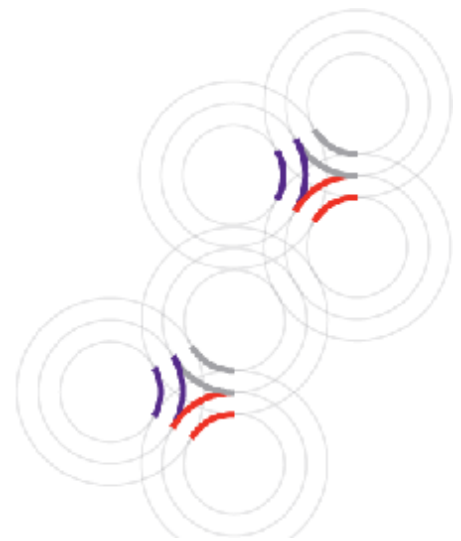




Consolidated Financial Statements and Report of Independent Certified Public Accountants

ArtsWave

August 31, 2011 and 2010



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Report of Independent Certified Public Accountants

Board of Trustees
Cincinnati Institute of Fine Arts

We have audited the accompanying consolidated statements of financial position of Cincinnati Institute of Fine Arts and subsidiary (dba ArtsWave), as of August 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ArtsWave's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ArtsWave's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ArtsWave as of August 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Grant Thornton LLP".

Cincinnati, Ohio
December 5, 2011

ArtsWave

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2011

(with comparative summarized financial information for the year ended August 31, 2010)

	Unrestricted					Totals	
	Operating	Board Designated Endowment	Total	Temporarily Restricted	Permanently Restricted Endowment	2011	2010
ASSETS							
Cash	\$ 3,297,532	-	3,297,532	724,244	-	4,021,776	3,248,352
Pledges receivable, net (Note C)	4,044,684	-	4,044,684	79,722	19,930	4,144,336	4,829,429
Accrued interest receivable	27,911	77,791	105,702	-	-	105,702	109,863
Investments, at fair value (Note E)	3,358,449	7,740,976	11,099,425	56,354,339	10,309,820	77,763,584	73,712,473
Beneficial interest in trust	-	-	-	-	3,012,923	3,012,923	2,652,335
Property and equipment, net (Note G)	498,622	-	498,622	-	-	498,622	562,397
Other assets	22,454	611	23,065	9,670	107	32,842	53,910
Interfund balances	758,258	132,699	890,957	(890,957)	-	-	-
Total assets	12,007,910	7,952,077	19,959,987	56,277,018	13,342,780	89,579,785	85,168,759
LIABILITIES							
Appropriations payable	9,624,547	-	9,624,547	(110,491)	-	9,514,056	9,760,957
Distributions payable	189,820	-	189,820	-	-	189,820	176,277
Accounts payable and accrued expenses	244,872	3,492	248,364	28,678	696	277,738	216,380
Loan payable (Note I)	412,246	-	412,246	-	-	412,246	435,199
Annuity payment liability	-	-	-	-	3,086	3,086	3,277
Funds held in trust for others	-	-	-	3,919,137	-	3,919,137	3,648,519
Funds held for the benefit of others	-	-	-	28,028,310	3,466,279	31,494,589	29,433,116
Total liabilities	10,471,485	3,492	10,474,977	31,865,634	3,470,061	45,810,672	43,673,725
NET ASSETS	1,536,425	7,948,585	9,485,010	24,411,384	9,872,719	43,769,113	41,495,034
Total liabilities and net assets	\$ 12,007,910	7,952,077	19,959,987	56,277,018	13,342,780	89,579,785	85,168,759

The accompanying notes are an integral part of this statement.

ArtsWave

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

August 31, 2010

	Unrestricted			Temporarily Restricted	Permanently Restricted Endowment	Total
	Operating	Board Designated Endowment	Total			
ASSETS						
Cash	\$ 2,549,953	-	2,549,953	698,399	-	3,248,352
Pledges receivable, net (Note C)	4,680,469	-	4,680,469	119,168	29,792	4,829,429
Accrued interest receivable	54,967	54,896	109,863	-	-	109,863
Investments, at fair value (Note E)	3,866,447	7,155,202	11,021,649	52,514,646	10,176,178	73,712,473
Beneficial interest in trust	-	-	-	-	2,652,335	2,652,335
Property and equipment, net (Note G)	562,397	-	562,397	-	-	562,397
Other assets	26,455	474	26,929	26,902	79	53,910
Interfund balances	770,192	78,719	848,911	(848,911)	-	-
Total assets	12,510,880	7,289,291	19,800,171	52,510,204	12,858,384	85,168,759
LIABILITIES						
Appropriations payable	9,883,720	-	9,883,720	(122,763)	-	9,760,957
Distributions payable	176,277	-	176,277	-	-	176,277
Accounts payable and accrued expenses	202,639	1,487	204,126	11,962	292	216,380
Loan payable (Note I)	435,199	-	435,199	-	-	435,199
Annuity payment liability	-	-	-	-	3,277	3,277
Funds held in trust for others	-	-	-	3,648,519	-	3,648,519
Funds held for the benefit of others	-	-	-	25,971,756	3,461,360	29,433,116
Total liabilities	10,697,835	1,487	10,699,322	29,509,474	3,464,929	43,673,725
NET ASSETS	1,813,045	7,287,804	9,100,849	23,000,730	9,393,455	41,495,034
Total liabilities and net assets	\$ 12,510,880	7,289,291	19,800,171	52,510,204	12,858,384	85,168,759

The accompanying notes are an integral part of this statement.

