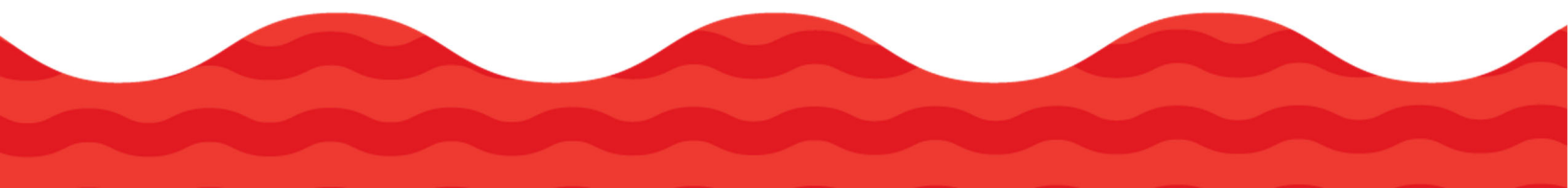




Financial Statements and Accompanying Information
with Independent Auditors' Report

ArtsWave

August 31, 2022 and 2021



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cincinnati Institute of Fine Arts (dba ArtsWave):

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021, 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, 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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cincinnati Institute of Fine Arts (dba ArtsWave) 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 opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Cincinnati Institute of Fine Arts (dba ArtsWave)'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 and *Government 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 and *Government 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 Cincinnati Institute of Fine Arts (dba ArtsWave)'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 Cincinnati Institute of Fine Arts (dba ArtsWave)'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.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of Endowment and Board Designated Endowment Fair Values are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2023, on our consideration of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 3, 2023

ArtsWave

STATEMENTS OF FINANCIAL POSITION

August 31, 2022 and 2021

	2022	2021
ASSETS		
Cash, cash equivalents, and restricted cash (Note B)	\$ 4,541,564	10,327,971
Pledges receivable, net (Note C)	3,831,359	4,017,394
Accrued interest receivable	165,727	139,074
Investments, at fair value (Note D)	107,826,393	125,027,156
Beneficial interest in trust (Note D)	3,119,090	3,897,311
Property and equipment, net (Note F)	1,265,364	1,883
Operating lease right of use assets (Note G)	1,467,824	-
Other assets	249,849	299,345
	\$ 122,467,170	143,710,134
LIABILITIES		
Grants payable (Note H)	\$ 9,284,718	9,266,374
Refundable advance (Note B)	21,175	6,797,953
Accounts payable and accrued expenses	605,506	335,737
Note payable (Note Q)	579,493	-
Operating lease liability (Note G)	1,465,493	-
Funds held for the benefit of others (Note I)	42,621,169	50,193,571
	54,577,554	66,593,635
NET ASSETS (DEFICIT)		
Operating	1,019,242	(376,468)
Board designated	17,283,510	19,505,295
Total without donor restrictions	18,302,752	19,128,827
With donor restrictions (Note J)	49,586,864	57,987,672
	67,889,616	77,116,499
Total net assets	\$ 122,467,170	143,710,134
Total liabilities and net assets	\$ 122,467,170	143,710,134

The accompanying notes are an integral part of these statements.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2022

(with comparative summarized financial information for year ended August 31, 2021)

