

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

FINANCIAL STATEMENTS

For the fiscal years ended June 30, 2009 and 2008

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
INDEX TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

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JOHN R. DEISLINGER

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gloucester Lyceum and
Sawyer Free Library, Inc.
Gloucester, Massachusetts

I have audited the statement of financial position of the Gloucester Lyceum and Sawyer Free Library, Inc. (a nonprofit organization) as of June 30, 2009 and 2008 and the related statements of activities, changes in net assets, cash flows, and schedules of other expenses for the fiscal years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gloucester Lyceum and Sawyer Free Library, Inc. as of June 30, 2008 and 2007 and the related statement of support, revenue and expenses, statement of changes in net assets, statement of changes in cash flow, and schedule of other expenses for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

John R. Deislinger

John R. Deislinger CPA
September 22, 2009

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
STATEMENT OF FINANCIAL POSITION
As of June 30, 2009 and 2008

ASSETS	2009	2008
Current assets		
Cash and cash equivalents	\$354,749	\$333,990
Short term investments, at fair value	291,256	1,517,065
Account receivable	90	-
Inexhaustible collections & books (Note 1)	-	-
Total current assets	646,095	1,851,055
Other assets		
Property, plant, and equipment, at cost, less accumulated depreciation of \$1,186,556 and \$1,417,211 respectively	705,159	482,293
Investments in marketable securities, at fair value	1,789,430	677,086
Investments in land & development costs, at fair value	1,082,467	1,082,467
Residual value of real estate interest	1,375,000	1,375,000
Security deposit	493	493
Total other assets	4,952,549	3,617,339
Total assets	\$5,598,644	\$5,468,394
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$11,862	\$2,080
Obligation under capital lease	-	3,720
Total current liabilities	11,862	5,800
Net assets		
Unrestricted	1,198,179	993,652
Temporarily restricted	4,261,135	4,315,393
Permanently restricted	127,468	153,549
Total net assets	5,586,782	5,462,594
Total liabilities and net assets	\$5,598,644	\$5,468,394

See Independent Auditor's Report and Notes to Financial Statement.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the fiscal year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Support				
City of Gloucester Appropriation	\$890,932	\$ -	\$ -	\$890,932
Grants:				
Commonwealth of Massachusetts				
Municipal Equalization Grant	36,257	-	-	36,257
Contributions, legacies and bequests	70,440	168,458	150	239,048
Total support	<u>997,629</u>	<u>168,458</u>	<u>150</u>	<u>1,166,237</u>
Revenue				
Fees for services	5,739	-	-	5,739
Book/video rentals, sales and fines	46,954	3,040	-	49,994
Investment income	9,159	71,468	3,933	84,560
Unrealized gain (loss) on investments	(1,393)	10,956	(871)	8,692
Realized gain (loss) on sale of securities	(38,825)	(11,925)	(23,094)	(73,844)
Gain on sale of bookmobile	9,650	-	-	9,650
Art auction	-	7,955	-	7,955
Other	559	-	-	559
Total revenue	<u>31,843</u>	<u>81,494</u>	<u>(20,032)</u>	<u>93,305</u>
Net assets released from restrictions				
Restrictions satisfied by payments	<u>310,409</u>	<u>(304,210)</u>	<u>(6,199)</u>	<u>-</u>
Total support and revenue	<u>1,339,881</u>	<u>(54,258)</u>	<u>(26,081)</u>	<u>1,259,542</u>
Expenses				
Program services				
Children's books	19,600	-	-	19,600
Adult books	120,208	-	-	120,208
Computer system maintenance	47,598	-	-	47,598
Maintenance and repair	9,073	-	-	9,073
Salaries and wages	648,085	-	-	648,085
Management fees	9,970	-	-	9,970
Employee benefits	100,313	-	-	100,313
Other expenses (Page 6)	114,979	-	-	114,979
Depreciation	63,691	-	-	63,691
Total program service expenses	<u>1,133,517</u>	<u>-</u>	<u>-</u>	<u>1,133,517</u>
Supporting services - fund raising				
Printing, postage and supplies	1,837	-	-	1,837
Total fund raising expenses	<u>1,837</u>	<u>-</u>	<u>-</u>	<u>1,837</u>
Total expenses	<u>1,135,354</u>	<u>-</u>	<u>-</u>	<u>1,135,354</u>
Change in net assets - increase(decrease)	204,527	(54,258)	(26,081)	124,188
Net assets, beginning of year	<u>993,652</u>	<u>4,315,393</u>	<u>153,549</u>	<u>5,462,594</u>
Net assets, end of year	<u>\$1,198,179</u>	<u>\$4,261,135</u>	<u>\$127,468</u>	<u>\$5,586,782</u>