ArtsWave

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2011
(with comparable summarized financial information for the year ended August 31, 2010)

	Unrestricted			Temporarily Restricted	Permanently Restricted Endowment	Totals	
	Operating	Board Designated Endowment	Total			2011	2010
Revenues, gains and other support:							
Annual community campaign	\$ 6,135,528	-	6,135,528	4,182,932	-	10,318,460	10,780,181
Gifts, bequests and grants	99,924	-	99,924	584,660	20,638	705,222	1,789,525
Interest and dividend income, net	93,357	180,017	273,374	604,204	30,493	908,071	820,480
Net gain (loss) on investments	(45,724)	770,210	724,486	2,982,500	150,776	3,857,762	1,693,713
Spending rate allocation	2,021,191	(414,651)	1,606,540	(1,527,132)	(79,408)	-	-
Beneficial interest value change	-	-	-	-	360,588	360,588	124,351
Other revenues	23,042	-	23,042	-	(142)	22,900	25,735
Net assets released from restrictions	5,708,741	76,661	5,785,402	(5,781,721)	(3,681)	-	-
Total revenues, gains and other support	14,036,059	612,237	14,648,296	1,045,443	479,264	16,173,003	15,233,985
Distributions and expenses:							
Program services:							
Member allocations and other grants	10,563,502	-	10,563,502	(365,211)	-	10,198,291	10,392,265
Other	1,611,566	-	1,611,566	-	-	1,611,566	1,435,231
Supporting services	1,993,357	95,710	2,089,067	-	-	2,089,067	2,374,771
Total expenses	14,168,425	95,710	14,264,135	(365,211)	-	13,898,924	14,202,267
Revenues net of expenses	(132,366)	516,527	384,161	1,410,654	479,264	2,274,079	1,031,718
Transfers (to)/from endowment (Note J)	(144,254)	144,254	-	-	-	-	-
Change in net assets	(276,620)	660,781	384,161	1,410,654	479,264	2,274,079	1,031,718
Net assets, beginning of year	1,813,045	7,287,804	9,100,849	23,000,730	9,393,455	41,495,034	40,463,316
Net assets, end of year	\$ 1,536,425	7,948,585	9,485,010	24,411,384	9,872,719	43,769,113	41,495,034

The accompanying notes are an integral part of this statement.

ArtsWave

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2010

	Unrestricted		Total	Temporarily Restricted	Permanently Restricted Endowment	Total
	Operating	Board Designated Endowment				
Revenues, gains and other support:						
Annual community campaign	\$ 5,989,477	-	5,989,477	4,790,704	-	10,780,181
Gifts, bequests and grants	123,946	-	123,946	1,599,287	66,292	1,789,525
Interest and dividend income, net	107,198	75,177	182,375	619,912	18,193	820,480
Net gain (loss) on investments	(56,874)	355,520	298,646	1,329,126	65,941	1,693,713
Spending rate allocation	1,945,218	(311,651)	1,633,567	(1,563,790)	(69,777)	-
Beneficial interest value change	-	-	-	-	124,351	124,351
Other revenues	26,519	-	26,519	-	(784)	25,735
Net assets released from restrictions	6,607,853	69,675	6,677,528	(6,674,187)	(3,341)	-
Total revenues, gains and other support	14,743,337	188,721	14,932,058	101,052	200,875	15,233,985
Distributions and expenses:						
Program services:						
Member allocations and other grants	10,756,513	-	10,756,513	(364,248)	-	10,392,265
Other	1,435,231	-	1,435,231	-	-	1,435,231
Supporting services	2,287,611	87,160	2,374,771	-	-	2,374,771
Total expenses	14,479,355	87,160	14,566,515	(364,248)	-	14,202,267
Revenues net of expenses	263,982	101,561	365,543	465,300	200,875	1,031,718
Transfers (to)/from endowment (Note J)	175,147	(175,147)	-	(27,881)	27,881	-
Change in net assets	439,129	(73,586)	365,543	437,419	228,756	1,031,718
Net assets, beginning of year	1,373,916	7,361,390	8,735,306	22,563,311	9,164,699	40,463,316
Net assets, end of year	\$ 1,813,045	7,287,804	9,100,849	23,000,730	9,393,455	41,495,034

The accompanying notes are an integral part of this statement.

