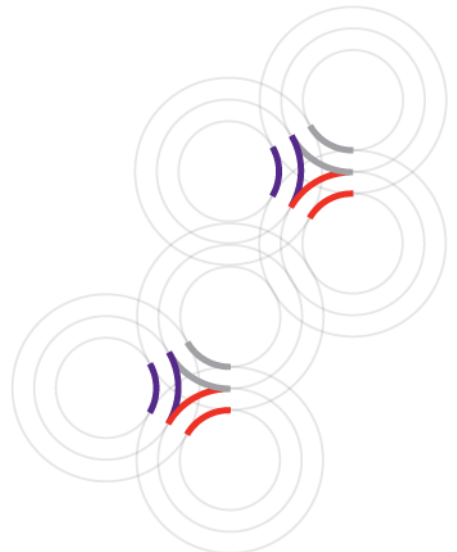




Financial Statements and Independent Auditors' Report

ArtsWave

August 31, 2018 and 2017



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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 statement of financial position as of August 31, 2018, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Cincinnati Institute of Fine Arts (dba ArtsWave) as of August 31, 2017, were audited by other auditors whose report dated December 21, 2017, expressed an unmodified opinion on those statements.

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 22-25 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, 2018

ArtsWave

STATEMENTS OF FINANCIAL POSITION

August 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	\$ 3,682,551	4,108,206
Pledges receivable, net (Note C)	4,155,699	4,576,038
Accrued interest receivable	210,262	199,589
Investments, at fair value (Note D)	115,627,570	111,346,730
Beneficial interest in trust (Note D)	3,321,911	3,242,541
Property and equipment, net (Note F)	144,092	206,131
Other assets	175,850	87,436
Total assets	\$ 127,317,935	123,766,671
LIABILITIES		
Grants payable (Note H)	\$ 10,257,286	9,953,025
Accounts payable and accrued expenses	309,509	273,014
Loan payable (Note I)	225,715	255,970
Funds held in trust for others (Note J)	12,819,553	12,456,344
Funds held for the benefit of others (Note J)	40,875,129	39,615,149
Total liabilities	64,487,192	62,553,502
NET ASSETS		
Operating deficit	(1,633,317)	(1,504,446)
Board designated	19,044,274	18,057,637
Total unrestricted	17,410,957	16,553,191
Temporarily restricted (Note L)	34,644,893	34,032,244
Permanently restricted (Note M)	10,774,893	10,627,734
	62,830,743	61,213,169
Total liabilities and net assets	\$ 127,317,935	123,766,671

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2018

(with comparative summarized financial information for year ended August 31, 2017)

	Unrestricted			Totals			
	Operating	Board Designated Endowment	Total	Temporarily Restricted	Permanently Restricted	2018	2017
Revenues, gains and other support:							
Annual community campaign	\$ 7,189,683	-	7,189,683	4,144,727	-	11,334,410	11,593,988
Gifts, bequests and grants	856,571	-	856,571	1,184,076	-	2,040,647	1,511,546
Interest and dividend income, net	45,860	389,450	435,310	784,139	40,317	1,259,766	1,008,482
Net gain (loss) on investments	(25,878)	818,636	792,758	1,910,599	98,245	2,801,602	5,407,189
Spending rate allocation	1,954,512	(605,039)	1,349,473	(1,278,700)	(70,773)	-	-
Beneficial interest value change	-	-	-	-	79,370	79,370	135,565
Other revenues	23,241	-	23,241	-	-	23,241	14,273
Net assets released from restrictions (Note K)	6,038,953	93,239	6,132,192	(6,132,192)	-	-	-
	<u>16,082,942</u>	<u>696,286</u>	<u>16,779,228</u>	<u>612,649</u>	<u>147,159</u>	<u>17,539,036</u>	<u>19,671,043</u>
Expenses:							
Program services:							
Grants to arts organizations	11,050,141	-	11,050,141	-	-	11,050,141	10,726,870
Other	1,573,847	-	1,573,847	-	-	1,573,847	1,301,275
Supporting services:							
Management and general	874,107	136,357	1,010,464	-	-	1,010,464	947,272
Fundraising	2,287,010	-	2,287,010	-	-	2,287,010	2,135,641
	<u>15,785,105</u>	<u>136,357</u>	<u>15,921,462</u>	<u>-</u>	<u>-</u>	<u>15,921,462</u>	<u>15,111,058</u>
Revenues net of expenses	297,837	559,929	857,766	612,649	147,159	1,617,574	4,559,985
Transfers (to)/from endowment	(426,708)	426,708	-	-	-	-	-
Change in net assets (deficit)	(128,871)	986,637	857,766	612,649	147,159	1,617,574	4,559,985
Net assets (deficit), beginning of year	(1,504,446)	18,057,637	16,553,191	34,032,244	10,627,734	61,213,169	56,653,184
Net assets (deficit), end of year	\$ (1,633,317)	19,044,274	17,410,957	34,644,893	10,774,893	62,830,743	61,213,169

