



Financial Statements and Independent Auditors' Report

ArtsWave

August 31, 2021 and 2020



Contents

	Page
Independent Auditors' Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-23
Supplementary Information	
Schedules of Endowment and Board Designated Endowment Fair Values	24-25

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Cincinnati Institute of Fine Arts (dba ArtsWave)

Report on the Financial Statements

We have audited the accompanying financial statements of Cincinnati Institute of Fine Arts (dba ArtsWave) (a not-for-profit organization), which comprise the statements of financial position as of August 31, 2021 and 2020, and the related statements of activities, functional expenses 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati Institute of Fine Arts (dba ArtsWave) as of August 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 24-25 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 3, 2021

ArtsWave

STATEMENTS OF FINANCIAL POSITION

August 31, 2021 and 2020

	2021	2020
ASSETS		
Cash, cash equivalents, and restricted cash (Note B)	\$ 10,327,971	2,362,593
Pledges receivable, net (Note C)	4,017,394	4,475,424
Accrued interest receivable	139,074	129,272
Investments, at fair value (Note D)	125,027,156	114,699,178
Beneficial interest in trust (Note D)	3,897,311	3,435,831
Property and equipment, net (Note F)	1,883	10,689
Other assets	299,345	196,871
Total assets	\$ 143,710,134	125,309,858
LIABILITIES		
Grants payable (Note H)	\$ 9,266,374	9,248,238
Refundable advance (Note B)	6,797,953	-
Accounts payable and accrued expenses	335,737	139,069
Funds held in trust for others (Note I)	-	9,960,991
Funds held for the benefit of others (Note I)	50,193,571	41,665,571
Total liabilities	66,593,635	61,013,869
NET ASSETS (DEFICIT)		
Operating deficit	(376,468)	(492,225)
Board designated	19,505,295	16,777,111
Total without donor restrictions	19,128,827	16,284,886
With donor restrictions (Note J)	57,987,672	48,011,103
Total net assets	77,116,499	64,295,989
Total liabilities and net assets	\$ 143,710,134	125,309,858

The accompanying notes are an integral part of these statements.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2021

(with comparative summarized financial information for year ended August 31, 2020)

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Board Designated Endowment	Total		2021	2020
Revenues, gains and other support:						
Annual community campaign	\$ 5,432,125	-	5,432,125	4,128,826	9,560,951	9,878,434
Gifts, bequests and grants	508,837	-	508,837	2,463,964	2,972,801	2,379,112
Net investment return	35,747	4,538,722	4,574,469	10,474,013	15,048,482	5,368,923
Spending rate allocation	2,236,494	(705,091)	1,531,403	(1,531,403)	-	-
Beneficial interest value change	-	-	-	461,480	461,480	191,254
Other revenues	20,148	-	20,148	-	20,148	61,927
Net assets released from restrictions (Note J)	5,940,750	79,561	6,020,311	(6,020,311)	-	-
Total revenues, gains and other support	14,174,101	3,913,192	18,087,293	9,976,569	28,063,862	17,879,650
Expenses:						
Program services:						
Grants to arts organizations	11,221,890	-	11,221,890	-	11,221,890	10,476,950
Other	1,115,826	-	1,115,826	-	1,115,826	1,212,541
Supporting services:						
Management and general	1,062,955	-	1,062,955	-	1,062,955	1,218,482
Fundraising	1,842,681	-	1,842,681	-	1,842,681	1,934,056
Total expenses	15,243,352	-	15,243,352	-	15,243,352	14,842,029
Revenues net of expenses	(1,069,251)	3,913,192	2,843,941	9,976,569	12,820,510	3,037,621
Transfers (to)/from endowment	1,185,008	(1,185,008)	-	-	-	-
Change in net assets (deficit)	115,757	2,728,184	2,843,941	9,976,569	12,820,510	3,037,621
Net assets (deficit), beginning of year	(492,225)	16,777,111	16,284,886	48,011,103	64,295,989	61,258,368
Net assets (deficit), end of year	\$ (376,468)	19,505,295	19,128,827	57,987,672	77,116,499	64,295,989

