

**FRIST CENTER FOR THE  
VISUAL ARTS, INC.**

**AUDITED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

# FRIST CENTER FOR THE VISUAL ARTS, INC.

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December 31, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Frist Center for the Visual Arts, Inc.  
Nashville, Tennessee

We have audited the accompanying financial statements of **Frist Center for the Visual Arts, Inc.** (a not-for-profit organization), which are comprised of the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible 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.

### **Auditor's Responsibility**

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

INDEPENDENT AUDITOR'S REPORT

**Auditor's Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Frist Center for the Visual Arts, Inc. as of December 31, 2015, and 2014 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.

*Faulkner Mackie & Cochran, P.C.*

April 18, 2016

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENTS OF FINANCIAL POSITION

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <u>2015</u>          | <u>2014</u>          |
| <b>ASSETS</b>  |                      |                      |
| Cash and cash equivalents  | \$ 1,403,447         | \$ 1,342,821         |
| Accounts receivable  | 7,369                | 51,206               |
| Contributions receivable (Note C)                                      | 298,189              | 325,038              |
| Inventories  | 188,024              | 241,139              |
| Funds deposited with Visual Arts Foundation<br>for investment (Note D) | 1,980,725            | 2,841,562            |
| Exhibition loan fee deposits and other prepaid expenses                | 1,161,136            | 1,197,889            |
| Property and Equipment, net (Notes E and F)                            | 18,262,296           | 19,326,424           |
| Donated collection item (Note A)                                       | ---                  | ---                  |
|  | <hr/>                | <hr/>                |
| TOTAL ASSETS   | <u>\$ 23,301,186</u> | <u>\$ 25,326,079</u> |
| <br><b>LIABILITIES AND NET ASSETS</b>                                  |                      |                      |
| Accounts payable   | \$ 212,370           | \$ 361,202           |
| Accrued liabilities  | 477,378              | 486,277              |
| Deferred revenue   | 511,214              | 483,503              |
|  | <hr/>                | <hr/>                |
| Total Liabilities  | 1,200,962            | 1,330,982            |
| <br>Net Assets   |                      |                      |
| Unrestricted   | 12,298,298           | 13,443,915           |
| Temporarily restricted (Note G)  | 9,801,926            | 10,551,182           |
|  | <hr/>                | <hr/>                |
| Total Net Assets   | 22,100,224           | 23,995,097           |
|  | <hr/>                | <hr/>                |
| TOTAL LIABILITIES AND NET ASSETS                                       | <u>\$ 23,301,186</u> | <u>\$ 25,326,079</u> |

See notes to financial statements.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|----------------------|
| <b>SUPPORT AND REVENUES</b>   |                      |                                   |                      |
| Contributions and grants  | \$ 5,697,320         | \$ 1,074,448                      | \$ 6,771,768         |
| Support from Visual Arts Foundation (Note D)                                    | 1,298,766            | 0                                 | 1,298,766            |
| Memberships   | 1,343,300            | 0                                 | 1,343,300            |
| Admissions  | 509,172              | 0                                 | 509,172              |
| Traveling exhibitions revenue   | 0                    | 0                                 | 0                    |
| Education program fees  | 79,291               | 0                                 | 79,291               |
| Special event revenue, net of \$79,001 of<br>direct benefits to donors (Note I) | 910,152              | 0                                 | 910,152              |
| Gift shop revenue   | 485,344              | 0                                 | 485,344              |
| Other operating revenue (Note K)  | 933,630              | 0                                 | 933,630              |
| Investment income (loss)  | (35,723)             | 0                                 | (35,723)             |
| Miscellaneous income  | 4,676                | 0                                 | 4,676                |
| Net assets released from temporary<br>restrictions (Note G)                     | <u>1,823,704</u>     | <u>(1,823,704)</u>                | <u>0</u>             |
| <b>TOTAL SUPPORT AND REVENUES</b>   | <u>13,049,632</u>    | <u>(749,256)</u>                  | <u>12,300,376</u>    |
| <b>EXPENSES</b>   |                      |                                   |                      |
| Program Services  |                      |                                   |                      |
| Exhibitions   | 8,167,623            | 0                                 | 8,167,623            |
| Education and outreach  | 1,664,858            | 0                                 | 1,664,858            |
| Member and visitor services   | 935,441              | 0                                 | 935,441              |
| Gift shop   | <u>640,233</u>       | <u>0</u>                          | <u>640,233</u>       |
| Total Program Services  | 11,408,155           | 0                                 | 11,408,155           |
| Supporting Services   |                      |                                   |                      |
| General and administrative  | 1,027,192            | 0                                 | 1,027,192            |
| Development and fundraising   | 722,225              | 0                                 | 722,225              |
| Other operating expenses (Note K)   | <u>1,012,677</u>     | <u>0</u>                          | <u>1,012,677</u>     |
| Total Supporting Services   | <u>2,762,094</u>     | <u>0</u>                          | <u>2,762,094</u>     |
| <b>TOTAL EXPENSES</b>   | <u>14,170,249</u>    | <u>0</u>                          | <u>14,170,249</u>    |
| <b>NET DECREASE IN NET ASSETS<br/>FROM OPERATIONS</b>                           | (1,120,617)          | (749,256)                         | (1,869,873)          |
| Transfer to Visual Arts Foundation (Note D)                                     | <u>(25,000)</u>      | <u>0</u>                          | <u>(25,000)</u>      |
| <b>NET DECREASE IN NET ASSETS</b>   | \$ (1,145,617)       | \$ (749,256)                      | \$ (1,894,873)       |
| Net Assets at Beginning of Year   | <u>13,443,915</u>    | <u>10,551,182</u>                 | <u>23,995,097</u>    |
| <b>NET ASSETS AT END OF YEAR</b>  | <u>\$ 12,298,298</u> | <u>\$ 9,801,926</u>               | <u>\$ 22,100,224</u> |

See notes to financial statements.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2014

|   | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Total</u>         |
|---|----------------------|-----------------------------------|----------------------|
| <b>SUPPORT AND REVENUES</b>   |                      |                                   |                      |
| Contributions and grants  | \$ 5,709,455         | \$ 1,126,835                      | \$ 6,836,290         |
| Support from Visual Arts Foundation (Note D)                                    | 1,251,226            | 0                                 | 1,251,226            |
| Memberships   | 1,402,660            | 0                                 | 1,402,660            |
| Admissions  | 538,196              | 0                                 | 538,196              |
| Traveling exhibitions revenue   | 40,000               | 0                                 | 40,000               |
| Education program fees  | 71,793               | 0                                 | 71,793               |
| Special event revenue, net of \$71,202 of<br>direct benefits to donors (Note I) | 979,881              | 5,400                             | 985,281              |
| Gift shop revenue   | 529,284              | 0                                 | 529,284              |
| Other operating revenue (Note K)  | 1,101,115            | 0                                 | 1,101,115            |
| Investment income (loss)  | 97,235               | 0                                 | 97,235               |
| Miscellaneous income  | 2,610                | 0                                 | 2,610                |
| Net assets released from temporary<br>restrictions (Note G)                     | <u>1,685,759</u>     | <u>(1,685,759)</u>                | <u>0</u>             |
| <b>TOTAL SUPPORT AND REVENUES</b>   | <u>13,409,214</u>    | <u>(553,524)</u>                  | <u>12,855,690</u>    |
| <b>EXPENSES</b>   |                      |                                   |                      |
| Program Services  |                      |                                   |                      |
| Exhibitions   | 7,930,636            | 0                                 | 7,930,636            |
| Education and outreach  | 1,694,124            | 0                                 | 1,694,124            |
| Visitor and member services   | 1,014,109            | 0                                 | 1,014,109            |
| Gift shop   | <u>638,085</u>       | <u>0</u>                          | <u>638,085</u>       |
| Total Program Services  | 11,276,954           | 0                                 | 11,276,954           |
| Supporting Services   |                      |                                   |                      |
| General and administrative  | 990,393              | 0                                 | 990,393              |
| Development and fundraising   | 848,583              | 0                                 | 848,583              |
| Other operating expenses (Note K)   | <u>1,140,215</u>     | <u>0</u>                          | <u>1,140,215</u>     |
| Total Supporting Services   | <u>2,979,191</u>     | <u>0</u>                          | <u>2,979,191</u>     |
| <b>TOTAL EXPENSES</b>   | <u>14,256,145</u>    | <u>0</u>                          | <u>14,256,145</u>    |
| <b>NET DECREASE IN NET ASSETS<br/>FROM OPERATIONS</b>                           | (846,931)            | (553,524)                         | (1,400,455)          |
| Transfer to Visual Arts Foundation (Note D)                                     | <u>(25,000)</u>      | <u>0</u>                          | <u>(25,000)</u>      |
| <b>NET DECREASE IN NET ASSETS</b>   | \$ (871,931)         | \$ (553,524)                      | \$ (1,425,455)       |
| Net Assets at beginning of year   | <u>14,315,846</u>    | <u>11,104,706</u>                 | <u>25,420,552</u>    |
| <b>NET ASSETS AT END OF YEAR</b>  | <u>\$ 13,443,915</u> | <u>\$ 10,551,182</u>              | <u>\$ 23,995,097</u> |