	Without Donor Restrictions			With Donor Restrictions	Totals	
	Operating	Board Designated Endowment	Total		2022	2021
Revenues, gains and other support:						
Annual community campaign	\$ 6,065,981	-	6,065,981	4,261,109	10,327,090	9,227,360
Contributions of nonfinancial assets	287,391	-	287,391	-	287,391	333,591
Gifts, bequests and grants	3,584,980	-	3,584,980	10,358,565	13,943,545	2,972,801
Net investment return	(24,445)	(2,792,657)	(2,817,102)	(5,571,205)	(8,388,307)	15,048,482
Spending rate allocation	2,598,196	(831,400)	1,766,796	(1,766,796)	-	-
Beneficial interest value change	-	-	-	(778,221)	(778,221)	461,480
Other revenues	24,566	-	24,566	-	24,566	20,148
Net assets released from restrictions (Note J)	14,824,394	79,866	14,904,260	(14,904,260)	-	-
Total revenues, gains and other support	27,361,063	(3,544,191)	23,816,872	(8,400,808)	15,416,064	28,063,862
Expenses:						
Program services:						
Grants to arts organizations	20,080,442	-	20,080,442	-	20,080,442	11,221,890
Other	1,580,465	-	1,580,465	-	1,580,465	1,115,826
Supporting services:						
Management and general	1,067,033	-	1,067,033	-	1,067,033	1,062,955
Fundraising	1,915,007	-	1,915,007	-	1,915,007	1,842,681
Total expenses	24,642,947	-	24,642,947	-	24,642,947	15,243,352
Revenues net of expenses	2,718,116	(3,544,191)	(826,075)	(8,400,808)	(9,226,883)	12,820,510
Transfers (to)/from endowment	(1,322,406)	1,322,406	-	-	-	-
Change in net assets (deficit)	1,395,710	(2,221,785)	(826,075)	(8,400,808)	(9,226,883)	12,820,510
Net assets (deficit), beginning of year	(376,468)	19,505,295	19,128,827	57,987,672	77,116,499	64,295,989
Net assets, end of year	\$ 1,019,242	17,283,510	18,302,752	49,586,864	67,889,616	77,116,499

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2021

	Without Donor Restrictions			With Donor Restrictions	Totals
	Operating	Board Designated Endowment	Total		
Revenues, gains and other support:					
Annual community campaign	\$ 5,098,534	-	5,098,534	4,128,826	9,227,360
Contributions of nonfinancial assets	333,591	-	333,591	-	333,591
Gifts, bequests and grants	508,837	-	508,837	2,463,964	2,972,801
Net investment return	35,747	4,538,722	4,574,469	10,474,013	15,048,482
Spending rate allocation	2,236,494	(705,091)	1,531,403	(1,531,403)	-
Beneficial interest value change	-	-	-	461,480	461,480
Other revenues	20,148	-	20,148	-	20,148
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
Expenses:					
Program services:					
Grants to arts organizations	11,221,890	-	11,221,890	-	11,221,890
Other	1,115,826	-	1,115,826	-	1,115,826
Supporting services:					
Management and general	1,062,955	-	1,062,955	-	1,062,955
Fundraising	1,842,681	-	1,842,681	-	1,842,681
Total expenses	15,243,352	-	15,243,352	-	15,243,352
Revenues net of expenses	(1,069,251)	3,913,192	2,843,941	9,976,569	12,820,510
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
Net assets (deficit), beginning of year	(492,225)	16,777,111	16,284,886	48,011,103	64,295,989
Net assets (deficit), end of year	\$ (376,468)	19,505,295	19,128,827	57,987,672	77,116,499

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2022

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Grants to arts organizations	\$ 20,080,442	-	-	20,080,442
Arts events and workshops	146,471	7,326	49,521	203,318
Professional fees*	123,219	54,712	-	177,931
Salaries	664,851	407,012	967,585	2,039,448
Employee benefits	153,834	97,163	250,484	501,481
Stationery and other printing	-	2,345	5,399	7,744
Office supplies	1,947	2,196	4,351	8,494
Telephone and internet access	7,475	7,385	17,936	32,796
Postage	999	768	17,233	19,000
Office rent and occupancy	30,344	22,308	67,517	120,169
Equipment rental and maintenance	13,824	32,910	80,691	127,425
Office furniture and equipment	5,651	4,294	12,677	22,622
Travel and meetings	5,767	18,838	11,489	36,094
Promotion, publicity and printing *	408,659	270,631	101,112	780,402
Computer consulting and training*	9,762	29,160	79,661	118,583
Insurance	-	20,456	-	20,456
Provision for bad debt	-	-	174,680	174,680
Depreciation	-	471	-	471
Other	7,662	89,058	74,671	171,391
Total	\$ 21,660,907	1,067,033	1,915,007	24,642,947