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2020

	Without Donor Restrictions			With Donor Restrictions	Totals
	Operating	Board Designated Endowment	Total		
Revenues, gains and other support:					
Annual community campaign	\$ 5,200,922	-	5,200,922	4,677,512	9,878,434
Gifts, bequests and grants	441,641	-	441,641	1,937,471	2,379,112
Net investment return	34,038	1,574,957	1,608,995	3,759,928	5,368,923
Spending rate allocation	2,184,820	(712,004)	1,472,816	(1,472,816)	-
Beneficial interest value change	-	-	-	191,254	191,254
Other revenues	61,927	-	61,927	-	61,927
Net assets released from restrictions (Note J)	5,392,271	78,323	5,470,594	(5,470,594)	-
Total revenues, gains and other support	13,315,619	941,276	14,256,895	3,622,755	17,879,650
Expenses:					
Program services:					
Grants to arts organizations	10,476,950	-	10,476,950	-	10,476,950
Other	1,212,541	-	1,212,541	-	1,212,541
Supporting services:					
Management and general	1,218,482	-	1,218,482	-	1,218,482
Fundraising	1,934,056	-	1,934,056	-	1,934,056
Total expenses	14,842,029	-	14,842,029	-	14,842,029
Revenues net of expenses	(1,526,410)	941,276	(585,134)	3,622,755	3,037,621
Transfers (to)/from endowment	2,765,124	(2,765,124)	-	-	-
Change in net assets (deficit)	1,238,714	(1,823,848)	(585,134)	3,622,755	3,037,621
Net assets (deficit), beginning of year	(1,730,939)	18,600,959	16,870,020	44,388,348	61,258,368
Net assets (deficit), end of year	\$ (492,225)	16,777,111	16,284,886	48,011,103	64,295,989

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2021

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Grants to arts organizations	\$ 11,221,890	-	-	11,221,890
Arts events and workshops	104,598	42,488	78,412	225,498
Professional fees*	55,050	41,105	2,958	99,113
Salaries	420,706	417,557	935,872	1,774,135
Employee benefits	125,322	101,620	233,694	460,636
Stationery and other printing	-	1,176	8,813	9,989
Office supplies	1,104	2,482	2,371	5,957
Telephone and internet access	7,383	6,993	14,650	29,026
Postage	432	1,924	19,018	21,374
Office rent and occupancy	36,425	53,399	65,613	155,437
Equipment rental and maintenance	13,605	20,173	109,287	143,065
Office furniture and equipment	2,710	2,028	5,079	9,817
Travel and meetings	1,412	6,640	3,877	11,929
Promotion, publicity and printing *	309,491	253,228	49,807	612,526
Computer consulting and training*	7,517	30,233	57,816	95,566
Insurance	-	18,568	-	18,568
Provision for bad debt	-	-	187,452	187,452
Depreciation	-	8,806	-	8,806
Other	30,071	54,535	67,962	152,568
Total	\$ 12,337,716	1,062,955	1,842,681	15,243,352

* Included in these expenses are donated services.

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2020

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Grants to arts organizations	\$ 10,476,950	-	-	10,476,950
Arts events and workshops*	173,638	87,168	43,604	304,410
Professional fees*	35,700	29,234	244	65,178
Salaries	421,598	430,022	938,788	1,790,408
Employee benefits	107,146	112,822	242,884	462,852
Stationery and other printing	-	7,991	1,854	9,845
Office supplies	984	1,452	3,167	5,603
Telephone and internet access	6,393	7,643	14,086	28,122
Postage	474	1,723	14,507	16,704
Office rent and occupancy	27,726	24,248	57,891	109,865
Equipment rental and maintenance	52,814	21,387	77,832	152,033
Office furniture and equipment	6,275	27,835	13,354	47,464
Travel and meetings	12,018	18,637	54,975	85,630
Promotion, publicity and printing *	343,813	297,230	121,859	762,902
Computer consulting and training	6,844	32,494	60,470	99,808
Insurance	-	18,580	-	18,580
Provision for bad debt	-	-	221,239	221,239
Depreciation	-	72,782	-	72,782
Interest	-	3,134	-	3,134
Other	17,118	24,100	67,302	108,520
Total	\$ 11,689,491	1,218,482	1,934,056	14,842,029

* Included in these expenses are donated services.

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENTS OF CASH FLOWS

Years ended August 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 12,820,510	3,037,621
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	8,806	72,782
Net gain on investments	(13,860,073)	(4,176,993)
Beneficial interest in trust value change	(461,480)	(191,254)
Pledges receivable	270,578	(321,993)
Loss on doubtful pledges	187,452	221,239
Accrued interest receivable	(9,802)	50,991
Grants payable	18,136	(606,767)
Accounts payable and accrued expenses	196,668	(81,104)
Refundable advance	6,797,953	-
Other assets	(102,474)	(38,562)
Net cash provided by/(used in) operating activities	5,866,274	(2,034,040)
Cash flows from investing activities:		
Proceeds from sales of investments	42,061,438	39,160,719
Purchases of investments	(39,962,334)	(37,853,680)
Purchases of property and equipment	-	(9,629)
Net cash provided by investing activities	2,099,104	1,297,410
Cash flows from financing activities:		
Payments on loan payable	-	(194,228)
Net change in cash, cash equivalents, and restricted cash	7,965,378	(930,858)
Cash, cash equivalents, and restricted cash at beginning of year	2,362,593	3,293,451
Cash, cash equivalents, and restricted cash at end of year	\$ 10,327,971	2,362,593
Supplemental disclosures:		
Interest paid	\$ -	3,134
Income taxes paid	\$ 13,358	11,138

