



CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

Taft Museum of Art

Financial Statements

August 31, 2023 and 2022

with Independent Auditors' Report

TABLE OF CONTENTS

Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities.....	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements	9-22

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, 2023 and 2022, 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, 2023 and 2022, 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. 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 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, 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 3, 2024

Taft Museum of Art
Statements of Financial Position
August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 5,327,729	427,046
Restricted cash	330,727	102,031
Grants and contributions receivable	1,944,738	2,593,652
Accounts and interest receivable	22,644	247,618
Inventory	102,751	66,891
Prepaid expenses	400,607	170,534
Investments	17,963,861	18,493,147
Investments held by others for the benefit of the Museum	20,264,337	19,859,354
Beneficial interest in trust	219,185	293,099
Property and equipment, net	23,078,551	21,180,675
Other assets	22,000	22,000
Right-of-use assets	<u>321,507</u>	<u>-</u>
 Total assets	 \$ <u>69,998,637</u>	 <u>63,456,047</u>
Liabilities and Net Assets		
Liabilities		
Line of credit	\$ 463,803	463,803
Accounts payable and accrued expenses	574,678	2,010,542
Deferred revenue	104,967	69,324
Operating lease liability	337,156	-
Note payable	<u>4,983,296</u>	<u>2,084,362</u>
 Total liabilities	 <u>6,463,900</u>	 <u>4,628,031</u>
Net assets		
Without donor restrictions	29,363,167	17,915,926
With donor restrictions	<u>34,171,570</u>	<u>40,912,090</u>
 Total net assets	 <u>63,534,737</u>	 <u>58,828,016</u>
 Total liabilities and net assets	 \$ <u>69,998,637</u>	 <u>63,456,047</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Activities
Year Ended August 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Gifts, grants and bequests	\$ 6,104,761	1,554,809	7,659,570
ArtsWave allocation	-	269,000	269,000
Memberships	144,714	-	144,714
Fundraising event	293,763	-	293,763
Admissions	83,586	-	83,586
Exhibitions	11,024	-	11,024
Learning and engagement programming	28,200	-	28,200
Facility rentals	437,894	-	437,894
Cafe sales	83,496	-	83,496
Gift shop sales	58,452	-	58,452
Other	12,930	-	12,930
Satisfaction of program requirements and time restrictio	<u>8,978,600</u>	<u>(8,978,600)</u>	<u>-</u>
Total revenue and other support	<u>16,237,420</u>	<u>(7,154,791)</u>	<u>9,082,629</u>
Investment returns:			
Net investment return	2,602,844	1,784	2,604,628
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	<u>(1,053)</u>	<u>412,487</u>	<u>411,434</u>
Total investment returns	<u>2,601,791</u>	<u>414,271</u>	<u>3,016,062</u>
Expenses:			
Programs	4,722,516	-	4,722,516
Management and general	2,073,648	-	2,073,648
Fundraising	<u>595,806</u>	<u>-</u>	<u>595,806</u>
Total expenses	<u>7,391,970</u>	<u>-</u>	<u>7,391,970</u>
Change in net assets	11,447,241	(6,740,520)	4,706,721
Net assets, beginning of year	<u>17,915,926</u>	<u>40,912,090</u>	<u>58,828,016</u>
Net assets, end of year	<u>\$ 29,363,167</u>	<u>34,171,570</u>	<u>63,534,737</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 restrictic	<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>17,915,926</u>	<u>40,912,090</u>	<u>58,828,016</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Functional Expenses
Year Ended August 31, 2023