* 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, 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

STATEMENTS OF CASH FLOWS

Years ended August 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (9,226,883)	12,820,510
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	471	8,806
Net (gain) loss on investments	9,885,458	(13,860,073)
Beneficial Interest in trust value change	778,221	(461,480)
Pledges receivable	11,355	270,578
Loss on doubtful pledges	174,680	187,452
Accrued interest receivable	(26,653)	(9,802)
Amortization of operating lease right of use assets	73,262	-
Grants payable	18,344	18,136
Accounts payable and accrued expenses	(33,758)	196,668
Refundable advance	(6,776,778)	6,797,953
Other assets	49,496	(102,474)
Operating lease liability	(75,593)	-
Net cash provided by/(used in) operating activities	(5,148,378)	5,866,274
Cash flows from investing activities:		
Proceeds from sales of investments	38,051,830	42,061,438
Purchases of investments	(38,308,927)	(39,962,334)
Purchases of property and equipment	(960,425)	-
Net cash provided by/(used in) investing activities	(1,217,522)	2,099,104
Cash flows from financing activities:		
Borrowings under line-of-credit agreement	579,493	-
Net change in cash, cash equivalents, and restricted cash	(5,786,407)	7,965,378
Cash, cash equivalents, and restricted cash at beginning of year	10,327,971	2,362,593
Cash, cash equivalents, and restricted cash at end of year	\$ 4,541,564	10,327,971
Supplemental disclosures:		
Income taxes paid	\$ -	13,358
Property and equipment purchases in Accounts Payable	\$ 303,527	-

The accompanying notes are an integral part of these statements.

ArtsWave

NOTES TO FINANCIAL STATEMENTS

August 31, 2022 and 2021

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. 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 2022, ArtsWave awarded grants providing general operating support to 41 local arts organizations through the Sustaining Impact grant program. Additionally, a 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 2023.

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.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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/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 to the sum of corresponding amounts reported within the statements of financial position and the statements of cash flows.

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,248,732	8,498,059
Cash restricted for specific purposes	1,292,832	1,829,912
	<u>\$ 4,541,564</u>	<u>10,327,971</u>

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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. Capitalized Interest

Capitalized interest is included as part of the cost of property and equipment. The capitalization rates are based on the organization's weighted-average cost of borrowings used to finance the expenditures. Capitalized interest during 2022 was not material.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

8. Grants Payable

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

9. Refundable Advance

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

10. 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.

11. 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.

12. Advertising

Advertising costs are expensed as incurred. For the years ended August 31, 2022 and 2021, advertising costs were \$543,739 and \$480,790, respectively.

13. Donated 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 \$287,391 and \$333,591 for the years ended August 31, 2022 and 2021, respectively.

14. 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.

15. 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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

ArtsWave may adjust for risks and uncertainties if a market participant would include such an adjustment in its pricing.

16. 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 February 3, 2023, the date which the financial statements were available to be issued.

17. Reclassifications

Certain items from 2021 have been reclassified to conform to the current year presentation. Such reclassifications did not have an effect on total assets, liabilities, net assets or changes in net assets.

18. Adoption of new accounting standards

During 2022, ArtsWave early adopted Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) No. 2016-02, *Leases* in conjunction with renovations and renewal of its office space. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Classification for lessees is based on an assessment of whether risks and rewards as well as substantive control have been transferred through a lease contract.

Also during 2022, ArtsWave adopted FASB ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets*. The standard requires contributed non-financial assets be presented as a separate line item in the consolidated statements of activities, apart from contributions of cash and other financial assets, and enhanced disclosures including ArtsWave's policy for valuation and monetization of contributed non-financial assets and any donor-restrictions attached to the assets. This standard has been applied retrospectively with no impact to the change in net assets.

NOTE C – PLEDGES RECEIVABLE

As of August 31, 2022 and 2021, contributors to ArtsWave have made unconditional promises to give totaling \$3,831,359 and \$4,017,394, respectively.