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENT OF ACTIVITIES

Year ended August 31, 2017

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	Operating	Board Designated Endowment				Total
Revenues, gains and other support:						
Annual community campaign	\$ 7,673,969	-	7,673,969	3,920,019	-	11,593,988
Gifts, bequests and grants	440,151	-	440,151	1,071,395	-	1,511,546
Interest and dividend income, net	36,673	299,902	336,575	639,059	32,848	1,008,482
Net gain on investments	9,405	1,745,454	1,754,859	3,473,752	178,578	5,407,189
Spending rate allocation	1,922,190	(589,827)	1,332,363	(1,262,908)	(69,455)	-
Beneficial interest value change	-	-	-	-	135,565	135,565
Other revenues	14,273	-	14,273	-	-	14,273
Net assets released from restrictions (Note K)	5,769,028	91,207	5,860,235	(5,860,235)	-	-
Total revenues, gains and other support	15,865,689	1,546,736	17,412,425	1,981,082	277,536	19,671,043
Expenses:						
Program services:						
Grants to arts organizations	11,270,485	-	11,270,485	(543,615)	-	10,726,870
Other	1,301,275	-	1,301,275	-	-	1,301,275
Supporting services:						
Management and general	815,661	131,611	947,272	-	-	947,272
Fundraising	2,135,641	-	2,135,641	-	-	2,135,641
Total expenses	15,523,062	131,611	15,654,673	(543,615)	-	15,111,058
Revenues net of expenses	342,627	1,415,125	1,757,752	2,524,697	277,536	4,559,985
Transfers (to)/from endowment	(282,508)	282,508	-	-	-	-
Change in net assets	60,119	1,697,633	1,757,752	2,524,697	277,536	4,559,985
Net assets (deficit), beginning of year	(1,564,565)	16,360,004	14,795,439	31,507,547	10,350,198	56,653,184
Net assets (deficit), end of year	\$ (1,504,446)	18,057,637	16,553,191	34,032,244	10,627,734	61,213,169

The accompanying notes are an integral part of this statement.

ArtsWave

STATEMENTS OF CASH FLOWS

Years ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,617,574	4,559,985
Adjustments to reconcile change in net assets to net cash provided by (used in) by operating activities:		
Depreciation	86,292	84,624
Net gain on investments	(2,801,602)	(5,407,189)
Investment management fees	136,357	131,611
Pledges receivable	234,525	691,181
Loss on doubtful pledges	185,814	252,288
Accrued interest receivable	(10,673)	(2,903)
Beneficial interest in trust value change	(79,370)	(135,565)
Grants payable	304,261	175,364
Accounts payable and accrued expenses	36,495	41,032
Other assets	(88,414)	26,504
Net cash provided by (used in) operating activities	(378,741)	416,932
Cash flows from investing activities:		
Proceeds from sales of investments	58,226,333	58,574,630
Purchases of investments	(58,082,382)	(57,949,500)
Investment management fees paid	(136,357)	(140,188)
Purchases of property and equipment	(24,253)	(7,094)
Net cash provided by (used in) by investing activities	(16,659)	477,848
Cash flows from financing activities:		
Payments on loan payable	(30,255)	(29,072)
Net increase (decrease) in cash	(425,655)	865,708
Cash at beginning of year	4,108,206	3,242,498
Cash at end of year	\$ 3,682,551	4,108,206
Supplemental disclosure:		
Interest paid	\$ 9,688	10,873

The accompanying notes are an integral part of these statements.

