

FRIST ART MUSEUM
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2023 AND 2022

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FRIST ART MUSEUM

LIST OF PRINCIPAL OFFICIALS

DECEMBER 31, 2023

FRIST ART MUSEUM BOARD OF TRUSTEES

Billy Frist
Phillip G. Billington
Clay Blevins
Laura Chadwick
Ramon L. Cisneros
Elizabeth Dennis
Karyn McLaughlin Frist
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Howard C. Gentry
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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 statements of financial position as of December 31, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, financial statements referred to above present fairly, in all material respects, the financial position of Frist Art Museum as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“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.

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 November 6, 2024 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.

Kraj+CPAs PLLC

Nashville, Tennessee
November 6, 2024

FRIST ART MUSEUM

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 15,437,207	\$ 13,142,620
Accounts receivable	216,099	5,481
Contributions and grants receivable	657,069	903,986
Inventories	296,221	257,596
Funds deposited with Frist Art Museum Foundation for investment	3,589,790	3,262,812
Exhibition loan fee deposits and other prepaid expenses	1,211,621	1,127,967
Operating leases, right-of-use assets	94,768	115,566
Property and equipment - net	13,711,016	13,979,813
Endowment deposited with Frist Art Museum Foundation for investment	199,600	182,275
Collection (Note 2)	<u>-</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 35,413,391</u>	 <u>\$ 32,978,116</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 421,628	\$ 703,584
Accrued liabilities	693,656	635,043
Deferred revenue and refundable advances	1,000,439	830,337
Operating lease liabilities	<u>92,071</u>	<u>113,568</u>
 TOTAL LIABILITIES	 <u>2,207,794</u>	 <u>2,282,532</u>
 NET ASSETS		
Without donor restrictions	27,223,094	23,783,122
With donor restrictions	<u>5,982,503</u>	<u>6,912,462</u>
 TOTAL NET ASSETS	 <u>33,205,597</u>	 <u>30,695,584</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 35,413,391</u>	 <u>\$ 32,978,116</u>

See accompanying notes to financial statements.

FRIST ART MUSEUM

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Totals</u>
SUPPORT AND REVENUE			
Contributions and grants	\$ 5,312,812	\$ 5,316,953	\$ 10,629,765
Support from Frist Art Museum Foundation	2,384,678	-	2,384,678
Memberships	1,171,060	-	1,171,060
Admissions	1,073,892	-	1,073,892
Education program fees	27,581	-	27,581
Gift shop revenue	732,817	-	732,817
Other operating revenue	545,352	-	545,352
Investment income	760,367	18,267	778,634
Miscellaneous income	2,081	-	2,081
Net assets released from donor restrictions	<u>6,265,179</u>	<u>(6,265,179)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>18,275,819</u>	<u>(929,959)</u>	<u>17,345,860</u>
EXPENSES			
Program Services			
Exhibitions	7,832,009	-	7,832,009
Education and engagement	2,182,942	-	2,182,942
Member and guest services	869,758	-	869,758
Gift shop	848,218	-	848,218
Total Program Services	<u>11,732,927</u>	<u>-</u>	<u>11,732,927</u>
Supporting Services			
General and administrative	1,920,155	-	1,920,155
Development and fundraising	1,019,867	-	1,019,867
Other operating expenses	162,898	-	162,898
Total Supporting Services	<u>3,102,920</u>	<u>-</u>	<u>3,102,920</u>
TOTAL EXPENSES	<u>14,835,847</u>	<u>-</u>	<u>14,835,847</u>
CHANGE IN NET ASSETS	3,439,972	(929,959)	2,510,013
NET ASSETS - BEGINNING OF YEAR	<u>23,783,122</u>	<u>6,912,462</u>	<u>30,695,584</u>
NET ASSETS - END OF YEAR	<u>\$ 27,223,094</u>	<u>\$ 5,982,503</u>	<u>\$ 33,205,597</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>With Donor</u>	<u>Totals</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
SUPPORT AND REVENUE			
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>
TOTAL SUPPORT AND REVENUE	<u>17,211,948</u>	<u>(489,805)</u>	<u>16,722,143</u>
EXPENSES			
Program Services			
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>
Supporting Services			
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>
TOTAL EXPENSES	<u>14,189,133</u>	<u>-</u>	<u>14,189,133</u>
CHANGE IN NET ASSETS	3,022,815	(489,805)	2,533,010
NET ASSETS - BEGINNING OF YEAR	<u>20,760,307</u>	<u>7,402,267</u>	<u>28,162,574</u>
NET ASSETS - END OF YEAR	<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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2023

