

Fixed assets are depreciated using the straight-line method over their estimated useful lives ranging from 5 to 100 years.

	<u>Years</u>
Buildings (fully depreciated)	50–100
Building improvements	5–35
Equipment, furniture, and fixtures	5–10
Long-term exhibitions	5–20

(c) Exhibitions

The Society's museum presents both short-term and long-term exhibitions. The Society reports all costs of creating and building short-term exhibitions as prepaid expenses until the exhibitions open for public viewing. At that time, all accumulated costs are recognized as operating expenses. Additional costs of maintaining and dismantling these exhibitions are recognized as operating expenses as incurred.

For long-term exhibitions, the Society capitalizes the costs of creating and building the exhibitions as fixed assets and depreciates the accumulated costs over the estimated lives of the exhibitions. Periodic costs of maintaining long-term exhibitions are treated as operating costs as incurred.

(d) Collections

Collections are not capitalized in the Society's financial statements. Collections, including library holdings, are held for public exhibition, education, and research. The Society's board of trustees (the Board) has adopted a policy whereby any proceeds from the sale of collection items can be utilized only for acquisitions, direct care (e.g., conservation, preservation, rehousing, or storage) processing, and/or cataloging of the collections and collections management.

(e) Inventory

Inventory is stated at the lower of cost or net realizable value with cost determined on a weighted average basis.

(f) Investments

Investments in publicly traded securities and mutual funds are stated at fair value based upon quoted market prices. The reported values of investments in limited partnerships are based on net asset values provided by the fund managers based upon the underlying net assets of the funds as a practical expedient in determining fair value. These values are reviewed and evaluated by management.

(g) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy is used for measuring fair value measurements based on the observable inputs to the valuation of an asset

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and liability at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value 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 three levels of the fair value hierarchy are as follows:

- Level 1 Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Society has the ability to access at the measurement date
- Level 2 Inputs other than Level 1 prices 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 assets or liabilities
- Level 3 Inputs that are unobservable. These prices are supported by little or no market activity and the unobservable inputs are significant to the fair value of the asset or liabilities.

The Society follows Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share or its equivalent as a practical expedient and removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient.

(h) Cash and Cash Equivalents

The Society considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents, except for those short-term instruments included in the endowment. In addition, donor-restricted funds of approximately \$1,161,000 and \$942,000 are held in separate accounts at June 30, 2016 and 2015, respectively.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the valuation of fixed assets, inventory, investments, contributions receivable, and asset retirement obligation; and reserves for other contingencies.

(j) Tax Status

The Society is a not-for-profit organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) for related activities. Contributions to it are tax-deductible by donors as prescribed by the Code. In addition, the Society is tax-exempt from state and local income tax for related activities, property taxes, and sales tax. During the years ended June 30, 2016 and 2015, the Society was not subject to unrelated business income taxes. The Society recognizes the effect of

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Notes to Financial Statements

June 30, 2016 and 2015

income tax positions only if those positions are more likely than not of being sustained. The Society has evaluated its tax positions and has determined that it is more likely than not that there are no significant uncertain tax positions and that it will continue to be exempt from taxes.

(3) Unrestricted Statement of Activities

The statement of activities distinguishes between revenue and expenses available for operations and designated for fixed assets and nonoperating projects. Operating activities are those designated by management for standard mission activities of the Society and are monitored by the annual operating-budget process. Nonoperating projects include, but are not limited to, unrestricted net assets invested in fixed assets, activity related to collection acquisitions funded through contributions and/or restricted endowment earnings, insurance proceeds and damages related to unusual situations and unrestricted contributions and grants designated by the Board for special projects, net of any deficit of earnings on the Society's endowment.

