

Taft Museum of Art

Financial Statements
and Supplemental Information
August 31, 2022, and 2021
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Taft Museum of Art:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Taft Museum of Art (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 Taft Museum of Art 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 Taft Museum of Art 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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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 audits.

Other Matters*Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 March 20, 2023, on our consideration of Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
March 20, 2023

Taft Museum of Art
Statements of Financial Position
August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 427,046	1,189,573
Restricted cash	102,031	2,894,191
Grants and contributions receivable	2,593,652	3,565,064
Accounts and interest receivable	247,618	285,936
Inventory	66,891	95,237
Prepaid expenses	170,534	114,709
Investments	18,493,147	22,201,599
Investments held by others for the benefit of the Museum	19,859,354	23,507,236
Beneficial interest in trusts	293,099	387,758
Property and equipment, net	21,180,675	12,394,448
Other assets	<u>22,000</u>	<u>22,000</u>
 Total assets	 \$ <u>63,456,047</u>	 <u>66,657,751</u>
Liabilities and Net Assets		
Liabilities		
Line of credit	\$ 463,803	500,000
Accounts payable and accrued expenses	2,010,542	1,391,493
Deferred revenue	69,324	67,963
Note payable	<u>2,084,362</u>	<u>-</u>
 Total liabilities	 <u>4,628,031</u>	 <u>1,959,456</u>
Net assets		
Without donor restrictions	17,915,926	22,831,038
With donor restrictions	<u>40,912,090</u>	<u>41,867,257</u>
 Total net assets	 <u>58,828,016</u>	 <u>64,698,295</u>
 Total liabilities and net assets	 \$ <u>63,456,047</u>	 <u>66,657,751</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Activities
Year Ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Gifts, grants and bequests	\$ 1,220,493	3,360,591	4,581,084
ArtsWave allocation	-	296,288	296,288
Memberships	150,457	-	150,457
Fundraising event	302,604	-	302,604
Admissions	96,886	-	96,886
Exhibitions	75,146	-	75,146
Learning and engagement programming	21,926	-	21,926
Facility rentals	233,392	-	233,392
Cafe sales	80,487	-	80,487
Gift shop sales	54,888	-	54,888
Other	79,558	-	79,558
Satisfaction of program requirements and time restrictions	<u>925,030</u>	<u>(925,030)</u>	<u>-</u>
Total revenue and other support	<u>3,240,867</u>	<u>2,731,849</u>	<u>5,972,716</u>
Investment returns:			
Net investment return	(2,119,232)	(30,995)	(2,150,227)
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	<u>(6,155)</u>	<u>(3,656,021)</u>	<u>(3,662,176)</u>
Total investment returns	<u>(2,125,387)</u>	<u>(3,687,016)</u>	<u>(5,812,403)</u>
Expenses:			
Programs	4,100,044	-	4,100,044
Management and general	1,198,029	-	1,198,029
Fundraising	<u>732,519</u>	<u>-</u>	<u>732,519</u>
Total expenses	<u>6,030,592</u>	<u>-</u>	<u>6,030,592</u>
Change in net assets	(4,915,112)	(955,167)	(5,870,279)
Net assets, beginning of year	<u>22,831,038</u>	<u>41,867,257</u>	<u>64,698,295</u>
Net assets, end of year	\$ <u><u>17,915,926</u></u>	<u><u>40,912,090</u></u>	<u><u>58,828,016</u></u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Activities
Year Ended August 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Gifts, grants and bequests	\$ 1,642,351	4,915,786	6,558,137
ArtsWave allocation	-	300,801	300,801
Memberships	151,295	-	151,295
Fundraising event	218,578	-	218,578
Admissions	54,978	-	54,978
Exhibitions	3,553	-	3,553
Learning and engagement programming	15,676	-	15,676
Facility rentals	92,269	-	92,269
Cafe sales	25,764	-	25,764
Gift shop sales	80,548	-	80,548
Other	374,269	-	374,269
Satisfaction of program requirements and time restrictions	<u>881,973</u>	<u>(881,973)</u>	<u>-</u>
Total revenue and other support	<u>3,541,254</u>	<u>4,334,614</u>	<u>7,875,868</u>
Investment returns:			
Net investment return	4,501,142	20,884	4,522,026
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	<u>2,104</u>	<u>3,909,110</u>	<u>3,911,214</u>
Total investment returns	<u>4,503,246</u>	<u>3,929,994</u>	<u>8,433,240</u>
Expenses:			
Programs	3,497,637	-	3,497,637
Management and general	867,934	-	867,934
Fundraising	<u>665,370</u>	<u>-</u>	<u>665,370</u>
Total expenses	<u>5,030,941</u>	<u>-</u>	<u>5,030,941</u>
Change in net assets	3,013,559	8,264,608	11,278,167
Net assets, beginning of year	<u>19,817,479</u>	<u>33,602,649</u>	<u>53,420,128</u>
Net assets, end of year	\$ <u><u>22,831,038</u></u>	<u><u>41,867,257</u></u>	<u><u>64,698,295</u></u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Functional Expenses
Year Ended August 31, 2022

	Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 2,044,936	350,951	457,257	2,853,144
Payroll taxes and benefits	357,243	108,462	69,398	535,103
Professional fees	53,987	124,542	18,353	196,882
Learning and engagement programming	94,877	-	-	94,877
House and grounds maintenance	324,369	70,922	973	396,264
Utilities	104,513	15,104	-	119,617
Facility rental expenses	58,881	-	-	58,881
Cafe cost of goods sold	63,660	-	-	63,660
Gift shop cost of goods sold	59,370	-	-	59,370
Cost of benefits and development	-	-	64,235	64,235
Marketing and public relations	65,139	-	-	65,139
Insurance	16,849	93,402	-	110,251
Travel and conferences	19,235	8,984	1,085	29,304
Computer and website expenses	136,351	98,225	18,984	253,560
Exhibition expenses	186,837	-	-	186,837
Other expenses	67,658	167,836	30,936	266,430
Depreciation	446,139	159,601	71,298	677,038
Total expenses	\$ <u>4,100,044</u>	<u>1,198,029</u>	<u>732,519</u>	<u>6,030,592</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Functional Expenses
Year Ended August 31, 2021

	Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 1,627,236	275,726	438,915	2,341,877
Payroll taxes and benefits	264,154	65,637	64,047	393,838
Professional fees	103,869	90,785	13,935	208,589
Learning and engagement programming	80,303	-	-	80,303
House and grounds maintenance	254,528	74,861	1,661	331,050
Utilities	100,804	26,861	-	127,665
Facility rental expenses	48,475	-	-	48,475
Cafe cost of goods sold	22,263	-	83	22,346
Gift shop cost of goods sold	44,057	-	-	44,057
Cost of benefits and development	-	850	44,178	45,028
Marketing and public relations	73,388	-	421	73,809
Insurance	58,644	84,447	-	143,091
Travel and conferences	1,503	992	585	3,080
Computer and website expenses	54,385	107,929	7,144	169,458
Exhibition expenses	361,724	-	-	361,724
Other expenses	10,727	57,336	31,205	99,268
Depreciation	391,577	82,510	63,196	537,283
Total expenses	\$ <u>3,497,637</u>	<u>867,934</u>	<u>665,370</u>	<u>5,030,941</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statements of Cash Flows
Years Ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (5,870,279)	11,278,167
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	677,038	537,283
Net realized and unrealized (gain) loss on investments	3,757,722	(3,322,078)
Contributions for capital projects	(830,525)	(3,668,853)
Stock gifts received	(78,244)	(702,643)
Distribution from beneficial interest in trust	80,365	80,365
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	3,662,176	(3,911,214)
Changes in certain assets and liabilities:		
Grants and contributions receivable	971,412	(1,001,245)
Accounts and interest receivable	38,318	(285,666)
Inventory	28,346	(21,263)
Prepaid expenses	(55,825)	94,923
Accounts payable and accrued expenses	106,408	144,323
Deferred revenue	<u>1,361</u>	<u>(46,324)</u>
Net cash provided by (used in) operating activities	<u>2,488,273</u>	<u>(824,225)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,950,624)	(1,075,039)
Net sales of investments	<u>28,974</u>	<u>1,105,511</u>
Net cash provided by (used in) investing activities	<u>(8,921,650)</u>	<u>30,472</u>
Cash flows from financing activities:		
Net change in line of credit	(36,197)	-
Proceeds from note payable	2,084,362	-
Contributions for capital projects	<u>830,525</u>	<u>3,668,853</u>
Net cash provided by financing activities	<u>2,878,690</u>	<u>3,668,853</u>
Net change in cash, cash equivalents and restricted cash	(3,554,687)	2,875,100
Cash, cash equivalents and restricted cash, beginning of year	<u>4,083,764</u>	<u>1,208,664</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u><u>529,077</u></u>	<u><u>4,083,764</u></u>
Supplemental disclosure of cash flow information:		
Property and equipment in accounts payable	\$ <u>1,385,826</u>	<u>873,185</u>

See accompanying notes to the financial statements.