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

August 31, 2021 and 2020

NOTE A – ORGANIZATION

The Cincinnati Institute of Fine Arts, doing business as ArtsWave, was founded in 1927 by Charles Phelps Taft and Anna Sinton Taft whose fortune and foresight left a legacy of support for the arts for future generations to enjoy. The Taft family endowed a major gift, provided it be matched by the people of Cincinnati.

In 1949, ArtsWave established the annual community campaign to help support the Cincinnati Art Museum, the Cincinnati Symphony Orchestra (CSO), Taft Museum of Art and Cincinnati Opera. In 1978, the Cincinnati Ballet, Cincinnati Playhouse in the Park, May Festival, Contemporary Arts Center and Arts Grants Program were added as additional beneficiaries. The Arts Grants Program was administered by ArtsWave. An associate membership level was added in 1999.

During 2008, ArtsWave embarked on a research initiative designed to develop an inclusive community dialogue leading to broadly shared public responsibility for arts and culture in the region. With the research results as its basis, the organization developed recommendations for a new mission, community goals, business strategies, and a new name. In September 2010, the Board of Trustees approved the recommended mission and the new name, ArtsWave. ArtsWave supports arts organizations large and small throughout the area to help them create a vital arts scene and all the communitywide benefits that come with that – from economic vitality to more visitors and new businesses to a greater sense of connectedness among the people who live here.

In June 2012, ArtsWave transitioned to impact-based grantmaking. In 2015, ArtsWave developed the Blueprint for Collective Action, a 10-year strategic plan that outlines five strategic objectives that drive economic vibrancy and social connection through the arts. In 2020, the ArtsWave board approved ArtsWave's diversity, equity, inclusion and access commitment, "Lifting As We Learn", with key performance indicators for ArtsWave and the arts sector. In 2021, 41 organizations received general operating support through the Sustaining Impact grant program. Additionally, a total pool of funds was approved for African American Arts, Catalyzing Impact, Partnering for Impact, Pride, and Young Professional programming project grants to be made over the course of fiscal year 2021.

These financial statements do not include the accounts of the participating organizations which are separate legal entities, except for endowment funds held in trust and for the benefit of others for certain of these organizations participating in ArtsWave's investment pool (Note I).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

Under these provisions, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of ArtsWave and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board designated endowment.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. A portion of perpetual endowment funds are subject to a time restriction under an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resource be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Generally, the donors of these assets permit ArtsWave to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Contributions for which the donor-imposed restrictions were met within the same period are recorded in net assets with donor restrictions and then released from restrictions. All expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as support without restrictions.

2. Cash, Cash Equivalents, and Restricted Cash

All cash is maintained in interest-bearing accounts. See also Note K.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position to the sum of corresponding amounts within the statements of cash flows.

	2021	2020
Cash and cash equivalents	\$ 8,498,059	\$ 1,537,165
Cash restricted for specific purposes	1,829,912	825,428
	\$ 10,327,971	\$ 2,362,593

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

3. Pledges Receivable

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges for support in the current annual community campaign are recorded as support revenues. Legacies and bequests made by will or trust are recorded when ArtsWave has an irrevocable right to the bequest and the proceeds are measurable. ArtsWave determines its allowance for uncollectible pledges by considering several factors, including the length of time pledges are past due, ArtsWave's previous loss history and the donor's current ability to pay. When amounts are determined to be uncollectible, they are charged to the allowance. Recoveries of amounts previously written off replenish the allowance. Pledges receivable due beyond one year are discounted using the risk-free interest rate in effect during the year the pledge is received.

4. Investments

ArtsWave's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

The vast majority of assets of endowment and Board designated endowment funds are pooled for investment purposes on a fair value basis. Under this method, each participating fund was assigned units based on the relationship of the fair value of all investments at the time they were pooled.

Each month, the pooled assets are valued at fair value, and new unit values are assigned. The unit fair value at the beginning of the month is used to determine the number of units to be allocated as dollars are added to or withdrawn from the pool during the month.