(4) Investments and Investment Returns

The cost and fair value of the Society's investments at June 30, 2016 and 2015 consist of the following:

	2016		2015	
	Cost	Fair value	Cost	Fair value
Cash equivalents	\$ 3,270,726	3,270,726	2,357,378	2,357,378
Equity securities:				
Domestic	5,810,538	7,474,861	6,306,723	9,112,633
International	1,867,532	2,628,036	1,351,771	1,551,577
Publicly traded mutual funds:				
Equity	7,205,516	5,576,314	7,091,468	5,513,150
Fixed income	4,148,999	4,251,355	4,069,067	4,111,150
	<u>22,303,311</u>	<u>23,201,292</u>	<u>21,176,407</u>	<u>22,645,888</u>
Alternative investments	<u>18,780,007</u>	<u>23,248,842</u>	<u>20,650,000</u>	<u>26,639,337</u>
	<u>\$ 41,083,318</u>	<u>46,450,134</u>	<u>41,826,407</u>	<u>49,285,225</u>

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June 30, 2016 and 2015

The following table presents the Society's fair value hierarchy for those assets measured at fair value as of June 30, 2016 and 2015:

	2016	2015
Investments (Level 1):		
Cash and cash equivalents	\$ 3,270,726	2,357,378
Equity securities:		
Domestic	7,474,861	9,112,633
International	2,628,036	1,551,577
Mutual funds:		
Equity – global international	5,576,314	5,513,150
Fixed income	4,251,355	4,111,150
	23,201,292	22,645,888
Investments measured at net asset value (or its equivalent):		
Alternative investments:		
Global equities funds	8,002,802	8,779,111
Absolute return funds	15,246,040	17,860,226
Total alternative investments	23,248,842	26,639,337
Total investments	\$ 46,450,134	49,285,225

The limitations and restrictions on the Society's ability to redeem or sell its alternative investments vary by investment and ranges from required notice periods to specified terms at inception. Based on the terms and conditions in effect at June 30, 2016, the Society's alternative investments can be redeemed or sold as follows:

Quarterly redemption with 30 days' notice	\$ 6,822,389
Quarterly redemption with 90 days' notice	3,170,697
On September 30 with 45 days' notice	2,338,371
Payout over 3 quarters after 87 days' notice	2,265,490
Payout over 3 quarters after 60 days' notice	3,378,682
Biannual redemption with 90 days' notice	479,303
Redemption in 1–2 years	2,919,638
Redemption in 1–3 years	1,874,272
	\$ 23,248,842

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Notes to Financial Statements

June 30, 2016 and 2015

For the years ended June 30, 2016 and 2015, net investment returns consist of returns as follows:

	2016	2015
Returns by fund category:		
On nonendowment cash and cash equivalents:		
Interest and dividends	\$ 2,039	3,165
	2,039	3,165
On endowment investments:		
Interest and dividends	285,292	288,928
Net realized (losses) gains	(106,348)	2,788,481
Net unrealized losses	(2,092,002)	(2,986,454)
	(1,913,058)	90,955
Less investment management fees	(123,628)	(121,006)
	(2,036,686)	(30,051)
Net investment return	\$ (2,034,647)	(26,886)

(5) Fixed Assets

At June 30, 2016 and 2015, fixed assets, at cost, consist of the following:

	2016	2015
Land	\$ 684,664	684,664
Building and building improvements	82,864,641	82,578,001
Long-term exhibitions	18,632,496	18,221,151
Equipment, furniture, and fixtures	7,917,711	7,576,347
Leasehold improvements	482,644	482,644
	110,582,156	109,542,807
Less accumulated depreciation and amortization	(50,042,493)	(43,774,947)
	60,539,663	65,767,860
Construction in progress	14,757,983	7,834,139
	\$ 75,297,646	73,601,999

Fixed assets include the costs of creating several long-term exhibitions or projects. These include the Society's fourth-floor open-storage exhibition space (through late 2014), a children's museum, history film, main lobby installations, and a new, recurring exhibition related to the Society's toy and train collection acquired in July 2014.

In 2014, the Society has begun a new capital project to revise its fourth-floor open-storage exhibition. Since the inception of this project, \$14,234,136 of new costs has been incurred for the creation of several new

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Notes to Financial Statements

June 30, 2016 and 2015

exhibition spaces on the fourth floor. These costs are included in construction in progress as of June 30, 2016.

Included in fixed assets are \$18.8 million of expenditures before accumulated depreciation funded by the City of New York (the City) under four completed construction contracts over the period from 1996 to 2006 and approximately \$20.8 million of expenditures funded by the City under additional construction contracts, which started in 2009. In 2016, the City spent \$247,157 for capital appropriations relating to these contracts. The City's investment of capital funding obligated the Society to operate the facility and/or maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City for cultural, educational, or artistic uses and/or related purposes approved by the City. The undepreciated balances of fixed assets supported by the City funding at June 30, 2016 and 2015 were \$23 million and \$25.1 million, respectively. These amounts are reported as unrestricted net assets designated for fixed assets.

