



CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

Taft Museum of Art

Financial Statements

August 31, 2025 and 2024

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, 2025 and 2024, 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, 2025 and 2024, 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 opinion.

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 21, 2026

Taft Museum of Art
Statements of Financial Position
August 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ -	758,510
Restricted cash	523,562	50,000
Grants and contributions receivable	632,511	798,148
Inventory	120,208	112,847
Prepaid expenses	266,072	223,587
Investments	25,455,615	23,558,448
Investments held by others for the benefit of the Museum	23,894,180	22,237,846
Beneficial interest in trust	76,627	148,968
Property and equipment, net	20,143,629	21,626,840
Other assets	22,000	22,000
Right-of-use assets	<u>207,406</u>	<u>264,613</u>
 Total assets	 \$ <u>71,341,810</u>	 <u>69,801,807</u>
 Liabilities and Net Assets		
Liabilities		
Cash overdraw	\$ 182,544	-
Line of credit	750,000	-
Accounts payable and accrued expenses	412,550	301,888
Deferred revenue	134,629	46,629
Operating lease liability	222,181	280,477
Note payable	<u>2,273,309</u>	<u>2,936,680</u>
 Total liabilities	 <u>3,975,213</u>	 <u>3,565,674</u>
 Net assets		
Without donor restrictions	30,474,893	31,736,615
With donor restrictions	<u>36,891,704</u>	<u>34,499,518</u>
 Total net assets	 <u>67,366,597</u>	 <u>66,236,133</u>
 Total liabilities and net assets	 \$ <u>71,341,810</u>	 <u>69,801,807</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Activities
Year Ended August 31, 2025

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Revenue and other support:			
Gifts, grants and bequests	\$ 1,211,366	2,168,080	3,379,446
ArtsWave allocation	-	269,000	269,000
Memberships	124,439	-	124,439
Fundraising event	327,541	-	327,541
Admissions	77,516	-	77,516
Exhibitions	3,565	-	3,565
Learning and engagement programming	34,279	-	34,279
Facility rentals	326,823	-	326,823
Cafe sales	136,941	-	136,941
Gift shop sales	78,827	-	78,827
Other	3,666	-	3,666
Satisfaction of program requirements and time restrictions	<u>1,697,066</u>	<u>(1,697,066)</u>	<u>-</u>
Total revenue and other support	<u>4,022,029</u>	<u>740,014</u>	<u>4,762,043</u>
Investment returns:			
Net investment return	3,200,563	(4,162)	3,196,401
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	<u>8,023</u>	<u>1,656,334</u>	<u>1,664,357</u>
Total investment returns	<u>3,208,586</u>	<u>1,652,172</u>	<u>4,860,758</u>
Expenses:			
Programs	6,215,637	-	6,215,637
Management and general	1,724,530	-	1,724,530
Fundraising	<u>552,170</u>	<u>-</u>	<u>552,170</u>
Total expenses	<u>8,492,337</u>	<u>-</u>	<u>8,492,337</u>
Change in net assets	(1,261,722)	2,392,186	1,130,464
Net assets, beginning of year	<u>31,736,615</u>	<u>34,499,518</u>	<u>66,236,133</u>
Net assets, end of year	\$ <u>30,474,893</u>	<u>36,891,704</u>	<u>67,366,597</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Activities
Year Ended August 31, 2024

	<u>Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and other support:			
Gifts, grants and bequests	\$ 2,081,197	1,471,735	3,552,932
ArtsWave allocation	-	269,000	269,000
Memberships	108,983	-	108,983
Fundraising event	285,154	-	285,154
Admissions	80,931	-	80,931
Exhibitions	3,272	-	3,272
Learning and engagement programming	30,815	-	30,815
Facility rentals	306,055	-	306,055
Cafe sales	128,899	-	128,899
Gift shop sales	73,390	-	73,390
Other	26,503	-	26,503
Loss on disposal of property and equipment	(6,935)	-	(6,935)
Satisfaction of program requirements and time restrictions	<u>3,393,449</u>	<u>(3,393,449)</u>	<u>-</u>
Total revenue and other support	<u>6,511,713</u>	<u>(1,652,714)</u>	<u>4,858,999</u>
Investment returns:			
Net investment return	4,378,176	8,626	4,386,802
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	<u>11,621</u>	<u>1,972,036</u>	<u>1,983,657</u>
Total investment returns	<u>4,389,797</u>	<u>1,980,662</u>	<u>6,370,459</u>
Expenses:			
Programs	6,457,168	-	6,457,168
Management and general	1,508,100	-	1,508,100
Fundraising	<u>562,794</u>	<u>-</u>	<u>562,794</u>
Total expenses	<u>8,528,062</u>	<u>-</u>	<u>8,528,062</u>
Change in net assets	2,373,448	327,948	2,701,396
Net assets, beginning of year	<u>29,363,167</u>	<u>34,171,570</u>	<u>63,534,737</u>
Net assets, end of year	\$ <u>31,736,615</u>	<u>34,499,518</u>	<u>66,236,133</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Functional Expenses
Year Ended August 31, 2025

	Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 2,448,078	931,653	326,605	3,706,336
Payroll taxes and benefits	463,693	242,135	74,355	780,183
Professional fees	115,685	70,110	8,483	194,278
Learning and engagement programming	114,859	-	-	114,859
House and grounds maintenance	318,705	77,443	1,795	397,943
Utilities	147,632	16,684	-	164,316
Facility rental expenses	141,229	-	-	141,229
Cafe cost of goods sold	66,638	-	-	66,638
Gift shop cost of goods sold	37,369	-	-	37,369
Cost of benefits and development	-	-	67,866	67,866
Marketing and public relations	66,080	-	-	66,080
Insurance	46,245	107,985	-	154,230
Travel and conferences	18,317	25,278	2,702	46,297
Computer and website expenses	46,823	118,441	37,300	202,564
Exhibition expenses	366,900	-	-	366,900
Other expenses	42,588	111,802	28,455	182,845
Depreciation	1,590,464	18,853	4,609	1,613,926
Interest expense	184,332	4,146	-	188,478
Total expenses	\$ <u>6,215,637</u>	<u>1,724,530</u>	<u>552,170</u>	<u>8,492,337</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statement of Functional Expenses
Year Ended August 31, 2024

	Programs	Management and General	Fundraising	Total
Salaries and wages	\$ 2,501,972	893,473	311,685	3,707,130
Payroll taxes and benefits	451,055	127,017	70,911	648,983
Professional fees	44,234	71,001	18,894	134,129
Learning and engagement programming	112,497	-	88	112,585
House and grounds maintenance	332,395	78,637	1,620	412,652
Utilities	141,874	12,905	-	154,779
Facility rental expenses	143,670	-	92	143,762
Cafe cost of goods sold	102,057	-	-	102,057
Gift shop cost of goods sold	42,016	-	-	42,016
Cost of benefits and development	-	-	73,045	73,045
Marketing and public relations	71,999	-	-	71,999
Insurance	35,690	100,542	-	136,232
Travel and conferences	18,468	24,894	60	43,422
Computer and website expenses	130,168	118,758	37,814	286,740
Exhibition expenses	396,025	-	993	397,018
Other expenses	44,657	54,422	42,718	141,797
Depreciation	1,589,066	19,718	4,874	1,613,658
Interest expense	299,325	6,733	-	306,058
Total expenses	\$ <u>6,457,168</u>	<u>1,508,100</u>	<u>562,794</u>	<u>8,528,062</u>

See accompanying notes to the financial statements.

Taft Museum of Art
Statements of Cash Flows
Years Ended August 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,130,464	2,701,396
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	1,613,926	1,613,658
Loss on disposal of property and equipment	-	6,935
Net realized and unrealized gain on investments	(1,553,922)	(2,829,191)
Stock gifts received	(349,320)	(146,720)
Contributions restricted for note payable	(469,442)	-
Contributions restricted for endowment	(54,120)	(24,600)
Distribution from beneficial interest in trust	80,364	80,365
Change in investments held by others for the benefit of the Museum and beneficial interest in trust	(1,664,357)	(1,983,657)
Net change in leases	(1,089)	215
Changes in certain assets and liabilities:		
Grants and contributions receivable	165,637	1,169,234
Inventory	(7,361)	(10,096)
Prepaid expenses	(42,485)	177,020
Cash overdraw	182,544	-
Accounts payable and accrued expenses	110,662	(164,517)
Deferred revenue	88,000	(58,338)
Net cash provided (used) by operating activities	<u>(770,499)</u>	<u>531,704</u>
Cash flows from investing activities:		
Purchases of property and equipment	(130,715)	(277,155)
Net sales (purchases) of investments	6,075	(2,618,676)
Net cash used in investing activities	<u>(124,640)</u>	<u>(2,895,831)</u>
Cash flows from financing activities:		
Net change in line of credit	750,000	(463,803)
Payments of note payable	(663,371)	(2,046,616)
Proceeds for contributions restricted for note payable	469,442	-
Proceeds for contributions restricted for investment in endowment	54,120	24,600
Net cash provided (used) by financing activities	<u>610,191</u>	<u>(2,485,819)</u>
Net change in cash, cash equivalents and restricted cash	(284,948)	(4,849,946)
Cash, cash equivalents and restricted cash, beginning of year	<u>808,510</u>	<u>5,658,456</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u>523,562</u>	<u>808,510</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ <u>188,478</u>	<u>306,058</u>
Taxes paid	\$ <u>2,901</u>	<u>2,175</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, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ -	758,510
Restricted cash – note payable	469,442	-
Restricted cash – to be endowed	<u>54,120</u>	<u>50,000</u>
	<u>\$ 523,562</u>	<u>808,510</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 Financial Accounting Standards Board (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 and contributions receivable