5. Beneficial Interest in Trust

ArtsWave values its beneficial interest in trust at the fair value of the assets at year-end as reported by the trustee, a financial institution, without adjustment by management.

6. Property and Equipment

Property and equipment are recorded at cost or the fair value at the date received, if donated. Capitalization limits are set at \$2,500; expenditures for items costing less are expensed. These assets are depreciated on the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the lesser of their estimated useful life or the remaining life of the lease. Equipment and furniture have estimated useful lives of three to seven years.

7. Grants Payable

Grants payable consists of Board-approved distributions of annual campaign income and endowment income to be paid in the following fiscal year.

8. Refundable Advance

Refundable advance represents monies received in advance from conditional contributions for which the conditions have not been met.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

9. Use of Estimates

The preparation of financial statements in conformity with U.S. 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 revenue and expenditures during the reporting period. Actual results could differ from those estimates.

10. Federal Income Tax

ArtsWave has been determined to be exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. It has been determined that ArtsWave is not a private foundation. ArtsWave is subject to income tax that is derived from business activities unrelated to its exempt purpose. ArtsWave files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

11. Advertising

Advertising costs are expensed as incurred. For the years ended August 31, 2021 and 2020, advertising costs were \$480,790 and \$549,254, respectively.

12. Donated Goods and Services

Donated goods used in ArtsWave's programs are recorded as income and expense or additions to the property fund at the time the items are received. Donated services are recorded as public support only if they create or enhance nonfinancial assets or require specialized services. Donated goods and services were estimated at \$333,591 and \$329,565 for the years ended August 31, 2021 and 2020, respectively.

13. Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services categories based on specific identifications or staff time spent within each function.

14. Fair Value Measurements

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, ArtsWave uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, ArtsWave may adjust for risks and uncertainties if a market participant would include such an adjustment in its pricing.

15. Subsequent events

ArtsWave evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through December 3, 2021, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE C – PLEDGES RECEIVABLE

As of August 31, 2021 and 2020, contributors to ArtsWave have made unconditional promises to give totaling \$4,365,987 and \$4,952,383, respectively.

Pledges receivable are due as follows:

	2021	2020
Within one year	\$ 4,248,344	\$ 4,711,544
Two to five years	117,643	240,839
	4,365,987	4,952,383
Less:		
Present value component	(593)	(959)
Allowance for uncollectible pledges	(348,000)	(476,000)
Total pledges receivable	\$ 4,017,394	\$ 4,475,424

For the years ended August 31, 2021 and 2020 estimated cash flows from pledges receivable due in two to five years have been discounted to the present value using a discount rate of 1.2% and 0.4%, respectively.

NOTE D – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements and disclosures are based on a three-level hierarchy. Fair value instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or level 1 inputs) include cash and cash equivalents, equity securities and mutual funds. Financial instruments measured at fair value based on quoted market prices for similar instruments in active markets (or level 2 inputs) include fixed income securities. Financial instruments measured at fair value based on unobservable inputs (or level 3 inputs) include the beneficial interest in trust.

Approximately 30% of corporate obligations relate to national mortgage finance companies with yields of 0% to approximately 5% maturing within one year. Approximately 30% of corporate obligations relate to national mortgage finance companies with yields of approximately 2% to 6%, maturing in the next five to 33 years, with an average term of 25 years. The remaining balance of corporate obligations relates to bonds issued by corporations in a variety of industries with an average yield of approximately 5%, and an average maturity of ten years.

ArtsWave invests in hedge, high yield bond, and private equity funds for which ArtsWave bases fair value on the net asset value (NAV) of each fund, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by ArtsWave's management. As a practical expedient, ArtsWave measures the fair value of such investments based on the investee's NAV or its equivalent. As a result of applying the practical expedient, the fair value of hedge, high yield bond, and private equity funds was determined as of August 31, 2021 and 2020, based on NAV.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position on August 31, 2021:

	Total	(Level 1)	(Level 2)	(Level 3)	Investments measured at NAV
Investments:					
Cash and cash equivalents	\$ 1,710,780	1,710,780	-	-	-
Equities:					
Information and communication	954,091	954,091	-	-	-
Industrials	1,210,974	1,210,974	-	-	-
Consumer discretionary	1,051,320	1,051,320	-	-	-
Financial institutions	812,091	812,091	-	-	-
Health care	607,420	607,420	-	-	-
Other	98,928	98,928	-	-	-
Mutual funds:					
International	27,376,766	27,376,766	-	-	-
Large cap	31,233,901	31,233,901	-	-	-
Small and mid cap	1,836,021	1,836,021	-	-	-
Intermediate term bonds	119,995	119,995	-	-	-
Diversified emerging markets	10,049,209	10,049,209	-	-	-
Fixed income:					
Corporate	13,712,989	-	13,712,989	-	-
Foreign	748,249	-	748,249	-	-
Government	8,670,807	-	8,670,807	-	-
High yield bonds	475	-	-	-	475
Hedge and other limited partnership funds	13,562,183	-	-	-	13,562,183
Private equity funds	11,270,957	-	-	-	11,270,957
Total investments	\$ 125,027,156	77,061,496	23,132,045	-	24,833,615
Beneficial interest in trust:	\$ 3,897,311	-	-	3,897,311	-

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position on August 31, 2020:

	Total	(Level 1)	(Level 2)	(Level 3)	Investments measured at NAV
Investments:					
Cash and cash equivalents	\$ 1,490,650	1,490,650	-	-	-
Equities:					
Information and communication	1,019,453	1,019,453	-	-	-
Industrials	781,599	781,599	-	-	-
Consumer discretionary	592,133	592,133	-	-	-
Financial institutions	320,343	320,343	-	-	-
Health care	507,122	507,122	-	-	-
Other	120,691	120,691	-	-	-
Mutual funds:					
International	22,389,480	22,389,480	-	-	-
Large cap	29,602,018	29,602,018	-	-	-
Small and mid cap	1,104,862	1,104,862	-	-	-
Intermediate term bonds	120,183	120,183	-	-	-
Real asset moderate allocation	3,305,386	3,305,386	-	-	-
Diversified emerging markets	7,417,932	7,417,932	-	-	-
Fixed income:					
Corporate	11,455,396	-	11,455,396	-	-
Foreign	657,531	-	657,531	-	-
Government	7,635,140	-	7,635,140	-	-
High yield bonds	2,789,780	-	-	-	2,789,780
Hedge and other limited partnership funds	13,881,492	-	-	-	13,881,492
Private equity funds	9,507,987	-	-	-	9,507,987
Total investments	\$ 114,699,178	68,771,852	19,748,067	-	26,179,259
Beneficial interest in trust:	\$ 3,435,831	-	-	3,435,831	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

Investments accounted for under the practical expedient at August 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>	<u>2021 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>
Hedge and other limited partnership funds:					
Absolute	\$ 6,105,106	6,448,126	-	Monthly	91 days
Long-biased	7,457,077	6,398,531	-	Quarterly	45 days
Other	-	1,034,835	-	Monthly	30 days
High yield bond funds	475 11,270,95	2,789,780	-	Quarterly	45 days
Private equity funds	<u>7</u>	<u>9,507,987</u>	<u>5,336,184</u>	N/A	N/A
	\$ 24,833,61				
	<u>5</u>	<u>26,179,259</u>	<u>5,336,184</u>		

Investments in the absolute hedge fund do not have a holding period. This fund of funds seeks consistent stable returns by allocation of assets to a wide range of alternative investment strategies across the global financial markets.

The long-biased hedge funds invest in funds focused on taking long positions in equity securities. Subsequent to satisfying a 12-month lock-up period, redemptions up to 25% of estimated NAV may occur on March 31st, June 30th, and September 30th and up to 100% of estimated NAV may occur on December 31st. All lock-up periods for investments in these funds have expired as of August 31, 2021.

The other limited partnership fund's investment objective is to seek absolute return by investing directly or via equity swaps, long-only without leverage in income producing publicly traded master limited partnerships (MLPs), with a focus on energy sector MLPs. ArtsWave liquidated its holding in this fund during 2021.

Investments in high yield bond funds do not have a holding period. These funds seek investments in bonds with lower credit ratings and therefore higher yields than investment grade corporate bonds, treasury bonds, and municipal bonds.

Private equity funds invest in growth equities, venture capital, leveraged buyouts and private placements. These funds are structured as limited partnerships where ArtsWave is a limited partner of the fund. The funds have a ten-year term and generally cannot be redeemed until the fund is terminated. It is estimated that the underlying assets will be liquidated over the next ten years. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the NAV of ArtsWave's ownership interest in partners' capital.

The carrying amounts of cash, receivables, grants payable, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE E – ENDOWMENT FUNDS

ArtsWave's endowment funds include donor restricted endowment funds, funds designated by the Board for reinvestment in the endowment funds, and investment income on the endowment funds that can be appropriated for expenditure. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the absence or existence of donor-imposed restrictions.

