

Slover Library Foundation
Consolidated Financial Statements
June 30, 2022

Independent Auditor's Report

Members of the Board of Directors
Slover Library Foundation
Norfolk, Virginia

Opinion

We have audited the accompanying consolidated statement of net assets – modified cash basis of the Slover Library Foundation (the Foundation) and its subsidiary as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, and its activities and changes in net assets and cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

As discussed in Note 1 of the consolidated financial statements, the consolidated financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1; and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 consolidated 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 consolidated 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 consolidated 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 the Foundation'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation'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.

The image shows a handwritten signature in cursive script that reads "Coopers & Lybrand". The signature is written in black ink and is positioned above the date.

February 8, 2023

SLOVER LIBRARY FOUNDATION
CONSOLIDATED STATEMENT OF NET ASSETS
MODIFIED CASH BASIS

	As of June 30,	
	2022	2021
Assets		
Investments, at fair value:		
Cash and cash equivalents	\$ 656,185	\$ 219,795
Equity funds	4,984,814	5,328,521
Alternative funds	2,321,213	2,833,606
Bonds and bond type funds	1,403,809	1,893,062
Accrued interest income	8,638	8,829
Other investment, at cost	-	126,514
Total investments	9,374,659	10,410,327
Operating cash	545,880	577,448
Inventory	6,260	6,260
Total assets	\$ 9,926,799	\$ 10,994,035
 Liabilities and net assets		
Payroll liabilities	\$ -	\$ 2,129
Total liabilities	-	2,129
Net assets:		
Net assets without donor restrictions	9,701,753	10,645,001
Net assets with donor restrictions	225,046	346,905
Total net assets	9,926,799	10,991,906
Total liabilities and net assets	\$ 9,926,799	\$ 10,994,035

The notes to the consolidated financial statements are an integral part of this statement.

SLOVER LIBRARY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS

	Years ended June 30,	
	2022	2021
Changes in net assets without donor restrictions:		
Revenue and support:		
Contributions	\$ 63,955	\$ 77,948
Investment income (loss), net	(620,773)	2,067,086
Other income	-	20
Net assets released from restrictions	134,909	21,258
Total revenue and support	<u>(421,909)</u>	<u>2,166,312</u>
Expenses:		
Program services	<u>399,786</u>	<u>313,113</u>
Supporting services:		
General and administrative	65,037	55,597
Fundraising	<u>56,516</u>	<u>55,958</u>
Total supporting services	<u>121,553</u>	<u>111,555</u>
Total expenses	<u>521,339</u>	<u>424,668</u>
Change in net assets without donor restrictions	<u>(943,248)</u>	<u>1,741,644</u>
Changes in net assets with donor restrictions:		
Contributions	13,050	245,350
Net assets released from restrictions	<u>(134,909)</u>	<u>(21,258)</u>
Change in net assets with donor restrictions	<u>(121,859)</u>	<u>224,092</u>
Total change in net assets	(1,065,107)	1,965,736
Net assets at beginning of year	<u>10,991,906</u>	<u>9,026,170</u>
Net assets at end of year	<u><u>\$ 9,926,799</u></u>	<u><u>\$ 10,991,906</u></u>

The notes to the consolidated financial statements are an
integral part of this statement.

SLOVER LIBRARY FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
MODIFIED CASH BASIS

	Years ended June 30,							
	2022				2021			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Admin	Fundraising			Admin	Fundraising		
Compensation	\$ 136,500	\$ 21,000	\$ 52,500	\$ 210,000	\$ 135,444	\$ 20,463	\$ 52,093	\$ 208,000
Payroll taxes	10,442	1,607	4,016	16,065	10,048	1,546	3,865	15,459
Total compensation	146,942	22,607	56,516	226,065	145,492	22,009	55,958	223,459
Slover Library support:								
Library/guild events	100,773	-	-	100,773	25,174	-	-	25,174
Strategic plan	63,481	-	-	63,481	15,146	-	-	15,146
Technology related expenses	35,699	-	-	35,699	65,357	-	-	65,357
Professional development	17,404	-	-	17,404	5,251	-	-	5,251
Hendrix Business Center	3,208	-	-	3,208	49,802	-	-	49,802
Other support	24,865	-	-	24,865	-	-	-	-
Accounting, legal and other	-	26,258	-	26,258	-	26,366	-	26,366
Insurance	7,414	-	-	7,414	6,891	-	-	6,891
Stationery and office supplies	-	1,563	-	1,563	-	876	-	876
Other expenses	-	14,609	-	14,609	-	6,346	-	6,346
Total operating expenses	<u>\$ 399,786</u>	<u>\$ 65,037</u>	<u>\$ 56,516</u>	<u>\$ 521,339</u>	<u>\$ 313,113</u>	<u>\$ 55,597</u>	<u>\$ 55,958</u>	<u>\$ 424,668</u>

The notes to the consolidated financial statements are an
integral part of this statement.

