

**GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY,
INC.**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

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INDEPENDENT AUDITOR’S REPORT

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

We have audited the accompanying financial statements of Gloucester Lyceum and Sawyer Free Library, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, changes in net assets, 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gloucester Lyceum and Sawyer Free Library, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Luccitelli & Co CPAs PC

Luccitelli & Co CPAs PC

October 15, 2020

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>ASSETS</u>	
	<u>2020</u>	<u>2019</u>
ASSETS:		
Cash and cash equivalents	\$ 482,329	\$ 308,993
Investments, at fair market value	5,686,360	6,073,929
Property and equipment, net	3,093,326	3,114,343
Inexhaustible collections and books	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>9,262,015</u>	\$ <u>9,497,265</u>
	<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:		
Accounts payable and other liabilities	\$ <u>94,112</u>	\$ <u>22,118</u>
Total Liabilities	<u>94,112</u>	<u>22,118</u>
NET ASSETS:		
Without donor restrictions	6,008,107	6,131,608
With donor restrictions	<u>3,159,796</u>	<u>3,343,539</u>
Total Net Assets	<u>9,167,903</u>	<u>9,475,147</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>9,262,015</u>	\$ <u>9,497,265</u>

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES:			
Support:			
City of Gloucester appropriation	\$ 1,310,858	\$ -	\$ 1,310,858
Commonwealth of Massachusetts grants	33,621	16,500	50,121
Contributions, legacies and bequests	<u>72,843</u>	<u>13,483</u>	<u>86,326</u>
Total Support	<u>1,417,322</u>	<u>29,983</u>	<u>1,447,305</u>
Revenues:			
Miscellaneous sales, fees and fines	11,002	-	11,002
Investment income, net	101,669	90,121	191,790
Art Auction	-	11,665	11,665
Other income	3,131	-	3,131
Net assets released from restriction	<u>315,512</u>	<u>(315,512)</u>	<u>-</u>
Total Revenues	<u>431,314</u>	<u>(213,726)</u>	<u>217,588</u>
TOTAL SUPPORT AND REVENUES	<u>1,848,636</u>	<u>(183,743)</u>	<u>1,664,893</u>
EXPENSES:			
Program services	1,544,120	-	1,544,120
Management and general	422,069	-	422,069
Fundraising	<u>5,948</u>	<u>-</u>	<u>5,948</u>
TOTAL EXPENSES	<u>1,972,137</u>	<u>-</u>	<u>1,972,137</u>
CHANGE IN NET ASSETS	<u>\$ (123,501)</u>	<u>\$ (183,743)</u>	<u>\$ (307,244)</u>

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES:			
Support:			
City of Gloucester appropriation	\$ 1,112,913	\$ -	\$ 1,112,913
Commonwealth of Massachusetts grants	31,425	34,200	65,625
Contributions, legacies and bequests	83,804	216,079	299,883
Total Support	<u>1,228,142</u>	<u>250,279</u>	<u>1,478,421</u>
Revenues:			
Miscellaneous sales, fees and fines	16,696	-	16,696
Investment income, net	107,663	172,536	280,199
Art Auction	-	11,204	11,204
Net assets released from restriction	305,406	(305,406)	-
Total Revenues	<u>429,765</u>	<u>(121,666)</u>	<u>308,099</u>
TOTAL SUPPORT AND REVENUES	<u>1,657,907</u>	<u>128,613</u>	<u>1,786,520</u>
EXPENSES:			
Program services	1,407,788	-	1,407,788
Management and general	312,349	-	312,349
Fundraising	11,347	-	11,347
TOTAL EXPENSES	<u>1,731,484</u>	<u>-</u>	<u>1,731,484</u>
CHANGE IN NET ASSETS	<u>\$ (73,577)</u>	<u>\$ 128,613</u>	<u>\$ 55,036</u>

