

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

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022**

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION JUNE 30, 2023 AND 2022	3
STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2023	4
STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022	5
STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2023	6
STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2022	7
STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2023 AND 2022	8
NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022	9 - 18



Luccitelli & CO CPAs PC

INDEPENDENT AUDITOR'S REPORT

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

Qualified Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of real estate leases not being capitalized in the financial statements described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Gloucester Lyceum and Sawyer Free Library, Inc. as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Qualified Opinion

As more fully described in Note 14, the Library has not capitalized lease assets and lease obligations on its statements of financial position for its real estate lease with a remaining lease term that exceeds twelve months. In our opinion, U.S. generally accepted accounting principles require that most leases be capitalized on the statement of financial position based on satisfying certain criteria, and that disclosures related to those leases be included in the financial statements. The effects on the accompanying financial statements of the failure to capitalize lease assets and lease obligations have not been determined.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gloucester Lyceum and Sawyer Free Library, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Gloucester Lyceum and Sawyer Free Library, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Gloucester Lyceum and Sawyer Free Library, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Gloucester Lyceum and Sawyer Free Library, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Luccitelli & Co CPAs PC

Luccitelli & Co CPAs PC

September 26, 2023

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>ASSETS</u>	
	<u>2023</u>	<u>2022</u>
ASSETS:		
Cash and cash equivalents	\$ 605,598	\$ 298,161
Pledges and grants receivable	200,000	-
Investments, at fair market value	2,969,136	4,764,395
Property and equipment, net	4,813,427	3,658,403
Inexhaustible collections and books	-	-
TOTAL ASSETS	\$ <u>8,588,161</u>	\$ <u>8,720,959</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Accounts payable and other accrued liabilities	\$ <u>14,644</u>	\$ <u>196,045</u>
Total Liabilities	<u>14,644</u>	<u>196,045</u>
NET ASSETS:		
Without donor restrictions:		
Operating	7,574,211	6,437,881
Board designated	<u>75,000</u>	<u>-</u>
Total without donor restrictions	<u>7,649,211</u>	<u>6,437,881</u>
With donor restrictions	<u>924,306</u>	<u>2,087,033</u>
Total Net Assets	<u>8,573,517</u>	<u>8,524,914</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>8,588,161</u>	\$ <u>8,720,959</u>

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES:			
Support:			
City of Gloucester appropriation	\$ 1,489,311	\$ -	\$ 1,489,311
Grants:			
Commonwealth of Massachusetts	128,651	219,860	348,511
Other	-	127,862	127,862
Contributions, legacies and bequests	<u>64,757</u>	<u>51,323</u>	<u>116,080</u>
Total Support	<u>1,682,719</u>	<u>399,045</u>	<u>2,081,764</u>
Revenues:			
Miscellaneous sales, fees and fines	2,764	-	2,764
Investment income, net	246,810	28,404	275,214
Net assets released from restrictions	<u>1,590,176</u>	<u>(1,590,176)</u>	<u>-</u>
Total Revenues	<u>1,839,750</u>	<u>(1,561,772)</u>	<u>277,978</u>
TOTAL SUPPORT AND REVENUES	<u>3,522,469</u>	<u>(1,162,727)</u>	<u>2,359,742</u>
EXPENSES:			
Program services	1,774,317	-	1,774,317
Management and general	502,822	-	502,822
Fundraising	<u>34,000</u>	<u>-</u>	<u>34,000</u>
TOTAL EXPENSES	<u>2,311,139</u>	<u>-</u>	<u>2,311,139</u>
CHANGE IN NET ASSETS	1,211,330	(1,162,727)	48,603
NET ASSETS, BEGINNING OF YEAR	<u>6,437,881</u>	<u>2,087,033</u>	<u>8,524,914</u>
NET ASSETS, END OF YEAR	\$ <u><u>7,649,211</u></u>	\$ <u><u>924,306</u></u>	\$ <u><u>8,573,517</u></u>

