

FRIST ART MUSEUM  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2022 AND 2021

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DECEMBER 31, 2022 AND 2021

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FRIST ART MUSEUM

LIST OF PRINCIPAL OFFICIALS

DECEMBER 31, 2022

FRIST ART MUSEUM BOARD OF TRUSTEES

Billy Frist  
H. Lee Barfield II  
Clay Blevins  
Laura Chadwick  
Elizabeth Dennis  
Karyn McLaughlin Frist  
Frank M. Garrison, Jr.  
Howard C. Gentry  
Bob Gordon  
Claire M. Gulmi  
James Harbison  
Aubrey B. Harwell, Jr.  
Melvin N. Johnson, DBA  
Neil B. Krugman  
Wanda Lyle  
Karen B. Moore  
Jamaal B. Sheats  
John Smithwick  
Joe N. Steakley  
Deborah E. Story  
Julie W. Walker  
Gail P. Carr Williams

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Frist Art Museum  
Nashville, Tennessee

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the accompanying financial statements of Frist Art Museum ("FAM"), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of Frist Art Museum as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FAM and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EMPHASIS OF MATTER

As discussed in Note 3 to the financial statements, FAM has elected to change its method of accounting for leases during the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

2021 FINANCIAL STATEMENTS

The financial statements of FAM, as of and for the year ended December 31, 2021, were audited by other auditors whose report dated September 26, 2022 expressed an unmodified opinion on those statements.

## RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FAM's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FAM's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FAM's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

## OTHER INFORMATION

Management is responsible for the other information included in the report. The other information comprises the list of principal officials on page i but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023 on our consideration of FAM's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FAM's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FAM's internal control over financial reporting and compliance.

*Kraft+CPAs PLLC*

Nashville, Tennessee  
September 27, 2023

FRIST ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 13,142,620	\$ 10,736,988
Accounts receivable	5,481	44,304
Contributions and grants receivable	903,986	276,945
Inventories	257,596	195,533
Funds deposited with Frist Art Museum Foundation for investment	3,262,812	3,522,516
Exhibition loan fee deposits and other prepaid expenses	1,127,967	790,309
Operating leases, right-of-use assets	115,566	-
Property and equipment - net	13,979,813	14,302,088
Endowment deposited with Frist Art Museum Foundation for investment	182,275	199,600
Collection (Note 2)	-	-
	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 32,978,116</u>	<u>\$ 30,068,283</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 703,584	\$ 364,934
Accrued liabilities	635,043	672,773
Deferred revenue and refundable advances	830,337	858,714
Capital lease obligation	-	9,288
Operating lease liabilities	113,568	-
	<u>113,568</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,282,532</u>	<u>1,905,709</u>
NET ASSETS		
Without donor restrictions	23,783,122	20,760,307
With donor restrictions	6,912,462	7,402,267
	<u>6,912,462</u>	<u>7,402,267</u>
TOTAL NET ASSETS	<u>30,695,584</u>	<u>28,162,574</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,978,116</u>	<u>\$ 30,068,283</u>

See accompanying notes to financial statements.

FRIST ART MUSEUM  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE</b>			
Contributions and grants	\$ 7,955,323	\$ 3,212,129	\$ 11,167,452
Support from Frist Art Museum Foundation	2,189,778	-	2,189,778
Memberships	1,256,881	-	1,256,881
Admissions	938,302	-	938,302
Education program fees	33,211	-	33,211
Gift shop revenue	577,918	-	577,918
Other operating revenue	822,937	-	822,937
Investment loss	(249,103)	(17,325)	(266,428)
Miscellaneous income	2,092	-	2,092
Net assets released from donor restrictions	<u>3,684,609</u>	<u>(3,684,609)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>17,211,948</u>	<u>(489,805)</u>	<u>16,722,143</u>
<b>EXPENSES</b>			
<b>Program Services</b>			
Exhibitions	7,423,760	-	7,423,760
Education and engagement	2,010,795	-	2,010,795
Member and guest services	872,825	-	872,825
Gift shop	<u>657,465</u>	<u>-</u>	<u>657,465</u>
Total Program Services	<u>10,964,845</u>	<u>-</u>	<u>10,964,845</u>
<b>Supporting Services</b>			
General and administrative	1,907,298	-	1,907,298
Development and fundraising	898,834	-	898,834
Other operating expenses	<u>418,156</u>	<u>-</u>	<u>418,156</u>
Total Supporting Services	<u>3,224,288</u>	<u>-</u>	<u>3,224,288</u>
<b>TOTAL EXPENSES</b>	<u>14,189,133</u>	<u>-</u>	<u>14,189,133</u>
<b>CHANGE IN NET ASSETS</b>	3,022,815	(489,805)	2,533,010
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>20,760,307</u>	<u>7,402,267</u>	<u>28,162,574</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 23,783,122</u>	<u>\$ 6,912,462</u>	<u>\$ 30,695,584</u>

See accompanying notes to financial statements.