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES:				
Salaries and wages	\$ 793,094	\$ 138,307	\$ -	\$ 931,401
Employee benefits	149,882	-	-	149,882
Books	138,054	-	-	138,054
Depreciation	122,233	-	-	122,233
Maintenance and repairs	92,692	6,112	-	98,804
Security services and system expense	80,894	4,940	-	85,834
Consultant services	-	83,693	-	83,693
Marketing and branding	-	79,673	-	79,673
Grant to Sawyer Library Foundation	-	50,000	0	50,000
Technology expense	12,859	36,480	-	49,339
Noble membership expense	44,873	-	-	44,873
Electricity	28,892	1,520	-	30,412
Legal and audit	-	17,611	-	17,611
Publicity	17,111	-	-	17,111
Community programming	12,122	-	-	12,122
Heating fuel	10,578	-	-	10,578
Special library supplies	9,158	-	-	9,158
Office supplies	7,784	-	-	7,784
Art auction expense	-	-	5,744	5,744
Printing expense	3,747	-	-	3,747
Museum passes	3,543	-	-	3,543
Miscellaneous	2,891	387	-	3,278
Special events	2,936	-	-	2,936
Memberships	2,888	-	-	2,888
Professional development	2,822	-	-	2,822
Postage and meter rental	2,344	-	-	2,344
Art scholarships	2,000	-	-	2,000
Insurance expense	-	1,402	-	1,402
Filing fees	-	1,300	-	1,300
Bank service charges	-	616	-	616
Janitorial supplies	529	28	-	557
Fundraising - printing, postage, supplies	-	-	204	204
Gifts and awards	135	-	-	135
Telephone	31	-	-	31
Travel	19	-	-	19
Other media	9	-	-	9
TOTAL	\$ 1,544,120	\$ 422,069	\$ 5,948	\$ 1,972,137

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
EXPENSES:				
Salaries and wages	\$ 667,108	\$ 134,483	\$ -	\$ 801,591
Depreciation	153,383	8,073	-	161,456
Books	140,222	-	-	140,222
Employee benefits	103,858	20,937	-	124,795
Maintenance and repairs	105,992	5,579	-	111,571
Consultant services	-	70,353	-	70,353
Security services and system expense	52,403	2,758	0	55,161
Noble membership expense	44,121	0	-	44,121
Electricity	32,731	1,723	-	34,454
Technology expense	16,431	14,897	-	31,328
Marketing and branding	-	28,200	-	28,200
Legal and audit	-	19,245	-	19,245
Printing expense	19,018	-	-	19,018
Publicity	15,302	-	-	15,302
Heating fuel	13,540	713	-	14,253
Community programming	13,578	-	-	13,578
Office supplies	6,613	1,193	-	7,806
Miscellaneous	7,187	-	-	7,187
Art auction expense	-	-	5,823	5,823
Fundraising - printing, postage, supplies	-	-	5,524	5,524
Special events	4,160	-	-	4,160
Other media	3,379	-	-	3,379
Professional development	3,158	160	-	3,318
Special library supplies	2,949	-	-	2,949
Postage and meter rental	707	1,299	-	2,006
Insurance expense	-	1,402	-	1,402
Janitorial supplies	704	37	-	741
Gifts and awards	501	-	-	501
Filing fees	-	500	-	500
Bank service charges	-	499	-	499
Museum passes	407	-	-	407
Memberships	314	-	-	314
Conference and meeting expenses	-	298	-	298
Travel	22	-	-	22
TOTAL	\$ 1,407,788	\$ 312,349	\$ 11,347	\$ 1,731,484

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
NET ASSETS, JULY 1, 2018	\$ 6,205,185	\$ 3,214,926	\$ 9,420,111
Change in net assets	<u>(73,577)</u>	<u>128,613</u>	<u>55,036</u>
NET ASSETS, JUNE 30, 2019	6,131,608	3,343,539	9,475,147
Change in net assets	<u>(123,501)</u>	<u>(183,743)</u>	<u>(307,244)</u>
NET ASSETS, JUNE 30, 2020	\$ <u><u>6,008,107</u></u>	\$ <u><u>3,159,796</u></u>	\$ <u><u>9,167,903</u></u>