Grants 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, 2025 and 2024 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 three sources that comprised approximately 74% of grants and contributions receivable on August 31, 2025. There were three sources that comprised approximately 63% of grants and contributions receivable on August 31, 2024.

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 \$67,866 and \$73,045 for the years ended August 31, 2025 and 2024, 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, 2025, 2024 and 2023 were \$134,629, \$46,629, and \$104,967, 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 2025 and 2024 was approximately \$7,000 and \$2,900, respectively, which is included in other expenses on the 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 21, 2026, the date on which the financial statements were available to be issued.

Reclassifications

Certain items from 2024 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>2025</u>	<u>2024</u>
Within one year	\$ 441,725	567,065
One to five years	198,833	237,558
Less unamortized discount at 0.28% - 1.63%	<u>(8,047)</u>	<u>(6,475)</u>
Total grants and contributions receivable	<u>\$ 632,511</u>	<u>798,148</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 \$23,886,267 and \$22,229,933 at August 31, 2025 and 2024, 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. Less than approximately 10% of the pool is invested in hedge funds at August 31, 2025 and 2024, 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, 2025 and 2024. 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 \$7,913 at August 31, 2025 and 2024 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 \$76,627 and \$148,968 at August 31, 2025 and 2024, respectively, which represents the present value of the annuity discounted using the applicable federal rate (4.8% and 5.2% at August 31, 2025 and 2024, respectively).

6. PROPERTY AND EQUIPMENT:

Property and equipment at August 31, 2025 and 2024 are summarized as follows:

	<u>2025</u>	<u>2024</u>
Land	\$ 60,551	60,551
Building	200,860	200,860
Air rights	250,000	250,000
Construction in progress	62,342	-
Land and building improvements	30,225,492	30,225,492
Equipment and furniture	<u>4,104,727</u>	<u>4,036,354</u>
	34,903,972	34,773,257
Less accumulated depreciation	<u>(14,760,343)</u>	<u>(13,146,417)</u>
	<u>\$ 20,143,629</u>	<u>21,626,840</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, 2025 and 2024.

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. 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 2025 and 2024.

Weighted-average remaining lease term in years for operating lease	4.0
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:

2026	\$ 67,386
2027	68,727
2028	70,102
2029	<u>41,368</u>
	247,583
Less imputed interest	<u>(25,402)</u>
	<u>\$ 222,181</u>

Subsequent to year end, the Museum notified the lessor its intention to early terminate this lease agreement effective March 31, 2026. The Museum remitted an early termination penalty of approximately \$50,000 in relation.

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, 2025:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 12,777,250	10,778,983	23,556,233
Net investment return	2,351,018	(4,162)	2,346,856
Transfers in*	461,473	50,000	511,473
Spending appropriation	<u>(959,645)</u>	<u>-</u>	<u>(959,645)</u>
Endowment net assets at end of year	\$ <u>14,630,096</u>	<u>10,824,821</u>	<u>25,454,917</u>

Changes in endowment assets are as follows for the year ended August 31, 2024:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 7,165,126	10,770,357	17,935,483
Net investment return	3,460,664	8,626	3,469,290
Contribution, net of change in receivable	3,540,000	-	3,540,000
Spending appropriation	<u>(1,388,540)</u>	<u>-</u>	<u>(1,388,540)</u>
Endowment net assets at end of year	\$ <u>12,777,250</u>	<u>10,778,983</u>	<u>23,556,233</u>

*Transfers in represent donor and/or board designated contributions made in the prior year and transferred into the endowment investments in the current year.