ArtsWave

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended August 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 2,274,079	1,031,718
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	73,120	59,246
Contributions restricted for endowment	(20,500)	(36,500)
Contributions restricted for capital improvements	-	(7,125)
Net gain on investments	(3,857,762)	(1,693,713)
Investment management fees	100,710	92,600
Pledges receivable	449,318	(270,594)
Loss on doubtful pledges	231,775	188,851
Accrued interest receivable	4,161	3,046
Beneficial interest in trust value change	(360,588)	(124,351)
Appropriations payable	(246,901)	(156,215)
Distributions payable	13,543	(45,701)
Accounts payable and accrued expenses	50,285	37,296
Other	16,462	(32,444)
Net cash used in operating activities	(1,272,298)	(953,886)
Cash flows from investing activities:		
Proceeds from sales of investments	32,817,058	22,385,488
Purchases of investments	(30,670,562)	(18,819,195)
Investment management fees paid	(91,340)	(93,364)
Purchases of property and equipment	(16,981)	(550,483)
Net cash provided by investing activities	2,038,175	2,922,446
Cash flows from financing activities:		
Proceeds from loan	-	450,000
Payments on loan payable	(22,953)	(14,801)
Proceeds from contributions restricted for investment in endowment	30,500	46,500
Net cash provided by financing activities	7,547	481,699
Net increase in cash	773,424	2,450,259
Cash at beginning of year	3,248,352	798,093
Cash at end of year	\$ 4,021,776	3,248,352
Supplemental disclosure:		
Interest paid	\$ 16,990	11,828

The accompanying notes are an integral part of these statements.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2011 and 2010

NOTE A – ORGANIZATION

The Cincinnati Institute of Fine Arts, doing business as ArtsWave, was founded in 1927 by Charles Phelps Taft and Anna Sinton Taft whose fortune and foresight left a legacy of support for the arts of future generations to enjoy. The Tafts endowed a major gift, provided it be matched by the people of Cincinnati.

In 1949, ArtsWave established the annual community campaign to help support the Cincinnati Art Museum, the Cincinnati Symphony Orchestra (CSO), Taft Museum of Art and Cincinnati Opera. In 1978, the Cincinnati Ballet, Cincinnati Playhouse in the Park, May Festival, Contemporary Arts Center and Smaller Arts Grants Program were added as additional beneficiaries. The Smaller Arts Grants Program is administered by ArtsWave. An associate membership level was added in 1999. The current associate members include ArtWorks, The Carnegie Visual + Performing Arts Center, The Children's Theatre of Cincinnati, Cincinnati Chamber Orchestra, Cincinnati Shakespeare Company, Ensemble Theatre of Cincinnati, Fitton Center for Creative Arts, Kentucky Symphony Orchestra, and Madcap Productions Puppet Theatre.

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

During 2008, ArtsWave embarked on a research initiative designed to develop an inclusive community dialogue leading to broadly shared public responsibility for arts and culture in the region. With the research results as its basis, the organization developed recommendations for a new mission, community goals, business strategies, and a new name. On September 22, 2010 the Board of Trustees approved the recommended mission and the new name, ArtsWave. ArtsWave supports arts organizations large and small throughout the area, to help them create a vital arts scene, and all the communitywide benefits that come with that – from economic vitality to more visitors and new businesses to a greater sense of connectedness among the people who live here.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Accrual Basis

The financial statements of ArtsWave have been prepared on the accrual basis.

2. Basis of Presentation

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations. All intercompany balances have been eliminated in consolidation.

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

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Basis of Presentation (continued)

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

Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that may or will be met either by actions of ArtsWave and/or the passage of time.

Permanently restricted net assets – net assets that are subject to donor-imposed stipulations that require the assets be maintained permanently by ArtsWave. Generally, the donors of these assets permit ArtsWave to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Contributions greater than \$10,000 for which the donor-imposed restrictions were met within the same period are recorded in temporarily restricted revenues and then released from restrictions. Contributions less than \$10,000 for which the donor-imposed restrictions are met within the same period are recorded as increases in unrestricted net assets. All expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

3. Cash

All cash is maintained in interest-bearing accounts.

4. Pledges Receivable

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges for support in the current annual community campaign are recorded as support revenues. Legacies and bequests made by will or trust are recorded when ArtsWave has an irrevocable right to the bequest and the proceeds are measurable.

ArtsWave determines its allowance for uncollectible pledges by considering a number of factors, including the length of time pledges are past due, ArtsWave's previous loss history and the donor's current ability to pay. When amounts are determined to be uncollectible, they are charged to the allowance. Recoveries of amounts previously written off replenish the allowance. Pledges receivable due beyond one year are discounted using the risk-free rate in effect during the year the pledge is received.

5. Investments

ArtsWave's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Investments (continued)

The vast majority of assets of endowment and Board designated endowment funds are pooled for investment purposes on a fair value basis. Under this method, each participating fund was assigned a number of units based on the relationship of the fair value of all investments at the time they were pooled.

Each month, the pooled assets are valued at fair value, and new unit values are assigned. The unit fair value at the beginning of the month is used to determine the number of units to be allocated as dollars are added to or withdrawn from the pool during the month.

6. Beneficial Interest in Trust

ArtsWave values its beneficial interest in trust at the fair value of the assets at year end as reported by the trustee, a financial institution.