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (307,244)	\$ 55,036
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	122,233	161,456
Realized and unrealized gains on investments	(80,776)	(145,881)
Changes in certain operating assets and liabilities:		
Accounts payable and other liabilities	<u>71,994</u>	<u>(97,989)</u>
Net cash used in operating activities	<u>(193,793)</u>	<u>(27,378)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(101,216)	(201,311)
Proceeds from sale of investments	1,604,326	3,076,581
Purchases of investments	<u>(1,135,981)</u>	<u>(2,817,612)</u>
Net cash provided by investing activities	<u>367,129</u>	<u>57,658</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	173,336	30,280
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>308,993</u>	<u>278,713</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 482,329</u>	<u>\$ 308,993</u>

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

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 1 - Organization and Nature of Activities

The Gloucester Lyceum and Sawyer Free Library, Inc. (the Library) is a non-profit corporation established on February 15, 1830 and incorporated on June 10, 1872 under Chapter 180 of the laws of Massachusetts. The Library is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Library is a separate corporation with its own Board of Trustees (the Board) whose principal support comes from appropriations from the City of Gloucester operating funds.

Library 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 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Presentation - The financial statements of the Library have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Library to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Library's management and the Board.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Library or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Financial Statement Presentation - Certain amounts in the 2020 financial statements have been reclassified to conform with the presentation for 2019.

Use of Estimates - The preparation of financial statements in accordance 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 revenues and expenses during the reporting period. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Contribution Revenues - The Library recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received (including the City of Gloucester appropriations) are recognized as revenues with donor restrictions and are reclassified as net assets released from restrictions in the same year. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses - The costs of providing various program and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents expenses by function and natural classification.

Cash Equivalents - Cash equivalents includes money market funds, highly liquid investments with initial maturities of three months or less and cash funds held by the City of Gloucester designated for the benefit of the Library.

Investments - Investments are carried at fair value based upon quoted market prices, when available, or estimates of fair value in the statement of financial position. Dividends, interest and net gains/losses on investments are reflected in the statement of activities. Investment income from restricted assets that is earned and used in the current year for the restricted purpose is recorded as unrestricted investment income.

Property 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 or 7 years

Buildings and improvements - 15 or 39 years

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.

Net Assets

Net Assets Without Donor Restrictions - Net assets without donor restrictions are available for use at the discretion of the Board and/or management for general operating purposes. The Board may from time to time designate a portion of these net assets for specific purposes which would make them unavailable for use at management discretion.

Net Assets with Donor Restrictions - Net assets with donor restrictions consist of assets whose use is limited by donor imposed, time and/or purpose restrictions. The Library reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurement - The Library, in accordance with U.S. generally accepted accounting principles, implemented the following requirements related to the fair value measurements for its financial assets and liabilities. The adoption of these principles did not have a material impact on the Library's financial position or results of operations. U.S. generally accepted accounting principles refines the definition of fair value, expands disclosure requirements about fair value measurements, and establishes specific requirements as well as guidelines for a consistent framework to measure fair value. U.S. generally accepted accounting principles defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. Further, U.S. generally accepted accounting principles require the Library to maximize the use of observable market inputs, minimize the use of unobservable market inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. U.S. generally accepted accounting principles specify a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Library's market assumptions.

This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

Fair Value of Financial Assets and Liabilities - Carrying amounts of certain of the Library's financial instruments, including cash equivalents, accounts payable and other accrued liabilities, approximate fair value because of their short-term maturities.

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 U.S. generally accepted accounting standards have not been satisfied. The number of hours donated by volunteers amounted to approximately 5,300 and 7,100 for the years ended June 30, 2020 and 2019, respectively.

Income Taxes - The Library is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and is classified as a public charity.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 3 - Concentration of Risk

The Library receives a substantial amount of its support from the City of Gloucester, Massachusetts. Any reduction in the level of this support would have a significant effect on the Library's programs and activities.

Financial instruments which potentially subject the Library to concentration of credit risk consist principally of temporary cash investments. The Library places its temporary cash investments in local financial institutions. As of June 30, 2020 and 2019, all temporary cash investments were insured in full.

The Library's invested assets consist of certificates of deposits, common stocks, mutual funds, fixed income securities, exchange traded funds, 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. However, the diversification of the Library's invested assets among these various classes is expected to mitigate the impact of any dramatic change in any one asset class.