		Management		
	Programs	and General	Fundraising	Total
Salaries and wages	\$ 2,230,587	823,333	288,559	3,342,479
Payroll taxes and benefits	434,583	198,654	67,113	700,350
Professional fees	63,189	240,562	20,241	323,992
Learning and engagement programming	97,349	-	-	97,349
House and grounds maintenance	530,681	101,815	1,631	634,127
Utilities	120,796	11,877	-	132,673
Facility rental expenses	142,351	-	-	142,351
Cafe cost of goods sold	124,172	-	-	124,172
Gift shop cost of goods sold	51,090	-	-	51,090
Cost of benefits and development	-	-	92,347	92,347
Marketing and public relations	47,898	-	750	48,648
Insurance	25,426	91,494	-	116,920
Travel and conferences	18,038	14,149	4	32,191
Computer and website expenses	67,153	150,494	30,992	248,639
Exhibition expenses	248,565	-	-	248,565
Other expenses	103,064	194,022	35,245	332,331
Depreciation	417,574	182,842	58,924	659,340
Interest expense	-	64,406	-	64,406
Total expenses	\$ <u>4,722,516</u>	<u>2,073,648</u>	<u>595,806</u>	<u>7,391,970</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
Statements of Cash Flows
Years Ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,706,721	(5,870,279)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	659,340	677,038
Loss on disposal of fixed assets	5,605	-
Net realized and unrealized (gain) loss on investments	(2,117,025)	3,757,722
Contributions for capital projects	(1,481,355)	(830,525)
Stock gifts received	(103,949)	(78,244)
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	(411,434)	3,662,176
Net change in leases	15,649	-
Changes in certain assets and liabilities:		
Grants and contributions receivable	648,914	971,412
Accounts and interest receivable	224,974	38,318
Inventory	(35,860)	28,346
Prepaid expenses	(230,073)	(55,825)
Accounts payable and accrued expenses	(158,311)	106,408
Deferred revenue	<u>35,643</u>	<u>1,361</u>
Net cash provided by operating activities	<u>1,839,204</u>	<u>2,488,273</u>
Cash flows from investing activities:		
Purchases of property and equipment	(3,840,374)	(8,950,624)
Net sales of investments	<u>2,750,260</u>	<u>28,974</u>
Net cash used in investing activities	<u>(1,090,114)</u>	<u>(8,921,650)</u>
Cash flows from financing activities:		
Net change in line of credit	-	(36,197)
Proceeds from note payable	2,898,934	2,084,362
Contributions for capital projects	<u>1,481,355</u>	<u>830,525</u>
Net cash provided by financing activities	<u>4,380,289</u>	<u>2,878,690</u>
Net change in cash, cash equivalents and restricted cash	5,129,379	(3,554,687)
Cash, cash equivalents and restricted cash, beginning of year	<u>529,077</u>	<u>4,083,764</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u>5,658,456</u>	<u>529,077</u>
Supplemental disclosure of cash flow information:		
Property and equipment in accounts payable	\$ <u>108,273</u>	<u>1,385,826</u>
Right-of-use asset obtained in exchange for operating lease liability	\$ <u>392,218</u>	<u>-</u>
Capitalized interest	\$ <u>241,885</u>	<u>23,262</u>
Interest paid	\$ <u>64,406</u>	<u>-</u>
Taxes paid	\$ <u>13,723</u>	<u>-</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.

Adoption of new accounting standard

During 2023, the Museum adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The Museum has elected the effective date method for implementing this ASU where a cumulative adjustment related to the implementation of Accounting Standards Codification (ASC) 842 is recorded as of September 1, 2022, the date of implementation, with no adjustment to any prior year information presented in the financial statements. The lease standard resulted in the recognition of right-of-use assets and related lease liabilities of \$392,218 as of the date of implementation with no material cumulative effect adjustment to net assets. As allowed under the new accounting standard, the Museum elected to apply practical expedients available under the transition provisions, including (i) not reassessing whether expired or existing contracts contain leases, (ii) not reassessing lease classification, and (iii) not revaluing initial direct costs for existing leases.

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, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 5,327,729	427,046
Restricted cash	<u>330,727</u>	<u>102,031</u>
	<u>\$ 5,658,456</u>	<u>529,077</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.

Funds held by others

The Museum applies FASB guidance on transfers of assets to others. As a result, the Museum records its partial interest in investments held by ArtsWave for the benefit of the Museum at fair value.

Beneficial interest in trust

The Museum was named as the beneficiary of a charitable lead trust. The Museum will receive annual distributions from the trust. The change in fair value of the trusts' assets are reported on the statements of activities.

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, 2023 and 2022 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 five sources that comprised approximately

73% of grants and contributions receivable on August 31, 2023. There were four sources that comprised approximately 59% of grants and contributions receivable on August 31, 2022.

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.

Leases

The determination of whether an arrangement is a lease is made at the lease's inception. Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

Right-of-use assets represents the right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Museum uses the implicit rate when it is readily determinable. Since most of the Museum's leases do not provide an implicit rate, to determine the present value of lease payments, management elected to adopt the practical expedient that allows the Museum to use the risk-free rate as of the date of the lease's inception. Operating lease right-of-use assets also includes any lease payments made and excludes any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Museum's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option.