Pledges receivable are due as follows:

	2022	2021
Within one year	\$ 4,143,359	4,248,344
Two to five years	-	117,643
	4,143,359	4,365,987
Less:		
Present value component	-	(593)
Allowance for uncollectible pledges	(312,000)	(348,000)
Total pledges receivable	\$ 3,831,359	4,017,394

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

For the years ended August 31, 2022 and 2021, 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%.

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.

ArtsWave invests in hedge, high yield bond, and private equity funds for which ArtsWave bases fair value on the net asset value 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 certain investments based on the investee's net asset value (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, 2022 and 2021, based on NAV.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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, 2022:

	Total	(Level 1)	(Level 2)	(Level 3)	Investments measured at NAV
Cash and cash equivalents	\$ 5,976,615	5,976,615	-	-	-
Equities:					
Information and communication	744,202	744,202	-	-	-
Industrials	827,106	827,106	-	-	-
Consumer discretionary	523,581	523,581	-	-	-
Financial institutions	739,436	739,436	-	-	-
Health care	518,984	518,984	-	-	-
Other	173,815	173,815	-	-	-
Mutual funds:					
International	19,315,590	19,315,590	-	-	-
Large cap	23,265,549	23,265,549	-	-	-
Small and mid-cap	1,814,737	1,814,737	-	-	-
Intermediate term bonds	97,053	97,053	-	-	-
Fixed income:					
Corporate	13,735,901	-	13,735,901	-	-
Foreign	348,813	-	348,813	-	-
Government	6,858,733	-	6,858,733	-	-
High yield bond funds	443	-	-	-	443
Hedge and other limited partnership funds	21,926,049	-	-	-	21,926,049
Private equity funds	10,959,786	-	-	-	10,959,786
Total investments	\$ 107,826,393	53,996,668	20,943,447	-	32,886,278
Beneficial interest in trust:	\$ 3,119,090	-	-	3,119,090	-

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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
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 bond funds	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, 2022 and 2021

Investments accounted for under the practical expedient at August 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>	<u>2022 Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Notice Period</u>
Hedge and other limited partnership funds:					
Absolute	\$ 14,179,074	6,105,106	-	Monthly	91 days
Long-biased	7,746,975	7,457,077	-	Quarterly	45 days
High yield bond funds	443	475	-	Quarterly	45 days
Private equity funds	<u>10,959,786</u>	<u>11,270,957</u>	<u>3,364,126</u>	N/A	N/A
	<u>\$ 32,886,278</u>	<u>24,833,615</u>	<u>3,364,126</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.

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.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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 2022 and 2021.

There are 18 endowment funds held in perpetuity. The original gift amounts were \$9,541,643 and \$9,341,643, as of August 31, 2022 and 2021, respectively. An additional \$20,003,146 and \$22,249,816 in fair value as of August 31, 2022 and 2021, respectively, relates to board designated gifts also held in the endowment pool.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	43,740,378	43,740,378
Board designated endowment funds	20,003,146	-	20,003,146
Total	\$ 20,003,146	43,740,378	63,743,524

	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

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, 2022, is as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 22,249,816	51,088,322	73,338,138
Net investment return	(2,791,932)	(5,482,545)	(8,274,477)
Transfers in	3,172,426	-	3,172,426
Appropriation of endowment assets for expenditure	(865,520)	(1,865,399)	(2,730,919)
Other changes: Transfers from board designated funds to operations	(1,761,644)	-	(1,761,644)
Endowment investments, end of year	\$ 20,003,146	43,740,378	63,743,524

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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

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, 2022 and 2021 are summarized as follows:

	2022	2021
Equipment and furniture	\$ 65,750	71,924
Leasehold improvements	531,117	531,117
Construction in progress	1,263,952	-
	1,860,819	603,041
Less accumulated depreciation	(595,455)	(601,158)
Property and equipment, net	\$ 1,265,364	1,883