	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		
LABOR COSTS										
Employee costs										
Salaries and wages	\$ 2,280,411	\$ 839,771	\$ 404,174	\$ 181,951	\$ 3,706,307	\$ 579,387	\$ 447,721	\$ 49,143	\$ 1,076,251	\$ 4,782,558
Payroll taxes	156,487	57,627	27,735	12,486	254,335	52,373	30,724	3,372	86,469	340,804
Employee benefits	263,597	86,553	41,323	17,389	408,862	58,031	57,513	7,625	123,169	532,031
Retirement plan benefits	107,058	39,424	18,975	8,542	173,999	27,200	21,019	2,307	50,526	224,525
TOTAL EMPLOYEE COSTS	2,807,553	1,023,375	492,207	220,368	4,543,503	716,991	556,977	62,447	1,336,415	5,879,918
Temporary labor	810,282	180,163	12,798	33,783	1,037,026	13,787	28,951	600	43,338	1,080,364
TOTAL LABOR COSTS	3,617,835	1,203,538	505,005	254,151	5,580,529	730,778	585,928	63,047	1,379,753	6,960,282
Exhibitions	2,248,280	6,401	-	-	2,254,681	-	-	-	-	2,254,681
Advertising	-	43,835	-	-	43,835	397,180	875	1,500	399,555	443,390
Rent expense - noncash	417,705	151,003	27,045	35,062	630,815	61,485	6,600	12,304	80,389	711,204
Utilities	283,262	95,259	17,107	22,117	417,745	15,798	6,558	7,752	30,108	447,853
Insurance	40,424	1,560	-	-	41,984	162,609	-	-	162,609	204,593
Occupancy	208,730	65,867	11,233	12,390	298,220	10,638	8,216	4,337	23,191	321,411
Travel, catering and meals	88,034	106,503	18,046	268	212,851	25,342	83,425	322	109,089	321,940
Supplies and equipment	105,715	117,275	20,119	16,387	259,496	40,030	206,350	584	246,964	506,460
Printing	92,931	29,315	71,761	21	194,028	3,473	45,826	-	49,299	243,327
Telephone, internet and website	24,413	12,795	5,607	2,510	45,325	95,708	3,986	308	100,002	145,327
Consulting and professional fees	73,881	31,358	2,767	1,542	109,548	156,189	12,365	417	168,971	278,519
Cost of sales	2,151	-	-	426,406	428,557	-	-	54,041	54,041	482,598
Maintenance and repairs	189,444	73,833	77,612	17,441	358,330	56,075	14,226	3,781	74,082	432,412
Dues and licenses	56,168	12,825	57,523	30,122	156,638	41,525	17,635	5,421	64,581	221,219
Professional development and publications	11,170	7,242	589	348	19,349	2,887	1,471	69	4,427	23,776
Postage and shipping	505	2,488	17,439	59	20,491	1,426	5,351	29	6,806	27,297
Depreciation and amortization	363,330	212,388	30,061	29,117	634,896	54,191	14,152	8,935	77,278	712,174
Miscellaneous expense	8,031	9,457	7,844	277	25,609	64,821	6,903	51	71,775	97,384
TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES	\$ 7,832,009	\$ 2,182,942	\$ 869,758	\$ 848,218	\$ 11,732,927	\$ 1,920,155	\$ 1,019,867	\$ 162,898	\$ 3,102,920	\$ 14,835,847

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		
LABOR COSTS										
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
TOTAL EMPLOYEE COSTS	2,905,446	1,004,199	488,738	217,977	4,616,360	720,278	448,109	73,189	1,241,576	5,857,936
Temporary labor	673,432	140,290	7,635	10,871	832,228	9,626	27,392	1,075	38,093	870,321
TOTAL LABOR COSTS	3,578,878	1,144,489	496,373	228,848	5,448,588	729,904	475,501	74,264	1,279,669	6,728,257
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
TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES	\$ 7,423,760	\$ 2,010,795	\$ 872,825	\$ 657,465	\$ 10,964,845	\$ 1,907,298	\$ 898,834	\$ 418,156	\$ 3,224,288	\$ 14,189,133

See accompanying notes to financial statements.