1. ORGANIZATION:

The Taft Museum of Art (Museum) was founded in 1927 by Charles Phelps Taft and Anna Sinton Taft and opened in 1932. The Museum is a not-for-profit organization whose purpose is to display, conserve and interpret the collection of works of art entrusted to its care by the founders and to maintain and preserve the historically and architecturally significant Baum-Taft House.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

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

Net assets without donor restrictions: net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions: net assets that are subject to donor-imposed stipulations that may or may not be met either by actions of the Museum and/or the passage of time or net assets that are subject to donor-imposed stipulations that require the assets be maintained perpetually by the Museum.

Generally, the donors of these assets permit the Museum to use all, or part of the income earned on related investments for general or specific purposes.

Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash, cash equivalents and restricted cash

All cash is maintained in interest-bearing accounts. Cash equivalents consist of investments in money market funds, overnight investments, commercial paper, and short-term treasury bills. Cash held in investment accounts is included with investments. At times, cash and cash equivalents may be in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation. The Museum has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk in cash.

The Museum has cash that is restricted by donors for specified purposes. Cash, cash equivalents and restricted cash reported within the statements of financial position that aggregate to the total reported on the statements of cash flows for the years ended August 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 427,046	1,189,573
Restricted cash	<u>102,031</u>	<u>2,894,191</u>
	<u>\$ 529,077</u>	<u>4,083,764</u>

Investments

Amounts separately managed by the Museum are invested in stocks and bonds and recorded at fair value. Other investments are recorded at fair value based on market prices. Net changes in fair value of investments and realized gains (losses) on investments disposed are accumulated with interest and dividends received net of investment expenses and are reported in the statements of activities as net investment return, which is all from endowments.

Historically, the majority of the Museum's perpetual endowments and Board designated endowments were pooled for investment purposes on a fair value basis with other endowments, held, controlled and accounted for by ArtsWave. Under the pooled method, each of the Museum's participating funds were assigned a number of units based on the relationship of the fair value of all investments at the time they were pooled. Each month the pooled assets were valued at fair value, and new values were assigned. The unit fair value at the beginning of the month was used to determine the number of units to be allocated for dollars added to or withdrawn from the pool during the month. During 2021, ArtsWave distributed \$10,599,262 of the pooled investment funds and these monies were invested in the Museum's separately managed accounts. The remaining funds held in trust of \$85,574 at August 31, 2021 were distributed to the Museum during 2022.

Grants, accounts, and contributions receivable

Grants, accounts, and contributions are recorded as receivables in the year made or pledged. Legacies and bequests made by will or trust are recorded when the Museum has an irrevocable right to the bequest and the proceeds are measurable. Governmental grants are received with conditions to be met for eligible costs or services provided. The Museum recognizes these conditional contributions when the conditions are met.

The Museum determines its allowance for uncollectible grants and contributions receivable by considering a number of factors, including length of time pledges are past due and the donor's current ability to pay. When amounts are determined to be uncollectible, they are charged to the allowance. No allowance was deemed necessary at August 31, 2022 and 2021 based on the age and makeup of receivables. Grants and contributions receivable due beyond one year are discounted using the risk-free rate in effect during the year of the gift.

Concentrations within grants and contributions receivable exist when revenue from individual sources equal or exceed 10% of the total net balance. There were four sources that comprised approximately 59% of grants and contributions receivable on August 31, 2022. There were three sources that comprised approximately 54% of grants and contributions receivable on August 31, 2021.

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. With the exception of land and the original Taft Museum building, which is a historical treasure, these assets are depreciated on the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Building improvements	5 - 40
Equipment and furniture	3 - 10

The Museum owns air rights for land and improvements which have been granted in perpetuity and therefore are not subject to amortization.

Inventory

Inventory consists of items held for sale in the Museum gift shop and is stated at the lower of average cost or net realizable value.

Deferred revenue

Deferred revenue includes funds received for which no goods or services have yet been provided.