FRIST ART MUSEUM  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Totals</u>
<b>SUPPORT AND REVENUE</b>			
Contributions and grants	\$ 7,921,924	\$ 1,970,388	\$ 9,892,312
Support from Frist Art Museum Foundation	1,954,005	-	1,954,005
Memberships	1,324,243	-	1,324,243
Admissions	1,472,812	-	1,472,812
Education program fees	44,759	-	44,759
Gift shop revenue	732,660	-	732,660
Other operating revenue	351,199	-	351,199
Investment income	598,913	37,107	636,020
Miscellaneous income	1,156	-	1,156
Net assets released from donor restrictions	<u>2,341,579</u>	<u>(2,341,579)</u>	<u>-</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>16,743,250</u>	<u>(334,084)</u>	<u>16,409,166</u>
<b>EXPENSES</b>			
<b>Program Services</b>			
Exhibitions	7,883,180	-	7,883,180
Education and engagement	1,560,276	-	1,560,276
Member and guest services	948,118	-	948,118
Gift shop	716,616	-	716,616
Total Program Services	<u>11,108,190</u>	<u>-</u>	<u>11,108,190</u>
<b>Supporting Services</b>			
General and administrative	2,035,787	-	2,035,787
Development and fundraising	583,774	-	583,774
Other operating expenses	204,628	-	204,628
Total Supporting Services	<u>2,824,189</u>	<u>-</u>	<u>2,824,189</u>
<b>TOTAL EXPENSES</b>	<u>13,932,379</u>	<u>-</u>	<u>13,932,379</u>
<b>CHANGE IN NET ASSETS</b>	2,810,871	(334,084)	2,476,787
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>17,949,436</u>	<u>7,736,351</u>	<u>25,685,787</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 20,760,307</u>	<u>\$ 7,402,267</u>	<u>\$ 28,162,574</u>

See accompanying notes to financial statements.

FRIST ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Services				Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Exhibitions	Education and Engagement	Member and Guest Services	Gift Shop		General and Administrative	Development and Fundraising	Other Operating Expenses		
<b>LABOR COSTS</b>										
Employee costs										
Salaries and wages	\$ 2,414,010	\$ 819,771	\$ 397,736	\$ 186,854	\$ 3,818,371	\$ 587,446	\$ 369,809	\$ 61,914	\$ 1,019,169	\$ 4,837,540
Payroll taxes	172,798	58,681	28,471	13,375	273,325	42,050	26,472	4,432	72,954	346,279
Employee benefits	211,436	89,342	44,868	9,450	355,096	64,694	35,405	4,094	104,193	459,289
Retirement plan benefits	107,202	36,405	17,663	8,298	169,568	26,088	16,423	2,749	45,260	214,828
<b>TOTAL EMPLOYEE COSTS</b>	<b>2,905,446</b>	<b>1,004,199</b>	<b>488,738</b>	<b>217,977</b>	<b>4,616,360</b>	<b>720,278</b>	<b>448,109</b>	<b>73,189</b>	<b>1,241,576</b>	<b>5,857,936</b>
Temporary labor	673,432	140,290	7,635	10,871	832,228	9,626	27,392	1,075	38,093	870,321
<b>TOTAL LABOR COSTS</b>	<b>3,578,878</b>	<b>1,144,489</b>	<b>496,373</b>	<b>228,848</b>	<b>5,448,588</b>	<b>729,904</b>	<b>475,501</b>	<b>74,264</b>	<b>1,279,669</b>	<b>6,728,257</b>
Exhibitions	1,909,920	11,333	-	-	1,921,253	-	-	-	-	1,921,253
Advertising	-	63,884	-	-	63,884	414,617	-	2,619	417,236	481,120
Rent expense - noncash	415,741	149,652	23,825	35,062	624,280	65,445	9,175	12,304	86,924	711,204
Utilities	310,626	103,984	16,608	24,361	455,579	20,148	9,020	8,540	37,708	493,287
Insurance	25,086	-	-	-	25,086	134,071	-	-	134,071	159,157
Occupancy	202,343	59,503	11,952	12,494	286,292	11,427	9,298	4,374	25,099	311,391
Travel, catering and meals	69,393	51,992	8,451	121	129,957	26,298	90,086	57	116,441	246,398
Supplies and equipment	175,660	80,063	26,920	12,533	295,176	43,522	206,520	1,187	251,229	546,405
Printing	75,049	30,679	110,335	79	216,142	10,339	28,621	8	38,968	255,110
Telephone, internet and website	25,987	14,413	6,173	2,930	49,503	95,396	5,477	471	101,344	150,847
Consulting and professional fees	26,318	4,754	2,108	1,053	34,233	126,019	2,941	148	129,108	163,341
Cost of sales	3,157	-	-	271,567	274,724	-	-	294,437	294,437	569,161
Maintenance and repairs	184,249	65,823	71,405	15,513	336,990	40,797	9,722	4,492	55,011	392,001
Dues and licenses	50,196	14,812	47,492	24,886	137,386	34,246	20,892	6,268	61,406	198,792
Professional development and publications	12,509	3,891	736	384	17,520	6,196	1,442	59	7,697	25,217
Postage and shipping	4,105	2,684	20,892	-	27,681	1,191	4,419	-	5,610	33,291
Depreciation and amortization	350,361	205,230	26,022	27,620	609,233	96,592	16,047	8,923	121,562	730,795
Miscellaneous expense	4,182	3,609	3,533	14	11,338	51,090	9,673	5	60,768	72,106
<b>TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES</b>	<b>\$ 7,423,760</b>	<b>\$ 2,010,795</b>	<b>\$ 872,825</b>	<b>\$ 657,465</b>	<b>\$ 10,964,845</b>	<b>\$ 1,907,298</b>	<b>\$ 898,834</b>	<b>\$ 418,156</b>	<b>\$ 3,224,288</b>	<b>\$ 14,189,133</b>