See notes to financial statements.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

|   | PROGRAM SERVICES    |                           |                                   |                   | TOTAL<br>PROGRAM<br>SERVICES | SUPPORTING SERVICES           |                                   |                                | TOTAL<br>SUPPORTING<br>SERVICES | TOTAL<br>EXPENSES    |
|---|---------------------|---------------------------|-----------------------------------|-------------------|------------------------------|-------------------------------|-----------------------------------|--------------------------------|---------------------------------|----------------------|
|   | Exhibitions         | Education and<br>Outreach | Member<br>and Visitor<br>Services | Gift<br>Shop      |                              | General and<br>Administrative | Development<br>and<br>Fundraising | Other<br>Operating<br>Expenses |                                 |                      |
| Labor Costs:                              |                     |                           |                                   |                   |                              |                               |                                   |                                |                                 |                      |
| Employee costs:                           |                     |                           |                                   |                   |                              |                               |                                   |                                |                                 |                      |
| Salaries and wages                        | \$ 1,877,416        | \$ 693,673                | \$ 418,383                        | \$ 147,501        | \$ 3,136,973                 | \$ 479,885                    | \$ 319,152                        | \$ 360,475                     | \$ 1,159,512                    | \$ 4,296,485         |
| Payroll taxes                             | 130,552             | 48,237                    | 29,094                            | 10,257            | 218,140                      | 33,370                        | 22,193                            | 25,067                         | 80,630                          | 298,770              |
| Employee benefits                         | 231,074             | 74,592                    | 46,341                            | 18,047            | 370,054                      | 62,129                        | 24,640                            | 36,276                         | 123,045                         | 493,099              |
| Retirement plan benefits                  | 77,495              | 28,633                    | 17,270                            | 6,088             | 129,486                      | 19,808                        | 13,174                            | 14,880                         | 47,862                          | 177,348              |
| Total Employee Costs                      | 2,316,537           | 845,135                   | 511,088                           | 181,893           | 3,854,653                    | 595,192                       | 379,159                           | 436,698                        | 1,411,049                       | 5,265,702            |
| Temporary labor                           | 900,287             | 86,240                    | 17,351                            | 14,111            | 1,017,989                    | 13,256                        | 40,919                            | 75,037                         | 129,212                         | 1,147,201            |
| Total Labor Costs                         | 3,216,824           | 931,375                   | 528,439                           | 196,004           | 4,872,642                    | 608,448                       | 420,078                           | 511,735                        | 1,540,261                       | 6,412,903            |
| Exhibitions                               | 2,869,168           | 8,609                     | 0                                 | 0                 | 2,877,777                    | 0                             | 0                                 | 0                              | 0                               | 2,877,777            |
| Advertising                               | 442,217             | 55,656                    | 0                                 | 0                 | 497,873                      | 0                             | 0                                 | 5,656                          | 5,656                           | 503,529              |
| Rent expense - MDHA's building            | 387,907             | 151,685                   | 27,082                            | 35,062            | 601,736                      | 59,831                        | 5,153                             | 44,484                         | 109,468                         | 711,204              |
| Utilities                                 | 256,759             | 100,402                   | 17,926                            | 23,208            | 398,295                      | 39,603                        | 3,410                             | 29,444                         | 72,457                          | 470,752              |
| Insurance                                 | 51,635              | 0                         | 0                                 | 0                 | 51,635                       | 97,223                        | 0                                 | 0                              | 97,223                          | 148,858              |
| Occupancy                                 | 166,166             | 39,693                    | 7,301                             | 7,209             | 220,369                      | 11,989                        | 6,790                             | 15,289                         | 34,068                          | 254,437              |
| Travel, catering, and meals               | 76,362              | 37,337                    | 31,129                            | 301               | 145,129                      | 3,896                         | 36,582                            | 610                            | 41,088                          | 186,217              |
| Supplies and equipment                    | 68,318              | 63,589                    | 33,049                            | 8,016             | 172,972                      | 14,886                        | 152,851                           | 10,004                         | 177,741                         | 350,713              |
| Printing                                  | 68,205              | 25,245                    | 138,282                           | 160               | 231,892                      | 539                           | 45,609                            | 414                            | 46,562                          | 278,454              |
| Telephone, internet, and website          | 55,771              | 18,929                    | 8,744                             | 4,046             | 87,490                       | 13,902                        | 4,365                             | 4,620                          | 22,887                          | 110,377              |
| Consulting and professional fees          | 23,830              | 4,320                     | 3,711                             | 1,349             | 33,210                       | 73,993                        | 2,787                             | 3,186                          | 79,966                          | 113,176              |
| Cost of sales                             | 0                   | 0                         | 0                                 | 305,609           | 305,609                      | 0                             | 0                                 | 267,992                        | 267,992                         | 573,601              |
| Maintenance and repairs                   | 109,069             | 28,228                    | 26,101                            | 6,944             | 170,342                      | 25,508                        | 3,729                             | 23,039                         | 52,276                          | 222,618              |
| Dues and licenses                         | 36,605              | 17,998                    | 37,853                            | 15,413            | 107,869                      | 23,864                        | 17,847                            | 29,425                         | 71,136                          | 179,005              |
| Professional development and publications | 10,155              | 3,291                     | 110                               | 56                | 13,612                       | 1,156                         | 937                               | 531                            | 2,624                           | 16,236               |
| Postage and shipping                      | 6,117               | 3,193                     | 30,888                            | 110               | 40,308                       | 1,454                         | 9,219                             | 494                            | 11,167                          | 51,475               |
| Depreciation and amortization             | 321,083             | 168,382                   | 43,476                            | 36,576            | 569,517                      | 50,198                        | 10,473                            | 65,319                         | 125,990                         | 695,507              |
| Miscellaneous expense                     | 1,432               | 6,926                     | 1,350                             | 170               | 9,878                        | 702                           | 2,395                             | 435                            | 3,532                           | 13,410               |
| <b>TOTAL EXPENSES</b>                     | <b>\$ 8,167,623</b> | <b>\$ 1,664,858</b>       | <b>\$ 935,441</b>                 | <b>\$ 640,233</b> | <b>\$ 11,408,155</b>         | <b>\$ 1,027,192</b>           | <b>\$ 722,225</b>                 | <b>\$ 1,012,677</b>            | <b>\$ 2,762,094</b>             | <b>\$ 14,170,249</b> |

See notes to financial statements.



# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

|   | PROGRAM SERVICES    |                           |                                   |                   | TOTAL<br>PROGRAM<br>SERVICES | SUPPORTING SERVICES           |                                   |                                | TOTAL<br>SUPPORTING<br>SERVICES | TOTAL<br>EXPENSES    |
|---|---------------------|---------------------------|-----------------------------------|-------------------|------------------------------|-------------------------------|-----------------------------------|--------------------------------|---------------------------------|----------------------|
|   | Exhibitions         | Education and<br>Outreach | Member<br>and Visitor<br>Services | Gift<br>Shop      |                              | General and<br>Administrative | Development<br>and<br>Fundraising | Other<br>Operating<br>Expenses |                                 |                      |
| Labor Costs:                              |                     |                           |                                   |                   |                              |                               |                                   |                                |                                 |                      |
| Employee costs:                           |                     |                           |                                   |                   |                              |                               |                                   |                                |                                 |                      |
| Salaries and wages                        | \$ 1,774,266        | \$ 684,464                | \$ 470,329                        | \$ 144,920        | \$ 3,073,979                 | \$ 459,251                    | \$ 337,163                        | \$ 352,942                     | \$ 1,149,356                    | \$ 4,223,335         |
| Payroll taxes                             | 125,066             | 48,247                    | 33,153                            | 10,215            | 216,681                      | 32,372                        | 23,766                            | 24,879                         | 81,017                          | 297,698              |
| Employee benefits                         | 169,778             | 77,310                    | 45,802                            | 14,132            | 307,022                      | 50,138                        | 42,731                            | 32,151                         | 125,020                         | 432,042              |
| Retirement plan benefits                  | 69,847              | 26,946                    | 18,515                            | 5,705             | 121,013                      | 18,079                        | 13,273                            | 13,894                         | 45,246                          | 166,259              |
| Total Employee Costs                      | 2,138,957           | 836,967                   | 567,799                           | 174,972           | 3,718,695                    | 559,840                       | 416,933                           | 423,866                        | 1,400,639                       | 5,119,334            |
| Temporary labor                           | 886,037             | 81,019                    | 48,664                            | 13,137            | 1,028,857                    | 12,817                        | 61,597                            | 74,095                         | 148,509                         | 1,177,366            |
| Total Labor Costs                         | 3,024,994           | 917,986                   | 616,463                           | 188,109           | 4,747,552                    | 572,657                       | 478,530                           | 497,961                        | 1,549,148                       | 6,296,700            |
| Exhibitions                               | 2,596,053           | 1,994                     | 0                                 | 0                 | 2,598,047                    | 0                             | 0                                 | 0                              | 0                               | 2,598,047            |
| Advertising                               | 439,395             | 64,925                    | 0                                 | 0                 | 504,320                      | 0                             | 7,665                             | 535                            | 8,200                           | 512,520              |
| Rent expense - MDHA's building            | 388,666             | 150,201                   | 29,153                            | 35,062            | 603,082                      | 60,191                        | 6,312                             | 41,619                         | 108,122                         | 711,204              |
| Utilities                                 | 282,470             | 109,161                   | 21,188                            | 25,482            | 438,301                      | 43,745                        | 4,588                             | 30,247                         | 78,580                          | 516,881              |
| Insurance                                 | 259,947             | 0                         | 0                                 | 0                 | 259,947                      | 90,880                        | 0                                 | 0                              | 90,880                          | 350,827              |
| Occupancy                                 | 174,810             | 35,956                    | 7,178                             | 7,175             | 225,119                      | 11,973                        | 6,172                             | 17,182                         | 35,327                          | 260,446              |
| Travel, catering, and meals               | 97,765              | 55,315                    | 20,055                            | 356               | 173,491                      | 3,948                         | 54,105                            | 529                            | 58,582                          | 232,073              |
| Supplies and equipment                    | 79,530              | 66,208                    | 18,739                            | 8,781             | 173,258                      | 12,141                        | 196,945                           | 10,631                         | 219,717                         | 392,975              |
| Printing                                  | 83,177              | 32,107                    | 135,753                           | 203               | 251,240                      | 203                           | 43,097                            | 239                            | 43,539                          | 294,779              |
| Telephone, internet, and website          | 53,096              | 21,073                    | 10,864                            | 4,491             | 89,524                       | 15,317                        | 4,944                             | 4,609                          | 24,870                          | 114,394              |
| Consulting and professional fees          | 51,338              | 9,233                     | 20,334                            | 2,514             | 83,419                       | 89,239                        | 3,747                             | 4,742                          | 97,728                          | 181,147              |
| Cost of sales                             | 0                   | 0                         | 0                                 | 302,111           | 302,111                      | 0                             | 0                                 | 408,998                        | 408,998                         | 711,109              |
| Maintenance and repairs                   | 45,458              | 21,540                    | 15,651                            | 6,640             | 89,289                       | 17,066                        | 2,814                             | 22,550                         | 42,430                          | 131,719              |
| Dues and licenses                         | 32,266              | 16,266                    | 34,122                            | 15,394            | 98,048                       | 22,205                        | 15,220                            | 23,040                         | 60,465                          | 158,513              |
| Professional development and publications | 13,438              | 6,135                     | 363                               | 56                | 19,992                       | 1,935                         | 4,727                             | 651                            | 7,313                           | 27,305               |
| Postage and shipping                      | 10,490              | 3,939                     | 31,381                            | 890               | 46,700                       | 1,418                         | 8,761                             | 578                            | 10,757                          | 57,457               |
| Depreciation and amortization             | 296,589             | 177,421                   | 52,233                            | 40,639            | 566,882                      | 46,721                        | 8,123                             | 75,626                         | 130,470                         | 697,352              |
| Miscellaneous expense                     | 1,154               | 4,664                     | 632                               | 182               | 6,632                        | 754                           | 2,833                             | 478                            | 4,065                           | 10,697               |
| <b>TOTAL EXPENSES</b>                     | <b>\$ 7,930,636</b> | <b>\$ 1,694,124</b>       | <b>\$ 1,014,109</b>               | <b>\$ 638,085</b> | <b>\$ 11,276,954</b>         | <b>\$ 990,393</b>             | <b>\$ 848,583</b>                 | <b>\$ 1,140,215</b>            | <b>\$ 2,979,191</b>             | <b>\$ 14,256,145</b> |

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENTS OF CASH FLOWS

|   | Year Ended December 31 |                     |
|---|------------------------|---------------------|
|   | 2015                   | 2014                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                        |                     |
| Contributions and grants received   | \$ 6,696,577           | \$ 6,509,667        |
| Support received from Visual Arts Foundation  | 1,298,766              | 1,251,226           |
| Memberships received  | 1,324,353              | 1,399,127           |
| Admissions received   | 507,562                | 539,003             |
| Traveling exhibition revenue received   | 36,000                 | 20,000              |
| Education program fees received   | 79,352                 | 71,622              |
| Special event revenue received  | 989,153                | 1,046,184           |
| Gift shop revenue received  | 485,344                | 529,284             |
| Other operating revenue received  | 946,374                | 1,099,827           |
| Investment income received  | 114                    | 757                 |
| Miscellaneous income received   | 10,174                 | 2,510               |
| Labor costs paid  | (6,412,116)            | (6,385,744)         |
| Cash paid to suppliers, consultants, and others   | (6,352,946)            | (6,311,057)         |
| Net Cash Used in Operating Activities   | (391,293)              | (227,594)           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                        |                     |
| Proceeds from withdrawal of investment funds deposited<br>with Visual Arts Foundation         | 825,000                | 0                   |
| Proceeds from sales of property and equipment   | 0                      | 100                 |
| Purchases of property and equipment   | (348,081)              | (361,769)           |
| Net Cash Provided by (Used in) Investing Activities   | 476,919                | (361,669)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                        |                     |
|   | 0                      | 0                   |
| <b>NET INCREASE (DECREASE) FROM CASH FLOWS BEFORE<br/>TRANSFER TO SUPPORTING ORGANIZATION</b> |                        |                     |
|   | 85,626                 | (589,263)           |
| Transfer to Visual Arts Foundation  | (25,000)               | 0                   |
| <b>NET INCREASE (DECREASE) FROM CASH FLOWS</b>  | \$ 60,626              | \$ (589,263)        |
| Cash and Cash Equivalents at Beginning of Year  | 1,342,821              | 1,932,084           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b>\$ 1,403,447</b>    | <b>\$ 1,342,821</b> |