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

NOTE G – LEASES

ArtsWave leases both its office space as well as certain equipment under operating lease agreements. ArtsWave has two long-term leases extending beyond 12 months. First, ArtsWave has a 30-year lease that commenced in December 2009 for the rental of office space on the second floor and a portion of the first floor of the Hale Justis Building in Cincinnati, Ohio. The initial term of the lease was for ten years from December 14, 2009 through January 31, 2020. The lease agreement contains four options to extend the term beyond the initial term for periods of five years each. In 2020, ArtsWave exercised its first option to extend the term beyond the initial term. Because it is reasonably certain that ArtsWave will exercise its three remaining options to extend the lease, these extension terms were recognized as part of the office space lease liability and right-of-use asset. ArtsWave also has a five-year lease that commenced in December 2018 for the rental of a digital mail machine. The lease agreement for the mail machine does not contain an option to extend the term of the lease. In addition to these long-term leases, ArtsWave has a short-term lease lasting less than 12 months for a color copier. The original lease term was for three years, commencing on May 1, 2017. The copier lease automatically renewed for a 1-year term on May 1, 2020. This extension term expired on April 30, 2021. Upon the expiration of the lease, ArtsWave did not enter into a new copier lease contract, but instead has continued to lease the same copier on a month-to-month basis since May 2021.

ArtsWave has made several significant assumptions and judgments in applying the requirements of FASB Accounting Standards Update (ASU) No. 2016-02 to its leases. The office space lease agreement contains both lease components as well as non-lease components obligating the lessor to maintain common areas of the building, including the elevators and stairways, elevator lobby areas, the parking lot, sidewalks, landscaped areas, and utility lines of the property. Similarly, the mail machine lease contract consists of both lease components as well as non-lease components, including the lessor's obligation to provide standard equipment service at no additional charge, as well an option to pay an additional fee for the repair or replacement of stolen, damaged, or destroyed equipment, a program in which ArtsWave has opted to participate. Rather than allocating the consideration in its office space and mail machine lease contracts between their separate lease components and non-lease components, ArtsWave has elected the practical expedient available under ASU 2016-02 not to separate the lease and non-lease components and instead to combine them into single lease components. ArtsWave has also made the accounting policy election under ASU 2016-02 not to capitalize short-term leases with terms of 12 months or less, and instead to recognize the lease payments in the statement of functional expenses as equipment rental and maintenance expenses.

The office space lease agreement specifies fixed payments for the initial term of the lease from December 2009 through January 2020. Regarding the extension terms, however, the contract states that the lease payments shall be 95% of the current fair market price for comparable spaces as of the commencement of the applicable extension term, provided that the rent shall not be less than the rent for the last year of the immediately preceding term, nor more than 115% of the rent for the last year of the preceding term. Thus, although the lease payments of the extension terms contain variability in that they can fluctuate to a certain extent with market values, the payments are ultimately in-substance fixed payments, being bound by lower and upper limits. ASU 2016-02 requires lessees with in-substance fixed payments to use the lower of the payment options when calculating the present value of future lease payments in order to measure the lease liability. Accordingly, ArtsWave used its current lease payment amount in making this calculation, because this amount represents the lowest possible payment option for subsequent extension terms. Changes to future lease payments will be accounted for in the year of change.

In measuring its lease liabilities, ArtsWave elected the practical expedient available to nonpublic entities to use a risk-free rate of return, such as the U.S. Treasury rate, for a period comparable

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

with that of the lease term, to determine the present value of future lease payments. Because the remaining lease term of the office space was 18 years and five months as of the date of ASU 2016-02 implementation on September 1, 2021, ArtsWave used the 20 year U.S. Treasury Bond rate as of that date, which was 1.84%. Likewise, because the remaining lease term for the mail machine was 2 years and 7 months as of the implementation date on September 1, 2021, ArtsWave used the 3 year U.S. Treasury Note rate as of that date, which was 0.42%.

ArtsWave also incurred variable lease costs, which are not included in the measurement of the lease liabilities. These costs, which are expensed as incurred, consist of reimbursements and payments of the office space lessor's utilities expenses.