The Museum has lease agreements with lease and non-lease components and has elected to account for the lease and non-lease components as a single lease.

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 an 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 \$92,347 and \$64,235 for the years ended August 31, 2023 and 2022, 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, 2023, 2022 and 2021 was \$104,967, \$69,324 and \$67,963, 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.

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. Federal income tax expense for fiscal years 2023 and 2022 was approximately \$29,000 and \$0, respectively, which is included in other expenses on the consolidated statements of functional expenses.

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 April 3, 2024, the date on which the financial statements were available to be issued.

Reclassifications

Certain items from 2022 have been reclassified to conform to the current year presentation.

3. GRANTS AND CONTRIBUTIONS RECEIVABLE:

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

	<u>2023</u>	<u>2022</u>
Within one year	\$ 1,103,318	1,714,979
One to five years	845,435	885,588
Less unamortized discount at 0.28% - 1.63%	<u>(4,015)</u>	<u>(6,915)</u>
Total grants and contributions receivable	\$ <u>1,944,738</u>	<u>2,593,652</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 \$20,257,897 and \$19,851,861 at August 31, 2023 and 2022, 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 7% of the pool is invested in hedge funds at August 31, 2023 and 2022, 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, 2023 and 2022. 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 \$6,440 and \$7,493 at August 31, 2023 and 2022, respectively, on behalf of the Museum.

5. CHARITABLE TRUST AGREEMENT:

The Museum was named 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 \$219,185 and \$293,099 at August 31, 2023 and 2022, respectively, which represents the present value of the annuity discounted using the applicable federal rate (4.9% and 3.8% at August 31, 2023 and 2022, respectively).

6. PROPERTY AND EQUIPMENT:

Property and equipment at August 31, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 60,551	60,551
Building	200,860	200,860
Air rights	250,000	250,000
Construction in progress	647,051	11,039,705
Land and building improvements	29,413,130	19,150,523
Equipment and furniture	<u>4,081,165</u>	<u>1,951,310</u>
	34,652,757	32,652,949
Less accumulated depreciation	<u>(11,574,206)</u>	<u>(11,472,274)</u>
	<u>\$ 23,078,551</u>	<u>21,180,675</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, 2023 and 2022.

8. LEASES:

The Museum leases office space under an operating lease agreement that expires in September 2029. The lease includes rent escalation provisions based on an annual inflation adjustment of 2.00% from a monthly base rent of \$5,414. Since the Museum's lease does not provide an implicit interest rate to determine the present value of lease payments, management used the risk-free rate available at lease commencement which was 2.49%. The Museum recognized an operating lease right-of-use asset and related lease liability of \$392,218 at the lease inception. The lease provides the option to renew for one five-year period at comparable terms and conditions. Due to the changing needs of the community the Museum serves, it is unknown at this time if the renewal option will be exercised. The Museum has elected to implement the practical expedient of not separating lease components from nonlease components.

The Museum recognized \$64,969 of straight-line rent expense under this lease during 2023. Rent expense under ASU 840 was \$76,454 during the year ended August 31, 2022.

Weighted-average remaining lease term in years for operating lease	6.0
Weighted-average discount rate for operating lease	2.49%

The following is a schedule of future minimum lease payments for the years ended August 31:

2024	\$ 64,754
2025	66,060
2026	67,386
2027	68,727
2028	70,102
Thereafter	<u>41,368</u>
	378,397
Less imputed interest	<u>(41,241)</u>
	\$ <u>337,156</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, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 7,692,133	10,768,573	18,460,706
Net investment return	1,561,587	1,784	1,563,371
Contribution, net of change in receivable	(31,455)	-	(31,455)
Spending appropriation	<u>(2,057,139)</u>	<u>-</u>	<u>(2,057,139)</u>
Endowment net assets at end of year	\$ <u>7,165,126</u>	<u>10,770,357</u>	<u>17,935,483</u>

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>

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, 2023 and 2022, deficiencies of this nature are reported as the following:

	<u>2023</u>	<u>2022</u>
Original value of the funds	\$ 980,774	2,566,170
Fair value of the funds	<u>(823,642)</u>	<u>(2,342,393)</u>
Deficiencies	\$ <u>157,132</u>	<u>223,777</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>2023</u>	<u>2022</u>
Subject to expenditure for a specific purpose:		
Future operations	\$ 621,528	824,470
Exhibitions	5,000	140,000
Educational and other programming	308,192	267,079
Capital campaign	<u>2,183,196</u>	<u>9,034,707</u>
	3,117,916	10,266,256
Subject to spending policy and appropriation:		
Endowment held in perpetuity	10,770,357	10,768,573
Other funds held in perpetuity:		
Restricted cash to be endowed	25,400	25,400
Investments held by others for the benefit of the Museum	<u>20,257,897</u>	<u>19,851,861</u>
Total net assets with donor restrictions:	<u>\$ 34,171,570</u>	<u>40,912,090</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 \$8,879,600 in 2023 and \$925,030 in 2022 primarily due to time restrictions expiring on net assets available for future programs and operations.