See accompanying notes to financial statements.

FRIST ART MUSEUM

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services				Total Program Services	Supporting Services			Total Supporting Services	Total Expenses
	Exhibitions	Education and Engagement	Member and Guest Services	Gift Shop		General and Administrative	Development and Fundraising	Other Operating Expenses		
<b>LABOR COSTS</b>										
Employee costs										
Salaries and wages	\$ 2,201,465	\$ 664,686	\$ 345,993	\$ 156,950	\$ 3,369,094	\$ 528,127	\$ 372,594	\$ 98,139	\$ 998,860	\$ 4,367,954
Payroll taxes	153,913	46,471	24,190	10,973	235,547	36,924	26,050	6,861	69,835	305,382
Employee benefits	215,610	68,969	34,677	14,970	334,226	58,749	35,919	4,610	99,278	433,504
Retirement plan benefits	103,368	31,210	16,246	7,369	158,193	24,797	17,495	4,608	46,900	205,093
<b>TOTAL EMPLOYEE COSTS</b>	<b>2,674,356</b>	<b>811,336</b>	<b>421,106</b>	<b>190,262</b>	<b>4,097,060</b>	<b>648,597</b>	<b>452,058</b>	<b>114,218</b>	<b>1,214,873</b>	<b>5,311,933</b>
Temporary labor	485,992	99,643	56,157	7,634	649,426	10,718	3,984	751	15,453	664,879
<b>TOTAL LABOR COSTS</b>	<b>3,160,348</b>	<b>910,979</b>	<b>477,263</b>	<b>197,896</b>	<b>4,746,486</b>	<b>659,315</b>	<b>456,042</b>	<b>114,969</b>	<b>1,230,326</b>	<b>5,976,812</b>
Exhibitions	3,192,565	4,796	-	-	3,197,361	-	-	-	-	3,197,361
Advertising	-	-	-	-	-	563,933	-	-	563,933	563,933
Rent expense - noncash	383,552	150,263	55,403	35,062	624,280	61,776	5,505	19,643	86,924	711,204
Utilities	233,104	91,322	33,671	21,309	379,406	37,544	3,345	11,938	52,827	432,233
Insurance	64,021	1,500	-	-	65,521	115,042	-	-	115,042	180,563
Occupancy	130,457	38,443	14,134	8,412	191,446	7,345	2,864	4,455	14,664	206,110
Travel, catering and meals	34,469	15,784	1,818	16	52,087	21,151	10,957	15	32,123	84,210
Supplies and equipment	44,141	31,285	9,412	9,285	94,123	79,392	31,400	65	110,857	204,980
Printing	73,464	21,182	91,710	145	186,501	3,728	28,036	57	31,821	218,322
Telephone, internet and website	28,506	13,791	7,189	3,594	53,080	119,430	5,535	1,864	126,829	179,909
Consulting and professional fees	30,598	27,211	1,734	511	60,054	83,088	1,538	257	84,883	144,937
Cost of sales	-	-	-	377,182	377,182	-	-	27,851	27,851	405,033
Maintenance and repairs	128,129	41,912	74,849	10,479	255,369	29,825	4,324	5,000	39,149	294,518
Dues and licenses	43,519	12,131	88,311	25,844	169,805	59,330	15,113	3,999	78,442	248,247
Professional development and publications	14,277	1,786	591	343	16,997	3,027	1,338	115	4,480	21,477
Postage and shipping	3,007	1,199	28,473	-	32,679	980	5,493	3	6,476	39,155
Depreciation and amortization	316,867	191,604	61,933	26,538	596,942	92,092	10,296	14,069	116,457	713,399
Miscellaneous expense	2,156	5,088	1,627	-	8,871	98,789	1,988	328	101,105	109,976
<b>TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES</b>	<b>\$ 7,883,180</b>	<b>\$ 1,560,276</b>	<b>\$ 948,118</b>	<b>\$ 716,616</b>	<b>\$ 11,108,190</b>	<b>\$ 2,035,787</b>	<b>\$ 583,774</b>	<b>\$ 204,628</b>	<b>\$ 2,824,189</b>	<b>\$ 13,932,379</b>

See accompanying notes to financial statements.