ArtsWave

NOTES TO FINANCIAL STATEMENTS

August 31, 2018 and 2017

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 of future generations to enjoy. The Tafts 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 made grant-making decisions for the first time based in part on the community impact of the recipient organizations. In 2015, ArtsWave developed the Blueprint for Collective Action, a 10-year strategic plan that outlines five key areas in which the arts contribute to building a vibrant economy and more connected community in Greater Cincinnati. As of June 2016, all organizations receiving ArtsWave support must provide details about plans and programming that address Blueprint goals. Forty Sustaining Impact grants were awarded to arts organizations that are addressing the key areas of the Blueprint and in 2018 thirty-seven renewal impact grants were made. Additionally, a total pool of funds was approved for Catalyzing Impact, Neighborhood Arts and Festivals, Partnering for Impact, and Young Professional programming project grants to be made over the course of fiscal year 2019.

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

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, 2018 and 2017

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

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets that are subject to donor-imposed restrictions that may or will be met either by actions of ArtsWave and/or the passage of time, and the portion of perpetual endowment funds subject to a time restriction under an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Permanently restricted net assets – net assets that are subject to donor-imposed restrictions that require the assets be maintained permanently by ArtsWave. 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 unrestricted net assets 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 temporarily restricted revenues and then released from restrictions. All expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets 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 unrestricted support.

2. Cash

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

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 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.

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 its relationship of the fair value of all investments at the time they were pooled.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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 received as gifts. Capitalization limits are set at \$1,000; 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 the 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 consist of Board-approved distributions of annual campaign income and endowment income to be paid in the following fiscal year.

8. 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.

9. 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.

10. Advertising

Advertising costs are expensed as incurred. For the years ended August 31, 2018 and 2017, advertising costs were \$613,303 and \$248,107, respectively.

11. 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 \$505,436 and \$140,077 for the years ended August 31, 2018 and 2017, respectively.

12. 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

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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.

13. Reclassification

Certain amounts from 2017 have been reclassified to conform with the current year presentation.

14. 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, 2018, the date which the financial statements were available to be issued.

NOTE C – PLEDGES RECEIVABLE

As of August 31, 2018 and 2017, contributors to ArtsWave have made unconditional promises to give totaling \$4,500,699 and \$4,958,356, respectively.

Pledges receivable are due as follows:

	2018	2017
Within one year	\$ 4,500,699	\$ 4,908,356
Two to five years	-	50,000
	4,500,699	4,958,356
Less:		
Present value component	-	(2,318)
Allowance for uncollectible pledges	(345,000)	(380,000)
Total pledges receivable	\$ 4,155,699	\$ 4,576,038

There are no estimated cash flows from pledges receivable due in two to five years as of August 31, 2018. Estimated cash flows from pledges receivable due in two to five years as of August 31, 2017 have been discounted to the present value using a discount rate of 1.4%.

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



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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 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, 2018 and 2017, based on NAV.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at August 31, 2018:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Investments:					
Cash and cash equivalents	\$ 1,769,896	1,769,896	-	-	-
Equities:					
Information and communication	8,275,194	8,275,194	-	-	-
Industrials	3,732,973	3,732,973	-	-	-
Consumer discretionary	2,410,373	2,410,373	-	-	-
Financial institutions	5,563,426	5,563,426	-	-	-
Consumer staples	2,077,472	2,077,472	-	-	-
Health care	4,420,971	4,420,971	-	-	-
Energy and power	3,356,170	3,356,170	-	-	-
Other	1,144,030	1,144,030	-	-	-
Mutual funds:					
International	21,196,375	21,196,375	-	-	-
Small and mid cap	5,707,852	5,707,852	-	-	-
Intermediate term bonds	113,095	113,095	-	-	-
Real asset moderate allocation	3,354,819	3,354,819	-	-	-
Diversified emerging markets	8,399,362	8,399,362	-	-	-
Fixed income:					
Corporate	11,272,170	-	11,272,170	-	-
Foreign	856,560	-	856,560	-	-
Government	9,069,733	-	9,069,733	-	-
High yield	2,249,509	-	-	-	2,249,509
Hedge and other limited partnership funds	14,157,368	-	-	-	14,157,368
Private equity funds	6,500,222	-	-	-	6,500,222
Total investments	\$ 115,627,570	71,522,008	21,198,463	-	22,907,099
Beneficial interest in trust:	\$ 3,321,911	-	-	3,321,911	-