7. Property and Equipment

Property and equipment are recorded at cost or the fair value at the date received, if received as gifts. Capitalization limits are set at \$1,000; expenditures for items costing less are expensed. These assets are depreciated on the straight-line method over their estimated useful lives. Leasehold improvements are depreciated over the remaining life of the lease. Equipment and furniture have estimated useful lives of three to seven years.

8. Appropriations Payable

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

9. Distributions Payable

Distributions payable include undistributed grants awarded but not yet paid to recipient organizations.

10. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

11. Federal Income Tax

ArtsWave has been determined to be exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. As such, ArtsWave is subject to federal income taxes only on unrelated business income, if any, under the provisions of Section 511 of the Internal Revenue Code.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Federal Income Tax (continued)

ArtsWave adopted the provision of FASB Accounting Standards Codification (“ASC”) 740, *Income Taxes*, on September 1, 2009, as it relates to uncertain income tax positions. Adoption of ASC 740 had no effect on the accompanying financial statements. ArtsWave evaluates its uncertain tax positions as to whether it is more likely than not a tax position could be sustained in the event of an audit by the applicable taxing authority. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. As of August 31, 2011, there are three open tax years: 2010, 2009, and 2008.

12. Advertising

Advertising costs are expensed as incurred.

13. Donated Services

Donated goods used in ArtsWave’s programs are recorded as income and expense or additions to the property fund at the time the items are received. Donated services are recorded as public support only if they create or enhance nonfinancial assets or require specialized services. Donated goods and services were estimated at \$110,200 and \$86,520 for the years ended August 31, 2011 and 2010, respectively.

14. Fair Value Measurements

Fair value is generally determined based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, ArtsWave uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, ArtsWave may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in its pricing.

15. Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE C – PLEDGES RECEIVABLE

As of August 31, 2011 and 2010, contributors to ArtsWave have made unconditional promises to give totaling \$4,509,683 and \$5,260,469, respectively.

Pledges receivable are due as follows:

	<u>2011</u>	<u>2010</u>
Within one year	\$ 4,459,683	5,160,469
One to five years	50,000	100,000
	<u>4,509,683</u>	<u>5,260,469</u>
Less:		
Present value component	(347)	(1,040)
Allowance for uncollectible pledges	<u>(365,000)</u>	<u>(430,000)</u>
Total pledges receivable	<u>\$ 4,144,336</u>	<u>4,829,429</u>

Estimated cash flows from contributions receivable have been discounted to the present value as of August 31, 2011, using a discount rate of 0.7%.

NOTE D – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements and disclosures are based on a three level hierarchy. Fair value instruments measured at fair value on a recurring basis using quoted prices for identical instruments in an active market (or level 1 inputs) include equity securities and mutual funds. Financial instruments measured at fair value based on quoted market prices for similar instruments in active markets (or level 2 inputs) include U.S. Treasury and agency obligations, and corporate obligations. ArtsWave invests in hedge funds for which ArtsWave bases fair value on the net asset value of each fund, adjusted for distributions, redemptions, market changes, and other financial and operational information obtained by ArtsWave's management. These fair value instruments are measured at fair value on a recurring basis using significant unobservable inputs (or level 3 inputs).

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE D – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at August 31, 2011:

	Balance at August 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Equities:				
Information and communication	\$ 5,082,594	5,082,594	-	-
Industrials	4,010,174	4,010,174	-	-
Consumer discretionary	2,532,137	2,532,137	-	-
Financial institutions	2,213,481	2,213,481	-	-
Consumer staples	1,999,783	1,999,783	-	-
Health care	2,524,134	2,524,134	-	-
Energy and power	3,299,398	3,299,398	-	-
Other	259,677	259,677	-	-
Mutual funds:				
International	14,871,332	14,871,332	-	-
Small and mid cap	9,842,022	9,842,022	-	-
Intermediate term bonds	8,243,454	8,243,454	-	-
Real asset moderate allocation	4,094,953	4,094,953	-	-
Fixed income:				
Corporate	8,905,684	-	8,905,684	-
Foreign	166,206	-	166,206	-
Government	75,066	-	75,066	-
Hedge funds	7,818,045	-	-	7,818,045
Beneficial interest in trust:				
Equities:				
Industrials	637,543	637,543	-	-
Energy and power	226,736	226,736	-	-
Information and communication	436,750	436,750	-	-
Health care	318,458	318,458	-	-
Other	679,845	679,845	-	-
Mutual funds:				
Fixed income	357,423	357,423	-	-
Other funds	250,769	250,769	-	-
	<u>\$ 78,845,664</u>	<u>61,880,663</u>	<u>9,146,956</u>	<u>7,818,045</u>

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE D – FAIR VALUE MEASUREMENTS (continued)

As of August 31, 2011, investments and beneficial interest in trust included \$1,825,444 and \$105,399 in cash and cash equivalents, respectively, which are carried at amortized cost. These investments do not qualify as securities as defined in FASB ASC 320, *Investments-Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