FRIST ART MUSEUM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,510,013	\$ 2,533,010
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gains) losses on funds deposited with Frist Art Museum Foundation for investment	(344,303)	277,029
Depreciation and amortization	712,174	730,795
Rent expense - noncash	711,204	711,204
(Increase) decrease in:		
Accounts receivable	(210,618)	38,823
Contributions and grants receivable	246,917	(627,041)
Inventories	(38,625)	(62,063)
Exhibition loan fee deposits and other prepaid expenses	(83,654)	(337,658)
Operating leases, right-of-use assets	20,798	(10,841)
Increase (decrease) in:		
Accounts payable	(281,956)	338,650
Accrued liabilities	58,613	(37,730)
Deferred revenue and refundable advances	170,102	(28,377)
Operating lease liabilities	(21,497)	8,843
TOTAL ADJUSTMENTS	<u>939,155</u>	<u>1,001,634</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,449,168</u>	<u>3,534,644</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(1,154,581)</u>	<u>(1,119,724)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,154,581)</u>	<u>(1,119,724)</u>
FINANCING ACTIVITIES		
Principal payments under finance/capital lease obligation	<u>-</u>	<u>(9,288)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>-</u>	<u>(9,288)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,294,587	2,405,632
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>13,142,620</u>	<u>10,736,988</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,437,207</u>	<u>\$ 13,142,620</u>
OTHER CASH FLOW DISCLOSURES:		
Operating cash outflows - payments on operating leases	<u>\$ 22,983</u>	<u>\$ 20,451</u>
NON-CASH FINANCING ACTIVITIES		
ROU assets obtained in exchange for operating lease liabilities	<u>\$ -</u>	<u>\$ 132,209</u>

See accompanying notes to financial statements.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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 statements of activities as net assets released from restrictions.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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.

FAM estimates an allowance for doubtful accounts on accounts receivable which may not be fully collectible based on historical loss experience, current economic conditions and reasonable and supportable forecasts. Accounts receivable are deemed to be fully collectible by management, and no allowance for bad debts is considered necessary at December 31, 2023 and 2022.

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, 2023 and 2022, 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, 2023 and 2022 are due within one year.

Inventories

Inventories are maintained in connection with catering operations, the gift shop, and exhibition catalogues. Inventories are 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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Deposited with Frist Art Museum Foundation for Investment (Continued)

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 statements of activities.

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 statements 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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 statements of functional expenses, and the unexpired portion of the asset is reported as a component of property and equipment in the statements of financial position. This lease is not subject to the accounting requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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 statements of financial position, however, no value has been reported for this item.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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 statements 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, 2023 and 2022, volunteer hours totaled approximately 15,800 and 11,300, 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 statements of activities. The accompanying statements of functional expenses present the natural classification of expenses by function. Expenses that are attributable to only one function are directly allocated in the statements 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, 2023 AND 2022

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, 2023 AND 2022

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, 2023 and 2022, advertising costs totaled approximately \$443,000 and \$481,000, respectively.

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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

Management has evaluated events and transactions that occurred between December 31, 2023 and November 6, 2024, 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, FASB issued 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 statements 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 statements 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 were 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 elected not to adopt the “hindsight” practical expedient, and therefore measured the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

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. 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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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 statements of financial position, comprise the following as of December 31:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 15,437,207	\$ 13,142,620
Accounts receivable	216,099	5,481
Contributions and grants receivable	657,069	903,986
Funds deposited with Frist Art Museum Foundation for investment	<u>3,589,790</u>	<u>3,262,812</u>
Total financial assets	<u>19,900,165</u>	<u>17,314,899</u>
Less amounts not available to be used within one year:		
Donor-restricted funds, specified purpose	<u>(2,278,112)</u>	<u>(2,356,802)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,622,053</u>	<u>\$ 14,958,097</u>

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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 5,481	\$ 44,304	\$ 830,337	\$ 858,714
End of year	\$ 216,099	\$ 5,481	\$ 1,000,439	\$ 830,337

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, 2023 and 2022, support provided by the Foundation totaled \$2,384,678 and \$2,189,778, 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, 2023; however, it is expected that FAM will continue to depend on operational funding provided by the Foundation for the foreseeable future.

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 \$50,000 and \$75,000 of applicable donor contributions to the Foundation in 2023 and 2022, respectively.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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.

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, 2023 and 2022.)