In connection with funding under the City contracts, the Society entered into a mortgage (the Mortgage) with the City in 1996, which was amended in 1998 and 2009. The Mortgage, as amended, requires the Society to complete the improvements within the terms and conditions of the contracts, and requires that for periods as specified in the Mortgage, as amended, the Society continue to own and use its premises for a historical society, museum, gallery, and library or other ancillary uses as otherwise permitted under the Mortgage. During the Mortgage term, the Society shall not sell, assign, lease, license, or otherwise convey all or any portion of the premises, except as otherwise permitted under the Mortgage. It is management's intention to comply with all of the Society's obligations under the Mortgage, after which the Mortgage will, by its terms, be discharged and satisfied without any payment by the Society to the City. Accordingly, the mortgage is not included as a liability on the Society's balance sheets.

(6) Operating Leases

In October 2014, the Society extended its operating lease for warehouse storage space in New Jersey to November 30, 2019. Base rent payments for the each of the years ended June 30, 2016 and 2015 were \$83,766 and \$78,719, respectively.

Future minimum rentals under the noncancelable operating lease as of June 30, 2016 are as follows:

	<u>Amount</u>
Year ending:	
June 30, 2017	\$ 85,441
June 30, 2018	87,150
June 30, 2019	88,893
June 30, 2020	<u>37,344</u>
	<u>\$ 298,828</u>

(7) Pension Plans

After one year and having completed 1,000 hours of continuous service and attaining age 21, all employees, except union security guards (see below) are covered by the Society's defined-contribution, noncontributory, single-employer pension plan administered by TIAA/CREF. Contributions for eligible nonunion employees

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were 7.5% of compensation paid under the Social Security cap and 10% of compensation paid over the Social Security cap. Employees covered by a union contract with United Auto Workers received 7.5% of an employee's compensation. Pension costs are funded as accrued and the employee is immediately vested. Total costs for the Society's TIAA/CREF plan were \$680,441 and \$627,264 for the years ended June 30, 2016 and 2015, respectively. The Society filed Form 5500 and the supporting audited financial statements for the plan years ended December 31, 2015 and 2014.

Most of the Society's security guards are members of the Allied International Union and are covered by a defined-benefit, noncontributory, multiemployer pension plan administered by the Allied International Union – Allied Security Pension Fund, EID # 11-2528660, Plan # 001. Based on information received from the union's staff, the plan's Pension Protection Act zone status was green, and the liabilities were fully funded at December 31, 2015. The Society contributed \$85 per month for each covered employee. Total costs for the Allied pension plan were \$13,175 and \$12,835 for the years ended June 30, 2016 and 2015, respectively. The union filed Form 5500 and the supporting audited financial statements for the plan years ended December 31, 2015 and 2014.

(8) Contributions and Grants Receivable

At June 30, 2016 and 2015, contributions and grants receivable consist of the following:

	2016	2015
For nonoperating projects	\$ 7,758,057	8,896,046
For permanently restricted endowments	3,780,212	2,870,220
For operating projects	5,939,797	4,519,023
Total contributions and grants receivable	17,478,066	16,285,289
Less:		
Discount to present value (at discount rates ranging from 0.15% to 1.63%)	(100,624)	(198,000)
Allowance for doubtful accounts	(270,000)	(1,560,000)
	\$ 17,107,442	14,527,289

Contributions and grants receivable at June 30, 2016 are expected to be collected in the following fiscal years:

2017	\$ 10,348,005
2018	3,274,930
2019	2,874,421
2020	837,858
2021	142,852
Total	\$ 17,478,066

As of June 30, 2016 and 2015, approximately 34% and 35% of gross contributions and grants receivable were due from five donors.