(CONTINUED)

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## STATEMENTS OF CASH FLOWS (Continued)

|   | Year Ended December 31 |                     |
|---|------------------------|---------------------|
|   | 2015                   | 2014                |
| <b>RECONCILIATION OF CHANGE IN NET ASSETS TO<br/>CASH FLOWS FROM OPERATING ACTIVITIES</b> |                        |                     |
| NET DECREASE IN NET ASSETS FROM OPERATIONS  | \$ (1,869,873)         | \$ (1,400,455)      |
| <u>Reconciling Adjustments</u>  |                        |                     |
| Depreciation and amortization expense   | 695,507                | 697,352             |
| Imputed rent expense - MDHA's building (Note F)   | 711,204                | 711,204             |
| Non-cash contributions  | (95,744)               | (283,991)           |
| Non-cash expenses   | 90,144                 | 283,991             |
| Non-cash assets received  | 5,600                  | 0                   |
| Other reconciling adjustments   | 5,498                  | (100)               |
| (Increase) Decrease in:   |                        |                     |
| Accounts receivable   | 43,837                 | (40,254)            |
| Contributions receivable  | 26,849                 | (61,561)            |
| Inventories   | 53,115                 | (18,809)            |
| Accrued investment income on funds deposited<br>with Visual Arts Foundation               | 35,837                 | (96,478)            |
| Exhibition loan fee deposits and<br>other prepaid expenses                                | 36,753                 | 29,127              |
| Increase (Decrease) in:   |                        |                     |
| Accounts payable  | (148,832)              | 51,080              |
| Accrued liabilities   | (8,899)                | (80,568)            |
| Deferred revenue  | 27,711                 | (18,132)            |
| Total Reconciling Adjustments   | <u>1,478,580</u>       | <u>1,172,861</u>    |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>  | <u>\$ (391,293)</u>    | <u>\$ (227,594)</u> |

## SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES

**Gift-in-Kind Contributions:** The estimated fair value of "gift-in-kind" contributions recognized by the Frist Center during the years ended December 31, 2015 and 2014, totaled \$95,744 and \$283,991, respectively. These contributions consist of various goods, services, and insurance coverage that were utilized by the Frist Center and expensed in its operations during the year, except for \$5,600 of travel vouchers that are included as a component of prepaid expenses at December 31, 2015.

**Disposal of Fully-Depreciated and Fully-Amortized Property and Equipment:** During the years ended December 31, 2015 and 2014, the Frist Center disposed of obsolete tangible and intangible assets that were no longer in service. These assets had an aggregate original cost basis of \$126,742 and \$355,297, respectively. (Refer to Note F for additional information.)

See notes to financial statements.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE A -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities:** On March 3, 1998, Frist Center for the Visual Arts, Inc. (the "Frist Center") was chartered as a public benefit corporation under the Tennessee Nonprofit Corporation Act. The Frist Center began its activities by developing a high quality museum and exhibition gallery for the visual arts in Nashville, Tennessee, which opened to the public on April 8, 2001.

The mission of the Frist Center is to present and originate high quality exhibitions with related educational programs and community outreach activities. Its vision is to inspire people through art to look at their world in new ways.

The sole member of the Frist Center is Frist Center for the Visual Arts Foundation (the "Visual Arts Foundation"), which has the authority to appoint the Frist Center's Board of Trustees. The primary purpose of the Visual Arts Foundation ("supporting" organization) is to hold and manage a portfolio of investments from which annual financial support is provided to the Frist Center ("supported" organization).

**Program Services:** The major program services conducted by the Frist Center are as follows:

- **Exhibitions:** The Frist Center hosts traveling exhibitions from the United States and abroad, as well as developing its own exhibitions on a diverse range of themes. Significant advance planning and coordination is required for each exhibition presented. Exhibitions may remain at the Frist Center for a few months or a few years, however, the Frist Center is dedicated to providing new opportunities for discovery with each visit.
- **Education and Outreach:** The Frist Center offers a wide variety of accessible and affordable programs designed to assist people of all ages and backgrounds to become more knowledgeable and appreciative of art. Educational opportunities are provided through films, lectures, concerts, gallery talks, student tours, educator workshops, and youth and family activities.
- **Member and Visitor Services:** The Frist Center provides an enriching member and visitor experience through gallery guidance. Exhibition content is made available to members and visitors through member publications, audio guides, and exhibition brochures.
- **Gift Shop:** The Frist Center's gift shop offers a wide selection of arts and crafts supplies, educational materials, publications, catalogues, gifts, and souvenir items that are related to its exhibitions and programs. The gift shop also features select exhibition-related items by local artisans.

**Basis of Accounting:** The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") using the accrual method of accounting.

**Financial Statement Presentation:** The Frist Center reports information regarding its financial position and activities according to three classes of net assets (unrestricted, temporarily restricted, and permanently restricted), based on the existence or absence of donor-imposed restrictions.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

**Use of Estimates:** Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net assets, support and revenues, and expenses, and the disclosure of contingent assets and liabilities. Significant estimates used by management in preparing these financial statements principally include those assumed in establishing: (1) the collectibility of contributions receivable, (2) the estimated investment yield on funds deposited with the Visual Arts Foundation for investment, and (3) the estimated useful lives of the building lease contributed by MDHA and other property and equipment, for purposes of calculating depreciation and amortization expense. Actual results could differ from the significant estimates used by management and such differences could be material.

**Subsequent Events:** In preparing the accompanying financial statements, management has evaluated subsequent events through April 18, 2016, which represents the date the financial statements were available to be issued.

**Cash and Cash Equivalents:** Cash consists of amounts on hand and on deposit in bank accounts. Generally, the Federal Deposit Insurance Corporation ("FDIC") insures the total amount deposited by each customer in a participating bank up to its basic limit of \$250,000. As of December 31, 2015, the Frist Center had cash balances on deposit at five commercial banks, one of which exceeded the basic FDIC insurance limit by approximately \$66,800.

At December 31, 2015 and 2014, the reported cash balances include \$517,000 and \$534,500, respectively, of contribution proceeds that are temporarily restricted for use in connection with specific purposes designated by the donors.

Cash equivalents include all highly-liquid investments, such as money market funds, that have a scheduled maturity of three months or less as of the respective acquisition date. These investments earn interest at variable short-term market rates and are presented at fair value, based on readily available quoted market prices (i.e., categorized as a Level 1 security, in accordance with the U.S. GAAP fair value hierarchy). The Frist Center held no cash equivalents at December 31, 2015 or 2014.

**Accounts Receivable and Allowance for Uncollectible Amounts:** Receivables and related accrued interest, if applicable, are recorded at each reporting date for amounts due from various parties in conjunction with financial transactions. An allowance is recognized for potentially uncollectible balances and amounts deemed worthless are written off. At December 31, 2015 and 2014, respectively, all accounts receivable balances are due within one year and are deemed to be collectible. Accordingly, no allowance was recognized as of either date.

**Contributions Receivable:** A contribution receivable, also known as a "donor's promise to give", is recognized as support if the donor communicates an unconditional promise to the Frist Center. Conditional promises to give are not recognized as support until the donor's conditions are substantially met. Contributions that are restricted by the donor (e.g., as to the passage of time or use for a specific purpose), are reported as increases in temporarily restricted net assets or permanently restricted net assets, depending on the nature of the restriction. Upon satisfaction or expiration of a temporary restriction, the applicable net assets are reclassified to unrestricted net assets.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Contributions are recorded at fair value on the date received. The fair value of a donor's unconditional promise to give financial support that is expected to be received after one year is deemed to be equal to its estimated present value. Future amounts of cash or non-cash assets to be received are discounted using a risk-free interest rate, such as the rate available on zero-coupon U.S. government issues with a similar maturity. Contributions receivable may include unconditional promises from individuals, grants from public and private sources, and corporate and individual sponsorships. Contributions may be unrestricted or restricted as to use for certain exhibitions, programs, and other activities specified by the donor.