Measure of operations

The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Board-designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from net assets with donor restrictions and net assets without donor restrictions designated for long-term investment (the endowment) according to the Museum's spending policy described in Note 9. The measure of operations excludes investment returns and changes in investments held by others for the benefit of the Museum and beneficial interest in trusts.

Revenue recognition - contributions

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Restricted gifts released from restrictions in the same period are considered without donor restrictions. All expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Revenue recognition – exchange transactions

The Museum derives exchange transaction revenue from memberships, a portion of fundraising event, admissions, exhibitions, learning and engagement programming, facility rentals, café sales and gift shop sales. These revenues are recognized when control of these products or services is transferred to its customers and members, in an amount that reflects the consideration the Museum expects to be entitled to in exchange for those products and services. Incidental items that are immaterial in the context of the contracts are recognized as expense. The Museum does not have any significant financing components as payment is received at or shortly after the point of sale.

Fundraising event revenue includes both an exchange and a contribution component. The portion of the gross proceeds paid by the participant that represents payment for the direct cost of the benefits received by the participant at the event is the exchange component. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at the fundraising event is measured at the actual cost to the Museum. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The direct costs of the fundraising event, which ultimately benefit the donor rather than the Museum, are included on the statements of functional expenses and totaled \$64,235 and \$45,028 for the years ended August 31, 2022 and 2021, respectively.

Revenue from performance obligations satisfied at a point in time consists of the exchange portion of fundraising event, admissions, exhibitions, learning and engagement programming, facility rentals, café sales and gift shop sales. Admissions, exhibitions and learning and engagement programming revenue is recognized when the guest enters the Museum. Fundraising event and facility rentals revenue is recognized at the time the event takes place. Café sales and gift shop sales revenue is recognized at the point of sale.

Revenue from performance obligations satisfied over time consist of memberships. Membership contracts are recorded as a single performance obligation at the time of purchase and recognized ratably over a one-year membership period.

Cash received in advance is recorded in the statements of financial position as deferred revenue. Deferred memberships at August 31, 2022, 2021 and 2020 was \$69,324, \$67,963 and \$114,287, respectively.

Art collection

In conformity with practices followed by many similar institutions, art objects are not included as assets in the statements of financial position. Proceeds from deaccessions or insurance recoveries are reflected as increases in net assets with donor restrictions. The terms of the original deed of gift require that the art collection designated as the "Taft Collection" be perpetually maintained and preserved by the Museum and may not be sold.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses are directly applied when applicable. Salaries and wages, payroll taxes and benefits, and house and ground maintenance are allocated based on time and effort. Depreciation is allocated based on usage. There were no joint costs in 2022 and 2021.

Advertising

Advertising costs are expensed as incurred.

Federal income tax

The Museum 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 by the IRS that the Museum is not a private foundation. As such, the Museum is subject to Federal income taxes only on unrelated business income, if any, under the provisions of Section 511 of the Internal Revenue Code. The Museum had no Federal income tax expense for fiscal years 2022 and 2021.

Uncertain tax positions

The Museum has adopted guidance related to accounting for uncertainty in income taxes. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Museum's income tax returns. The Museum's income tax filings are subject to audit by various taxing authorities. The Museum's policy with regard to interest and penalty is to recognize interest through interest expense and penalties through other expense. The Museum has reviewed its position in connection with unrelated business income tax and management believes nothing has occurred that would result in an uncertain tax position.

Subsequent events

The Museum 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 March 20, 2023, the date on which the financial statements were available to be issued.

3. GRANTS AND CONTRIBUTIONS RECEIVABLE:

Grantors and contributors to the Museum have made pledges that are due as follows as of August 31:

	<u>2022</u>	<u>2021</u>
Within one year	\$1,714,979	1,676,250
One to five years	885,588	1,898,071
Less unamortized discount at 0.28% - 1.63%	<u>(6,915)</u>	<u>(9,257)</u>
Total grants and contributions receivable	\$ <u>2,593,652</u>	<u>3,565,064</u>