A summary of total lease cost and other lease information for year ended August 31, 2022 follows:

Operating lease costs	\$ 100,771
Variable lease costs	10,321
Short-term lease costs	<u>3,768</u>
	<u>\$ 114,860</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flow from operating leases	\$100,859
Weighted-average remaining lease term:	
Operating leases	17.4 years
Weighted-average discount rate:	
Operating leases	1.8%

The following table shows ArtsWave's operating lease liabilities as of August 31, 2022, the lease payments due (undiscounted cash flows) on an annual basis for the next five fiscal years and a total of the amounts for the remaining years, and the present value of those lease payments using annual discount rates of 1.84% for the office space lease and 0.42% for the mail machine lease.

	Lease Liability	2023	2024	2025	2026	2027	2028-2040	PV Cash Flows
Office Space	\$1,461,421	\$98,135	\$98,135	\$98,135	\$98,135	\$98,135	\$970,746	\$1,461,421
Mail Machine	4,072	2,724	1,348	-	-	-	-	4,072
Total:	\$1,465,493	\$100,859	\$99,483	\$98,135	\$98,135	\$98,135	\$970,746	\$1,465,493

NOTE H – GRANTS PAYABLE

Grants payable consists of the following at August 31:

	<u>2022</u>	<u>2021</u>
Allocated grants	\$ 10,254,937	10,173,961
Unallocated grants	<u>(970,219)</u>	<u>(907,587)</u>
	<u>\$ 9,284,718</u>	<u>9,266,374</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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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. In 2021, funds held in trust were substantially liquidated and \$10,684,836 was distributed to the respective not-for-profit organization. A final distribution of \$85,574 was paid in 2022. Total funds held for the benefit of others were \$42,621,169 and \$50,193,571 at August 31, 2022 and 2021, respectively.

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:

	<u>2022</u>	<u>2021</u>
Endowment funds	\$ 43,740,378	51,088,322
Beneficial interest in trust	3,119,090	3,897,311
Time restrictions	622,104	430,014
Other program restrictions	<u>2,105,292</u>	<u>2,572,025</u>
	<u>\$ 49,586,864</u>	<u>57,987,672</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions were \$14,904,260 and \$6,020,311 in 2022 and 2021, 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 \$4,058,044 and \$9,832,048 at August 31, 2022 and 2021, 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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 2022 and 2021 were \$110,808 and \$97,185, respectively.

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.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

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

	2022	2021
Financial Assets:		
Cash, cash equivalents, and restricted cash	\$ 4,541,564	10,327,971
Pledges receivable	4,143,359	4,365,987
Accrued interest receivable	165,727	139,074
Investments at fair value	107,826,393	125,027,156
Financial assets available at year end	116,677,043	139,860,188
Less those unavailable for general expenditures within one year due to:		
Investments held in donor restricted endowment	43,740,378	51,088,322
Funds held for the benefit of others	42,621,169	50,193,571
Restricted by donor for purpose and time	2,727,396	3,002,039
Private equity fund lockups – without donor restriction	2,032,320	2,004,709
Total limitations on available resources	91,121,263	106,288,641
Financial assets available to meet cash needs for general expenditures within one year	\$ 25,555,780	33,571,547

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2022 and 2021

NOTE O – CONDITIONAL PROMISES TO GIVE

During the year ended August 31, 2022, ArtsWave received conditional promises to give of \$1,000,000. The full amount was recognized in 2022 as the conditions have been satisfied.

NOTE P – CONTRIBUTED NONFINANCIAL ASSETS

For the years ended August 31, contributed nonfinancial assets recognized within the statement of activities included:

	<u>2022</u>	<u>2021</u>
Media advertising space	\$ 282,383	319,266
Use of fixed assets	1,000	2,664
Legal services	3,168	1,158
Web hosting services	750	1,965
CRM software services	-	7,498
Other services	<u>90</u>	<u>1,040</u>
	<u>\$ 287,391</u>	<u>333,591</u>

ArtsWave recognized contributed nonfinancial assets within revenue, including contributed media advertising space, use of fixed assets, legal services, web hosting services, CRM software services, and various other services. Contributed nonfinancial assets did not have donor-imposed restrictions. Contributed media advertising space was used for marketing purposes. Media space was valued according to the actual discount amounts specified in advertising agreements between ArtsWave and media companies.