FRIST ART MUSEUM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,533,010	\$ 2,476,787
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Losses (gains) on funds deposited with Frist Art Museum Foundation for investment	277,029	(590,917)
Depreciation and amortization	730,795	713,399
Rent expense - noncash	711,204	711,204
(Increase) decrease in:		
Accounts receivable	38,823	23,872
Contributions and grants receivable	(627,041)	94,834
Inventories	(62,063)	4,918
Exhibition loan fee deposits and other prepaid expenses	(337,658)	1,047,700
Operating leases, right-of-use assets	(10,841)	-
Increase (decrease) in:		
Accounts payable	338,650	69,640
Accrued liabilities	(37,730)	(53,781)
Deferred revenue and refundable advances	(28,377)	346,097
Operating lease liabilities	8,843	-
<b>TOTAL ADJUSTMENTS</b>	<u>1,001,634</u>	<u>2,366,966</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>3,534,644</u>	<u>4,843,753</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,119,724)	(283,343)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(1,119,724)</u>	<u>(283,343)</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments under finance/capital lease obligation	(9,288)	(17,863)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u>(9,288)</u>	<u>(17,863)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,405,632	4,542,547
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>10,736,988</u>	<u>6,194,441</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 13,142,620</u>	<u>\$ 10,736,988</u>
<b>OTHER CASH FLOW DISCLOSURES:</b>		
Operating cash outflows - payments on operating leases	<u>\$ 20,451</u>	<u>\$ -</u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
ROU assets obtained in exchange for operating lease liabilities	<u>\$ 132,209</u>	<u>\$ -</u>

See accompanying notes to financial statements.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 1 - NATURE OF ACTIVITIES

On March 3, 1998, “Frist Center for the Visual Arts, Inc.” was chartered as a public benefit corporation under the Tennessee Nonprofit Corporation Act. The organization commenced 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. Effective April 1, 2018, the organization changed its name to “Frist Art Museum” (herein “FAM”).

The mission of FAM 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 Frist Art Museum is Frist Art Museum Foundation (herein the “Foundation”), which has the authority to appoint FAM’s Board of Trustees. The primary purpose of the Foundation (the “supporting” organization) is to hold and manage a portfolio of investments from which annual financial support is provided to FAM (the “supported” organization). The Foundation was initially chartered as a Tennessee public benefit corporation on March 3, 1998, under the name “Frist Center for the Visual Arts Foundation,” and elected to change its name effective April 1, 2018, in connection with FAM’s name change.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of FAM have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require FAM to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of FAM’s management and the Board of Trustees.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of FAM or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities as net assets released from restrictions.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents consists of amounts on hand and on deposit in bank accounts.

Accounts Receivable

Accounts receivable and related accrued interest, if applicable, are reported at gross sales price less any applicable payments or adjustments. Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary at December 31, 2022 and 2021.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. At December 31, 2022 and 2021, contributions receivable are deemed to be fully collectible by management, and no allowance for uncollectible contributions is considered necessary. All contributions receivable at December 31, 2022 and 2021 are due within one year.

Inventories

Inventories are maintained in connection with catering operations, the gift shop, and exhibition catalogues. Inventory is generally reported at the lower of cost (first-in, first-out method) or net realizable value. Exhibition catalogues, which are either produced internally or acquired for resale, are reported at the lower of production cost or acquisition cost as of the exhibition year, or net realizable value determined subsequent to the exhibition year.

Funds Deposited with Frist Art Museum Foundation for Investment

Since 2011, FAM has deposited cash balances available for investment with the Foundation. The purpose of this arrangement is to allow the professional investment managers who oversee the Foundation's investments to also invest and manage FAM's funds available for investment. Accordingly, FAM's objective is to increase its investment yield and reduce its cash concentration in bank depository accounts.

Funds of FAM that are held under this arrangement are subject to increase or decrease for an allocable share of the change in fair value of the specified investments held in the Foundation's investment portfolio. Such changes are reported as part of investment income (loss) on the statement of activities.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exhibition Loan Fee Deposits and Other Prepaid Expenses

FAM procures collected works of art for exhibition by executing temporary loan agreements with domestic and foreign museums and collectors. These agreements typically require FAM 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 noncurrent amounts. The amortization in each reporting period is included as a component of "Exhibitions" expense in the statement of activities.

Leases

FAM made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, FAM used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, FAM made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

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 15 years for furniture and equipment, 15 years for land improvements, and 15 to 30 years or the remaining initial lease term for leasehold improvements. Significant additions and improvements that extend an asset's original useful life or enhance its future service potential are capitalized. Normal repairs and maintenance are charged to expense as incurred.