SLOVER LIBRARY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS

	Years ended June 30,	
	2022	2021
Cash flows from operating activities		
Change in net assets	\$ (1,065,107)	\$ 1,965,736
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Net (gain) loss on investments	795,635	(1,907,703)
Change in accrued interest income	191	1
Change in payroll liabilities	<u>(2,129)</u>	<u>(1,145)</u>
Net cash provided by (used for) operating activities	<u>(271,410)</u>	<u>56,889</u>
Cash flows from investing activities		
Sales and maturities of investments	1,935,234	3,801,496
Purchases of investments	<u>(1,259,002)</u>	<u>(3,889,171)</u>
Net cash provided by (used for) investing activities	<u>676,232</u>	<u>(87,675)</u>
Net change in cash	404,822	(30,786)
Cash and cash equivalents, beginning of year	<u>797,243</u>	<u>828,029</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,202,065</u></u>	<u><u>\$ 797,243</u></u>
 Cash and cash equivalents are classified as follows:		
Investments - cash and cash equivalents	\$ 656,185	\$ 219,795
Operating cash	<u>545,880</u>	<u>577,448</u>
	<u><u>\$ 1,202,065</u></u>	<u><u>\$ 797,243</u></u>

The notes to the consolidated financial statements are an integral part of this statement.

SLOVER LIBRARY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MODIFIED CASH BASIS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization

The Slover Library Foundation (the Foundation) was incorporated on November 3, 2008, to administer the funds raised for the construction of the Slover Library (the Library) by the City of Norfolk, Virginia (the City) and post construction to administer a technical support fund for the Library. The Foundation created the Slover Library Guild to support the library's mission of creating a free and inclusive place where Hampton Roads residents can join together, share ideas and learn from each other. The Slover Library hosts special events that entertain, educate, and offer opportunities for civil discourse on topics important to our region. The Foundation is a not-for-profit, charitable organization as defined under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been granted exemption from federal income taxes by the Internal Revenue Service (IRS).

Presentation

The consolidated financial statements include the accounts of the Foundation and Slover Tenant, LLC (Slover Tenant) (together, referred to as the Foundation). Slover Tenant was established to support and further the charitable, educational, and literary purpose of the Foundation. Slover Tenant is a wholly owned subsidiary of the Slover Library Foundation. All intercompany transactions between the Foundation and Slover Tenant have been eliminated during consolidation.

The Foundation's accounts are maintained, and the consolidated financial statements are presented, on the modified cash basis of accounting, modified primarily from the cash basis of accounting to record investments in accordance with accounting principles generally accepted in the United States (GAAP). Consequently, the consolidated financial statements are not intended to present financial position and results of operations in conformity with GAAP. The major differences between the modified cash basis of accounting used by the Foundation and U.S. generally accepted accounting principles are that contribution income is recognized when received rather than upon receipt of the related pledge, capital expenditures are expensed when paid and operating expenses are recognized as an expense, or prepaid expense if related to a future exhibit or lecture, when paid rather than when the related obligations are incurred, with the exception of payroll related liabilities.

With the exception of the above, the Foundation prepares its consolidated financial statements using not for profit guidelines established by GAAP. GAAP affects the manner by which the Foundation accounts for certain contributions and requires the Foundation to present in its consolidated financial statements certain basic information that focuses on the entity as a whole rather than on individual funds. GAAP also requires a financial statement presentation based on net assets classified by the existence or absence of externally imposed restrictions.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

The Foundation presents investments in cash equivalents, equity instruments and bonds at fair value based upon quoted market prices, when available. Realized and unrealized gains and losses on investments are included net in the consolidated statement of activities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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 differ from such estimates.

Risks and Uncertainties

The Foundation's investments are exposed to various risks, such as interest, market, and credit risks. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Revenue and Support

Contributions received are recorded as support with donor restrictions or without donor restrictions, depending on the existence and/or nature of donor-imposed restrictions. As permitted by GAAP, contributions with donor restrictions received whose restrictions are satisfied within the same accounting period are presented as contributions without donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the consolidated statements of activities and changes in net assets. In presenting the Foundation's natural classification of expenses on a functional basis, direct expenses are aggregated by function and indirect expenses have been allocated among the programs and services benefited based on percentages determined by management. Supporting services includes general and administrative as well as fund raising expenses.