See Independent Auditor's Report and Notes to Financial Statement.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the fiscal year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue				
Support				
City of Gloucester Appropriation	\$915,867	\$ -	\$ -	\$915,867
Town of Essex Appropriation	-	1,000	-	1,000
Grants:				
Commonwealth of Massachusetts				
Municipal Equalization Grant	37,084	-	-	37,084
Contributions, legacies and bequests	158,754	109,066	550	268,370
Total support	<u>1,111,705</u>	<u>110,066</u>	<u>550</u>	<u>1,222,321</u>
Revenue				
Fees for services	3,140	-	-	3,140
Book/video rentals, sales and fines	43,001	4,224	-	47,225
Investment income	22,709	79,374	10,742	112,825
Unrealized gain (loss) on investments	(9,502)	(64,290)	(5,842)	(79,634)
Realized gain (loss) on sale of securities	39,305	12,780	24,163	76,248
Art auction	-	14,740	-	14,740
Other	449	-	-	449
Total revenue	<u>99,102</u>	<u>46,828</u>	<u>29,063</u>	<u>174,993</u>
Net assets released from restrictions				
Restrictions satisfied by payments	<u>138,018</u>	<u>(91,901)</u>	<u>(46,117)</u>	<u>-</u>
Total support and revenue	<u>1,348,825</u>	<u>64,993</u>	<u>(16,504)</u>	<u>1,397,314</u>
Expenses				
Program services				
Children's books	15,809	-	-	15,809
Adult books	114,335	-	-	114,335
Learning materials	181	-	-	181
Computer system maintenance	49,728	-	-	49,728
Maintenance and repair	7,410	-	-	7,410
Salaries and wages	652,015	-	-	652,015
Management fees	8,504	-	-	8,504
Employee benefits	138,240	-	-	138,240
Other expenses (Page 6)	170,497	-	-	170,497
Depreciation	71,770	-	-	71,770
Total program service expenses	<u>1,228,489</u>	<u>-</u>	<u>-</u>	<u>1,228,489</u>
Supporting services - fund raising				
Salary and related payroll expenses	19,631	-	-	19,631
Office expense	177	-	-	177
Supplies	1,437	-	-	1,437
Rent and utilities	3,398	-	-	3,398
Printing and miscellaneous	4,471	-	-	4,471
Postage	148	-	-	148
Insurance	436	-	-	436
Total fund raising expenses	<u>29,698</u>	<u>-</u>	<u>-</u>	<u>29,698</u>
Total expenses	<u>1,258,187</u>	<u>-</u>	<u>-</u>	<u>1,258,187</u>
Change in net assets - increase(decrease)	90,638	64,993	(16,504)	139,127
Net assets, beginning of year	903,014	4,250,400	170,053	5,323,467
Net assets, end of year	<u>\$993,652</u>	<u>\$4,315,393</u>	<u>\$153,549</u>	<u>\$5,462,594</u>

See Independent Auditor's Report and Notes to Financial Statement.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
STATEMENT OF CHANGES IN CASH FLOWS
For the fiscal years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Increase in net assets	\$124,188	\$139,127
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	63,691	71,770
(Increase) decrease in operating assets		
Account receivable	(90)	2,566
Security deposit	-	107
Increase (decrease) in operating liabilities:		
Accounts payable	9,782	(4,132)
Accrued wages	-	(3,857)
Obligation under capital lease	(3,720)	(3,410)
Total cash provided by operating activities	193,851	202,171
Cash flows provided by (used by) investing activities		
Investments purchased	1,225,809	(383,064)
Investments sold	(1,112,344)	233,970
Long term investments in land and development costs, net	-	(6,945)
Capital expenditures	(286,557)	(11,836)
Total cash (used by) investing activities	(173,092)	(167,875)
Increase (decrease) in cash during the year	20,759	34,296
Cash and cash equivalents, beginning of year	333,990	299,694
Cash and cash equivalents, end of year	\$354,749	\$333,990

See Independent Auditor's Report and Notes to Financial Statement.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 SCHEDULE OF OTHER EXPENSES
 For the fiscal years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Electricity	\$28,819	\$28,050
AV supplies and expenses	15,203	25,055
Legal and accounting	11,024	12,276
Consultant services	10,293	3,708
Heating fuel	9,664	15,020
Community programming	7,120	5,511
Special library supplies	4,584	7,335
Office supplies	4,250	4,393
Equipment supplies and expense	3,972	5,519
Special events	3,895	7,051
Postage and meter rental	2,862	4,250
Computer technology and expense	2,470	3,329
Telephone	1,949	-
Memberships	1,495	385
Director's contingency	1,371	355
Insurance expense	1,060	3,252
Art scholarships	1,000	1,000
Museum passes	950	3,285
Publicity	910	837
Gifts and awards	536	675
On line services	461	389
Janitorial supplies	388	296
Security system expense	354	1,030
Filing fees	250	250
Printing expense	59	2,389
Bank service charges, fees	40	527
Technical training	-	358
Other	-	1,202
Resale items	-	742
Donation of Learning Center Assets	-	32,028
	<u>\$114,979</u>	<u>\$170,497</u>