A reconciliation of the balance of the level 3 fair value instruments at September 1, 2010 to the balances at August 31, 2011, is as follows:

	2011
Beginning balance	\$ 7,509,560
Settlements	(26,915)
Net gain	335,400
Ending balance	<u>\$ 7,818,045</u>

ArtsWave adopted the amended guidance in ASC 820 in its August 31, 2010, financial statements, as it relates to investments in entities calculating net asset value per share (“NAV”) or an equivalent measure of fair value. As a practical expedient, the amendments permit, but do not require, ArtsWave to measure the fair value of certain investments based on the investee’s NAV or its equivalent. As a result of applying the practical expedient, the fair value of hedge funds were determined as of August 31, 2011 and 2010, based on NAV. Hedge funds held at August 31, 2011 and 2010, were purchased during years ended August 31, 2006, 2009, and 2010.

Investments accounted for under the practical expedient at August 31, 2011, are as follows:

	2011	2010	Unfunded Commitments	Redemption Frequency	Notice Period
Hedge Funds:					
Absolute	\$ 4,186,101	3,987,449	-	Monthly	90 days
Long-biased	<u>3,631,944</u>	<u>3,522,111</u>	-	Quarterly	100 days
	<u>\$ 7,818,045</u>	<u>7,509,560</u>	<u>-</u>		

Investments in the absolute hedge fund do not have a holding period; however, redemptions that occur within one year of the initial investment are subject to a 2% redemption fee. This restriction has expired for the absolute hedge fund balance. This fund of funds seeks consistent stable returns by allocation of assets to a wide range of alternative investment strategies across the global financial markets.

The long-biased hedge fund invests in funds focused on taking long positions in equity securities. Subsequent to satisfying a 12 month lock-up period, redemptions up to 25% of estimated NAV may occur on March 31st, June 30th, and September 30th and up to 100% of estimated NAV may occur on December 31st. The remaining restriction period for a portion of the investments in this fund is four months as of August 31, 2011, and restrictions have expired on the remaining portion.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE D – FAIR VALUE MEASUREMENTS (continued)

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis in the statement of financial position at August 31, 2010:

	Balance at August 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Equities:				
Information and communication	\$ 4,929,883	4,929,883	-	-
Industrials	3,292,193	3,292,193	-	-
Consumer discretionary	2,592,132	2,592,132	-	-
Financial institutions	2,581,316	2,581,316	-	-
Consumer staples	2,224,500	2,224,500	-	-
Health care	2,195,595	2,195,595	-	-
Energy and power	2,647,383	2,647,383	-	-
Other	294,263	294,263	-	-
Mutual funds:				
International	14,187,758	14,187,758	-	-
Small and mid cap	8,686,377	8,686,377	-	-
Intermediate term bonds	12,963,879	12,963,879	-	-
Real asset moderate allocation	3,784,931	3,784,931	-	-
Fixed income:				
Corporate	3,174,601	-	3,174,601	-
Foreign	102,810	-	102,810	-
Government	45,338	-	45,338	-
Hedge funds	7,509,560	-	-	7,509,560
Beneficial interest in trust:				
Equities:				
Industrials	660,031	660,031	-	-
Energy and power	257,619	257,619	-	-
Information and communication	430,816	430,816	-	-
Other	709,713	709,713	-	-
Mutual funds:				
Fixed income	325,542	325,542	-	-
Other funds	209,622	209,622	-	-
	<u>\$ 73,805,862</u>	<u>62,973,553</u>	<u>3,322,749</u>	<u>7,509,560</u>

As of August 31, 2010, investments and beneficial interest in trust included \$2,499,954 and \$58,992 in cash and cash equivalents, respectively, which are carried at amortized cost. These investments do not qualify as securities as defined in ASC 320, thus the fair value disclosures required by ASC 820 are not provided.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE D – FAIR VALUE MEASUREMENTS (continued)

A reconciliation of the balance of the level 3 fair value instruments at September 1, 2009 to the balance at August 31, 2010, is as follows:

	2010
Beginning balance	\$ 5,337,565
Purchases	2,397,824
Settlements	(526,310)
Net gain	300,481
Ending balance	\$ 7,509,560

Gains and losses for these Level 3 fair value instruments for 2011 and 2010 are included in net realized/unrealized gain (loss) in the accompanying consolidated statements of activities.

The carrying amounts of cash, receivables, other assets, appropriations and distributions payable, and accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments. The carrying amount of the annuity payable, which is anticipated to be distributed in cash, is recorded at the net present value of future annuity payments. The carrying amount of the loan payable approximates fair value as the loan interest rate approximates market rates at the measurement date.