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at August 31, 2017:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at NAV
Investments:					
Cash and cash equivalents	\$ 3,739,934	3 3,739,934	-	-	-
Equities:					
Information and communication	7,287,473	7,287,473	-	-	-
Industrials	3,887,299	3,887,299	-	-	-
Consumer discretionary	1,965,703	1,965,703	-	-	-
Financial institutions	5,200,911	5,200,911	-	-	-
Consumer staples	2,187,218	2,187,218	-	-	-
Health care	4,242,524	4,242,524	-	-	-
Energy and power	3,105,277	3,105,277	-	-	-
Other	1,591,101	1,591,101	-	-	-
Mutual funds:					
International	21,067,008	21,067,008	-	-	-
Small and mid cap	4,794,839	4,794,839	-	-	-
Intermediate term bonds	120,525	120,525	-	-	-
Real asset moderate allocation	3,323,874	3,323,874	-	-	-
Diversified emerging markets	6,424,956	6,424,956	-	-	-
Fixed income:					
Corporate	10,319,935	-	10,319,935	-	-
Foreign	922,747	-	922,747	-	-
Government	9,702,069	-	9,702,069	-	-
High yield	2,532,619	-	-	-	2,532,619
Hedge and other limited partnership funds	13,163,297	-	-	-	13,163,297
Private equity funds	5,767,421	-	-	-	5,767,421
	<u>\$ 111,346,730</u>	<u>68,938,642</u>	<u>20,944,751</u>	<u>-</u>	<u>21,463,337</u>
Beneficial interest in trust	<u>\$ 3,242,541</u>	<u>-</u>	<u>-</u>	<u>3,242,541</u>	<u>-</u>

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

The following is a reconciliation of ArtsWave's assets valued at Level 3 inputs as of August 31:

	2018	2017
Balance, beginning of the year	\$ 3,242,541	3,106,976
Beneficial interest value change	79,370	135,565
Balance, end of the year	\$ 3,321,911	3,242,541
Change in unrealized gains or losses for the period included in the change in unrestricted net assets, for assets held at the end of the reporting period	\$ 79,730	135,565

Investments accounted for under the practical expedient at August 31, 2018 and 2017, are as follows:

	2018	2017	2018 Unfunded Commitments	Redemption Frequency	Notice Period
Hedge and other limited partnership funds:					
Absolute	\$ 6,892,905	6,706,917	-	Monthly	91 days
Long-biased	5,960,670	5,668,665	-	Quarterly	100 days
Other	1,303,793	787,715	196,207	Monthly	30 days
High yield bond funds	2,249,509	2,532,619	-	Quarterly	45 days
Private equity funds	6,500,222	5,767,421	5,159,815	N/A	N/A
	\$ 22,907,099	21,463,337	5,356,022		

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, 2018.

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. There is no holding period for this fund.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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, other assets, grants payable, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying amount of the loan payable approximates fair value as the loan interest rate approximates market rates at the measurement date. Funds held in trust for others and funds held for the benefit of others are stated at fair value of the underlying investments, which are included in investments on the accompanying statements of financial position and the accompanying disclosures.

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 UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, ArtsWave classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with ArtsWave's interpretation of UPMIFA, investment income and appreciation/depreciation earned on certain investments held in the permanently restricted endowment funds are credited to temporarily restricted net assets, until the later of satisfaction of donor restrictions or appropriation for expenditure by the Board. ArtsWave's policy for other endowment gifts is to include 100% of the unrealized and realized appreciation as permanently restricted 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.

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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 31 preceding the fiscal year in which the distribution is planned. The spending distribution rate was 4.0% in 2018 and 4.2% in 2017.

There are 17 permanent endowment funds. As of August 31, 2018 and 2017, respectively, the fair value of these funds collectively is \$35,272,014 and \$33,898,072 more than the original gift amounts. An additional \$19,346,224 and \$18,073,471 in fair value as of August 31, 2018 and 2017, respectively, relates to board designated gifts also held in the endowment pool.