Income Taxes

While the Foundation is exempt from federal and state income taxes, the Foundation's subsidiary is a taxable entity whose activities, if deemed unrelated to the Foundation's exempt purpose, could subject the Foundation to taxes on unrelated business income.

The Foundation's tax returns are generally subject to examination by authorities for a period of three years from the date they are filed and accordingly the returns for the years ended June 30, 2019 and later remain subject to examination.

Subsequent Events

The Foundation evaluated subsequent events through February 8, 2023, the date the consolidated financial statements were available to be issued, for purposes of determining whether such events required recordation or disclosure in the accompanying consolidated financial statements.

NOTE 2 – CONCENTRATIONS

For each of the years ended June 30, 2022 and 2021, the Foundation had two donors that individually accounted for more than 10% of total contributions.

NOTE 3 – INVESTMENTS AND INVESTMENT INCOME

Investments

Investments consist of the following at June 30:

	2022	2021
Investments carried at fair value:		
Cash and cash equivalents:		
Fidelity Government Money Market Premium Class	\$ 275,006	\$ -
Charles Schwab Bank	249,000	-
Schwab Premier Bank	120,395	-
Fidelity Treasury Money Market Fund	<u>11,784</u>	<u>219,795</u>
Total cash and cash equivalents	<u>656,185</u>	<u>219,795</u>
Equity funds:		
Fidelity 500 Index Fund*	1,847,564	1,953,395
Vanguard Dividend Growth Fund Investor Shares*	730,927	787,750
Fidelity Global Ex US Index Fund*	561,561	595,511
Morgan Stanley Global Franchise Class I*	553,715	628,363
Brown Advisory Global Leaders Institutional Shares*	510,351	537,583
Fidelity Small Cap Index Fund	358,414	427,955
Fidelity Emerging Markets Index Fund	291,782	397,964
Other	<u>130,500</u>	<u>-</u>
Total equity funds	<u>4,984,814</u>	<u>5,328,521</u>
Alternative investments:		
SFM Global Strategies, L.P. (equities)*	1,604,989	2,032,886
HGI SF NE-SW Debt Holdings	268,500	215,104
Brown Advisory Investors 2020 Real Estate Debt, LLLP	249,332	240,803
HGI SF KF83, LLC	90,815	183,153
HGI SF K98, LLC	84,512	93,190
HGI SF KFB, LLC	-	45,171
HGI SF K30, LLC	<u>23,065</u>	<u>23,299</u>
Total alternative investments	<u>2,321,213</u>	<u>2,833,606</u>
Bond and bond type funds:		
Doubleline Total Return Bond Fund Class I	-	383,574
Metropolitan West Total Return Bond Fund Class I	<u>278,780</u>	<u>320,860</u>
Total bond funds	278,780	704,434
Corporate bonds	-	82,232
Municipal bonds	<u>1,125,029</u>	<u>1,106,396</u>
Total bonds and bond type funds	<u>1,403,809</u>	<u>1,893,062</u>
Accrued interest on bonds	<u>8,638</u>	<u>8,829</u>
Total investments at fair value	9,374,659	10,283,813
Other investment, at cost	<u>-</u>	<u>126,514</u>
Total investments	<u>\$ 9,374,659</u>	<u>\$10,410,327</u>

*Investment position exceeds 5% of total investments at June 30, 2022.

Fair values

GAAP defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. GAAP also establishes a three-level fair value hierarchy and describes the inputs that are used to measure assets and liabilities as follows:

Level I: The asset and liability fair values are based on quoted prices in active markets for identical assets or liabilities.

Level II: The asset and liability fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level II assets include debt securities with quoted prices that are traded less frequently than exchange traded instruments.

Level III: The asset and liability fair values are based on unobservable inputs that are supported by little or no market activity. Level III assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Foundation estimates the fair value of its investment in SFM Global Strategies, L.P. (SFM) based on the Foundation's proportionate share of the SFM audited net assets, a method equivalent to NAV. Accordingly, the investment in SFM is not subject to the aforementioned fair value hierarchy.

SFM investments in securities are recorded at fair value based upon quoted prices in active markets. The fair value of the SFM's investments in investment funds is measured based on NAV. When the NAV or its equivalent is not fair value based or is not calculated as of year-end, SFM adjusts the same if necessary to estimate fair value. Such estimates when applicable are based upon valuations determined in good faith by the underlying investment managers and reviewed by SFM, giving consideration to a variety of factors based on the specific investment. Such factors include the pricing of recent redemptions or purchases, restrictions on redemptions, pricing models and valuations, market inputs, recent sales and purchases data of comparable companies or securities. The use of observable inputs is maximized when available.