NOTE E – INVESTMENTS

Fair values of investments at August 31, 2011 and 2010 are summarized as follows:

	2011	2010
Unrestricted and temporarily restricted operating investments:		
Cash equivalents	\$ 1,092,451	2,046,409
Global fixed income	2,265,998	2,320,038
Total unrestricted and temporarily restricted operating investments	3,358,449	4,366,447
Endowment and similar funds investments:		
Cash equivalents	732,993	453,545
Global fixed income	15,004,814	13,851,803
Diversifying strategies	8,281,054	7,772,380
Global equities	50,386,274	47,268,298
Total endowment and similar funds investments	74,405,135	69,346,026
Total investments	\$ 77,763,584	73,712,473

Cash equivalents consist of overnight investments, money market funds, certificates of deposit and short-term treasury bills.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE F – ENDOWMENT FUNDS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was passed into law by the State of Ohio in December 2008 with an effective date of June 1, 2009 and adopted by ArtsWave as of August 31, 2009.

ArtsWave's endowment funds include donor restricted endowment funds, funds designated by the Board of Trustees for reinvestment in the endowment funds, and investment income on the endowment funds that can be appropriated for expenditure. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the absence or existence of donor imposed restrictions.

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

In accordance with ArtsWave's interpretation of UPMIFA, investment income and appreciation/depreciation earned on investments held in the permanently restricted endowment funds are credited to temporarily restricted net assets, until the later of satisfaction of donor restrictions or appropriation for expenditure by the governing board.

ArtsWave has adopted investment and spending policies for endowment investments that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment investments. To satisfy these long-term objectives, ArtsWave relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). ArtsWave targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

ArtsWave has a policy of appropriating for distribution each year five percent of its endowment fund's average fair value over the prior 20 quarters through March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, ArtsWave has considered the long-term expected return on its endowment.

There are 17 permanent endowment funds. As of August 31, 2011 and 2010, respectively, the fair value of these funds collectively is \$25,432,761 and \$23,330,154 more than the original gift amounts. An additional \$7,740,976 and \$7,155,202 in fair value as of August 31, 2011 and 2010, respectively, relates to board designated gifts also held in the endowment pool. As of August 31, 2010, certain permanent endowment funds had a historical cost in excess of fair value in the amount of \$111,717.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE F – ENDOWMENT FUNDS (continued)

The endowment investment asset composition by type of fund as of August 31, 2011, is as follows:

		2011			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$	-	24,393,732	6,843,861	31,237,593
Board designated endowment funds		7,740,976	-	-	7,740,976
Total	\$	7,740,976	24,393,732	6,843,861	38,978,569

The change in endowment fund investments, not including investments held for the benefit of or in trust for others, for the year ended August 31, 2011, is as follows:

		2011			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$	7,155,202	22,389,666	6,715,155	36,260,023
Investment income		157,122	604,204	30,493	791,819
Net gain on investments		770,210	2,982,500	150,776	3,903,486
Contributions		-	-	30,500	30,500
Appropriation of endowment assets for expenditure		(485,812)	(1,582,638)	(83,860)	(2,152,310)
Other changes:					
Transfers to create board- designated funds		234,254	-	-	234,254
Other		(90,000)	-	797	(89,203)
Endowment investments, end of year	\$	7,740,976	24,393,732	6,843,861	38,978,569

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE F – ENDOWMENT FUNDS (continued)

The endowment investment asset composition by type of fund as of August 31, 2010, is as follows:

2010					
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$	-	22,389,666	6,715,155	29,104,821
Board designated endowment funds		7,155,202	-	-	7,155,202
Total	\$	7,155,202	22,389,666	6,715,155	36,260,023

The change in endowment fund investments, not including investments held for the benefit of or in trust for others, for the year ended August 31, 2010, is as follows:

2010					
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment investments, beginning of year	\$	7,261,118	22,118,030	6,630,753	36,009,901
Investment income		75,177	619,912	18,193	713,282
Net gain on investments		355,520	1,329,126	65,941	1,750,587
Contributions		-	-	46,500	46,500
Appropriation of endowment assets for expenditure		(415,445)	(1,677,402)	(74,260)	(2,167,107)
Other changes:					
Transfers to create board- designated funds		201,000	-	-	201,000
Other		(322,168)	-	28,028	(294,140)
Endowment investments, end of year	\$	7,155,202	22,389,666	6,715,155	36,260,023

NOTE G – PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2011 and 2010 are summarized as follows:

		2011		2010
Equipment and furniture	\$	172,604		168,359
Leasehold improvements		531,117		531,117
		703,721		699,476
Less accumulated depreciation		(205,099)		(137,079)
Property and equipment, net	\$	498,622		562,397

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE H – LEASES

ArtsWave leases certain operating and storage facilities and equipment under operating lease agreements. Lease expense was \$73,291 and \$84,641 for 2011 and 2010, respectively. Future minimum payments as of August 31 are as follows:

Year ending August 31	
2012	\$ 57,346
2013	60,962
2014	63,311
2015	63,418
2016	63,749
Thereafter	259,890

NOTE I – LOAN PAYABLE

In November 2009, ArtsWave entered into a loan agreement with Cincinnati Equity Fund Ltd. with an original principal amount up to \$450,000. On August 31, 2011 and 2010, \$412,246 and \$435,199, respectively, was outstanding on this loan. Proceeds from the loan were used to renovate new office space for ArtsWave. Principal payments on the loan and interest at a fixed rate of 4% are payable monthly through January 2020, at which time a balloon payment of \$180,740 is due. Collateral for the loan in the amount of \$200,000 is invested in a separate bank account. The collateral investment is included in investments on the accompanying consolidated statements of financial position.