Management of ArtsWave has interpreted the Ohio-enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds held in perpetuity absent explicit donor stipulations to the contrary. As a result of this interpretation, ArtsWave will classify as net assets with donor restrictions in perpetuity: (a) the original value of gifts donated to funds held in perpetuity, (b) the original value of subsequent gifts to funds held in perpetuity, and (c) accumulations to funds held in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with ArtsWave's interpretation of UPMIFA, investment income and appreciation/depreciation earned on the endowment funds held in perpetuity are credited to net assets with donor restrictions until the later of satisfaction of donor restrictions or appropriation for expenditure by the governing board. ArtsWave's policy for other endowment gifts is to include 100% of the unrealized and realized appreciation as net assets with donor restrictions and subsequently release funds needed to satisfy investment management fees and spending rate allocation, as applicable, based upon the original donor's specifications. These transactions are presented on the statements of activities within the spending rate allocation.

Investment return objectives, risk parameters and strategies

ArtsWave has adopted investment and spending policies for endowment investments that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment investments. To satisfy these long-term objectives, ArtsWave relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ArtsWave targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending policy

ArtsWave has a policy of appropriating for distribution each year a certain percentage of its endowment fund's average fair value over the prior 20 quarters through March 31st preceding the fiscal year in which the distribution is planned. The spending distribution rate was 4.0% in 2021 and 2020.

There are 17 endowment funds held in perpetuity. As of August 31, 2021 and 2020, respectively, the fair value of these funds collectively is \$45,155,450 and \$36,300,882 more than the original gift amounts. An additional \$22,249,816 and \$19,373,755 in fair value as of August 31, 2021 and 2020, respectively, relates to board designated gifts also held in the endowment pool.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

The endowment investment asset composition by type of fund consists of the following as of August 31:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	51,088,322	51,088,322
Board designated endowment funds	22,249,816	-	22,249,816
Total	\$ 22,249,816	51,088,322	73,338,138

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	42,233,754	42,233,754
Board designated endowment funds	19,373,755	-	19,373,755
Total	\$ 19,373,755	42,233,754	61,607,509

The change in endowment fund investments, not including investments held for the benefit of or in trust for others, for the year ended August 31, 2021, is as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 19,373,755	42,233,754	61,607,509
Net investment return	4,642,782	10,474,036	15,116,818
Transfers in	283,879	-	283,879
Appropriation of endowment assets for expenditure	(738,344)	(1,619,468)	(2,357,812)
Other changes: Transfers from board designated funds to operations	(1,312,256)	-	(1,312,256)
Endowment investments, end of year	\$ 22,249,816	51,088,322	73,338,138

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

The change in endowment fund investments, not including investments held for the benefit of or in trust for others, for the year ended August 31, 2020, is as follows:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 18,712,616	40,052,345	58,764,961
Net investment return	1,740,552	3,759,927	5,500,479
Transfers in	75,635	-	75,635
Appropriation of endowment assets for expenditure	(748,380)	(1,578,518)	(2,326,898)
Other changes:			
Transfers from board designated funds to operations	(406,668)	-	(406,668)
Endowment investments, end of year	<u>\$ 19,373,755</u>	<u>42,233,754</u>	<u>61,607,509</u>

Transfers from board designated endowment

In accordance with its policy, ArtsWave transferred all unanticipated gifts and bequests greater than \$5,000 to the board designated endowment fund. ArtsWave transfers to the board designated endowment fund excess campaign reserves, operating surpluses generated in the prior year, or excess operating cash. Additionally, upon Board approval ArtsWave will transfer funds from the board designated endowment fund to operations to fund specific projects, grants, or planned transitional growth. Differences from transfers in above are attributed to timing of cash deposits into the board designated endowment investment account.

NOTE F – PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2021 and 2020 are summarized as follows:

	2021	2020
Equipment and furniture	\$ 71,924	71,924
Leasehold improvements	531,117	531,117
	<u>603,041</u>	<u>603,041</u>
Less accumulated depreciation	(601,158)	(592,352)
Property and equipment, net	<u>\$ 1,883</u>	<u>10,689</u>

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE G – LEASES

ArtsWave leases certain operating and storage facilities and equipment under operating lease agreements. Lease expense was \$105,056 and \$90,141 for 2021 and 2020, respectively.