The endowment investment asset composition by type of fund as of August 31, 2018 and 2017, is as follows:

		2018			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$	-	33,747,961	7,452,982	41,200,943
Board designated endowment funds		19,346,224	-	-	19,346,224
Total	\$	19,346,224	33,747,961	7,452,982	60,547,167
		2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$	-	32,441,231	7,385,770	39,827,001
Board designated endowment funds		18,073,471	-	-	18,073,471
Total	\$	18,073,471	32,441,231	7,385,770	57,900,472

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, 2018, is as follows:

		2018			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$	18,073,471	32,441,231	7,385,770	57,900,472
Investment income		389,450	784,139	40,317	1,213,906
Net gain on investments		818,636	1,910,599	98,245	2,827,480
Transfers in		745,541	-	-	745,541
Appropriation of endowment assets for expenditure		(665,064)	(1,388,008)	(71,350)	(2,124,422)
Other changes:					
Transfers from board- designated funds to operations		(15,810)	-	-	(15,810)
Endowment investments, end of year	\$	19,346,224	33,747,961	7,452,982	60,547,167

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

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, 2017, is as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment investments, beginning of year	\$ 16,210,832	29,704,032	7,244,119	53,158,983
Investment income	299,902	639,059	32,848	971,809
Net gain on investments	1,745,454	3,473,752	178,578	5,397,784
Transfers in	339,037	-	-	339,037
Appropriation of endowment assets for expenditure	(635,825)	(1,375,612)	(69,775)	(2,081,212)
Other changes:				
Transfers from board- designated funds to operations	114,071	-	-	114,071
Endowment investments, end of year	\$ 18,073,471	32,441,231	7,385,770	57,900,472

Transfers (to) 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, 2018 and 2017 are summarized as follows:

	2018	2017
Equipment and furniture	\$ 151,705	169,474
Leasehold improvements	531,117	531,117
	682,822	700,591
Less accumulated depreciation	(538,730)	(494,460)
Property and equipment, net	\$ 144,092	206,131

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

NOTE G – LEASES

ArtsWave leases certain operating and storage facilities and equipment under operating lease agreements. Lease expense was \$70,323 and \$70,337 for 2018 and 2017, respectively.

Future minimum payments for the year ending August 31:

2019	\$	88,951
2020		34,828
		123,779
	\$	123,779

NOTE H – GRANTS PAYABLE

Grants payable consist of the following at August 31, 2018:

	2018	2017
Allocated grants	\$ 10,627,402	10,558,366
Unallocated grants	(370,116)	(605,341)
	\$ 10,257,286	9,953,025

Unallocated grants represent board approved grants from temporarily restricted funds 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 temporarily restricted net assets are released from restrictions.

NOTE I – LOAN PAYABLE

In November 2009, ArtsWave entered into a loan agreement with Cincinnati Equity Fund Ltd. with an original principal amount up to \$450,000. On August 31, 2018 and 2017, \$225,715 and \$255,970, respectively, was outstanding on this loan. Proceeds from the loan were used to renovate new office space for ArtsWave. Principal payments on the loan and interest at a fixed rate of 4% are payable monthly through January 2020, at which time a balloon payment of \$180,740 is due. Collateral for the loan in the amount of \$200,000 is invested in a separate bank account. The collateral investment is included in investments on the accompanying statements of financial position.

Scheduled maturities of long-term debt as of August 31, 2018 are as follows:

2019	\$	31,592
2020		194,123
		225,715
	\$	225,715

NOTE J – 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

ArtsWave

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

corresponding changes in fund liabilities are included within investing activity on the statements of cash flows. Total funds held in trust for others were \$12,819,553 and \$12,546,344 at August 31, 2018 and 2017, respectively. Total funds held for the benefit of others were \$40,875,129 and \$39,615,149 at August 31, 2018 and 2017, respectively.

NOTE K –NET ASSETS RELEASED FROM RESTRICTIONS

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 \$6,132,192 and \$5,860,235 in 2018 and 2017, respectively, primarily due to time restrictions expiring on net assets available for future operations and programs.

NOTE L –TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available primarily for the use of ArtsWave and its beneficiary organizations and consist of the following as of August 31:

	2018	2017
Endowment funds	\$ 33,747,961	32,441,231
Time restrictions	90,275	340,373
Other program restrictions	806,657	1,250,640
	\$ 34,644,893	34,032,244

NOTE M –PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following as of August 31:

	2018	2017
Endowment funds	\$ 7,452,982	7,385,193
Beneficial interest in trust	3,321,911	3,242,541
	\$ 10,774,893	10,627,734

NOTE N – RISKS AND UNCERTAINTIES

Cash balances in certain accounts at banks exceed the Federal Deposit Insurance Corporation (FDIC) limits by \$3,228,061 and \$3,999,430 at August 31, 2018 and 2017, 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, 2018 and 2017

NOTE O – 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 2018 and 2017 were \$114,923 and \$109,063, respectively.