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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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

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, 2023 AND 2022

NOTE 8 - PROPERTY AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
CONTRIBUTED ASSETS		
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	<u>15,500,000</u>	<u>15,500,000</u>
	19,900,000	19,900,000
Less: Accumulated amortization	<u>(16,581,006)</u>	<u>(15,869,802)</u>
Total with donor restrictions	<u>3,318,994</u>	<u>4,030,198</u>
TOTAL CONTRIBUTED ASSETS	<u>3,471,405</u>	<u>4,182,609</u>
PURCHASED ASSETS - WITHOUT DONOR RESTRICTIONS		
Land - redevelopment project	2,557,964	2,557,964
Land improvements - redevelopment project	1,876,794	1,876,794
Furniture and equipment	4,259,554	4,200,809
Leasehold improvements	14,713,782	12,752,957
Construction in progress	<u>279,819</u>	<u>1,144,808</u>
	23,687,913	22,533,332
Less: Accumulated depreciation and amortization	<u>(13,448,302)</u>	<u>(12,736,128)</u>
Total purchased assets	<u>10,239,611</u>	<u>9,797,204</u>
TOTAL PROPERTY AND EQUIPMENT - NET	<u>\$ 13,711,016</u>	<u>\$ 13,979,813</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, 2023 and 2022. Depreciation and amortization expense for all other assets during these years totaled \$712,174 and \$730,795, respectively.

Cost to complete construction in progress as of December 31, 2023 is approximately \$130,000.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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 years ended December 31:

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 22,983	\$ 18,453
Short-term lease cost	<u>198,393</u>	<u>166,226</u>
Total lease cost	<u>\$ 221,376</u>	<u>\$ 184,679</u>

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

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term:		
Operating leases	4.24 Years	5.24 Years
Weighted average discount rate:		
Operating leases	2.15%	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, 2023:

<u>Year ending December 31:</u>	<u>Operating Leases</u>
2024	\$ 22,383
2025	22,383
2026	22,383
2027	20,873
2028	<u>8,173</u>
Total lease payments	96,195
Less imputed interest	<u>(4,124)</u>
Total present value of lease liabilities	<u>\$ 92,071</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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 has been restored. Thereafter, investment income shall be recognized as described above. As of December 31, 2023, the endowment was not underwater.

A summary of activity during the years ended December 31, 2023 and 2022, is as follows:

	<u>With Donor Restrictions</u>
ENDOWMENT ASSET - DECEMBER 31, 2021	\$ 199,600
Investment loss	<u>(17,325)</u>
ENDOWMENT ASSET - DECEMBER 31, 2022	182,275
Prior year underwater recovery	17,325
Investment income	942
Amount withdrawn to fund expenditures by FAM to support CAP Gallery	<u>(942)</u>
ENDOWMENT ASSET - DECEMBER 31, 2023	<u>\$ 199,600</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
<u>Donor Restrictions</u>		
Subject to passage of time:		
Contributions receivable	\$ 185,797	\$ 325,862
Building lease contributed by MDHA, including MDA's renovations and improvements	<u>3,318,994</u>	<u>4,030,198</u>
Total Time Restricted	<u>3,504,791</u>	<u>4,356,060</u>
Subject to expenditure for specified purpose:		
Strategic initiatives	1,713,351	1,666,452
Exhibitions, projects and programs	482,333	485,273
Other	82,428	222,402
Accumulated endowment fund gains (losses)	<u>-</u>	<u>(17,325)</u>
Total Purpose Restricted	<u>2,278,112</u>	<u>2,356,802</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>\$ 5,982,503</u>	<u>\$ 6,912,462</u>

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 12 - CONDITIONAL GRANTS

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 years ended December 31, 2023 and 2022, FAM recognized \$988,982 and \$1,300,005 of grant revenue from the TACRG. As of December 31, 2023, FAM has a remaining available balance of approximately \$456,000 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 \$224,525 and \$214,828, for the years ended December 31, 2023 and 2022, respectively. Discretionary employer contributions are permitted under the plan; however, no such contributions were made during the years ended December 31, 2023 and 2022.

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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

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, 2023, FAM is obligated to make future payments of participation fees as follows:

<u>Year Ending December 31,</u>	<u>Exhibition Loan Fees</u>	<u>Estimated Shared Costs</u>	<u>Total</u>
2024	\$ 226,599	\$ 416,484	\$ 643,083
2025	169,424	265,924	435,348
2026	<u>37,500</u>	<u>-</u>	<u>37,500</u>
Total	<u>\$ 433,523</u>	<u>\$ 682,408</u>	<u>\$ 1,115,931</u>

Other Commitments

FAM has various other commitments relating to building improvements and operations totaling approximately \$350,000, of which \$165,000 is expected to be paid in 2024, \$178,000 in 2025 and \$7,000 in 2026.

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, 2023 and 2022, totaled \$7,053,530 and \$6,896,125, respectively, which represents 41% 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.

FRIST ART MUSEUM

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023 AND 2022

NOTE 15 - COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS (CONTINUED)

Contributions and Grants Receivable

Contributions and grants receivable from one grantor amounted to approximately 84% and 62% of contributions and grants receivable at December 31, 2023 and 2022, respectively.

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.