Future minimum payments for the years ending August 31:

2022	\$	100,703
2023		100,703
2024		98,777
2025		32,712
	\$	<u>332,895</u>

NOTE H – GRANTS PAYABLE

Grants payable consists of the following at August 31:

	<u>2021</u>	<u>2020</u>
Allocated grants	\$ 10,173,961	10,284,621
Unallocated grants	<u>(907,587)</u>	<u>(1,036,383)</u>
	<u>\$ 9,266,374</u>	<u>9,248,238</u>

Unallocated grants represent board approved grants from net assets with donor restrictions for which a recipient has not yet been identified. These allocations are recognized as contra liabilities upon board approval for tracking purposes. Once a recipient has been identified, the contra-liability is reversed and the appropriate donor restricted net assets are released from restrictions.

NOTE I – FUNDS HELD IN TRUST FOR OTHERS AND FOR THE BENEFIT OF OTHERS

Funds held in trust for others and for the benefit of others are recognized in the accompanying statements of financial position and represent endowment assets held by ArtsWave within the investment pool (Note D) on behalf of local area not-for-profit organizations. The related investment purchases and sales and corresponding changes in fund liabilities are included within investing activity on the statements of cash flows. Total funds held in trust for others were \$9,960,991 at August 31 2020. During 2021, funds held in trust were fully liquidated and \$10,599,262 has been distributed to the respective not-for-profit organization. A final distribution of \$85,574 will be paid during FY22 and is included in accounts payable and accrued expenses at August 31, 2021. Total funds held for the benefit of others were \$50,193,571 and \$41,665,571 at August 31, 2021 and 2020, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE J – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available primarily for the use of ArtsWave and its beneficiary organizations and consist of the following as of August 31:

	2021	2020
Endowment funds	\$ 51,088,322	42,233,754
Beneficial interest in trust	3,897,311	3,435,831
Time restrictions	430,014	564,068
Other program restrictions	2,572,025	1,777,450
	\$ 57,987,672	48,011,103

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, passage of time or by occurrence of other events specified by donors. Net assets released from restrictions were \$6,020,311 and \$5,470,594 in 2021 and 2020, respectively, primarily due to the fulfillment of the purpose for which the resource was restricted or due to time restrictions expiring on net assets available for future operations and programs.

NOTE K – RISKS AND UNCERTAINTIES

Cash balances in certain accounts at banks exceed the Federal Deposit Insurance Corporation (FDIC) limits by \$9,832,048 and \$1,885,510 at August 31, 2021 and 2020, respectively.

Pledges receivable are from various employers, employees of such employers, trusts and foundations, and the general public in the Greater Cincinnati region.

ArtsWave holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and such changes could materially affect the amounts reported in the financial statements.

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a global pandemic. The COVID-19 pandemic has caused business disruption through closing of offices and significant fluctuations in stock market indices. The extent of the impact of COVID-19 pandemic on ArtsWave's operational and financial performance will depend on certain developments, including the duration and spread of the pandemic.

NOTE L – RETIREMENT PLAN

ArtsWave maintains a safe harbor retirement savings plan which allows participants to make contributions by salary deduction pursuant to Section 401(k) of the Internal Revenue Code. ArtsWave makes safe harbor matching contributions equal to 116.66% of the employee's elective deferrals that do not exceed 6% of the employee's compensation. Employees vest immediately in their own and ArtsWave's contributions. ArtsWave's contributions to the plan in 2021 and 2020 were \$97,185 and \$106,912, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE M – RELATED PARTY TRANSACTIONS

Members of ArtsWave’s Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with ArtsWave. ArtsWave employs a conflict of interest policy that requires any such associations to be disclosed in writing. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the entity doing business with ArtsWave. The transactions with entities associated with trustees or senior management are not considered to be significant.

NOTE N – LIQUIDITY DISCLOSURES

ArtsWave is substantially supported by investment income and contributions from donors. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, ArtsWave must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of ArtsWave’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Funds held within the board designated endowment would be used to help satisfy liquidity needs if necessary.

The following table presents the financial assets available to meet cash needs for general expenditure within one year at August 31:

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash, cash equivalents, and restricted cash	\$ 10,327,971	2,362,593
Pledges receivable	4,365,987	4,952,383
Accrued interest receivable	139,074	129,272
Investments at fair value	<u>125,027,156</u>	<u>114,699,178</u>
Financial assets available at year end	<u>139,860,188</u>	<u>122,143,426</u>
Less those unavailable for general expenditures within one year due to:		
Investments held in donor restricted endowment	51,088,322	42,233,754
Funds held for the benefit of others	50,193,571	41,665,571
Funds held in trust for others	-	9,960,991
Restricted by donor for specific purpose	2,259,926	1,389,496
Private equity fund lockups – without donor restriction	<u>2,004,709</u>	<u>1,780,448</u>
Total limitations on available resources	<u>105,546,528</u>	<u>97,030,260</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 34,313,660</u>	<u>25,113,166</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2021 and 2020

NOTE O – CONDITIONAL PROMISES TO GIVE

During the year ended August 31, 2021, ArtsWave received conditional promises to give of \$1,000,000. No amounts have been recognized during 2021 as the conditions have not been satisfied.