The following table presents the Foundation's assets that are measured at fair value on a recurring basis for each hierarchy level at June 30. Fair value measurements not valued using the practical expedient are categorized into the three-level hierarchy as follows:

	Level I	Level II	Level III	Total
June 30, 2022:				
Cash and cash equivalents	\$ 656,185	\$ -	\$ -	\$ 656,185
Equity funds	4,984,814	-	-	4,984,814
Alternative investments	-	-	716,224	716,224
Municipal and corporate bonds	-	1,125,029	-	1,125,029
Bond funds	278,780	-	-	278,780
Accrued income	-	8,638	-	8,638
	<u>\$ 5,919,779</u>	<u>\$ 1,133,667</u>	<u>\$ 716,224</u>	<u>7,769,670</u>
Investments measured at net asset value or its equivalent ^⓪				<u>1,604,989</u>
Total investments at fair value				<u>\$ 9,374,659</u>

	Level I	Level II	Level III	Total
June 30, 2021:				
Cash and cash equivalents	\$ 219,795	\$ -	\$ -	\$ 219,795
Equity funds	5,328,521	-	-	5,328,521
Alternative investments	-	-	800,720	800,720
Municipal and corporate bonds	-	1,188,628	-	1,188,628
Bond funds	704,434	-	-	704,434
Accrued income	-	8,829	-	8,829
	<u>\$ 6,252,750</u>	<u>\$ 1,197,457</u>	<u>\$ 800,720</u>	8,250,927
Investments measured at net asset value or its equivalent ①				<u>2,032,886</u>
Total investments at fair value				<u>\$ 10,283,813</u>

① Fair value amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated financial statements.

The following table presents a reconciliation of investment securities in which significant unobservable inputs (Level III) were used to determine fair value for the years ended June 30:

	2022	2021
Balance, beginning of year	\$ 800,720	\$ 94,102
Purchases	115,028	657,323
Unrealized gain (loss), net	(1,040)	68,404
Sales and return of capital	(196,524)	(18,355)
Fees	<u>(1,960)</u>	<u>(754)</u>
Balance, end of year	<u>\$ 716,224</u>	<u>\$ 800,720</u>

Investment income (loss), net

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

	2022	2021
Net gain (loss) on investments carried at fair value	\$(1,159,072)	\$1,907,703
Gain on life insurance policy	363,437	-
Interest and dividends	201,940	185,668
Management and custodial fees - direct	<u>(27,078)</u>	<u>(26,285)</u>
Total investment income (loss), net	<u>\$ (620,773)</u>	<u>\$2,067,086</u>

In addition to the above direct fees paid by the Foundation, the Foundation also holds investments in funds that incur management fees and or expenses which are charged to the respective funds' operations. Accordingly, such fees are not included in the above management and custodial fees.

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Balances and purpose

Cash and investments include certain funds that have been contributed to the Foundation with specific donor restrictions placed on the use of such funds. At June 30, such funds are restricted for the support of the following:

	2022	2021
Light AV Fund	\$ 113,901	\$ 149,600
Batten Speaker Series	51,045	58,738
Professional Development for Library Staff	36,627	54,031
Hendrix Business Center	17,989	19,198
Landmark Fund for Slover Technology (Touch Tables)	5,484	5,484
Strategic Planning S4 Plan	<u>-</u>	<u>59,854</u>
	<u>\$ 225,046</u>	<u>\$ 346,905</u>

Net assets released from restriction

Net assets released from restrictions consist of the following for the year ended June 30:

	2022	2021
Hendrix Business Center:		
Expenditures	\$ 1,209	\$ 49,802
Transfer	-	(50,000)
Landmark Fund for Slover Technology (Touch Tables)	-	15,559
Strategic Planning S4 Plan	59,854	15,146
Professional development for library staff	17,404	5,251
Light AV Fund	35,699	-
Batten Speaker Series	17,693	(16,250)
Other	<u>3,050</u>	<u>1,750</u>
	<u>\$ 134,909</u>	<u>\$ 21,258</u>

NOTE 5 – LIQUIDITY AND AVAILABILITY

The Foundation prepares an annual budget that is reviewed and approved by the Board of Directors in advance of the upcoming year. Management and the Board of Directors receive quarterly reports in order to review the actual results and to ensure cash on hand is sufficient to meet upcoming budgeted operating expenses.

The Foundation's financial assets consist of cash and investments. Financial assets available to meet general expenditures within one year of the balance sheet date were \$9,695,493 and \$10,635,870 as of June 30, 2022 and 2021, respectively.