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Notes to Financial Statements

June 30, 2016 and 2015

(9) Temporarily Restricted and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 were available for the following projects:

	2016	2015
Library services	\$ 3,655,148	2,105,905
Museum programs and exhibitions	1,687,910	931,293
Public and education programs	808,697	1,288,401
Collection acquisition	248,580	342,282
Capital projects (a)	17,827,455	13,010,824
2010 fund (note 12)	14,878,491	16,391,340
Future periods	406,200	1,576,662
Total	\$ 39,512,481	35,646,707

- (a) Temporarily restricted net assets for renovation projects at June 30, 2016 included \$14,276,247 capitalized as construction in progress.

The investment income earned on the balances of the permanently restricted net assets is restricted to the following uses as of June 30, 2016 and 2015:

	2016	2015
Library services	\$ 2,507,805	2,507,805
Museum programs and exhibitions	7,292,665	4,715,500
Public and education programs	10,744,942	10,645,552
Collection acquisition	230,100	230,100
General operating	16,179,496	16,179,496
Total	\$ 36,955,008	34,278,453

(10) Asset Retirement Obligation

In accordance with the FASB guidance on Accounting for Conditional Asset Retirement Obligations, organizations must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. In 2006, management identified asbestos abatement as a conditional asset retirement obligation and estimated that the cost of remediation was \$2,750,000 and, since that time, has increased the liability by current inflation rates. In keeping with this policy, the liability was increased \$69,501 and \$4,499 during the years ended June 30, 2016 and 2015, representing inflation factors of 2.5% and 0.16%, respectively.

(11) Line of Credit

During the years ended June 30, 2016 and 2015, the Society had a \$2 million line of credit (the LOC) available with a financial institution. Borrowings under the LOC can be used for the normal short-term working capital needs of the Society and bear interest at LIBOR. The LOC in effect on June 30, 2016 expires on March 11, 2017. As of June 30, 2016 and 2015, there were no outstanding borrowings on the line.

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June 30, 2016 and 2015

(12) Endowment

At June 30, 2016, the Society's endowment fund consists of approximately 40 individual donor-restricted funds, a fund established by agreements with the Attorney General of the State of New York, a board-designated fund, and the accumulated, unused returns on the fund's investment assets, net of any deficit of these returns.

The endowment fund net assets as of June 30, 2016 and 2015 were as follows:

	June 30	
	2016	2015
Contributions and grants receivable, net	\$ 3,732,377	2,824,220
Loan receivable from unrestricted net assets	2,275,000	2,275,000
Investments	46,450,134	49,285,225
Total	<u>\$ 52,457,511</u>	<u>54,384,445</u>

In connection with the fourth-floor renovation project, the Society received permission from a donor to borrow from a recently established endowment to fund current construction costs. The loan from the endowment will be repaid as the Society collects on outstanding pledges relating to the project.

The Society manages its endowment in accordance with the New York Prudent Management of Institutional Funds Act (NYPMIFA). The Society has interpreted NYPMIFA as requiring the preservation of the fair value of donor-restricted endowment funds absent explicit donor stipulations to the contrary. In accordance with NYPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- the duration and preservation of the fund
- the purposes of the Society and the donor-restricted endowment fund
- general economic conditions
- the possible effect of inflation and deflation
- the expected total return from income and the appreciation of investments
- other resources of the Society
- where appropriate and the circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect such alternatives may have on the Society
- the investment policies of the Society

In compliance with NYPMIFA, the Investment Committee adopted a revised statement of investment policies for its endowment investments in May 2011. The Statement provides the Investment Committee with a framework to prudently manage and invest the Society's investment assets in order to further the

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Notes to Financial Statements

June 30, 2016 and 2015

Society' goals and mission. To this end, the Society has established the following as its key investment objectives:

- Manage the Society's assets with the objective of earning a "real" total rate of return averaging at least 5% per annum.
- Follow prudent standards for preservation of capital and maintenance of liquidity.
- Achieve the highest possible rate of return consistent with the Fund's tolerance for risk as determined by the Investment Committee in its role as fiduciary.

In accordance with accounting guidance issued with the adoption of NYPMIFA, the fair value of each donor-restricted endowment is reported in various net asset classifications for financial reporting purposes. The portion representing the historic value of original gifts (and any subsequent donations) is reported as permanently restricted net assets. The difference between the fair value of a donor-restricted endowment fund and the historic value is classified as one of the following net assets as of the balance sheet dates:

- temporarily restricted if the fair value of the fund is higher than the historic value
- unrestricted if the fair value is below the fund's historic value

At June 30, 2016 and 2015, certain donor-restricted funds were below their historic value. The aggregate amount of this deficiency was \$1,300,203 and \$225,096, respectively.