Scheduled maturities of long-term debt as of August 31, 2011 are as follows:

2012	\$ 23,888
2013	24,861
2014	25,874
2015	26,928
2016	28,025
Thereafter	282,670

NOTE J – TRANSFERS TO BOARD DESIGNATED ENDOWMENT

In accordance with its policy, ArtsWave transferred all unanticipated gifts and bequests greater than \$5,000 to the board designated endowment fund. Additionally, ArtsWave transferred to the board designated endowment fund excess campaign reserves or operating surpluses generated in the prior year and unspent earnings on a restricted endowment in accordance with the bequest document.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE K – NET ASSETS AND NET ASSETS RELEASED

Temporarily restricted net assets, consisting primarily of cash, investments, and pledges receivable, as of August 31, 2011 and 2010, are available primarily for the use of ArtsWave and its beneficiary organizations.

In 2011 and 2010, permanently restricted net assets consist primarily of endowment investments. The income from the investments is primarily for the general use of ArtsWave and its beneficiary organizations.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions were \$5,785,402 and \$6,677,528 in 2011 and 2010, respectively, primarily due to time restrictions expiring on net assets available for future operations and programs.

Included in permanently restricted net assets are certain endowment gifts whose unrealized and realized appreciation is subject to the spending rate allocation and investment management fees. ArtsWave's policy is to include 100% of the appreciation for these funds as permanently restricted and subsequently release from restriction those funds needed to satisfy investment management fees and the 5% spending rate allocation. These transactions are presented on the consolidated statements of activities as net assets released from restriction and spending rate allocation, respectively.

NOTE L – RISKS AND UNCERTAINTIES

Cash balances in certain accounts at banks exceed the Federal Deposit Insurance Corporation (FDIC) limits by approximately \$1,075,985 and \$3,100,000 at August 31, 2011 and 2010, respectively.

Pledges receivable are from various employers, employees of such employers, trusts and foundations, and the general public in the Greater Cincinnati area.

ArtsWave holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and such changes could materially affect the amounts reported in the financial statements.

NOTE M – RETIREMENT PLAN

ArtsWave maintains a retirement savings plan, which allows participants to make contributions by salary reduction, pursuant to Section 401(k) of the Internal Revenue Code. The plan was restated effective September 1, 2008 to become a safe harbor plan. ArtsWave makes safe harbor matching contributions equal to 116.66% of the employee's elective deferrals that do not exceed 6% of the employee's compensation. Employees vest immediately in their own and ArtsWave's contributions. ArtsWave's contributions to the plan in 2011 and 2010 were \$105,468 and \$109,719, respectively.

ArtsWave

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

August 31, 2011 and 2010

NOTE N – FUNCTIONAL EXPENSES

ArtsWave operates through eight major functional areas. These functional areas and their related expenses for 2011 and 2010 follow:

	<u>2011</u>	<u>2010</u>
Program Services:		
Grantmaking and services	\$ 10,127,890	10,402,781
Connection and engagement	893,191	639,220
Awareness and accessibility	501,511	519,463
Advocacy	81,732	105,375
Arts education	<u>205,533</u>	<u>160,657</u>
	<u>11,809,857</u>	<u>11,827,496</u>
Supporting services:		
Administrative and general	708,396	904,657
Investment management	95,710	87,160
Fundraising	<u>1,284,961</u>	<u>1,382,954</u>
	<u>2,089,067</u>	<u>2,374,771</u>
	<u>\$ 13,898,924</u>	<u>14,202,267</u>

NOTE O – RELATED PARTY TRANSACTIONS

Members of ArtsWave's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with ArtsWave. ArtsWave employs a conflict of interest policy that requires any such associations to be disclosed in writing. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the entity doing business with ArtsWave. The transactions with entities associated with trustees or senior management are not considered to be significant.

NOTE P – SUBSEQUENT EVENTS

ArtsWave evaluated its August 31, 2011, financial statements for subsequent events through December 5, 2011, the date the financial statements were available to be issued. ArtsWave is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION



Report of Independent Certified Public Accountants

**Board of Trustees
Cincinnati Institute of Fine Arts**

Audit - Tax - Advisory

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Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole of Cincinnati Institute of Fine Arts and subsidiary (dba ArtsWave) as of and for the years ended August 31, 2011 and 2010, which are presented in the preceding section of this report. The accompanying Schedules of Endowment and Board Designated Endowment Fair Values and Schedules of Program and Supporting Services Distributions and Expenses as of and for the years ended August 31, 2011 and 2010, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in blue ink that reads "Grant Thornton LLP".