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES:			
Support:			
City of Gloucester appropriation	\$ 1,391,998	\$ -	\$ 1,391,998
Commonwealth of Massachusetts grants	45,935	-	45,935
Contributions, legacies and bequests	<u>186,684</u>	<u>19,757</u>	<u>206,441</u>
Total Support	<u>1,624,617</u>	<u>19,757</u>	<u>1,644,374</u>
Revenues:			
Miscellaneous sales, fees and fines	5,911	-	5,911
Investment loss, net	(349,161)	(206,642)	(555,803)
Art Auction	-	9,881	9,881
Net assets released from restrictions	<u>1,059,968</u>	<u>(1,059,968)</u>	<u>-</u>
Total Revenues	<u>716,718</u>	<u>(1,256,729)</u>	<u>(540,011)</u>
TOTAL SUPPORT AND REVENUES	<u>2,341,335</u>	<u>(1,236,972)</u>	<u>1,104,363</u>
EXPENSES:			
Program services	1,604,211	-	1,604,211
Management and general	723,595	-	723,595
Fundraising	<u>4,351</u>	<u>-</u>	<u>4,351</u>
TOTAL EXPENSES	<u>2,332,157</u>	<u>-</u>	<u>2,332,157</u>
CHANGE IN NET ASSETS	9,178	(1,236,972)	(1,227,794)
NET ASSETS, BEGINNING OF YEAR	<u>6,428,703</u>	<u>3,324,005</u>	<u>9,752,708</u>
NET ASSETS, END OF YEAR	<u>\$ 6,437,881</u>	<u>\$ 2,087,033</u>	<u>\$ 8,524,914</u>

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and wages	\$ 895,912	\$ 141,312	\$ -	\$ 1,037,224
Employee benefits	201,249	-	-	201,249
Books	162,355	-	-	162,355
Grants to Sawyer Library Foundation	-	150,000	-	150,000
Maintenance and repairs	125,756	6,619	-	132,375
Depreciation	117,767	6,198	-	123,965
Marketing and branding	-	89,787	-	89,787
Occupancy	77,472	8,608	-	86,080
Consultant services	-	34,166	34,000	68,166
Noble membership expense	44,561	-	-	44,561
Technology expense	1,521	38,912	-	40,433
Special library supplies	32,306	-	-	32,306
Electricity	26,400	1,389	-	27,789
Security services and system expense	24,307	1,280	-	25,587
Community programming	21,884	-	-	21,884
Heating fuel	16,933	891	-	17,824
Legal and audit	-	14,886	-	14,886
Museum passes	3,960	-	-	3,960
Office supplies	6,193	-	-	6,193
Special events	5,966	-	-	5,966
Miscellaneous	22	4,923	-	4,945
Printing expense	4,434	-	-	4,434
Conference and meeting expenses	-	2,107	-	2,107
Publicity	1,500	-	-	1,500
Insurance expense	-	1,402	-	1,402
Memberships	1,365	-	-	1,365
Janitorial supplies	859	45	-	904
Postage and meter rental	885	-	-	885
Gifts and awards	710	-	-	710
Bank service charges	-	297	-	297
TOTAL	\$ 1,774,317	\$ 502,822	\$ 34,000	\$ 2,311,139

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and wages	\$ 823,336	\$ 141,312	\$ -	\$ 964,648
Grants to Sawyer Library Foundation	-	350,000	-	350,000
Employee benefits	148,867	25,550	-	174,417
Books	163,640	-	-	163,640
Depreciation	124,098	6,531	-	130,629
Maintenance and repairs	104,920	5,522	-	110,442
Security services and system expense	94,785	4,989	-	99,774
Marketing and branding	-	83,696	-	83,696
Technology expense	3,583	41,186	-	44,769
Noble membership expense	43,773	-	-	43,773
Consultant services	-	38,934	-	38,934
Community programming	31,260	-	-	31,260
Electricity	29,147	1,534	-	30,681
Legal and audit	-	20,269	-	20,269
Heating fuel	13,918	733	-	14,651
Office supplies	7,977	-	-	7,977
Printing expense	7,165	-	-	7,165
Art auction expense	-	-	4,351	4,351
Museum passes	2,795	-	-	2,795
Miscellaneous	533	1,166	-	1,699
Insurance expense	-	1,402	-	1,402
Postage and meter rental	1,012	-	-	1,012
Other media	819	-	-	819
Special library supplies	789	-	-	789
Bank service charges	-	754	-	754
Memberships	665	-	-	665
Gifts and awards	653	-	-	653
Janitorial supplies	326	17	-	343
Special events	150	-	-	150
TOTAL	\$ 1,604,211	\$ 723,595	\$ 4,351	\$ 2,332,157