In March 2010, the Society and the Attorney General of the State of New York (AG) entered into a letter agreement vacating a previously existing agreement from 1994. The 1994 agreement had created a permanently restricted fund from the proceeds of the deaccession of certain assets. Under the 2010 agreement, the balance of the assets created by the 1994 agreement were to be transferred and maintained in a new fund restricted solely for the acquisition, direct care, and management of the Society's collections. The initial value of the 2010 fund was \$14,202,262, and in September 2010, the Board formally designated that it be treated as endowment by amending the Society's By-Laws. The value of the 2010 fund at June 30, 2016 and 2015 was \$14,878,491 and \$16,391,340, respectively. This fund is classified as temporarily restricted net assets due to the restricted purpose of the fund's principal balance.

In March 2014, the Society transferred \$2,000,000 of unrestricted funds to the endowment fund. The value of the fund at June 30, 2016 and 2015 was \$1,767,685 and \$1,950,056, respectively, and is reported in unrestricted net assets available for nonoperating projects.

In accordance with NYPMIFA and the Investment Policy Guidelines, the Investment Committee and the Board establish an annual endowment draw as part of the budget process based on a trailing 12-quarter average of the market value of the endowment's investments.

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Notes to Financial Statements

June 30, 2016 and 2015

The components of endowment net assets, including contributions and loans receivable, as of June 30, 2016 and 2015 were as follows:

		2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	(1,300,203)	156,530	36,955,008	35,811,335
Fund established by 2010 AG Agreement		—	14,878,491	—	14,878,491
Board-designated fund		1,767,685	—	—	1,767,685
Total endowment net assets	\$	467,482	15,035,021	36,955,008	52,457,511

		2015			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	(225,096)	1,989,692	34,278,453	36,043,049
Fund established by 2010 AG Agreement		—	16,391,340	—	16,391,340
Board-designated fund		1,950,056	—	—	1,950,056
Total endowment net assets	\$	1,724,960	18,381,032	34,278,453	54,384,445

The following table presents the changes in the net assets of the endowment fund for the year ended June 30, 2016:

		Unrestricted other	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2015	\$	1,724,960	18,381,032	34,278,453	54,384,445
Contributions		—	—	2,676,555	2,676,555
Appropriation of endowment return for expenditure in operating fund		(182,371)	(2,384,432)	—	(2,566,803)
Investment net gains, net of expenses		(1,075,107)	(961,579)	—	(2,036,686)
Endowment net assets at June 30, 2016	\$	467,482	15,035,021	36,955,008	52,457,511

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Notes to Financial Statements

June 30, 2016 and 2015

The following table presents the changes in the net assets of the endowment fund for the year ended June 30, 2015:

	<u>Unrestricted other</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets at June 30, 2014	\$ 2,051,425	20,600,495	29,747,774	52,399,694
Contributions	—	—	4,530,679	4,530,679
Appropriation of endowment return for expenditure in operating fund	(101,369)	(2,414,508)	—	(2,515,877)
Investment net gains, net of expenses	(225,096)	195,045	—	(30,051)
Endowment net assets at June 30, 2015	<u>\$ 1,724,960</u>	<u>18,381,032</u>	<u>34,278,453</u>	<u>54,384,445</u>

(13) Commitments and Contingencies

The Society is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, all claims have been accrued or will be covered by insurance.

(14) Subsequent Events

In connection with the preparation of the financial statements, the Society evaluated events after the balance sheet date of June 30, 2016 and through December 28, 2016, which was the date the financial statements were issued, and noted no additional items that would require adjustment to, or disclosure, in the 2016 financial statements.