Cincinnati, Ohio
December 5, 2011

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

August 31, 2011 and 2010

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
	<u>Fair Value</u>	<u>Fair Value</u>
<u>Endowment – income restricted</u>		
Taft Museum:		
Anna S. Taft	\$ 13,877,616	12,965,249
Louise Taft Semple Foundation (directorship)	1,250,039	1,167,857
Cincinnati Symphony Orchestra:		
Mr. & Mrs. Charles Phelps Taft	10,791,905	10,082,408
Thomas J. Emery Memorial	1,330,949	1,243,446
Mary Hanna and others	403,463	376,937
Mr. & Mrs. William Kite	46,528	43,471
Betscher and Outcalt Memorial	19,841	18,537
Anonymous	121,081	113,113
Weibel	60,922	56,886
Cincinnati Opera Association:		
Mr. & Mrs. Lawrence H. Kyte	75,078	70,142
Eleanor Feld	13,211	12,345
Anonymous	722,862	675,339
Children's Education Fund:		
Cincinnati Art Museum	656,487	613,326
Cincinnati Symphony Orchestra	562,341	525,375
Cincinnati Opera Association	281,597	263,083
Playhouse in the Park	187,996	175,636
Cincinnati Ballet	93,867	87,695
Contemporary Arts Center	93,867	87,695
Anonymous (Cincinnati Art Museum)	241,392	225,524
Dorothy Rawson (allocated to art museum and orchestra)	307,756	287,521
Blanche and Rebekah Alter (allocated to art museum and orchestra)	1,121,031	1,047,332
Rosa F. and Samuel B. Sachs (Annual Sachs Award)	532,960	497,883
Richard P. Windisch and Martha W. Van Goeben (May Festival)	253,535	236,866
ArtsWave Associate Members	1,132,985	978,803
Annual community campaign	371,473	347,047
Goldsmith endowed annual campaign gift	52,021	48,597
Susan & Burton Closson endowed annual campaign gift	131,149	122,520
	<u>34,733,952</u>	<u>32,370,633</u>
<u>Endowment – income unrestricted</u>		
Taft – 1927 matching endowment	25,751,193	24,058,214
National Endowment for the Arts matching endowment – Thomas J. Emery Memorial	965,293	901,832
William P. Anderson Foundation	234,521	219,107
Eleanor and Charlie Taft Fund	205,414	191,911
Anonymous	253,535	236,866
LKC Foundation	42,555	39,763
Mr. and Mrs. Louis John Johnen Memorial Fund	351,635	328,523
John Sherman	7,766	7,258
Ruth Wilkerson	49,152	45,919
Albert W. Vontz, Jr.	30,403	28,405
	<u>\$ 27,891,467</u>	<u>26,057,798</u>

ArtsWave

Schedule 1, continued

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

August 31, 2011 and 2010

	August 31, 2011 Fair Value	August 31, 2010 Fair Value
<u>Board designated endowment</u>		
Bertrand B. Kahn (scholarships)	\$ 66,022	61,678
Arts Services Office endowments	1,028,226	960,621
ArtsWave general	3,427,231	3,125,067
National Endowment for the Arts matching gift – Robert H. Reakirt	496,265	463,639
Annual community campaign	2,723,232	2,544,197
	7,740,976	7,155,202
Total ArtsWave endowment and Board designated endowment fair values	70,366,395	65,583,633
CHARITABLE GIFT ANNUITIES**	119,607	114,821
FUNDS HELD IN TRUST FOR OTHERS		
Funds held for the Taft Museum of Art	3,919,133	3,647,572
Total endowment and Board designated endowment and funds held in trust for others fair values	\$ 74,405,135	69,346,026

**A separate account was established for charitable annuities.

**SCHEDULES OF PROGRAM AND SUPPORTING SERVICES
DISTRIBUTIONS AND EXPENSES**

Years ended August 31, 2011 and 2010

	2011		2010	
	Program Services	Supporting Services	Program Services	Supporting Services
Member allocations and other grants	\$ 10,198,291	-	10,392,265	-
Salaries	655,508	972,795	679,505	1,019,649
Employee benefits*	134,399	216,470	138,446	215,518
Professional fees*	196,219	114,709	230,332	156,517
Stationery and other printing	17,369	9,100	9,112	4,351
Office supplies	4,306	5,922	5,493	7,653
Telephone and Internet access	8,119	12,411	7,586	11,607
Postage	4,496	17,164	3,145	18,436
Office rent and occupancy	35,377	56,554	35,092	62,878
Equipment rental and maintenance	12,052	29,336	7,349	25,875
Office furniture and equipment	2,756	4,059	3,059	190,567
Travel and meetings	20,596	29,965	22,444	38,207
Arts events and workshops*	389,132	-	236,731	-
Promotion, publicity and printing *	63,341	73,504	7,882	145,427
Computer consulting and training	49,250	45,751	32,423	52,913
Insurance	-	15,931	-	19,292
Provision for bad debt	-	231,775	-	188,851
Investment management fees	-	95,710	-	87,160
Depreciation	-	73,120	-	59,246
Interest and other loan fees	-	16,990	-	23,092
Other	18,646	67,801	16,632	47,532
Total	\$ 11,809,857	2,089,067	11,827,496	2,374,771

* Included in these expenses are donated services.