**Inventories:** Inventories are maintained in connection with the café and catering operations, the gift shop, and exhibition catalogs. Inventory is generally reported at the lower of cost (first-in, first-out method) or market. Café and catering inventory, which principally consists of food, beverages, and supplies, represents \$20,274 and \$23,605 of the total inventory value at December 31, 2015 and 2014, respectively. Gift shop inventory, which consists of products acquired for resale in the gift shop, represents \$155,910 and \$195,197 of the total inventory value at the respective dates. Exhibition catalogs, which are both produced internally and acquired for resale, are reported at the lower of production cost or acquisition cost as of the exhibition year, or net realizable sales value determined subsequent to the exhibition year.

**Exhibition Loan Fee Deposits and Other Prepaid Expenses:** The Frist Center procures collected works of art for exhibition by executing temporary loan agreements with domestic and foreign museums, and collectors. These agreements typically require the Frist Center to pay a loan fee, generally by making an initial deposit and one or more installment payments prior to the opening of an exhibition. Other significant, directly-allocable costs that are incurred prior to the opening of an exhibition (e.g., insurance, shipping, and curatorial fees) are recorded as prepayments.

The aggregate total of loan fee deposits and prepayments for each exhibition is amortized on a pro-rata basis over the respective exhibition period. Accordingly, this balance may include both current and non-current amounts. The amortization in each reporting period is included as a component of "Exhibitions" expense in the Statement of Activities. (Refer to Note L for additional information.)

**Exhibition Loan Fee Revenue and Expense Recoupments:** In addition to presenting traveling exhibitions developed by collectors and owners of works of art, the Frist Center periodically originates new art exhibitions for presentation in its galleries. These new exhibitions are then made available by the Frist Center to other art museums and institutions under temporary loan agreements under terms similar to those described in the previous section. This activity enables the Frist Center to earn loan fee revenue and to recoup certain directly-allocable costs from the borrowing institutions, thus reducing loan fees and exhibition costs initially incurred for its own gallery presentation.

Loan fee revenue from traveling exhibitions totaled \$40,000 for the year ended December 31, 2014. The related amount of allocable costs recouped in that year totaled \$40,125 which is reported as an offset to "Exhibitions" expense in the Statement of Activities. No revenues or expenses were earned or incurred, respectively, during 2015 in connection with traveling exhibitions. During 2015, the Frist Center received \$36,000 of loan fees in advance of an exhibition that is scheduled for 2016. This amount is reported as a component of "Deferred revenue" in the 2015 Statement of Financial Position until it is earned, which is deemed to occur as of the scheduled exhibition date. The Frist Center had no such deferred revenue as of December 31, 2014.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

**Property and Equipment:** Property and equipment assets are initially recorded at cost if purchased, or at estimated fair value if contributed. Depreciation and amortization expense are calculated using the straight-line method over the estimated service lives of the assets, which are principally as follows: 3 to 7 years for furniture and equipment, 15 years for land improvements, and the remaining initial lease term for leasehold improvements. Significant additions and improvements are capitalized. Normal repairs and maintenance are charged to expense as incurred. Property and equipment is reported net of accumulated depreciation and amortization in the Statement of Financial Position. (Refer to Notes E and F for additional information.)

**Contributed Use of Property:** The Frist Center recognizes contribution support upon entering into a lease if the lessor requires only nominal lease payments in relation to the estimated fair rental value of the leased property. The fair value of the contribution is equal to the lesser of: (a) the present value of the excess of the estimated fair rental rate over the stated lease payments (if any) during the lease term, or (b) the fair value of the leased asset at inception of the lease.

With respect to a long-term lease, the contributed lease asset is initially reported as an increase in temporarily restricted assets due to the "passage of time" restriction that governs the use of the leased property. This asset is amortized on a straight-line basis over the lease term and the expired portion in each reporting period is released from temporarily restricted net assets and reclassified to unrestricted net assets. The amortization is recognized as rent expense, as reported in the Statement of Functional Expenses, and the unexpired portion of the asset is reported as a component of property and equipment in the Statement of Financial Position. (Refer to Note E for additional information regarding the Frist Center's recognition in 1998 of a building lease contributed by MDHA.)

**Donated Collection Item:** Although the Frist Center is a non-collecting institution, in 2013 management agreed to accept the private donation of a sculpture, which was installed for public viewing near the main entrance of the building. The donated collection item is deemed to be held in furtherance of public service rather than for financial gain and, accordingly, will be protected, kept encumbered, cared for, and preserved. In the event the Frist Center decides to deaccess the sculpture, it would be donated to another not-for-profit arts institution.

Management has adopted a "non-capitalization" accounting policy in regard to the valuation and reporting of "collected" art objects. In accordance with U.S. GAAP, a line item caption for the donated collection item has been included in the Statements of Financial Position, however, no value was assigned or reported for this item in the 2015 and 2014 Statements of Financial Position.

**Donated Services:** In accordance with U.S. GAAP, donated services are recognized as support (along with a corresponding asset or expense) when such services create or enhance a non-financial asset (e.g., property or equipment), or such services require specialized skills that would typically need to be purchased by the organization had they not been donated. During the years ended December 31, 2015 and 2014, the Frist Center recognized \$44,925 and \$62,325 for donated services, which includes donated entertainment performances and other professional services.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Many individuals volunteer their time and perform a variety of beneficial tasks that assist the Frist Center to conduct its programs and services. During the years ended December 31, 2015 and 2014, volunteer hours totaled approximately 24,000 and 19,000, respectively. However, in accordance with U.S. GAAP, the estimated fair value of these volunteer services has not been reflected in the accompanying financial statements.

**Membership Dues:** The Frist Center offers various levels of basic and contributing memberships to its patrons. The portion of each member's dues that represents the value of membership benefits provided by the Frist Center is recognized as earned revenue ratably over the membership term, generally a one-year period. At each reporting date, a liability for unearned membership dues (\$407,547 and \$432,790 at December 31, 2015 and 2014, respectively) is reported as a component of "Deferred revenue" in the Statement of Financial Position. The portion of a member's dues that represents a contribution is recognized as contribution support upon receipt. The support and revenue portions of membership dues in the reporting period are combined and presented, net of any portion representing unearned revenue, in the Statement of Activities.

**Income Taxes:** Based on an Internal Revenue Service determination letter dated November 11, 2002, the Frist Center is recognized as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is not deemed to be a "private foundation". However, continued compliance with the prescribed "public support test", and other rules and regulations, is required to maintain this exemption. Management is not aware of any event or activity that has occurred since the latest determination date that might adversely affect the Frist Center's tax exempt status.

The Frist Center may be subject to federal and state income taxes if it has net income from trade or business activities that are not substantially related to its exempt purpose. "Unrelated business income taxes" are computed in accordance with regular federal and state income tax brackets and rates that are applicable to for-profit corporations. Certain aspects of the Frist Center's venue rental and catering operations routinely generate unrelated business taxable income, although these activities have historically resulted in a net loss for unrelated business income tax purposes.

In accordance with U.S. GAAP, management evaluates the Frist Center's federal and state income tax and regulatory filing positions to identify uncertain tax positions for consideration of whether to record an estimated liability or disclose a potential liability, including applicable interest and penalties. Management has not identified any material uncertain tax positions that require financial statement recognition as of December 31, 2015 or 2014. The Frist Center's federal and state income tax and regulatory filings are subject to examination by the applicable taxing or regulatory authority generally for a period of three years after a return is filed. As of December 31, 2015, management considers the Frist Center's open tax years to include the returns filed for 2012, 2013, and 2014, as well as the returns that will be filed for 2015.

