

# FRIST ART MUSEUM

(FORMERLY FRIST CENTER FOR THE VISUAL ARTS, INC.)

## Audited Financial Statements

December 31, 2018 and 2017

**FMC**

PEOPLE  
VALUE  
RESULTS

# FRIST ART MUSEUM

## AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Frist Art Museum  
Nashville, Tennessee

We have audited the accompanying financial statements of **Frist Art Museum** (formerly Frist Center for the Visual Arts, Inc.) an incorporated not-for-profit organization, which are comprised of the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

**Auditor's Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Frist Art Museum as of December 31, 2018 and 2017, 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.

**Other Matter**

The financial statements of Frist Art Museum for the year ended December 31, 2017, were audited by Faulkner Mackie and Cochran, P.C., which rebranded as "FMC CPAs, PLLC" as of January 1, 2019. Faulkner Mackie and Cochran, P.C. expressed an unmodified opinion on the 2017 financial statements in its report dated April 17, 2018.

**Change in Accounting Principle**

As described in Note A to the financial statements, effective January 1, 2018, Frist Art Museum adopted new accounting guidance prescribed by the Financial Accounting Standards Board related to presentation of financial statements for not-for-profit entities and applied the new guidance retrospectively to January 1, 2017. Our opinion is not modified with respect to this matter.

*FMC CPAs, PLLC*

May 13, 2019

# FRIST ART MUSEUM

## STATEMENTS OF FINANCIAL POSITION

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,352,360	\$ 3,544,165
Accounts receivable	39,673	34,863
Contributions receivable (Note D)	453,586	292,025
Inventories	212,082	196,037
Funds deposited with Frist Art Museum Foundation for investment (Note E)	2,290,510	2,349,155
Exhibition loan fee deposits and other prepaid expenses	1,654,853	1,385,909
Property and equipment, net (Notes F and G)	17,064,841	16,507,751
Endowment (Note I)	194,940	199,600
Donated collection item (Note A)	---	---
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 25,262,845</u>	<u>\$ 24,509,505</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	\$ 885,231	\$ 733,000
Accrued liabilities	504,476	483,969
Deferred revenue	575,210	503,827
Capital lease obligation	60,202	75,478
Total Liabilities	<hr/> 2,025,119	<hr/> 1,796,274
Net Assets		
Without donor restrictions	14,503,145	13,172,172
With donor restrictions (Note J)	8,734,581	9,541,059
Total Net Assets	<hr/> 23,237,726	<hr/> 22,713,231
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,262,845</u>	<u>\$ 24,509,505</u>

See notes to financial statements.

# FRIST ART MUSEUM

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUES</b>			
Contributions and grants	\$ 5,595,072	\$ 2,828,762	\$ 8,423,834
Support from Frist Art Museum Foundation (Note E)	1,520,450	0	1,520,450
Memberships	1,288,742	0	1,288,742
Admissions	729,434	0	729,434
Traveling exhibitions revenue	97,080	0	97,080
Education program fees	37,957	0	37,957
Special event revenue, net of \$77,451 cost of direct benefits to donors (Note L)	891,666	60,000	951,666
Gift shop revenue	592,677	0	592,677
Other operating revenue (Note N)	1,163,005	0	1,163,005
Investment income (loss)	(56,572)	(4,660)	(61,232)
Miscellaneous income	11,603	0	11,603
Net assets released from donor restrictions (Note J)	3,690,580	(3,690,580)	0
<b>TOTAL SUPPORT AND REVENUES</b>	<b>15,561,694</b>	<b>(806,478)</b>	<b>14,755,216</b>
<b>EXPENSES</b>			
Program Services			
Exhibitions	7,139,490	0	7,139,490
Education and outreach	1,919,954	0	1,919,954
Member and visitor services	828,078	0	828,078
Gift shop	667,598	0	667,598
<b>Total Program Services</b>	<b>10,555,120</b>	<b>0</b>	<b>10,555,120</b>
Supporting Services			
General and administrative	1,799,002	0	1,799,002
Development and fundraising	842,120	0	842,120
Other operating expenses (Note N)	1,009,479	0	1,009,479
<b>Total Supporting Services</b>	<b>3,650,601</b>	<b>0</b>	<b>3,650,601</b>
<b>TOTAL EXPENSES</b>	<b>14,205,721</b>	<b>0</b>	<b>14,205,721</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>1,355,973</b>	<b>(806,478)</b>	<b>549,495</b>
Transfer to Frist Art Museum Foundation (Note E)	(25,000)	0	(25,000)
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 1,330,973</b>	<b>\$ (806,478)</b>	<b>\$ 524,495</b>
Net Assets at Beginning of Year	13,172,172	9,541,059	22,713,231
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 14,503,145</b>	<b>\$ 8,734,581</b>	<b>\$ 23,237,726</b>