Contributed Use of Property

FAM 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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Use of Property (Continued)

With respect to a long-term lease, the contributed lease asset is initially reported as an increase in net assets with donor restrictions 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 net assets with donor restrictions and reclassified to net assets without donor restrictions. 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. This lease is not subject to the accounting requirements of FASB ASC Topic 842, *Leases*.

Endowment

Upon agreeing to accept a donor’s restricted contribution to provide ongoing support for a particular activity or program, FAM establishes an endowment using the contributed proceeds. FAM oversees the endowment in accordance with its interpretations of guidance set forth in the Tennessee *Uniform Prudent Management of Institutional Funds Act of 2006* (“UPMIFA”). Pursuant to this guidance, FAM will seek to manage the endowment proceeds to preserve the original fair value of the contribution as of the date received, while also adhering to the donor’s stated restrictions and permissible conditions for use of the endowment corpus and investment earnings. The fair value of the original contribution and any future contributions to the endowment, as of the respective date received, will be classified as net assets with donor restrictions that are retained in perpetuity, as will other amounts that are accumulated in accordance with the donor’s specifications. Amounts specified by the donor that are available to fund expenditures by FAM in support of the particular activity or program, will be classified as net assets with donor restrictions until such time as the funds are used for such purpose.

Donated Collection Item

Although FAM is a non-collecting institution, management agreed to accept the private donation of a sculpture in 2013, which was installed on the property for public viewing. 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 FAM decides to de-access 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 GAAP, a line item caption for the donated collection item is presented in the statement of financial position, however, no value has been reported for this item.



FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Contribution and grant support is recognized at fair value when cash, securities or other assets, or unconditional promises to give are received. Conditional contributions (those with a measurable performance obligation or other barrier and a right of return) are not recognized as support until the donor's conditions have been 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 net assets with donor restrictions.

FAM offers various levels of basic and contributing memberships to its patrons. The portion of a member's dues that represents a contribution is recognized as contribution support upon receipt. The portion of each member's dues that represents the value of membership benefits provided by FAM 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 is reported as a component of "Deferred revenue and refundable advances" in the statement of financial position.

Admissions revenue is generally non-refundable and is recognized on the scheduled day of entrance to the galleries. Education program fees are recognized when a workshop or program occurs

Gift shop sales are recognized at the time of purchase. Other operating revenue, which includes venue rentals and on-site parking, is recognized at the point in time when the services are provided.

Donated Services

Many individuals volunteer their time and perform a variety of beneficial tasks that assist FAM to conduct its programs and services. During the years ended December 31, 2022 and 2021, volunteer hours totaled approximately 11,321 and 7,700, respectively. However, in accordance with GAAP, the estimated fair value of these volunteer services has not been reflected in the accompanying financial statements.

Functional Allocation of Expenses

Expenses associated with FAM's program services and supporting services have been summarized on a functional basis in the statement of activities. The accompanying statement of functional expenses present the natural classification of expenses by function. Expenses that are attributable to only one function are directly allocated in the statement of functional expenses. However, certain categories of expenses are attributed to more than one program or supporting service activity. These expenses require allocation on a reasonable basis that is consistently applied.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

Salaries and related employee benefits that are attributable to more than one function are allocated based on estimates of time and effort. Expenses associated with maintaining and occupying the building, such as rent, utilities, occupancy, building operations, depreciation and amortization, are allocated by function based on estimated square footage used compared to total usable space. Technology, supplies, and certain other expenses are allocated based upon the number of employees assigned by functional department to the total number of employees. Lastly, the costs of certain departments that provide internal services are allocated among the departments served based on the number of internal events held compared to the total number of internal and external events held. Management re-evaluates its allocation methodology each year to determine whether revisions are necessary based on actual activities conducted during the year.

Program Services

The major program services conducted by FAM are as follows:

*Exhibitions:* FAM 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 generally remain at FAM for a few months; however, FAM is dedicated to providing new opportunities for discovery with each visit.

*Education and Engagement:* FAM 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 Guest Services:* FAM provides an enriching member and guest experience through gallery guidance. Exhibition content is made available to members and guests through member publications, audio guides, and exhibition brochures.

*Gift Shop:* FAM'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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supporting Services

*Management and general* - relates to the overall direction of FAM. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to FAM. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

*Fundraising* - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

*Other operating expenses* - includes the cost of various amenities and services that FAM offers that are designed to enhance the convenience of its members and patrons while they are visiting the museum. These include catering services, venue rentals, and on-site parking.

Income Taxes

FAM qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

FAM files a U.S. federal Form 990 for organizations exempt from income tax, and U.S. federal Form 990-T for organizations exempt from income tax with unrelated business income. In addition, FAM files an income tax return in the State of Tennessee.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing FAM's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Advertising Costs

FAM expenses all advertising costs as incurred. During the years ended December 31, 2022 and 2021, advertising costs totaled approximately \$481,000 and \$564,000, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no effect on net assets or the change in net assets as previously reported.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

Management has evaluated events and transactions that occurred between December 31, 2022 and September 27, 2023, which represents the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statement of financial position as a ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the statement of activities. FAM adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, FAM has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with FAM's historical accounting treatment under ASC Topic 840, *Leases*.