4. INVESTMENTS HELD BY OTHERS FOR THE BENEFIT OF THE MUSEUM:

The Museum has recorded a beneficial interest in investments held by ArtsWave in its Consolidated Endowment Fund of \$19,851,861 and \$23,493,589 at August 31, 2022 and 2021, respectively. The pooled endowment fund holds primarily common stock, mutual funds, and corporate and government fixed income obligations, which are stated at fair value as determined by market prices. Approximately 6% of the pool is invested in hedge funds at August 31, 2022 and 2021, respectively. The hedge funds are stated at fair value as provided by the investment manager and ArtsWave believes that the carrying value of the hedge funds is a reasonable estimate of fair value at both August 31, 2022 and 2021. Alternative investments are not readily marketable; therefore, the estimated fair values of these investments are subject to certain risks, including the risk that the fair value of the hedge funds could differ from the value that may have been determined had a market for the hedge funds existed. In addition, ArtsWave holds a charitable gift annuity in the amount of \$7,493 and \$13,647 at August 31, 2022 and 2021, respectively, on behalf of the Museum.

5. CHARITABLE TRUST AGREEMENT:

The Museum was named after the beneficiary of a charitable lead trust in 2007, the assets of which are held by a financial institution. Under the terms of the trust agreement, the Museum receives a fixed annual payment for 20 years. The fair value of the trust was \$293,099 and \$387,758 at August 31, 2022 and 2021, respectively, which represents the present value of the annuity discounted using the applicable federal rate (3.8% and 1.2% at August 31, 2022 and 2021, respectively).

6. PROPERTY AND EQUIPMENT:

Property and equipment at August 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 60,551	60,551
Building	200,860	200,860
Air rights	250,000	250,000
Construction in progress	11,039,705	1,760,551
Land and building improvements	19,150,523	19,132,669
Equipment and furniture	<u>1,951,310</u>	<u>1,785,053</u>
	32,652,949	23,189,684
Less accumulated depreciation	<u>(11,472,274)</u>	<u>(10,795,236)</u>
	<u>\$ 21,180,675</u>	<u>12,394,448</u>

The Taft Museum land and building are recorded in the books at values established by an independent appraisal in 1932.

7. OTHER ASSETS:

Other assets are comprised of a liquor license in the amount of \$22,000 at August 31, 2022 and 2021.

8. LEASES:

The Museum leases certain office space, storage facilities and equipment under various operating lease agreements that expire through March 2029. Lease expense was \$76,454 and \$70,502 for 2022 and 2021, respectively. Future minimum lease payments as of August 31, 2022, are as follows:

2023	\$ 86,591
2024	76,199
2025	76,472
2026	68,813
2027	68,727
Thereafter	<u>111,471</u>
	<u>\$ 488,273</u>

9. ENDOWMENTS:

The Museum's endowment consists of eighteen funds established to provide income for operations. Its endowment includes board-designated and donor restricted funds.

The Museum has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by Ohio as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the

interpretation, the Museum classifies, as perpetually restricted net assets, (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetually restricted net assets is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Museum's Board in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Museum considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Museum and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Museum and the investment policy of the Museum. Unless restricted by the donor, 100% of the net appreciation on endowment assets may be used for Museum operations, subject to annual spending policies.

Changes in endowment assets are as follows for the year ended August 31, 2022:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$11,369,941	10,799,568	22,169,509
Net investment return	(3,145,758)	(30,995)	(3,176,753)
Contribution, net of change in receivable	517,016	-	517,016
Spending appropriation	<u>(1,049,066)</u>	<u>-</u>	<u>(1,049,066)</u>
Endowment net assets at end of year	<u>\$ 7,692,133</u>	<u>10,768,573</u>	<u>18,460,706</u>

Changes in endowment assets are as follows for the year ended August 31, 2021:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 8,480,428	10,778,684	19,259,112
Net investment return	3,608,401	20,884	3,629,285
Contribution, net of change in receivable	10,300	-	10,300
Spending appropriation	<u>(729,188)</u>	<u>-</u>	<u>(729,188)</u>
Endowment net assets at end of year	<u>\$ 11,369,941</u>	<u>10,799,568</u>	<u>22,169,509</u>

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Museum to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

As of August 31, 2022 and 2021, deficiencies of this nature are reported as the following:

	<u>2022</u>	<u>2021</u>
Original value of the funds	\$ 2,566,170	-
Fair value of the funds	<u>(2,342,393)</u>	<u>-</u>
Deficiencies	\$ <u>223,777</u>	<u>-</u>

Return objectives and risk parameters.