Note 4 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 479,401	\$ 278,993
Investments, at fair market value	<u>2,529,492</u>	<u>2,760,390</u>
Total	<u>\$ 3,008,893</u>	<u>\$ 3,039,383</u>

As part of the Library's liquidity management plan, the Library invests cash in excess of daily requirements in short term investments and money market funds.

The Library's endowment funds consist of donor restricted endowments and funds designated by the Board quasi-endowments. Income from donor restricted endowments is restricted for specific purposes with the exception of the amounts available for general use. Donor restricted endowment funds are not available for general expenditure.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 5 - Investments

Investments, at fair market value, consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Certificates of deposit (maturity dates ranging from August 2020 to August 2025 at June 30, 2020)	\$ 1,244,990	\$ 1,393,535
Money market accounts	295,733	386,920
Exchange Traded Funds:		
Fixed Income	334,884	355,876
Equity	558,494	1,088,273
REIT	135,073	160,816
Mutual Funds:		
Equity	1,826,589	1,326,904
Fixed Income	225,144	30,204
Corporate Bond	-	267,197
Alternative	412,558	389,320
Stocks:		
Equity	127,680	69,272
Bonds:		
Corporate	<u>525,215</u>	<u>605,612</u>
	<u>\$ 5,686,360</u>	<u>\$ 6,073,929</u>

At June 30, 2020 and 2019, all investments are level 1 under the fair value framework described in Note 2.

Investment income, net, consists of the following for the years ended June 30, 2020 and 2019:

Total realized gains (losses), net	\$ 37,798	\$ 239,616
Total unrealized gains (losses), net	42,978	(93,735)
Dividends and interest income	140,416	164,956
Investment fees	<u>(29,402)</u>	<u>(30,638)</u>
	<u>\$ 191,790</u>	<u>\$ 280,199</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 6 - Property and Equipment

Property and equipment consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,000	\$ 1,000
Buildings and improvements	4,511,838	4,491,951
Equipment	468,803	403,277
Construction in progress	448,731	432,928
	<u>5,430,372</u>	<u>5,329,156</u>
Accumulated depreciation	<u>(2,337,046)</u>	<u>(2,214,813)</u>
Property and equipment, net	<u>\$ 3,093,326</u>	<u>\$ 3,114,343</u>

Note 7 - Net Assets With Donor Restrictions

As of June 30, 2020 and 2019, the Library had net assets restricted for the following purposes:

<u>Subject to Specific Purpose:</u>	<u>2020</u>	<u>2019</u>
Building and building improvements	\$ 2,928,877	\$ 3,081,786
Accumulated appreciation on permanently restricted net assets	56,638	59,332
Children's room improvements	46,595	47,663
Other	2,928	30,000
	<u>3,035,038</u>	<u>3,218,781</u>
<u>Subject to Restriction in Perpetuity:</u>		
Children's books and programming	72,643	72,643
Adult books and programming	37,168	37,168
Promotion of the arts	14,947	14,947
	<u>124,758</u>	<u>124,758</u>
Total	<u>\$ 3,159,796</u>	<u>\$ 3,343,539</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 8 - Endowment

The Library's endowment consists of donor restricted endowment funds as follows:

	<u>Net Assets with Donor Restrictions</u>		
	<u>Accumulated</u>	<u>Endowment</u>	
	<u>Earnings</u>	<u>Corpus</u>	<u>Total</u>
June 30, 2020	\$ 56,638	\$ 124,758	\$ 181,396
June 30, 2019	\$ 59,332	\$ 124,758	\$ 184,090

The Library has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Library classifies as net assets with restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets is classified as net assets with restrictions until those amounts are appropriated for expenditure by the Library in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Library considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Library and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Library
7. The investment policies of the Library

Investment Objectives and Strategies:

The Library has established an investment policy to ensure that its endowment investments are invested in a prudent manner that will achieve a long-term rate of return sufficient to support the objectives of the endowments. The investment objective is focused on preservation of capital and diversification of investments across various asset classes and numerous industries and sectors to minimize volatility and risk. The Library diversifies its investments among various assets classes in order to ensure safety of principal while producing investment returns consistent with overall investment policy as determined by the Board.