NOTE P – UPCOMING PRONOUNCEMENTS

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use-asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for ArtsWave's year ending August 31, 2023.

ArtsWave is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ArtsWave

SCHEDULES OF ENDOWMENT AND BOARD DESIGNATED ENDOWMENT FAIR VALUES

August 31, 2021 and 2020

	August 31, 2021 Fair Value	August 31, 2020 Fair Value
<u>Endowment – income restricted</u>		
Taft Museum:		
Anna S. Taft	\$ 21,552,275	17,959,400
Louise Taft Semple Foundation (directorship)	1,941,313	1,617,688
Cincinnati Symphony Orchestra:		
Mr. & Mrs. Charles Phelps Taft	17,577,082	14,530,649
Thomas J. Emery Memorial	2,167,751	1,792,040
Mary Hanna and others	657,114	543,222
Mr. & Mrs. William Kite	75,799	62,663
Betscher and Outcalt Memorial	32,304	26,699
Anonymous	197,194	163,016
Weibel	99,236	82,031
Cincinnati Opera Association:		
Mr. & Mrs. Lawrence H. Kyte	126,990	104,975
Eleanor Feld	21,524	17,796
Maurice Oshry (Cincinnati Opera Association)	75,995	62,831
Anonymous	1,177,355	973,293
Children’s Education Fund:		
Cincinnati Art Museum	1,069,252	883,928
Cincinnati Symphony Orchestra	915,902	757,156
Cincinnati Opera Association	458,646	379,160
Playhouse in the Park	306,190	253,123
Cincinnati Ballet	152,883	126,389
Contemporary Arts Center	152,883	126,389
Anonymous (Cincinnati Art Museum)	393,149	325,011
Dorothy Rawson (allocated to art museum and orchestra)	501,240	414,373
Blanche and Rebekah Alter (allocated to art museum and orchestra)	1,829,037	1,512,039
Rosa F. and Samuel B. Sachs (Annual Sachs Award)	926,149	765,632
Richard P. Windisch and Martha W. Van Goeben (May Festival)	412,957	341,375
Mid-Sized Arts Endowment	2,002,132	1,655,125
Annual community campaign	605,025	500,165
Goldsmith endowed annual campaign gift	84,737	70,050
Susan & Burton Closson endowed annual campaign gift	213,585	176,566
	\$ 55,725,699	46,222,784

ArtsWave

SCHEDULES OF ENDOWMENT AND BOARD DESIGNATED ENDOWMENT FAIR VALUES (continued)

August 31, 2021 and 2020

	August 31, 2021 Fair Value	August 31, 2020 Fair Value
<u>Endowment – income without restriction</u>		
Taft – 1927 matching endowment	\$ 41,941,722	34,672,440
National Endowment for the Arts matching endowment –		
Thomas J. Emery Memorial	1,572,216	1,299,719
William P. Anderson Foundation	381,989	315,780
Eleanor and Charlie Taft Fund	334,583	276,594
Anonymous	412,957	341,375
LKC Foundation	69,310	57,293
Mr. and Mrs. Louis John Johnen Memorial Fund	572,698	473,436
John Sherman	12,629	10,440
Ruth Wilkerson	80,051	66,175
Albert W. Vontz, Jr.	49,502	40,925
	45,427,657	37,554,177
 <u>Board designated endowment</u>		
Bertrand B. Kahn (scholarships)	107,699	89,034
Arts Services Office endowments	1,674,688	1,384,435
Board Designated Operating Reserves	11,074,505	10,135,329
ArtsWave general	4,957,521	4,098,286
Annual community campaign	4,435,403	3,666,671
	22,249,816	19,373,755
Total ArtsWave endowment and Board designated endowment, at fair value	123,403,172	103,150,716
 CHARITABLE GIFT ANNUITIES*	128,544	122,364
 FUNDS HELD IN TRUST FOR OTHERS		
Funds held for the Taft Museum of Art	-	9,960,991
Total endowment and Board designated endowment and funds held in trust for others, at fair value	\$ 123,531,716	113,234,071

*A separate account was established for charitable gift annuities.