NOTE P – FUNCTIONAL EXPENSES

ArtsWave operates through eleven major functional areas. These functional areas and their related expenses for 2018 and 2017 follow:

	2018	2017
Program services:		
Distributions to arts organizations	\$ 11,050,141	10,726,870
Impact strategy and tools for the sector	206,301	295,340
Arts education	279,530	262,669
Community engagement	484,048	239,037
Arts promotion	603,968	504,229
	12,623,988	12,028,145
Supporting services:		
Management and general:		
Governance, accounting, and general support	647,032	615,027
General marketing and communication	182,241	200,634
Investment management	136,357	131,611
Other	44,834	-
	1,010,464	947,272
Fundraising:		
Direct fundraising costs	1,846,889	1,852,272
Donor engagement	440,121	283,369
	2,287,010	2,135,641
	\$ 15,921,462	15,111,058

NOTE Q – 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

August 31, 2018 and 2017

NOTE R – UPCOMING PRONOUNCEMENTS

In August 2016, FASB issued Accounting Standard Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities. The standard aims to improve not-for-profit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions). Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. This standard will be effective for ArtsWave's year ending August 31, 2019.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for ArtsWave's year ending August 31, 2020.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The standard will assist entities in determining whether transactions should be recorded as a contribution (nonreciprocal transaction) or as an exchange (reciprocal transaction). The standard also provides expanded guidance on determining whether or not a contribution is conditional. This standard will be effective for ArtsWave's year ending August 31, 2020.

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, 2021.

Artswave is currently in the process of evaluating the impact of adoption of these ASU's on the financial statements.

ArtsWave

**SCHEDULES OF ENDOWMENT AND BOARD
DESIGNATED ENDOWMENT FAIR VALUES**

August 31, 2018 and 2017

	August 31, 2018 Fair Value	August 31, 2017 Fair Value
<u>Endowment – income restricted</u>		
Taft Museum:		
Anna S. Taft	\$ 17,738,612	17,236,599
Louise Taft Semple Foundation (directorship)	1,597,809	1,552,588
Cincinnati Symphony Orchestra:		
Mr. & Mrs. Charles Phelps Taft	14,174,569	13,702,174
Thomas J. Emery Memorial	1,748,126	1,689,868
Mary Hanna and others	529,915	512,256
Mr. & Mrs. William Kite	61,121	59,080
Betscher and Outcalt Memorial	26,045	25,182
Anonymous	159,024	153,729
Weibel	80,025	77,360
Cincinnati Opera Association:		
Mr. & Mrs. Lawrence H. Kyte	98,603	95,319
Eleanor Feld	17,359	16,776
Maurice Oshry (Cincinnati Opera Association)	61,284	59,207
Anonymous	949,443	917,794
Children’s Education Fund:		
Cincinnati Art Museum	862,251	833,518
Cincinnati Symphony Orchestra	738,600	713,990
Cincinnati Opera Association	369,871	357,537
Playhouse in the Park	246,919	238,690
Cincinnati Ballet	123,297	119,187
Contemporary Arts Center	123,297	119,187
Anonymous (Cincinnati Art Museum)	317,051	306,485
Dorothy Rawson (allocated to art museum and orchestra)	404,221	390,754
Blanche and Rebekah Alter (allocated to art museum and orchestra)	1,475,230	1,425,795
Rosa F. and Samuel B. Sachs (Annual Sachs Award)	746,988	721,953
Richard P. Windisch and Martha W. Van Goeben (May Festival)	333,016	321,919
Mid-Sized Arts Endowment	1,614,814	1,560,709
Annual community campaign	487,995	471,658
Goldsmith endowed annual campaign gift	68,337	66,049
Susan & Burton Closson endowed annual campaign gift	172,270	166,501
	\$ 45,326,092	43,911,864