The Museum has adopted investment and spending policies for endowment assets that attempt to provide for long-term growth of principal without undue exposure to risk. The return objective shall be accomplished using a well-diversified combination of both actively and passively managed commingled funds allocated between equity and fixed income funds. The performance objectives are measured against appropriate industry benchmarks such as the S&P 500 and Russell 1000 Growth & Value indices.

Strategies employed for achieving objectives.

To satisfy its long-term rate-of-return objectives, the Museum 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). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based investments to reach its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Museum has a policy of appropriating for distribution each year 4.2% to 4.9% of its endowment funds' average fair value over a rolling 20 quarters. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity to provide additional real growth through new gifts and investment return.

10. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are available for the following future purposes as of August 31:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for a specific purpose:		
Future operations	\$ 824,470	939,719
Exhibitions	140,000	55,000
Educational and other programming	267,079	260,464
Capital campaign	<u>9,034,707</u>	<u>6,318,517</u>
	10,266,256	7,573,700
Subject to spending policy and appropriation:		
Endowment held in perpetuity	10,768,573	10,799,568
Other funds held in perpetuity:		
Restricted cash to be endowed	25,400	400
Investments held by others for the benefit of the Museum	<u>19,851,861</u>	<u>23,493,589</u>
Total net assets with donor restrictions:	\$ <u>40,912,090</u>	<u>41,867,257</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by passing of time restrictions, or by occurrence of other events specified by donors. Net assets released from restrictions were \$925,030 in 2022 and \$881,973 in 2021 primarily due to time restrictions expiring on net assets available for future programs and operations.

In fiscal years 2022 and 2021, net assets with donor restrictions to be held in perpetuity consist primarily of funds held for the benefit of the Museum. The income from these endowments is primarily for operating uses of the Museum.

11. LINE OF CREDIT:

The Museum has a \$500,000 line of credit that is due in September 2023. The line bears interest at the daily Bloomberg Short-Term Bank Yield Index (BSBY) plus 1.65% (3.99% at August 31, 2022). As of August 31, 2022, \$463,803 was drawn on this line of credit. No amounts were drawn as of August 31, 2021.

12. NOTE PAYABLE:

On January 4, 2022, the Museum entered into a convertible loan for up to \$7,000,000, including interest at the Term SOFR plus 2.19% (4.565% at August 31, 2022). The loan does not require payments of principal or interest until the conversion date on January 4, 2023. As of the conversion date the note, including principal and interest, will be payable over 48 months until January 2027. The note is secured by an investment account held at the bank. The Museum is using these funds for capital upgrades to the Museum. The outstanding balance at August 31, 2022 was \$2,084,362. The note is subject to certain covenants for which the Museum was in compliance at year end. As of the conversion date total draws were \$4,983,296.

13. RETIREMENT PLAN:

The Museum maintains a retirement savings plan that allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. Employees vest immediately in their own contributions and vest in the Museum's contribution after three years. The Museum provided a 6% match contribution for employees who contributed 2.5% or more. Retirement expenses under this plan in fiscal years 2022 and 2021 were \$29,660 and \$6,172 respectively.

14. CONDITIONAL ASSET RETIREMENT OBLIGATIONS:

The Museum is required to recognize the fair value of a liability for a conditional asset retirement obligation (CARO) in the period in which it is incurred if a reasonable estimate of fair value can be made. Asbestos removal was a necessary part of the Museum's renovation and expansion completed in May 2004. The Museum building may still contain some asbestos. As of August 31, 2022, management has no intention of demolishing or selling the Museum building. Management is exploring various options to further improve the Museum building which could result in renovation of portions of the building. At this time, the management of the Museum does not have sufficient information to estimate the fair value of the CARO because the settlement date or range of settlement dates is unknown.

15. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Museum has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of valuation methodologies used for assets measured at fair value. There have been no changes in the methodology used at August 31, 2022 and 2021.