FAM elected the “package of practical expedients” under the transition guidance within Topic 842, in which FAM does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases.

FAM has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

FAM determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) FAM obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. FAM also considers whether its service arrangements include the right to control the use of an asset.

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to FAM's operating leases of approximately \$105,000 at January 1, 2022. Additional leases were entered into during 2022 (and the subsequent period) and accounted for as ROU assets and lease liabilities on the date of lease commencement. The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

NOTE 4 - AVAILABLE RESOURCES AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position, comprise the following as of December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 13,142,620	\$ 10,736,988
Accounts receivable	5,481	44,304
Contributions and grants receivable	903,986	276,945
Funds deposited with Frist Art Museum Foundation for investment	<u>3,262,812</u>	<u>3,522,516</u>
Total financial assets	<u>17,314,899</u>	<u>14,580,753</u>
Less amounts not available to be used within one year:		
Donor-restricted funds, specified purpose	<u>(2,356,802)</u>	<u>(2,241,525)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,958,097</u>	<u>\$ 12,339,228</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 4 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

FAM manages its various financial assets to be available to fund its general expenditures, and discharge its liabilities and other obligations, as they come due. This process includes development of annual cash budgets for operational and capital expenditures, monthly monitoring of budget variances, ongoing projection of cash needs, and revision of discretionary expenditures as deemed necessary.

As described in Notes 6 and 15, FAM typically receives annual operating support from the Foundation as its supporting organization, as well as a private foundation. These combined sources of funds represent a substantial portion of total support received.

NOTE 5 - CONTRACT BALANCES

The following table summarizes activity related to contracts with customers as of December 31:

	<u>Accounts receivable</u>		<u>Deferred revenue</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Beginning of year	<u>\$ 44,304</u>	<u>\$ 68,176</u>	<u>\$ 858,714</u>	<u>\$ 512,617</u>
End of year	<u>\$ 5,481</u>	<u>\$ 44,304</u>	<u>\$ 830,337</u>	<u>\$ 858,714</u>

NOTE 6 - TRANSACTIONS BETWEEN FAM AND FRIST ART MUSEUM FOUNDATION

Support from Frist Art Museum Foundation

In its role as “supporting organization,” the Foundation provides annual operational funding to FAM. For the years ended December 31, 2022 and 2021, support provided by the Foundation totaled \$2,189,778 and \$1,954,005, respectively. This support is based on an assumed annual return of 4% of its average monthly portfolio value for the prior 36-month period. In addition, during 2019, the Foundation’s Board elected to provide additional support equal to all future dividend income distributed by a specific investment in the portfolio. There were no outstanding grant requests at December 31, 2022; however, it is expected that FAM will continue to depend on operational funding provided by the Foundation for the foreseeable future.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 6 - TRANSACTIONS BETWEEN FAM AND FRIST ART MUSEUM FOUNDATION  
(CONTINUED)

Transfer of Contributed Funds to Frist Art Museum Foundation

Periodically, management will transfer funds contributed by donors to the 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 Foundation and managed according to its investment policy. FAM identified and transferred \$75,000 of applicable donor contributions to the Foundation in both 2022 and 2021.

NOTE 7 - 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 development project. Although this property is being utilized by FAM under terms of a long-term lease, MDHA retains full ownership of the building.

Building Lease

Effective June 30, 1998, MDHA entered into a long-term lease agreement with FAM 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, FAM can terminate the lease at its option after approximately 30 years (September 1, 2028). Based on architectural studies, the lease provides FAM with approximately 109,000 square feet of usable space. Accordingly, the lease requires only nominal lease payments of \$1.00 per year, which FAM elected to prepay in full and record as rent expense during 1998.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 7 - BUILDING LEASE AND RENOVATIONS CONTRIBUTED BY MDHA (CONTINUED)

Building Lease (Continued)

The building lease is structured as a “net lease,” which imposes responsibility on FAM for all maintenance, repairs, insurance, taxes, and utilities. The Foundation has guaranteed FAM’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, FAM recognized a non-cash contribution of \$4.4 million in 1998. This contribution was recorded as an increase in net assets with donor restrictions, 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 net assets with donor restrictions to net assets without donor restrictions. 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 8 for information regarding rent expense recognized during the years ended December 31, 2022 and 2021.)

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 FAM (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

FAM 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, FAM assumed responsibility for the payment of any renovation costs incurred by MDHA which exceeded the maximum amount of MDHA’s commitment. Although FAM 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 FAM 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 net assets with donor restrictions to net assets without donor restrictions, in a manner consistent with the contributed lease asset. Amortization of FAM’s leasehold improvements is included as a component of regular depreciation and amortization expense.



FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 8 - PROPERTY AND EQUIPMENT

The major components of property and equipment are summarized as follows as of December 31:

	2022	2021
<b>CONTRIBUTED ASSETS</b>		
Without donor restrictions		
Land - redevelopment project	\$ 152,411	\$ 152,411
With donor restrictions		
Building lease contributed by MDHA	4,400,000	4,400,000
Building renovations and improvements contributed by MDHA	15,500,000	15,500,000
	19,900,000	19,900,000
Less: Accumulated amortization	(15,869,802)	(15,158,598)
Total with donor restrictions	4,030,198	4,741,402
<b>TOTAL CONTRIBUTED ASSETS</b>	<b>4,182,609</b>	<b>4,893,813</b>
<b>PURCHASED ASSETS - WITHOUT DONOR RESTRICTIONS</b>		
Land - redevelopment project	2,557,964	2,557,964
Land improvements - redevelopment project	1,876,794	1,876,794
Furniture and equipment	4,200,809	4,176,333
Leasehold improvements	12,752,957	12,718,870
Construction in progress	1,144,808	236,446
	22,533,332	21,566,407
Less: Accumulated depreciation and amortization	(12,736,128)	(12,158,132)
Total purchased assets	9,797,204	9,408,275
<b>TOTAL PROPERTY AND EQUIPMENT - NET</b>	<b>\$ 13,979,813</b>	<b>\$ 14,302,088</b>

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, 2022 and 2021. Depreciation and amortization expense for all other assets during these years totaled \$730,795 and \$713,399, respectively.

Cost to complete construction in progress as of December 31, 2022 is approximately \$125,000.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 9 - LEASES

FAM leases certain office equipment. Operating lease cost is recognized on a straight-line basis over the lease term.

The components of lease expense subject to ASC 842 are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 18,453
Short-term lease cost	<u>166,226</u>
Total lease cost	<u>\$ 184,679</u>

Total rent expense for operating leases was \$32,590 for the year ended December 31, 2021.

Additional information related to leases is as follows as of December 31, 2022:

Weighted average remaining lease term:

Operating leases 5.24 years

Weighted average discount rate:

Operating leases 2.15%

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2022:

<u>Year ending December 31:</u>	<u>Operating Leases</u>
2023	\$ 23,682
2024	22,383
2025	22,383
2026	22,383
2027	20,873
Thereafter	<u>8,173</u>
Total lease payments	119,877
Less imputed interest	(6,309)
Total present value of lease liabilities	<u>\$ 113,568</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 9 - LEASES (CONTINUED)

As of December 31, 2021, FAM had a capital lease for certain printer and copier equipment. Accordingly, it was capitalized as a component of property and equipment and a corresponding liability was recorded. The capitalized asset value totaled \$83,910. The present value of the future minimum lease payments was imputed using an interest rate of 5.25%. At December 31, 2021, accumulated amortization totaled \$71,323.

At December 31, 2021, the future minimum lease payment, due in 2022, under the capital lease is \$9,471, including interest of \$183.

NOTE 10 - ENDOWMENT

FAM established an endowment during 2016, upon agreeing to accept a restricted contribution from a donor. The purpose of this endowment, as specified by the donor, is to provide annual support for exhibitions in the Contemporary Artists' Project Gallery ("CAP Gallery"). As provided in the contribution agreement executed with the donor, FAM should oversee the endowment by attempting to preserve the original fair value of the corpus. Accordingly, the contribution agreement provides that the endowment funds may be pooled with the Foundation's investment portfolio for investment management purposes, with future appreciation or depreciation in fair value to be determined in a manner consistent with the other funds deposited by FAM with the Foundation (refer to Note 6).

An increase in fair value of the endowment funds on deposit (i.e., investment income) is initially recognized as net assets with donor restrictions by FAM, and then paid to FAM annually by the Foundation. As specified by the donor, investment income from the endowment is available to fund expenditures by FAM in support of the CAP Gallery, at which time the donor restriction is satisfied and released.

A decrease in fair value of the endowment funds on deposit (i.e., investment loss) is recognized as a decrease in net assets with donor restrictions. An investment loss that results in a valuation that is less than the original gift amount results in an underwater endowment. Subsequent increases in fair value will increase the endowment corpus until the original fair value of the donor contribution of \$199,600 has been restored. Thereafter, investment income shall be recognized as described above. As of December 31, 2022, the endowment was underwater by \$17,325.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 10 - ENDOWMENT (CONTINUED)

A summary of activity during the years ended December 31, 2022 and 2021, is as follows:

	<u>With Donor Restrictions</u>
ENDOWMENT ASSET - DECEMBER 31, 2020	\$ 199,600
Investment income	37,107
Amount withdrawn to fund expenditures by FAM to support CAP Gallery	<u>(37,107)</u>
ENDOWMENT ASSET - DECEMBER 31, 2021	199,600
Investment loss	<u>(17,325)</u>
ENDOWMENT ASSET - DECEMBER 31, 2022	<u>\$ 182,275</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>
<u>Donor Restrictions</u>		
Subject to passage of time:		
Contributions receivable	\$ 325,862	\$ 219,740
Building lease contributed by MDHA, including MDA's renovations and improvements	<u>4,030,198</u>	<u>4,741,402</u>
Total Time Restricted	<u>4,356,060</u>	<u>4,961,142</u>
Subject to expenditure for specified purpose:		
Strategic initiatives	1,666,452	1,766,755
Exhibitions, projects and programs	485,273	380,475
Other	222,402	94,295
Accumulated endowment fund losses	<u>(17,325)</u>	<u>-</u>
Total Purpose Restricted	<u>2,356,802</u>	<u>2,241,525</u>
<u>Perpetuity Restriction</u>		
Endowment for support of CAP gallery	<u>199,600</u>	<u>199,600</u>
NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 6,912,462</u>	<u>\$ 7,402,267</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 12 - CONDITIONAL GRANTS

During 2020, the U.S. government responded to the COVID-19 pandemic with the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act authorized emergency loans via the Small Business Administration (“SBA”) to eligible entities under the Paycheck Protection Program (“PPP”). In April 2020, FAM was granted a loan of \$1,026,705 under the PPP. FAM recognized the loan in accordance with guidance for conditional contributions. Accordingly, the loan was initially recorded as a refundable advance and FAM recognized grant support as the funds were used for eligible costs while maintaining required employment thresholds. FAM recognized the full loan amount in the 2020 statement of activities. FAM submitted an application and received official notification of full forgiveness of the loan from the SBA on May 19, 2021.

In February 2021, FAM was granted a second loan of \$1,060,140 under the PPP. As of December 31, 2021 FAM had expended the proceeds for eligible costs and recognized this tranche of funding as a component of “Contributions and grants” in the 2021 statement of activities. FAM submitted an application and received official notification of full forgiveness of the loan from the SBA on March 4, 2022.

In April 2022, FAM was awarded a Tennessee Nonprofit Arts and Culture Recovery Fund grant (“TACRG”) through the Tennessee Arts Commission for the period July 1, 2021 - December 31, 2024. The award consists of \$2,744,544 of federal funding that will reimburse allowable costs incurred during the grant period. For the year ended December 31, 2022, FAM recognized \$1,300,005 of grant revenue from the TACRG. As of December 31, 2022, FAM has a remaining available balance of approximately \$1,445,000 that has not been recognized as revenue because qualifying expenditures have not been incurred and charged to the grant.

NOTE 13 - EMPLOYEE RETIREMENT PLAN

FAM has 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 FAM matches employee contributions at the rate of 100% of the first 6% of eligible compensation.

Contributions to the plan totaled \$214,828 and \$205,093 for the years ended December 31, 2022 and 2021, respectively. Discretionary employer contributions are permitted under the plan; however, no such contributions were made during the years ended December 31, 2022 and 2021.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 14 - RELATED PARTY TRANSACTIONS

FAM receives support from and, at times, purchases goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Trustees. All related party transactions are subject to FAM's conflict of interest policy.

NOTE 15 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

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 FAM 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.

With respect to exhibition loan agreements executed through December 31, 2022, FAM is obligated to make future payments of participation fees as follows:

	<u>Exhibition Loan Fees</u>	<u>Estimated Shared Costs</u>	<u>Total</u>
<u>Year Ending December 31,</u>			
2023	\$ 303,431	\$ 591,097	\$ 894,528
2024	141,825	359,394	501,219
2025	50,000	178,530	228,530
2026	<u>-</u>	<u>7,255</u>	<u>7,255</u>
Total	<u>\$ 495,256</u>	<u>\$ 1,136,276</u>	<u>\$ 1,631,532</u>

Other Commitments

FAM has various other commitments relating to building improvements and operations totaling approximately \$700,000, of which \$660,000 is expected to be paid in 2023, \$38,000 in 2024 and \$2,000 in 2025.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022 AND 2021

NOTE 15 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (CONTINUED)

Annual Operating Support from Private Foundation

Since its inception, FAM 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, 2022 and 2021, totaled \$6,896,125 and \$6,615,632, respectively, which represents 41% and 40% of FAM’s total support and revenues in each year. Due to the relative significance of the annual contributions from this donor to FAM’s total support and revenue, a significant concentration of annual operating support exists with respect to this private foundation donor.

Contributions and grants receivable

Contributions and grants receivable from one grantor amounted to approximately 62% of contributions and grants receivable at December 31, 2022. There was no concentration of contributions and grants receivable at December 31, 2021.

Cash

The Federal Deposit Insurance Corporation (“FDIC”) insures the total amount deposited by each customer in a participating bank up to its maximum limit of \$250,000. FAM’s cash balances generally exceed statutory limits. FAM has not experienced any losses in such accounts and management considers it to be a normal business risk.