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Schedule of Functional Expenses

Year ended June 30, 2016

(with comparative summarized totals for the year ended June 30, 2015)

	Library services	Museum programs and exhibitions	Public and education programs	Auxiliary activities	Total program services	Management and general	Development	Total supporting services	2016 Total expenses	2015 Total expenses
Available for operations:										
Salaries, benefits, and payroll taxes	\$ 3,313,913	5,523,367	2,930,030	1,110,561	12,877,871	1,764,396	969,796	2,734,192	15,612,063	13,738,121
Fees for services:										
Accounting	—	—	—	—	—	173,954	—	173,954	173,954	170,945
Legal	9,517	21,242	8,634	4,060	43,453	7,016	3,153	10,169	53,622	48,507
Other	202,215	474,362	366,947	26,910	1,070,434	114,379	97,064	211,443	1,281,877	1,535,515
Advertising and promotion	3,346	677,518	13,487	12,669	707,020	18,087	2,894	20,981	728,001	814,387
Office expenses	90,806	115,238	135,097	54,859	396,000	46,941	124,930	171,871	567,871	501,518
Information technology	71,449	96,108	142,968	16,638	327,163	20,730	47,228	67,958	395,121	244,229
Occupancy:										
Space rentals	89,214	242,439	3,475	650	335,778	276	138	414	336,192	356,464
Utilities	530,959	500,631	209,589	98,125	1,339,304	55,890	27,945	83,835	1,423,139	1,508,196
Property insurance	38,280	35,258	15,111	6,044	94,693	4,030	2,015	6,045	100,738	120,990
Travel and meals	14,971	46,745	59,743	12,009	133,468	17,140	7,819	24,959	158,427	154,112
Conferences and meetings	1,025	1,378	5,501	2,069	9,973	—	573	573	10,546	12,445
Insurance (other than property)	98,521	115,599	20,618	8,247	242,985	5,498	2,749	8,247	251,232	178,868
Cost of sales	—	—	—	566,755	566,755	—	—	—	566,755	600,017
Other:										
Exhibition costs	—	1,996,540	—	—	1,996,540	—	—	—	1,996,540	1,493,795
Equipment rental and repair	297,323	492,201	175,738	85,551	1,050,813	102,444	62,623	165,067	1,215,880	929,761
Printing and publication	7,063	122,586	175,526	4,910	310,085	34,084	41,745	75,829	385,914	375,934
Other supplies (other than office)	53,499	155,166	212,180	36,664	457,509	36,822	310,299	347,121	804,630	751,353
Agency temporary staff	97,006	420,620	64,928	98,585	681,139	11,694	8,973	20,667	701,806	668,768
Other	210,185	578,949	100,742	68,814	958,690	27,994	8,430	36,424	995,114	386,552
	<u>5,129,292</u>	<u>11,615,947</u>	<u>4,640,314</u>	<u>2,214,120</u>	<u>23,599,673</u>	<u>2,441,375</u>	<u>1,718,374</u>	<u>4,159,749</u>	<u>27,759,422</u>	<u>24,590,477</u>
Available for nonoperating projects and designated for fixed assets:										
Salaries, benefits, and payroll taxes	—	—	—	—	—	—	40,750	40,750	40,750	176,133
Fees for services	—	—	—	—	—	—	97,985	97,985	97,985	296,055
Insurance	—	—	—	—	—	—	—	—	—	162,500
Collection acquisitions	63,742	80,249	—	—	143,991	—	—	—	143,991	12,613,636
Depreciation of fixed assets	582,757	3,264,267	1,048,346	1,269,424	6,164,794	69,012	33,739	102,751	6,267,545	6,259,077
Loss on write-off of fixed assets	—	—	—	—	—	—	—	—	—	5,627,628
Accretion of asset retirement obligation	26,410	24,325	10,425	4,170	65,330	2,780	1,390	4,170	69,500	4,499
Other	343	321	—	—	664	—	204	204	868	237,705
	<u>673,252</u>	<u>3,369,162</u>	<u>1,058,771</u>	<u>1,273,594</u>	<u>6,374,779</u>	<u>71,792</u>	<u>174,068</u>	<u>245,860</u>	<u>6,620,639</u>	<u>25,377,233</u>
Total	\$ <u>5,802,544</u>	<u>14,985,109</u>	<u>5,699,085</u>	<u>3,487,714</u>	<u>29,974,452</u>	<u>2,513,167</u>	<u>1,892,442</u>	<u>4,405,609</u>	<u>34,380,061</u>	<u>49,967,710</u>

See accompanying independent auditors' report.