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2023 AND 2022

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 48,603	\$ (1,227,794)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	123,965	130,630
Realized and unrealized (gains) losses on investments	(213,560)	632,002
Changes in certain operating assets and liabilities:		
Pledges and grants receivable	(200,000)	-
Accounts payable and other accrued liabilities	<u>(181,401)</u>	<u>154,780</u>
Net cash used in operating activities	<u>(422,393)</u>	<u>(310,382)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,278,989)	(738,297)
Proceeds from sale of investments	2,486,729	2,376,147
Purchases of investments	<u>(477,910)</u>	<u>(1,417,118)</u>
Net cash provided by investing activities	<u>729,830</u>	<u>220,732</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	307,437	(89,650)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>298,161</u>	<u>387,811</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u>605,598</u>	\$ <u>298,161</u>

See accompanying Notes to Financial Statements.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

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 (the City) operating funds.

Library personnel are employees of the City 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 Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized as they are earned, and expenses are recorded when liabilities are incurred.

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, whereby 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.

Use of Estimates - The preparation of financial statements in accordance with US GAAP 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.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 2 - Summary of Significant Accounting Policies (Continued)

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 with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contributions are received (including the City appropriations) are recognized as revenues with donor restrictions and are reclassified as net assets released from restrictions in the same year.

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. Accordingly, certain costs have been allocated among the programs and support services benefited using a reasonable basis that is consistently applied. Certain expenses are allocated on a square footage basis, including occupancy, utilities, repairs and maintenance and depreciation expense. All other expenses are allocated based on estimates of time and effort.

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 designated for the benefit of the Library.

Investments - Investments are carried at fair value based upon quoted market prices, when available, or, if not available, 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.

Pledges and Grants Receivable - Pledges are recorded as receivables in the year an unconditional promise to give is made or the condition has been fulfilled for a conditional promise to give. Grants receivable are recorded as revenue when the Library has fulfilled specific requirements. Grants scheduled to be received over the next 12 months are reflected at the full amount receivable while grants scheduled to be received in subsequent years are discounted to present value. Pledges receivable are adjusted annually and are reflected in the statements of activities in either grants or contributions, legacies and bequests as appropriate. The carrying value of pledges and grants receivable approximates their fair value based on the relatively short-term maturity of these receivables.

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.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 2 - Summary of Significant Accounting Policies (Continued)

Works of Art and Historical Treasures - The Library maintains collections including artwork, rare book collections, and historical treasures that have been purchased or donated. These items are preserved and cared for and many are displayed in public exhibitions. The Library does not have a formal policy that requires that proceeds from the sale of these items be used to expand the collections through additional acquisitions. However, historically, the Library has not sold works of art and historical treasures, and as of June 30, 2023, the Library has no intention to sell its works of art and historical treasures and not use the proceeds to either restore current holdings or expand the collection through additional acquisitions. Therefore, in accordance with US GAAP, the Library does not capitalize collections meeting all of the above factors.

Fair Value Measurement - The Library, reports required types of financial instruments in accordance with the fair value standards of accounting. US GAAP 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, US GAAP 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. US GAAP 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.

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 US GAAP have not been satisfied. The number of hours donated by volunteers amounted to approximately 4,600 and 4,800 for the years ended June 30, 2023 and 2022, 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.

Subsequent Events - The date to which events occurring after June 30, 2023 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.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 3 - Concentration of Risk

The Library receives a substantial amount of its support from the City. 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, 2023 and 2022, 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 - 2025 Sawyer Free Library Renovation and Addition Project

Beginning in 2021 and continuing beyond June 30, 2023, the Library is undergoing a series of major renovations and an addition to its facilities (the Project). The total estimated cost of the Project is approximately \$30,975,000. Included in the Project cost are design costs of approximately \$1,825,000 already incurred and paid by the Library. Approximately \$10,000,000 of the Project cost is being funded by a grant from the Massachusetts Board of Library Commissioners (MBLC) to the City of Gloucester (the City). The remaining approximate amount of \$19,150,000 is being financed by the City. The Library and its affiliated support organization, the Sawyer Library Foundation Inc (the Foundation) (reference is made to Note 11) are committed to raising the approximate \$19,150,000 of City financing through grants, gifts, donations and other fundraising efforts as repayments to the City for its upfront financing of the Project.