**Advertising Costs:** The Frist Center expenses all advertising costs as incurred. During the years ended December 31, 2015 and 2014, advertising costs totaled approximately \$504,000 and \$513,000, respectively. Of the total amounts incurred in these two years, approximately \$0 and \$7,700, respectively, were recognized in conjunction with non-cash "gift-in-kind" contributions received by the Frist Center.



# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE B -- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of the Frist Center's financial instruments (principally cash, cash equivalents, and contributions receivable) are summarized in the accompanying Statement of Financial Position. Significant fair value measurement principles and assumptions used by the Frist Center are described Note A and supplemented by information presented in Note C.

### NOTE C -- CONTRIBUTIONS RECEIVABLE

The Frist Center routinely receives notification from donors of their unconditional promises to give financial support to the organization, which could be in the form of contributions, grants, or sponsorships. These promises are often comprised of a current payment and a commitment to make support payments over a specified future period. Because the long-term portion of the promise to give is subject to a "passage of time" restriction, it is discounted to net present value and recorded as an increase in temporarily restricted assets.

Contributions receivable recognized by the Frist Center are summarized as follows:

|  | December 31 |            |
|--|-------------|------------|
|  | 2015        | 2014       |
| Unrestricted   |             |            |
| Contributions  | \$ 21,889   | \$ 28,186  |
| Total Unrestricted   | 21,889      | 28,186     |
| Temporarily Restricted   |             |            |
| Contributions  | 72,300      | 68,500     |
| Sponsorships   | 204,000     | 228,500    |
| Total Temporarily Restricted   | 276,300     | 297,000    |
| Gross Contributions Receivable   | 298,189     | 325,186    |
| Less: Unamortized discount to net present value, using 0.47% discount rate | 0           | (148)      |
| Net Contributions Receivable   | \$ 298,189  | \$ 325,038 |

All contributions receivable as of December 31, 2015 are scheduled for receipt in 2016.

During the years ended December 31, 2015 and 2014, installment payments were generally received as scheduled. Accordingly, management deemed recognition of an allowance for possible uncollectible amounts receivable to be unnecessary at both December 31, 2015 and 2014.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE D -- TRANSACTIONS BETWEEN THE FRIST CENTER AND THE VISUAL ARTS FOUNDATION

**Support from Visual Arts Foundation:** In its role as "supporting organization", the Visual Arts Foundation provides operational funding to the Frist Center upon receipt and approval of grant requests periodically submitted by the Frist Center. For the years ended December 31, 2015 and 2014, support provided by the Visual Arts Foundation totaled \$1,298,766 and \$1,251,226, respectively, which represents an assumed annual return of 4% of its average monthly portfolio value for the prior 3-year period. There were no outstanding grant requests at December 31, 2015; however, it is expected that the Frist Center will continue to depend on operational funding provided by the Visual Arts Foundation for the foreseeable future.

**Funds Deposited with Visual Arts Foundation for Investment:** Since 2011, the Frist Center has deposited cash balances available for investment with the Visual Arts Foundation. The purpose of this arrangement is to allow the professional investment managers who oversee the Visual Arts Foundation's endowment funds to also invest and manage the Frist Center's investment funds. The objective of the Frist Center is to increase its investment yield and reduce its cash concentration in bank depository accounts. Funds of the Frist Center that are held under this arrangement are subject to increase or decrease for an allocable share of the appreciation or depreciation in fair value of the specified investments held in the Visual Arts Foundation's endowment portfolio. Generally, Frist Center funds on deposit are repayable by the Visual Arts Foundation within 30 to 60 days after receiving the Frist Center's withdrawal request. During 2014, management recorded an estimated investment yield of \$96,478, which increased the cumulative amount on deposit to \$2,841,562 at December 31, 2014. During 2015, management requested and received proceeds of \$825,000 from the amount on deposit to fund certain capital projects and exhibition deposit requirements. In addition, management recognized \$35,837 of allocated depreciation in the fair value of its investment balance, which resulted in a cumulative amount on deposit at December 31, 2015 of \$1,980,725.

**Transfer of Contributed Funds to Visual Arts Foundation:** Periodically, management will transfer funds contributed by donors to the Visual Arts Foundation for inclusion in its endowment portfolio, principally in response to the donor's authorization or the donor's intended use of the funds as support for the endowment. Transferred funds are incorporated into the investment portfolio of the Visual Arts Foundation and managed according to its investment policy. During the years ended December 31, 2015 and 2014, the Frist Center identified \$25,000 of contributions available in each year for transfer to the Visual Arts Foundation, and recorded an accrued liability for this pending transfer at both December 31, 2015 and 2014.

### NOTE E -- BUILDING LEASE AND RENOVATIONS CONTRIBUTED BY MDHA

**General:** During 1998, the Metropolitan Government of Nashville and Davidson County contributed \$19.9 million to its agency, the Metropolitan Development and Housing Agency ("MDHA"). These funds were designated for use as follows: (1) \$4.4 million for MDHA's purchase of the downtown Post Office building (located at 901 Broadway, Nashville, Tennessee) from the U.S. Postal Service, and (2) \$15.5 million for the cost of MDHA's renovations to the building, in conjunction with the Frist Center development project. Although this property will be utilized by the Frist Center under terms of a long-term lease, MDHA retains full ownership of the building.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

**Building Lease:** Effective June 30, 1998, MDHA entered into a long-term lease agreement with the Frist Center for the use of its newly-acquired building. The lease specifies a term of approximately 99 years (June 30, 1998 to September 1, 2097); however, the Frist Center may terminate the lease at its option after approximately 30 years (September 1, 2028). Based on architectural studies, the lease provides the Frist Center with approximately 109,000 square feet of usable space. Accordingly, the lease requires only nominal lease payments of \$1.00 per year, which the Frist Center elected to prepay in full and record as rent expense during 1998.

The lease is structured as a "net lease," which imposes responsibility on the Frist Center for all maintenance, repairs, insurance, taxes, and utilities. The Visual Arts Foundation has guaranteed the Frist Center's performance to MDHA under this lease, including its compliance with covenants and obligatory provisions, such as the sub-lease described below.

As a result of MDHA requiring only nominal lease payments over the term of the lease, the Frist Center recognized a non-cash contribution of \$4.4 million in 1998. This contribution was recorded as an increase in temporarily restricted net assets, due to the "passage of time" restriction that governs the use of the leased property. Rent expense is recognized on a monthly pro-rata basis as the "passage of time" restriction expires, and a corresponding amount is reclassified from temporarily restricted net assets to unrestricted net assets. Management has elected to use the initial lease term of 30 years as the appropriate period for recognizing the expiration of this contributed lease asset. (Refer to Note F for information regarding rent expense recognized during the years ended December 31, 2015 and 2014.)

In conjunction with MDHA's purchase agreement with the U.S. Postal Service, the Post Office will continue to use the lower floor of the building (approximately 15,000 square feet) under a 30-year sub-lease agreement with the Frist Center (September 1, 1998 to August 31, 2028). Free use of this space was incorporated into the acquisition price negotiated by MDHA. Accordingly, no lease payments by the Post Office are required during the initial lease term. The Post Office is obligated to pay its separately-metered utilities and proportionate share of common area maintenance expenses. The sub-lease agreement grants two consecutive renewal options to the Post Office, with lease terms of 10 years each at the prevailing market rental rate.

**Funding of Renovation Costs:** The Frist Center also recognized a non-cash contribution of \$15.5 million in 1998 to reflect the fair value of funds committed by MDHA for renovations to the building. This contribution was recorded in a manner consistent with the approach previously described for the contributed lease asset. By agreement with MDHA, the Frist Center assumed responsibility for the payment of any renovation costs incurred by MDHA which exceeded the maximum amount of MDHA's commitment. Although the Frist Center recorded the excess amounts expended as leasehold improvements, MDHA retains full ownership of the building.