See Independent Auditor's Report and Notes to Financial Statement.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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. Included in this category are net assets that are administratively restricted by the Library.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Library and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Fair Value of Financial Instruments

Various methods and assumptions were used to estimate the fair value of each class of financial instrument. Cash, cash equivalents, and liabilities are valued at their carrying amount due to their short maturities. Investments are reported at fair value based on quoted market prices.

Contributions

Contributions, including unconditional promises to give, are recorded in the period received or promised. Conditional contributions are recorded when the conditions have been met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged as expenditures. Renewals and betterments that materially extend the life of the assets are capitalized. Prior to July 1, 1979, the Library recorded no depreciation expense. Depreciation of exhaustible buildings and equipment is provided over the estimated useful lives of the respective assets on either a straight-line or an accelerated basis as follows:

Equipment	5-7 years
Building and building improvements	39 years

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Materials and Services

The Library receives a significant amount of in-kind donated services from unpaid volunteers who assist in the daily operation of the library. No amounts have been recognized in the statement of activities because the criteria for recognition under Statement of Financial Accounting Standards No. 116 of the Financial Accounting Standards Board have not been satisfied.

The estimated fair market value of such in-kind donated services is \$21,170 and \$30,690 in 2009 and 2008, respectively.

Inexhaustible Collections and Books

Because the values of inexhaustible collections, including research books, are not readily determinable, the Library has not capitalized them, nor have books used in the circulating library been capitalized.

Cash Equivalents

All highly liquid money market funds are considered to be cash equivalents if they have an initial maturity of three months or less.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (continued)

Income Taxes

The Library is exempt from Federal and state income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for income taxes.

Classification of Investments

Investments are classified as current or non current based upon the nature of the restrictions related to the investments. Accordingly, investments that are designated as restricted for non current purposes are classified as non current assets.

Note 2 - Nature of Organization

The Library is a non-profit, tax-exempt corporation organized under Section 501c(3) of the Internal Revenue Code. The Library is a separate corporation with its own Board of Directors whose principal support comes from appropriations from the City of Gloucester operating funds.

Personnel are employees of the City of Gloucester and are entitled to the same pension, medical and other fringe benefits available to other City employees. Any applicable pension or accrued vacation costs are not determinable and are not recorded in these financial statements.

Note 3 - Commitments and Contingencies

As noted in Note 2, the Library receives a substantial amount of its support from the local government. Any reduction in the level of this support would have a significant effect on the Library's programs and activities.

Note 4 - Cash

Total cash held at June 30, 2009 and 2008 includes monies that are not covered by insurance provided by the federal government. It is the opinion of management that the solvency of the financial institutions at which this cash is held is not of particular concern at this time.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 As of June 30, 2009 and 2008

Note 5 - Investments

At June 30, 2009, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Current			
Certificates of deposit and money market accounts	\$260,824	\$260,824	\$ -
Bond funds and commodities	13,160	10,185	(2,975)
US government agencies	<u>21,709</u>	<u>20,247</u>	<u>(1,462)</u>
Total current investments	<u>\$295,693</u>	<u>\$291,256</u>	<u>\$ (4,437)</u>
Non-current			
Equity securities	\$191,188	\$201,445	\$(10,267)
Money market funds & certificates of deposit	942,201	942,201	-
Corporate bonds	375,964	380,440	(4,476)
US government agencies	<u>260,665</u>	<u>265,344</u>	<u>(4,679)</u>
Total non-current securities	<u>\$1,770,018</u>	<u>\$1,789,430</u>	<u>\$(19,422)</u>
Land and development costs	<u>\$1,082,467</u>	<u>\$1,082,467</u>	<u>\$ -</u>

At June 30, 2008, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Current			
Certificates of deposit	\$1,450,000	\$1,450,000	\$ -
Money market	<u>67,065</u>	<u>67,065</u>	<u>-</u>
	<u>\$1,517,065</u>	<u>\$1,517,065</u>	<u>\$ -</u>
Non-current			
Marketable securities			
Money market funds	\$130,157	\$130,157	\$ -
Corporate bonds, commodities	202,535	205,911	3,376
Mutual funds	287,292	290,893	3,601
U S Government Agency	<u>50,000</u>	<u>50,125</u>	<u>125</u>
Total non-current securities	<u>\$669,984</u>	<u>\$677,086</u>	<u>\$ 7,102</u>
Land and development costs	<u>\$1,082,467</u>	<u>\$1,082,467</u>	<u>\$ -</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 As of June 30, 2009 and 2008