Effective September 22, 2022, the Library assigned to the City the right, title and interest of the Project, including the financial and administrative aspects of the Project.

Through June 30, 2023, the Library and the Foundation raised approximately \$7,520,000, consisting of \$2,000,000 committed from the Library's restricted net assets designated for building and building improvements, \$75,000 in Library board designated funds, \$200,000 of Library grants receivable, and \$5,245,000 of Foundation pledges conditioned on the premise the Library and the Foundation will raise sufficient funds to cover the remaining project costs.

Note 5 - Pledges and Grants Receivable

At June 30, 2023, pledges and grants receivable consists of a single grant receivable in the amount of \$200,000, scheduled to be collected in July 2023. The grant is restricted for the purpose of the Project. Management deems this balance to be fully collectible, therefore no allowance is deemed necessary. There were no grants or pledges receivable at June 30, 2022 (reference is made to Note 4).

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 6 - 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 308,559	\$ 298,161
Investments, not encumbered by restrictions	<u>2,541,869</u>	<u>2,677,362</u>
Total	\$ <u>2,850,428</u>	\$ <u>2,975,523</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. 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.

Note 7 - Investments

Investments, at fair market value, consist of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Certificates of deposit (maturity dates ranging from August 2023 to May 2028 at June 30, 2023)	\$ 676,535	\$ 741,292
Money market accounts	209,981	478,790
US Government Agency Obligations	44,404	45,215
US Treasury Notes	-	48,279
Exchange Traded Funds:		
Fixed Income	40,988	284,518
Equity	711,612	940,876
Alternative	68,632	388,261
Mutual Funds:		
Equity	733,489	962,423
Fixed Income	158,703	406,824
Alternative	-	137,616
Bonds:		
Corporate	<u>324,792</u>	<u>330,301</u>
	\$ <u>2,969,136</u>	\$ <u>4,764,395</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 7 - Investments (Continued)

At June 30, 2023 and 2022, all investments are level 1 under the fair value hierarchy described in Note 2.

Investment income (loss), net, consists of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Total realized gains, net	\$ 54,785	\$ 569,175
Total unrealized gains (losses), net	158,775	(1,201,177)
Dividends and interest income	80,142	105,306
Investment fees	<u>(18,488)</u>	<u>(29,107)</u>
	<u>\$ 275,214</u>	<u>\$ (555,803)</u>

Note 8 - Property and Equipment

Property and equipment consist of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,000	\$ 1,000
Buildings and improvements	4,511,838	4,511,838
Equipment	529,649	529,649
Construction in progress:		
Renovation and addition project	2,189,854	1,121,050
Saunders House improvements	<u>307,123</u>	<u>96,938</u>
	7,539,464	6,260,475
Accumulated depreciation	<u>(2,726,037)</u>	<u>(2,602,072)</u>
Property and equipment, net	<u>\$ 4,813,427</u>	<u>\$ 3,658,403</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 9 - Net Assets With Donor Restrictions

As of June 30, 2023 and 2022, the Library had net assets restricted for the following purposes:

<u>Subject to Specific Purpose:</u>	<u>2023</u>	<u>2022</u>
Building and building improvements and repairs	\$ 304,861	\$ 1,873,243
Renovation and addition project	374,910	-
Accumulated appreciation on permanently restricted net assets	58,153	60,028
Children's room improvements	25,281	29,004
Library programming	25,000	-
Other	11,343	-
	<u>799,548</u>	<u>1,962,275</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>\$ 924,306</u>	<u>\$ 2,087,033</u>

Note 10 - 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, 2023	\$ <u>58,153</u>	\$ <u>124,758</u>	\$ <u>182,911</u>
June 30, 2022	\$ <u>60,028</u>	\$ <u>124,758</u>	\$ <u>184,786</u>

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.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 10 - Endowment (Continued)

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.