MDHA's contributed renovations and the leasehold improvements paid for by the Frist Center are deemed to have been placed in service as of April 2001. Both amounts are being amortized on a monthly pro-rata basis over the remaining portion of the initial 30-year lease term. Amortization of the contributed renovations asset is recognized as additional rent expense as the "passage of time" restriction expires. Also, a corresponding amount is reclassified from temporarily restricted net assets to unrestricted net assets, in a manner consistent with the contributed lease asset. Amortization of the Frist Center's leasehold improvements is included as a component of regular depreciation and amortization expense.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE F -- PROPERTY AND EQUIPMENT

The major components of property and equipment are summarized as follows:

|  | <u>December 31</u>   |                      |
|--|----------------------|----------------------|
|  | <u>2015</u>          | <u>2014</u>          |
| <b><u>Contributed Assets</u></b>                             |                      |                      |
| Unrestricted   |                      |                      |
| Land -- redevelopment project                                | \$ 152,411           | \$ 152,411           |
| Temporarily Restricted (Note G)                              |                      |                      |
| Building lease contributed by MDHA                           | 4,400,000            | 4,400,000            |
| Building renovations and improvements<br>contributed by MDHA | <u>15,500,000</u>    | <u>15,500,000</u>    |
|  | 19,900,000           | 19,900,000           |
| Less: Accumulated amortization                               | <u>(10,891,374)</u>  | <u>(10,180,170)</u>  |
| Total Temporarily Restricted                                 | <u>9,008,626</u>     | <u>9,719,830</u>     |
| <b>Total Contributed Assets</b>                              | <u>9,161,037</u>     | <u>9,872,241</u>     |
| <b><u>Purchased Assets – Unrestricted</u></b>                |                      |                      |
| Land -- redevelopment project                                | 2,557,964            | 2,557,964            |
| Land improvements -- redevelopment project                   | 2,119,454            | 2,119,454            |
| Furniture and equipment, including<br>computers and software | 3,622,257            | 3,444,923            |
| Leasehold improvements                                       | 10,976,123           | 10,914,374           |
| Deposits and work in progress                                | <u>0</u>             | <u>17,743</u>        |
|  | 19,275,798           | 19,054,458           |
| Less: Accumulated depreciation and amortization              | <u>(10,174,539)</u>  | <u>(9,600,275)</u>   |
| <b>Total Purchased Assets</b>                                | <u>9,101,259</u>     | <u>9,454,183</u>     |
| <b>TOTAL PROPERTY AND EQUIPMENT, net</b>                     | <u>\$ 18,262,296</u> | <u>\$ 19,326,424</u> |

Amortization of the building lease and renovations contributed by MDHA (i.e., "rent expense"), totaled \$711,204 during each of the years ended December 31, 2015 and 2014. Depreciation and amortization expense for all other assets during these years totaled \$695,507 and \$697,352, respectively.

During 2015 and 2014, the Frist Center disposed of obsolete tangible and intangible assets with original cost basis totals of \$126,742 and \$355,297, respectively, which were no longer in service. Most of these assets were fully depreciated or amortized, resulting in a loss of \$5,498 and \$0 on the disposals in the respective year. Tangible items were inventoried and disposed via a controlled process with a third-party disposal company. Original cost basis totals by major asset category are summarized as follows for 2015 and 2014, respectively: technology equipment and software licenses -- \$85,490 and \$240,281; and miscellaneous improvements and equipment -- \$41,252 and \$115,016.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE G -- TEMPORARILY RESTRICTED NET ASSETS

Activity involving temporarily restricted net assets is summarized as follows:

|   | Year Ended December 31, 2015 |                            |                              |                             |
|---|------------------------------|----------------------------|------------------------------|-----------------------------|
|   | December 31,<br>2014         | Additions                  | Release of<br>Restrictions   | December 31,<br>2015        |
| <b>Temporarily restricted due to:</b>   |                              |                            |                              |                             |
| <u>"Passage of time"</u>  |                              |                            |                              |                             |
| Contributions receivable  | \$ 296,852                   | \$ 457,448                 | \$ (478,000)                 | \$ 276,300                  |
| Building lease contributed by MDHA,<br>including MDHA's renovations and<br>improvements     | 9,719,830                    | 0                          | (711,204)                    | 9,008,626                   |
| <u>"Specific purpose use"</u>   |                              |                            |                              |                             |
| Cash proceeds from contributions<br>designated for specific purposes                        | 534,500                      | 617,000                    | (634,500)                    | 517,000                     |
| Net assets converted from passage<br>of time restriction to specific<br>purpose restriction | <u>0</u>                     | <u>0</u>                   | <u>0</u>                     | <u>0</u>                    |
| <b>TOTAL TEMPORARILY<br/>RESTRICTED NET ASSETS</b>  | <b><u>\$ 10,551,182</u></b>  | <b><u>\$ 1,074,448</u></b> | <b><u>\$ (1,823,704)</u></b> | <b><u>\$ 9,801,926</u></b>  |
|   |                              |                            |                              |                             |
|   | Year Ended December 31, 2014 |                            |                              |                             |
|   | December 31,<br>2013         | Additions                  | Release of<br>Restrictions   | December 31,<br>2014        |
| <b>Temporarily restricted due to:</b>   |                              |                            |                              |                             |
| <u>"Passage of time"</u>  |                              |                            |                              |                             |
| Contributions receivable  | \$ 236,672                   | \$ 466,780                 | \$ (406,600)                 | \$ 296,852                  |
| Building lease contributed by MDHA,<br>including MDHA's renovations and<br>improvements     | 10,431,034                   | 0                          | (711,204)                    | 9,719,830                   |
| <u>"Specific purpose use"</u>   |                              |                            |                              |                             |
| Cash proceeds from contributions<br>designated for specific purposes                        | 437,000                      | 715,455                    | (617,955)                    | 534,500                     |
| Net assets converted from passage<br>of time restriction to specific<br>purpose restriction | <u>0</u>                     | <u>(50,000)</u>            | <u>50,000</u>                | <u>0</u>                    |
| <b>TOTAL TEMPORARILY<br/>RESTRICTED NET ASSETS</b>  | <b><u>\$ 11,104,706</u></b>  | <b><u>\$ 1,132,235</u></b> | <b><u>\$ (1,685,759)</u></b> | <b><u>\$ 10,551,182</u></b> |

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE H -- EMPLOYEE RETIREMENT PLAN

During the fiscal year ended June 30, 2001, the Frist Center established an employee retirement plan pursuant to Section 401(k) of the Internal Revenue Code. Substantially all employees who have attained the age of 21 are eligible to participate. Under the plan, employees may elect to defer and contribute a portion of their annual compensation, subject to the statutory limit, and the Frist Center matches employee contributions at the rate of 100% of the first 5% of eligible compensation.

Contributions to the plan totaled \$177,348 and \$166,259 for the years ended December 31, 2015 and 2014, respectively. Discretionary employer contributions are permitted under the plan; however, no such contributions were made during the years ended December 31, 2015 and 2014.

### NOTE I -- SPECIAL EVENT REVENUE

Management has designated "The Frist Center Gala" as the organization's annual fundraising event. In addition to a dinner, the Gala event highlights the opening of a major exhibition. Special event revenue, before expenses, is summarized as follows by event year:

|   | Year Ended December 31 |                     |
|---|------------------------|---------------------|
|   | 2015                   | 2014                |
| <b>Special Event</b>  |                        |                     |
| 2014 Gala (Total event revenue \$ 979,918 including \$258,635 received in 2013) | \$ 0                   | \$ 721,283          |
| 2015 Gala (Total event revenue \$ 899,986)                                      | 564,786                | 335,200             |
| 2016 Gala (Event revenue to-date \$ 424,367)                                    | <u>424,367</u>         | <u>0</u>            |
| GROSS REVENUE (Before Expenses)   | <u>\$ 989,153</u>      | <u>\$ 1,056,483</u> |

### NOTE J -- RELATED PARTY TRANSACTIONS - LEGAL SERVICES

Since its inception, the Frist Center has obtained various legal services from an attorney and the law firm of which he is a member, while the attorney served as the Frist Center's corporate Secretary. These services and the related professional fees incurred (approximately \$25,900 and \$28,100 during the years ended December 31, 2015 and 2014, respectively) have been subjected to the Frist Center's approval control policies and payment procedures that are applicable to unrelated service providers.