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, 2025 and 2024, deficiencies of this nature are reported as the following:

	<u>2025</u>	<u>2024</u>
Original value of the funds	\$ 153,767	772,335
Fair value of the funds	(124,586)	(706,735)
Deficiencies	\$ <u>29,181</u>	<u>65,600</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>2025</u>	<u>2024</u>
Subject to expenditure for a specific purpose:		
Future operations	\$ 855,659	1,219,571
Exhibitions	606,232	168,000
Note payable	562,903	-
Educational and other programming	<u>101,702</u>	<u>53,031</u>
	2,126,496	1,440,602
Subject to spending policy and appropriation:		
Endowment held in perpetuity	10,824,821	10,778,983
Other funds held in perpetuity:		
Restricted cash to be endowed	54,120	50,000
Investments held by others for the benefit of the Museum	<u>23,886,267</u>	<u>22,229,933</u>
 Total net assets with donor restrictions:	 \$ <u>36,891,704</u>	 <u>34,499,518</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 \$1,697,066 in 2025 and \$3,393,449 in 2024 primarily due to time restrictions expiring on net assets available for future programs and operations.

In fiscal years 2025 and 2024, 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 \$1,500,000 line of credit that is due September 2025. The balance owed on this line of credit at August 31, 2025 was \$750,000. The line bears interest at the daily Secured Overnight Financing Rate (SOFR) plus 1.65%.

Subsequent to year end, in September 2025, the Museum renewed the line of credit for a maximum draw of \$750,000. The line bears interest at SOFR plus 1.65% and matures September 2026.

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% (6.53% at August 31, 2025), 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. 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, 2025 and 2024 was \$2,273,309 and \$2,936,680, respectively. Future minimum payments are not required, only a balloon payment upon maturity. The note is subject to certain covenants for which the Museum was not in compliance at year end. An extension waiver has been obtained from the bank.

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 2025 and 2024 were \$71,321 and \$63,026, 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, 2025, 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, 2025 and 2024.

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)

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, 2025:

<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	\$ 698	-	-	698
Mutual funds	<u>25,454,917</u>	-	-	<u>25,454,917</u>
Total	<u>\$ 25,455,615</u>	-	-	<u>25,455,615</u>
Funds held by others for the benefit of the Museum	\$ -	-	<u>23,894,180</u>	<u>23,894,180</u>
Beneficial interest in trust	\$ -	-	<u>76,627</u>	<u>76,627</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, 2024:

<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	\$ 2,215	-	-	2,215
Mutual funds	<u>23,556,233</u>	-	-	<u>23,556,233</u>
Total	<u>\$ 23,558,448</u>	-	-	<u>23,558,448</u>
Funds held by others for the benefit of the Museum	\$ -	-	<u>22,237,846</u>	<u>22,237,846</u>
Beneficial interest in trust	\$ -	-	<u>148,968</u>	<u>148,968</u>

16. BOARD DESIGNATED NET ASSETS:

As of August 31, the Board designated net assets for the following purposes:

	<u>2025</u>	<u>2024</u>
Endowment	\$ 14,630,096	12,777,250
Cash to be endowed	-	460,000
Lift project	<u>930,858</u>	<u>1,000,000</u>
Total Board designated net assets	<u>\$ 15,560,954</u>	<u>14,237,250</u>

17. 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>2025</u>	<u>2024</u>
Financial assets:		
Cash and cash equivalents	\$ -	758,510
Restricted cash	523,562	50,000
Grants and contributions receivable	632,511	798,148
Investments at fair value	<u>25,455,615</u>	<u>23,558,448</u>
Financial assets available at year-end	<u>26,611,688</u>	<u>25,165,106</u>
Less those unavailable for general expenditures within one year due to:		
Restricted cash	523,562	50,000
Restricted by donor for specific purpose	707,934	221,031
Endowment held in perpetuity	10,824,821	10,778,983
Board designated endowment	14,630,096	12,777,250
Estimated board designated appropriations for subsequent year operations	<u>(2,000,000)</u>	<u>(1,000,000)</u>
Total limitations on available resources	<u>24,686,413</u>	<u>22,827,264</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>1,925,275</u>	<u>2,337,842</u>