Contributed use of fixed assets included buildings and equipment that were used for fundraising activities and free-to-the-public arts events. Use of fixed assets was valued according to the actual discount amounts specified in vendor invoices.

Contributed legal services were used for various administrative matters. These services were valued according to the actual discount amounts stated in legal invoices.

Contributed web hosting services were used for marketing activities, while contributed CRM software services were used for fundraising purposes. Both services were valued according to the actual discount amounts stated in vendor invoices.

Other contributed services included printing and consulting services that were used for fundraising activities. These services were valued according to the actual discount amounts specified in vendor invoices.

NOTE Q – NOTE PAYABLE

In April 2022, ArtsWave entered into a convertible loan for \$2,500,000, including interest at the Term SOFR + 1.75% (4.125% at August 31, 2022) due on April 1, 2023 (the conversion date). The loan does not require payments of principal or interest until the conversion date. As of the conversion date the note, including principal and interest, will be payable over 108 months until February 2032. The note is secured by an investment account held at the bank. ArtsWave is using these funds for capital upgrades to its office space. The outstanding balance at August 31, 2022 was \$579,493.

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SCHEDULES OF ENDOWMENT AND BOARD DESIGNATED ENDOWMENT FAIR VALUES

August 31, 2022 and 2021

	August 31, 2022 Fair Value	August 31, 2021 Fair Value
<u>Endowment – income restricted</u>		
Taft Museum:		
Anna S. Taft	\$ 18,211,466	21,552,275
Louise Taft Semple Foundation (directorship)	1,640,394	1,941,313
Cincinnati Symphony Orchestra:		
Mr. & Mrs. Charles Phelps Taft	14,991,186	17,577,082
Thomas J. Emery Memorial	1,848,835	2,167,751
Mary Hanna and others	560,438	657,114
Mr. & Mrs. William Kite	64,651	75,799
Betscher and Outcalt Memorial	27,547	32,304
Anonymous	168,184	197,194
Weibel	84,636	99,236
Cincinnati Opera Association:		
Mr. & Mrs. Lawrence H. Kyte	108,303	126,990
Eleanor Feld	18,359	21,524
Maurice Oshry (Cincinnati Opera Association)	64,816	75,995
Anonymous	1,004,146	1,177,355
Children’s Education Fund:		
Cincinnati Art Museum	911,945	1,069,252
Cincinnati Symphony Orchestra	781,154	915,902
Cincinnati Opera Association	391,169	458,646
Playhouse in the Park	261,148	306,190
Cincinnati Ballet	130,396	152,883
Contemporary Arts Center	130,396	152,883
Anonymous (Cincinnati Art Museum)	335,315	393,149
Dorothy Rawson (allocated to art museum and orchestra)	427,499	501,240
Blanche and Rebekah Alter (allocated to Taft art museum and orchestra)	1,559,951	1,829,037
Rosa F. and Samuel B. Sachs (Annual Sachs Award)	789,897	926,149
Richard P. Windisch and Martha W. Van Goeben (May Festival)	352,204	412,957
Mid-Sized Arts Endowment	1,707,578	2,002,132
Annual community campaign	516,016	605,025
Goldsmith endowed annual campaign gift	72,268	84,737
Susan & Burton Closson endowed annual campaign gift	182,168	213,585
	\$ 47,342,065	55,725,699