ArtsWave

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

August 31, 2018 and 2017

	August 31, 2018 Fair Value	August 31, 2017 Fair Value
<u>Endowment – income unrestricted</u>		
Taft – 1927 matching endowment	\$ 33,828,170	32,696,874
National Endowment for the Arts matching endowment – Thomas J. Emery Memorial	1,268,064	1,225,603
William P. Anderson Foundation	308,089	297,774
Eleanor and Charlie Taft Fund	269,856	260,819
Anonymous	333,069	321,919
LKC Foundation	55,893	54,023
Mr. and Mrs. Louis John Johnen Memorial Fund	461,915	446,449
John Sherman	10,196	9,849
Ruth Wilkerson	64,554	62,390
Albert W. Vontz, Jr.	39,930	38,596
	36,639,736	35,414,296
<u>Board designated endowment</u>		
Bertrand B. Kahn (scholarships)	86,870	83,971
Arts Services Office endowments	1,350,712	1,305,676
Board Designated Operating Reserves	10,331,945	9,276,403
ArtsWave general	3,999,346	3,949,343
Annual community campaign	3,577,351	3,458,078
	19,346,224	18,073,471
Total ArtsWave endowment and Board designated endowment, at fair value	101,312,052	97,399,631
CHARITABLE GIFT ANNUITIES*	115,249	120,399
FUNDS HELD IN TRUST FOR OTHERS		
Funds held for the Taft Museum of Art	12,819,553	12,456,344
Total endowment and Board designated endowment and funds held in trust for others, at fair value	\$ 114,246,854	109,976,374

*A separate account was established for charitable gift annuities.

ArtsWave

SCHEDULES OF PROGRAM AND SUPPORTING SERVICES EXPENSES

Year ended August 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to arts organizations	\$ 11,050,141	-	-	11,050,141
Arts events and workshops*	251,747	12,670	57,605	322,022
Professional fees*	269,442	55,452	16,422	341,316
Salaries	491,486	391,503	973,951	1,856,940
Employee benefits	109,902	89,145	282,689	481,736
Stationery and other printing	887	4,572	9,642	15,101
Office supplies	1,260	2,438	5,006	8,704
Telephone and internet access	6,004	6,809	16,871	29,684
Postage	98	2,800	19,649	22,547
Office rent and occupancy	19,814	14,624	51,205	85,643
Equipment rental and maintenance	46,992	22,471	48,487	117,950
Office furniture and equipment	926	3,413	4,703	9,042
Travel and meetings	8,885	26,143	21,156	56,184
Promotion, publicity and printing *	305,787	41,402	443,456	790,645
Computer consulting and training	21,817	15,771	73,114	110,702
Insurance	-	20,275	-	20,275
Provision for bad debt	-	-	185,814	185,814
Investment management fees	-	136,357	-	136,357
Depreciation	-	86,292	-	86,292
Interest and other loan fees	-	9,688	-	9,688
Other	38,800	68,639	77,240	184,679
Total	<u>\$ 12,623,988</u>	<u>1,010,464</u>	<u>2,287,010</u>	<u>15,921,462</u>

* Included in these expenses are donated services.

ArtsWave

SCHEDULES OF PROGRAM AND SUPPORTING SERVICES EXPENSES

Year ended August 31, 2017

	Supporting Services			Total
	Program Services	Management and General	Fundraising	
Grants to arts organizations	\$ 10,726,870	-	-	10,726,870
Arts events and workshops*	198,300	-	49,439	247,739
Professional fees*	299,577	34,651	12,639	346,867
Salaries	455,151	430,678	941,245	1,827,074
Employee benefits	99,902	94,384	262,908	457,194
Stationery and other printing	3,175	3,478	4,061	10,714
Office supplies	1,469	2,617	4,672	8,758
Telephone and internet access	6,402	7,339	16,192	29,933
Postage	116	926	20,087	21,129
Office rent and occupancy	18,936	17,971	48,897	85,804
Equipment rental and maintenance	53,238	22,389	65,799	141,426
Office furniture and equipment	370	1,083	1,242	2,695
Travel and meetings	5,659	14,458	22,622	42,739
Promotion, publicity and printing *	89,203	5,291	275,798	370,292
Computer consulting and training	48,270	27,879	88,576	164,725
Insurance	-	13,462	-	13,462
Provision for bad debt	-	-	252,288	252,288
Investment management fees	-	131,611	-	131,611
Depreciation	-	84,624	-	84,624
Interest and other loan fees	-	10,873	-	10,873
Other	21,507	43,558	69,176	134,241
Total	\$ 12,028,145	947,272	2,135,641	15,111,058

* Included in these expenses are donated services.