Cash equivalents – interest bearing deposits and short-term investments with original maturities of three months or less. (Level 1)

Fixed income mutual funds - valued at the net asset value (NAV) of share held by the Museum at year end. (Level 1)

Corporate bonds - valued at the estimated fair value of bonds as provided by third-party statements. (Level 2)

Funds held in trust (pooled assets) - valued at the estimated fair value of the assets held within the trust which consist of actively traded common stock and fixed income securities. (Level 2)

Funds held by others – valued at the estimated fair value of the assets held in a mutual pool. As explained in Note 4, the Museum has an investment, through ArtsWave, in certain hedge fund investments. These investments are measured using common business valuation models as reported and reviewed by the hedge fund managers. These values are reported to ArtsWave and are monitored by them. (Level 3)

Beneficial interest in trust - valued at the estimated fair value of the assets held within the trust which generally consists of actively traded common stock and fixed income securities. (Level 3)

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table presents the Museum's fair value hierarchy for those assets measured at fair value on a recurring basis as of August 31, 2022:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>August 31, 2022</u>				
Investments:				
Cash equivalents	\$ 316,865	-	-	316,865
Mutual funds	13,764,138	-	-	13,764,138
Corporate bonds	-	<u>4,412,144</u>	-	<u>4,412,144</u>
Total	<u>\$ 14,081,003</u>	<u>4,412,144</u>	<u>-</u>	<u>18,493,147</u>
Funds held by others for the benefit of the Museum	\$ -	-	<u>19,859,354</u>	<u>19,859,354</u>
Beneficial interest in trust	\$ -	-	<u>293,099</u>	<u>293,099</u>

The following table presents the Museum's fair value hierarchy for those assets measured at fair value on a recurring basis as of August 31, 2021:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>August 31, 2021</u>				
Investments:				
Cash equivalents	\$ 32,089	-	-	32,089
Mutual funds	22,083,936	-	-	22,083,936
Funds held in trust	-	85,574	-	85,574
Total	<u>\$ 22,116,025</u>	<u>85,574</u>	<u>-</u>	<u>22,201,599</u>
Funds held by others for the benefit of the Museum	\$ -	-	23,507,236	23,507,236
Beneficial interest in trust	\$ -	-	387,758	387,758

16. LIQUIDITY DISCLOSURES:

The Museum is supported by earned revenue and contributions from donors. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Museum 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 the Museum's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Funds held within the board designated endowment would be used to help satisfy liquidity needs if necessary.

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

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 427,046	1,189,573
Restricted cash	102,031	2,894,191
Grants and contributions receivable	2,593,652	3,565,064
Accounts and interest receivable	247,618	285,936
Investments at fair value	<u>18,493,147</u>	<u>22,201,599</u>
Financial assets available at year-end	<u>21,863,494</u>	<u>30,136,363</u>
Less those unavailable for general expenditures within one year due to:		
Restricted cash	102,031	2,894,191
Restricted by donor for specific purpose	1,231,549	3,114,918
Endowment held in perpetuity	10,768,573	10,799,568
Board designated endowment	<u>7,692,133</u>	<u>11,369,941</u>
Total limitations on available resources	<u>19,794,286</u>	<u>28,178,618</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>2,069,208</u>	<u>1,957,745</u>

17. RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 the Museum's year ending August 31, 2023. The Museum is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

18. CONDITIONAL PROMISES TO GIVE:

As of August 31, 2022, the Museum has conditional promises to give totaling approximately \$222,000 relating to cost reimbursement grants with contract terms extending into future periods. These amounts were not recognized during 2022 as the conditions have not been satisfied.

Taft Museum of Art
Schedule of Expenditures of Federal Awards
Year Ended August 31, 2022

Granting Agency/ Passthrough Agency/ Program Title	Assistance Listing Number	Contract Number	Federal Expenditures
National Endowment for the Humanities Promotion of the Humanities Challenge Grants	45.130	CHA-268747-20	\$ 635,264
U.S. Department of the Interior National Park Service Save America's Treasures	15.929	P20AP00378	<u>455,991</u>
Total federal expenditures			<u>\$ 1,091,255</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 Taft Museum of Art 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 Taft Museum of Art it is not intended to and does not present the financial position, changes in net assets, or cash flows of Taft Museum of Art.

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

Taft Museum of Art 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
Taft Museum of Art:

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 Taft Museum of Art (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 March 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Taft Museum of Art'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 Taft Museum of Art's internal control. Accordingly, we do not express an opinion on the effectiveness of Taft Museum of Art'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 Taft Museum of Art'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
March 20, 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
Taft Museum of Art:

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

We have audited Taft Museum of Art'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 Taft Museum of Art's major federal programs for the year ended August 31, 2022. Taft Museum of Art'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, Taft Museum of Art 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 Taft Museum of Art 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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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 Taft Museum of Art'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
March 20, 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

45.130

Promotion of the Humanities Challenge Grants

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