In fiscal years 2023 and 2022, 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 was due in September 2023. The line bore interest at the daily Bloomberg Short-Term Bank Yield Index (BSBY) plus 1.65% (7.0218% at August 31, 2023). As of August 31, 2023 and 2022, \$463,803 was drawn on this line of credit. This line of credit was paid in full during September 2023 and was not renewed.

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% (7.565% at August 31, 2023), which matures on January 4, 2027. The Museum used these funds for capital upgrades to the Museum. The loan called for monthly interest payments on any outstanding principal balance from inception but did not require payments of principal until the conversion date on January 4, 2023. Upon conversion, interest on the outstanding principal balance is payable monthly until maturity in January 2027. Construction campaign pledge payments

made to the Museum are required to be remitted and applied toward the principal balance 45 days after the end of each quarter. During 2023 and 2022, the Museum only remitted interest payments, including the period after conversion as pledge payments were still being applied directly toward construction expenses. The note is secured by the unrestricted portion of funds in the Museum's investment account held at the bank. The outstanding balance at August 31, 2023 and 2022 was \$4,983,296 and \$2,084,362, respectively. The note is subject to certain covenants for which the Museum was in compliance at year end. Future minimum payments are unknown at this point.

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 3% match contribution for employees who contributed 2.5% or more. Retirement expenses under this plan in fiscal years 2023 and 2022 were \$59,905 and \$29,660, 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 August 31, 2023, 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, 2023 and 2022.

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, 2023:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Cash equivalents	\$ 28,379	-	-	28,379
Mutual funds	<u>17,935,482</u>	<u>-</u>	<u>-</u>	<u>17,935,482</u>
Total	<u>\$ 17,963,861</u>	<u>-</u>	<u>-</u>	<u>17,963,861</u>
Funds held by others for the benefit of the Museum	\$ <u>-</u>	<u>-</u>	<u>20,264,337</u>	<u>20,264,337</u>
Beneficial interest in trust	\$ <u>-</u>	<u>-</u>	<u>219,185</u>	<u>219,185</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, 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>
Investments:				
Cash equivalents	\$ 316,865	-	-	316,865
Mutual funds	<u>18,176,282</u>	<u>-</u>	<u>-</u>	<u>18,176,282</u>
Total	<u>\$ 18,493,147</u>	<u>-</u>	<u>-</u>	<u>18,493,147</u>
Funds held by others for the benefit of the Museum	\$ <u>-</u>	<u>-</u>	<u>19,859,354</u>	<u>19,859,354</u>
Beneficial interest in trust	\$ <u>-</u>	<u>-</u>	<u>293,099</u>	<u>293,099</u>

16. CONDITIONAL PROMISES TO GIVE:

As of August 31, 2023, 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 2023 as the conditions have not been satisfied.

17. RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard updates the guidance for accounting for credit losses. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The new standard is effective on September 1, 2023. Management is evaluating the impact of this ASU on the financial statements.

18. 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.

Taft Museum of Art
Notes to the Financial Statements
August 31, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 5,327,729	427,046
Restricted cash	330,727	102,031
Grants and contributions receivable	1,944,738	2,593,652
Accounts and interest receivable	22,644	247,618
Investments at fair value	<u>17,963,861</u>	<u>18,493,147</u>
Financial assets available at year-end	<u>25,589,699</u>	<u>21,863,494</u>
Less those unavailable for general expenditures within one year due to:		
Restricted cash	330,727	102,031
Restricted by donor for specific purpose	934,720	1,231,549
Endowment held in perpetuity	10,770,357	10,768,573
Board designated endowment	<u>7,165,126</u>	<u>7,692,133</u>
Total limitations on available resources	<u>19,200,930</u>	<u>19,794,286</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>6,388,769</u>	<u>2,069,208</u>