ArtsWave

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

August 31, 2022 and 2021

	August 31, 2022 Fair Value	August 31, 2021 Fair Value
<u>Endowment – income without restriction</u>		
Taft – 1927 matching endowment	\$ 35,771,359	41,941,722
National Endowment for the Arts matching endowment – Thomas J. Emery Memorial	1,340,912	1,572,216
William P. Anderson Foundation	325,792	381,989
Alice F. Weston	168,041	-
Eleanor and Charlie Taft Fund	285,359	334,583
Anonymous	352,204	412,957
LKC Foundation	59,121	69,310
Mr. and Mrs. Louis John Johnen Memorial Fund	488,445	572,698
John Sherman	10,771	12,629
Ruth Wilkerson	68,275	80,051
Albert W. Vontz, Jr.	42,222	49,502
	38,912,501	45,427,657
<u>Board designated endowment</u>		
Bertrand B. Kahn (scholarships)	91,863	107,699
Arts Services Office endowments	1,428,309	1,674,688
Board Designated Operating Reserves	10,471,913	11,074,505
ArtsWave general	4,228,184	4,957,521
Annual community campaign	3,782,877	4,435,403
	20,003,146	22,249,816
Total ArtsWave endowment and Board designated endowment, at fair value*	106,257,712	123,403,172
CHARITABLE GIFT ANNUITIES**	106,982	128,537
Total endowment and Board designated, at fair value	\$ 106,364,694	123,531,709

* This schedule includes the funds owned by ArtsWave and the funds held for others.

** A separate account was established for charitable gift annuities.

Cincinnati Institute of Fine Arts (dba ArtsWave)
 Schedule of Expenditures of Federal Awards
 Year Ended August 31, 2022

Granting Agency/ Passthrough Agency/ Program Title	Assistance Listing Number	Contract Number	Federal Expenditures
U.S. Department of Treasury/ City of Cincinnati/ Covid-19 – Coronavirus State and Local Fiscal Recovery Funds	21.027	PSC 101 25x005	\$ 1,000,000
	21.027	PSC 101 25x005	6,797,953
 Hamilton County, Ohio/ Covid-19 – Coronavirus State and Local Fiscal Recovery Funds	 21.027	 n/a	 <u>2,000,000</u>
Total federal expenditures			\$ <u>9,797,953</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Cincinnati Institute of Fine Arts (dba ArtsWave) under programs of the federal government for the year ended August 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Cincinnati Institute of Fine Arts (dba ArtsWave) it is not intended to and does not present the financial position, changes in net assets, or cash flows of Cincinnati Institute of Fine Arts (dba ArtsWave).

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – INDIRECT COST RATE

Cincinnati Institute of Fine Arts (dba ArtsWave) has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
Cincinnati Institute of Fine Arts (dba ArtsWave):

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cincinnati Institute of Fine Arts (dba ArtsWave) (a not-for-profit organization), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 3, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control. Accordingly, we do not express an opinion on the effectiveness of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cincinnati Institute of Fine Arts (dba ArtsWave)'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 3, 2023

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Cincinnati Institute of Fine Arts (dba ArtsWave):

Report on Compliance for Each Major Federal Program***Opinion on Each Major Federal Program***

We have audited Cincinnati Institute of Fine Arts (dba ArtsWave)'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Cincinnati Institute of Fine Arts (dba ArtsWave)'s major federal programs for the year ended August 31, 2022. Cincinnati Institute of Fine Arts (dba ArtsWave)'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Cincinnati Institute of Fine Arts (dba ArtsWave) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cincinnati Institute of Fine Arts (dba ArtsWave) and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Cincinnati Institute of Fine Arts (dba ArtsWave)'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Cincinnati Institute of Fine Arts (dba ArtsWave)'s federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cincinnati Institute of Fine Arts (dba ArtsWave)'s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if

there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cincinnati Institute of Fine Arts (dba ArtsWave)'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Cincinnati Institute of Fine Arts (dba ArtsWave)'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Cincinnati Institute of Fine Arts (dba ArtsWave)'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 3, 2023

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X No

Identification of major programs:

Assistance Listing Number

Name of Federal Program or Cluster

21.027

Covid-19 – Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

SECTION II: FINANCIAL STATEMENT FINDINGS

None

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None