Note 6 - Property, Plant and Equipment

Property, plant and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$1,000	\$1,000
Building and improvements	1,686,868	1,405,406
Equipment	<u>203,847</u>	<u>392,791</u>
	1,891,715	1,799,197
Less accumulated depreciation	<u>(1,186,556)</u>	<u>(1,316,904)</u>
	<u>\$ 705,159</u>	<u>\$ 482,293</u>

Note 7 - Affiliated Organization

The Friends of the Sawyer Free Library (Friends) is an organization affiliated with the Gloucester Lyceum and Sawyer Free Library, Inc., whose mission is to support the program services of the Library through volunteer work of its members and through donations to the Library from funds raised through sale of book bags, book sales, an annual membership appeal, and various other activities. In accordance with generally accepted accounting principals, the activities of this organization are included in the accompanying financial statements in the temporarily restricted category. A summary of financial activity related to the Friends is as follows:

Year ended June 30,	<u>2009</u>	<u>2008</u>
Cash balance, beginning of year	<u>\$36,892</u>	<u>\$36,472</u>
Support and revenue		
Contributions and dues	2,495	6,605
Fund raising	2,990	4,134
Interest	<u>768</u>	<u>865</u>
Total support and revenue	<u>6,253</u>	<u>11,604</u>
Expenditures		
Insurance	-	2,000
Equipment and furniture	1,117	-
Fundraising	341	4,471
Books and museum passes	2,793	1,510
Office supplies, miscellaneous, printing	<u>706</u>	<u>3,203</u>
Total expenditures	<u>4,957</u>	<u>11,184</u>
Cash receipts over expenditures	<u>1,296</u>	<u>420</u>
Cash balance, end of year	<u>\$38,188</u>	<u>\$36,892</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
NOTES TO FINANCIAL STATEMENTS
As of June 30, 2009 and 2008

Note 8 - Risks and Uncertainties

The Library's invested assets consist of common stocks, fixed income securities, land, and other investment securities. These assets are exposed to various risks, such as interest rate, market and credit. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of investments reported in the statement of financial position as of June 30, 2009. However, the diversification of the Library's invested assets among these various classes should mitigate the impact of any dramatic change in any one asset class.

Note 9 - Obligation under capital lease

The Library leased a copy machine under a capital lease which expired in May, 2009. Under the terms of the lease, monthly payments of \$310 were made. The lease was treated as an installment purchase in the accompanying financial statements.

Note 10 - Non cash gift received

On August 16, 2006, the Library received a residual interest in real property from a donor who holds a life estate in the property. The accounting treatment for such a gift is proscribed by Statement of Financial Accounting Standards 116, Accounting for Contributions Received and Contributions Made (SFAS 116). SFAS 116 indicates that the valuation of this unconditional gift be based on the present expected fair value of the asset received. It also indicates that the current estimated fair value at the date the gift is received may be used if it is the best estimate of the present value. Management believes this to be the case and has valued the gift at the appraised value of the property on the date of the gift, \$1,375,000. This asset is included in the non-current investment category in the accompanying statement of financial position.

Note 11 - Assets transferred to a recipient organization

During the year ended June 30, 2008, the assets of the Learning Center, a program managed by the Library which promotes adult literacy and which is conducted on the Library premises, were transferred to another not for profit organization that assumed the management of this program, which continues to be conducted on Library premises.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 As of June 30, 2009 and 2008

Note 12 - Restrictions on net assets

Temporarily restricted net assets are available for the following purposes:

	As of June 30,	
	<u>2009</u>	<u>2008</u>
Adult books and programming	\$29,863	\$29,522
Children's books and programming	51,277	51,786
Promotion of the arts	57,388	66,509
Building and building improvements	2,695,374	2,742,640
Memorials	15,305	13,044
Friends of the Library designations	36,928	36,892
Residual value of real estate interest	<u>1,375,000</u>	<u>1,375,000</u>
Total temporarily restricted net assets	<u>\$4,261,135</u>	<u>\$4,315,393</u>

Permanently restricted net assets are available for the following purposes:

	As of June 30,	
	<u>2009</u>	<u>2008</u>
Adult books and programming	\$37,416	\$46,964
Children's books and programming	73,389	88,341
Promotion of the arts	<u>16,663</u>	<u>18,244</u>
	<u>\$127,468</u>	<u>\$153,549</u>

Note 13 - Commitments and contingencies

At June 30, 2009, the Library had committed approximately \$105,777 to various contractors for yet to be performed work related to building stabilization and landscaping projects.