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### NOTE K -- OTHER OPERATING REVENUE AND EXPENSES

The Frist Center offers various amenities and services that are designed to enhance the convenience of its members and patrons while they are visiting the visual arts center. Examples of amenities and services include an on-site café, catering services, venue rentals, and on-site parking. The venue rental activity provides private groups with meeting rooms, catering services, and admission to the exhibition galleries during and after regular business hours. Operating revenue from venue rentals for the years ended December 31, 2015 and 2014, is net of approximately \$40,000 and \$29,000, respectively, of admissions revenue generated during venue rental activities.

Operating results for the aforementioned activities are summarized below and on the following page. The highlighted items represent captions and totals that are presented in the accompanying Statements of Activities.

|  | Café and<br>Catering | Venue<br>Rentals | Parking           | Total              |
|--|----------------------|------------------|-------------------|--------------------|
| <b>Year Ended December 31, 2015</b>  |                      |                  |                   |                    |
| <b>Other Operating Revenue</b>   | \$ 407,340           | \$ 292,541       | \$ 233,749        | \$ <b>933,630</b>  |
| Direct Operating Expenses  |                      |                  |                   |                    |
| Labor costs  | (311,537)            | (78,618)         | 0                 | (390,155)          |
| Cost of sales  | (165,643)            | (102,349)        | 0                 | (267,992)          |
| Other direct expenses  | (84,934)             | (13,007)         | (20,977)          | (118,918)          |
| Total Direct Operating Expenses  | <u>(562,114)</u>     | <u>(193,974)</u> | <u>(20,977)</u>   | <u>(777,065)</u>   |
| Operating Income (Loss) before Depreciation<br>and Allocated Indirect Expenses | (154,774)            | 98,567           | 212,772           | 156,565            |
| Depreciation expense   | (11,686)             | 0                | (22,673)          | (34,359)           |
| Allocated indirect expenses  | <u>(138,181)</u>     | <u>(57,702)</u>  | <u>(5,370)</u>    | <u>(201,253)</u>   |
| Total Depreciation and<br>Allocated Indirect Expenses                          | <u>(149,867)</u>     | <u>(57,702)</u>  | <u>(28,043)</u>   | <u>(235,612)</u>   |
| <b>NET OPERATING INCOME (LOSS)</b>   | <u>\$ (304,641)</u>  | <u>\$ 40,865</u> | <u>\$ 184,729</u> | <u>\$ (79,047)</u> |

As presented in the 2015 Statement of Activities, "Other operating expenses" is comprised of the following totals shown above:

|  |                              |
|--|------------------------------|
| Total Direct Operating Expenses                    | \$ (777,065)                 |
| Total Depreciation and Allocated Indirect Expenses | <u>(235,612)</u>             |
| <b>Other Operating Expenses</b>                    | <u><b>\$ (1,012,677)</b></u> |

# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

|  | <u>Café and<br/>Catering</u> | <u>Venue<br/>Rentals</u> | <u>Parking</u>    | <u>Total</u>       |
|--|------------------------------|--------------------------|-------------------|--------------------|
| <u>Year Ended December 31, 2014</u>  |                              |                          |                   |                    |
| <b>Other Operating Revenue</b>   | \$ 478,753                   | \$ 377,767               | \$ 244,595        | \$ 1,101,115       |
| Direct Operating Expenses  |                              |                          |                   |                    |
| Labor costs  | (322,758)                    | (63,100)                 | 0                 | (385,858)          |
| Cost of sales  | (194,496)                    | (214,502)                | 0                 | (408,998)          |
| Other direct expenses  | (93,748)                     | (6,519)                  | (15,947)          | (116,214)          |
| Total Direct Operating Expenses  | <u>(611,002)</u>             | <u>(284,121)</u>         | <u>(15,947)</u>   | <u>(911,070)</u>   |
| Operating Income (Loss) before Depreciation<br>and Allocated Indirect Expenses | (132,249)                    | 93,646                   | 228,648           | 190,045            |
| Depreciation expense   | (9,743)                      | 0                        | (37,315)          | (47,058)           |
| Allocated indirect expenses  | <u>(132,449)</u>             | <u>(44,652)</u>          | <u>(4,986)</u>    | <u>(182,087)</u>   |
| Total Depreciation and<br>Allocated Indirect Expenses                          | <u>(142,192)</u>             | <u>(44,652)</u>          | <u>(42,301)</u>   | <u>(229,145)</u>   |
| <b>NET OPERATING INCOME (LOSS)</b>   | <u>\$ (274,441)</u>          | <u>\$ 48,994</u>         | <u>\$ 186,347</u> | <u>\$ (39,100)</u> |

As presented in the 2014 Statement of Activities, "Other operating expenses" is comprised of the following totals shown above:

|  |                              |
|--|------------------------------|
| Total Direct Operating Expenses                    | \$ (911,070)                 |
| Total Depreciation and Allocated Indirect Expenses | <u>(229,145)</u>             |
| <b>Other Operating Expenses</b>                    | <u><b>\$ (1,140,215)</b></u> |

## NOTE L -- COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS

### COMMITMENTS

**Exhibition Participation Fees:** In addition to loan fees, exhibition loan agreements typically require that a portion of incidental exhibition costs (i.e., "shared costs") be paid by the Frist Center as reimbursement to the lending museum or collector. Examples of such shared costs may include: conservation surveys, pre-travel packing and crating services, transportation and insurance, construction of exhibition cases and special mountings, environmental assessments and monitoring, registrar and curatorial services, and travel reimbursements. Shared costs specified in exhibition loan agreements may require fixed or variable payments for specific types of expenditures.



# FRIST CENTER FOR THE VISUAL ARTS, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

With respect to exhibition loan agreements executed through December 31, 2015, the Frist Center is obligated to make future payments of participation fees as follows:

| <u>Calendar Year:</u> | <u>Exhibition<br/>Loan Fees</u> | <u>Estimated<br/>Shared<br/>Costs</u> | <u>Total</u>        |
|-----------------------|---------------------------------|---------------------------------------|---------------------|
| 2016                  | \$ 659,527                      | \$ 443,672                            | \$ 1,103,199        |
| 2017                  | <u>150,868</u>                  | <u>102,000</u>                        | <u>252,868</u>      |
| Total                 | <u>\$ 810,395</u>               | <u>\$ 545,672</u>                     | <u>\$ 1,356,067</u> |

**Equipment Leases, Maintenance, and Licensing Agreements:** The Frist Center obtains the use of certain office equipment via operating leases with commercial leasing companies. These leases require monthly payments over the stated lease terms, which are typically two to four years. In the aggregate, the lease payments are not considered material and are expensed as incurred.

The Frist Center has entered into various maintenance agreements related to equipment that it owns or leases. These agreements generally require annual payments and may offer a discount in exchange for agreeing to a multi-year service period. None of the commitment obligations required by these maintenance agreements are considered individually material.

In addition, the Frist Center has entered into various licensing agreements for the use of software and other on-line services in conjunction with various aspects of its operations. These agreements generally require annual payments over a multi-year service period, however, none of the commitment obligations is considered individually material.

### **CONCENTRATIONS**

**Annual Operating Support from Private Foundation:** Since its inception, the Frist Center has received annual operating support from a private foundation that is recognized as a "substantial contributor" under federal tax rules and regulations. Contributions received from this private foundation during the years ended December 31, 2015 and 2014, totaled \$5,202,565, and \$5,161,569, respectively, which represents 42% and 40%, respectively, of the Frist Center's total support and revenues in each year. Due to the relative significance of the annual contributions from this donor to the Frist Center's total support and revenue, a significant concentration of annual operating support is deemed to exist with respect to this private foundation donor.