The changes in endowment net assets for the years ended June 30, 2023 and 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, July 1, 2021	\$ -	\$ 208,218	\$ 208,218
Net assets released from restriction	10,767	(10,767)	-
Unrealized appreciation (depreciation)	-	(12,665)	(12,665)
Appropriations of cumulative gains	<u>(10,767)</u>	<u>-</u>	<u>(10,767)</u>
Endowment Net Assets, June 30, 2022	-	184,786	184,786
Net assets released from restriction	3,448	(3,448)	-
Unrealized appreciation (depreciation)	-	1,573	1,573
Appropriations of cumulative gains	<u>(3,448)</u>	<u>-</u>	<u>(3,448)</u>
Endowment Net Assets, June 30, 2023	<u>\$ -</u>	<u>\$ 182,911</u>	<u>\$ 182,911</u>

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 11 - Related Party Transactions

Sawyer Library Foundation - The Foundation was established in 2019. The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. One of the Library's trustees (the treasurer) is a member of the board of the Foundation. During the fiscal year ended June 30, 2022, the Foundation launched the Sawyer Free 2025 Capital Campaign to fulfill its 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.

As of June 30, 2023 and 2022, the Library had entered into grant funding agreements with the Foundation cumulatively totaling \$700,000 and \$650,000, respectively. Per the agreements, grant funds are to be expended exclusively for the purposes as defined in the Foundation's mission noted above, including the Foundation's start-up and public campaign marketing expenses. Payment terms are upon written request by the Foundation, subject to the Board of Trustees approval. Grant amounts funded during the years ended June 30, 2023 and 2022 amounted to \$150,000 and \$350,000, respectively; total grants funded to date as of June 30, 2023 and 2022 were \$700,000 and \$550,000, respectively.

The City - In conjunction with the Sawyer Free 2025 campaign for the Project, the City obtained a grant from the MBLC in the approximate amount of \$10,000,000. (Reference is made to Notes 1 and 4.)

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, 2020 according to a three-year statute of limitations.

Note 13 - Conditional Pledges

Conditional pledges of \$223,835 were made to the Library during the year ended June 30, 2023. These pledges were conditioned on certain aspects of the renovation of the Saunders House and were all outstanding at June 30, 2023. In accordance with US GAAP, promises to contribute that stipulate conditions to be met before the contribution is made, or conditional pledges, are not recorded until the conditions are met.

Conditional pledges of \$281,697 were made to the Library during the year ended June 30, 2022. These pledges were conditioned on the renovation and expansion of the Library in the amount of \$200,000, and renovation of the Saunders House in the amounts of \$81,697. During the year ended June 30, 2023, the Library met the conditions and recognized the pledges as grant revenue on the statement of activities for the year ended June 30, 2023.

GLOUCESTER LYCEUM AND SAWYER FREE LIBRARY, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

Note 14 - Lease

Effective, January 1, 2022, U.S. GAAP principles require organizations to adopt new lease standards promulgated by Accounting Standards Updated (ASU) 2016-02, Leases (ASC Topic 842), and subsequent amendments. In accordance with ASU 2016-02, an entity is required to capitalize lease assets and corresponding lease obligations on its statement of financial position for all equipment and real estate leases with a remaining lease term that exceeds twelve months and provide certain disclosures related to those leases. The Library has informed us that they have not capitalized lease assets and obligations related to the Library's real estate lease and have not included most of the required lease disclosures. Instead, the Library's policy is to record lease payments as occupancy expense as incurred. The effects of this departure from U.S. GAAP on the Library's financial statements have not been determined.

Effective July 1, 2022, the Library is temporarily conducting its program operations during the Project from a facility in Gloucester, Massachusetts under a non-cancelable lease agreement which expires in June 2024. Rent and related expense under this long-term lease agreement amounted to \$86,080 for the year ended June 30, 2023. Future minimum rental payments required under the long-term, non-cancelable operating lease are \$86,080 for the year ended June 30, 2024. At the end of the two year term, the Library has the option to renew on a month to month basis or for up to one additional year.