Spending Policy:

UPMIFA's spending provisions apply to endowment funds. Unless specifically directed to the contrary by the donor, under UPMIFA, the Library may expend so much of the endowment fund as an ordinary prudent person in a like position would spend for the uses, benefits, purposes, and duration for which the endowment fund was established. The Library has adopted an expenditure policy to comply with the provisions of UPMIFA in its spending from endowment funds.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 8 - Endowment (Continued)

The changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Endowment Net Assets, July 1, 2018	\$ -	\$ 178,547	\$ 178,547
Net assets released from restriction	974	(974)	-
Unrealized appreciation (depreciation)	-	6,517	6,517
Appropriations of cumulative gains	<u>(974)</u>	<u>-</u>	<u>(974)</u>
Endowment Net Assets, June 30, 2019	-	184,090	184,090
Net assets released from restriction	1,012	(1,012)	-
Unrealized appreciation (depreciation)	-	(1,682)	(1,682)
Appropriations of cumulative gains	<u>(1,012)</u>	<u>-</u>	<u>(1,012)</u>
Endowment Net Assets, June 30, 2020	<u>\$ -</u>	<u>\$ 181,396</u>	<u>\$ 181,396</u>

Note 9 - The Friends of the Sawyer Free Library

The Friends of the Sawyer Free Library (Friends), is a sub-group of the Library. The Friends' 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 an annual art auction, book sales, an annual membership appeal, and various other activities. The activities of the Friends are included in the accompanying financial statements as net assets without donor restrictions. A summary of financial activity on the cash basis related to the Friends for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Cash balance, beginning of year	\$ <u>31,077</u>	\$ <u>30,723</u>
Receipts:		
Contributions and dues	8,450	9,332
Funds transferred from Library account	-	29,096
Fundraising - art auction	11,665	11,204
Fundraising - other	4,453	4,012
Total receipts	<u>24,568</u>	<u>53,644</u>
Expenditures:		
Fundraising - art auction	5,744	5,907
Fundraising - other	204	5,754
Museum passes	3,543	1,449
Programming	10,000	10,000
Funds invested in certificates of deposit	-	30,000
Office supplies, miscellaneous, printing	568	180
Total expenditures	<u>20,059</u>	<u>53,290</u>
Receipt in excess of expenditures	<u>4,509</u>	<u>354</u>
Cash balance, end of year	<u>\$ 35,586</u>	<u>\$ 31,077</u>

Additionally, certificates of deposit totaling \$30,867 and \$30,021 at June 30, 2020 and 2019, respectively, are held by the Friends, these amounts are included in investments in the Statements of Financial Position (reference is made to Note 5).

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

Note 10 - Related Party Transaction

During the fiscal year ended June 30, 2020, the Library entered into a grant funding agreement with the newly formed Sawyer Library Foundation, Inc. (the Foundation). The Foundation has applied for tax exemption under Section 501(c)(3) of the Internal Revenue Code. One of the Library's trustees is a member of the board of the Foundation. The purpose of the grant is to further the Foundation's mission of securing funding and providing financial support for the expansion, upgrade, enhancement, and maintenance of the Library's real property; as well as maintaining and enriching the quality of the Library's services, materials, and programs. Grant funds are to be expended exclusively for these purposes, including the Foundation's start-up expenses. The total grant amount per the agreement is \$300,000 and payment terms are upon written request by the Foundation. The Foundation made its first written request for funding of \$50,000 on June 16, 2020.

Note 11 - Subsequent Events

The date to which events occurring after June 30, 2020 have been evaluated for possible adjustment to the financial statements or disclosures is the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 12 - Tax Positions and Filings

As a tax-exempt organization, the Library is generally not subject to federal or state income taxes. The Library has adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The implementation of this guidance had no impact on the Library's financial statements. As required by this standard, management of the Library has evaluated its tax positions, applying a "More Likely than Not" standard, and believes that there would be no material changes to the results of its operations or financial position as a result of an audit by federal or state taxing authorities. The Library is no longer subject to examination by federal or state income tax authorities for years prior to June 30, 2016 according to a three-year statute of limitations.