See notes to financial statements.

# FRIST ART MUSEUM

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUES</b>			
Contributions and grants	\$ 5,655,533	\$ 2,008,820	\$ 7,664,353
Support from Frist Art Museum Foundation (Note E)	1,495,617	0	1,495,617
Memberships	1,327,587	0	1,327,587
Admissions	621,445	0	621,445
Traveling exhibitions revenue	10,000	0	10,000
Education program fees	45,391	0	45,391
Special event revenue, net of \$82,326 cost of direct benefits to donors (Note L)	995,408	0	995,408
Gift shop revenue	456,131	0	456,131
Other operating revenue (Note N)	995,414	0	995,414
Investment income (loss)	274,551	26,335	300,886
Miscellaneous income	8,824	0	8,824
Net assets released from donor restrictions (Note J)	2,042,313	(2,042,313)	0
<b>TOTAL SUPPORT AND REVENUES</b>	<u>13,928,214</u>	<u>(7,158)</u>	<u>13,921,056</u>
<b>EXPENSES</b>			
Program Services			
Exhibitions	5,990,803	0	5,990,803
Education and outreach	1,515,141	0	1,515,141
Member and visitor services	857,788	0	857,788
Gift shop	586,900	0	586,900
<b>Total Program Services</b>	<u>8,950,632</u>	<u>0</u>	<u>8,950,632</u>
Supporting Services			
General and administrative	1,736,550	0	1,736,550
Development and fundraising	795,570	0	795,570
Other operating expenses (Note N)	1,045,681	0	1,045,681
<b>Total Supporting Services</b>	<u>3,577,801</u>	<u>0</u>	<u>3,577,801</u>
<b>TOTAL EXPENSES</b>	<u>12,528,433</u>	<u>0</u>	<u>12,528,433</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	1,399,781	(7,158)	1,392,623
Transfer to Frist Art Museum Foundation (Note E)	(25,000)	0	(25,000)
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	\$ 1,374,781	\$ (7,158)	\$ 1,367,623
Net Assets at Beginning of Year	11,797,391	9,548,217	21,345,608
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 13,172,172</u>	<u>\$ 9,541,059</u>	<u>\$ 22,713,231</u>

See notes to financial statements.

# FRIST ART MUSEUM

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	PROGRAM SERVICES				TOTAL PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
	Exhibitions	Education and Outreach	Member and Visitor Services	Gift Shop		General and Administrative	Development and Fundraising	Other Operating Expenses		
Labor Costs										
Employee costs										
Salaries and wages	\$ 1,906,377	\$ 671,567	\$ 321,450	\$ 145,118	\$ 3,044,512	\$ 535,883	\$ 370,499	\$ 333,758	\$ 1,240,140	\$ 4,284,651
Payroll taxes	131,785	46,424	22,221	10,032	210,462	37,045	25,612	23,072	85,729	296,191
Employee benefits	250,831	84,199	34,450	17,695	387,175	82,404	53,488	38,701	174,593	561,768
Retirement plan benefits	75,324	26,535	12,701	5,734	120,294	21,172	14,639	13,187	48,998	169,292
Total Employee Costs	2,364,317	828,725	390,822	178,579	3,762,443	676,504	464,238	408,718	1,549,460	5,311,903
Temporary labor	817,262	241,761	18,487	11,177	1,088,687	26,104	27,147	85,356	138,607	1,227,294
Total Labor Costs	3,181,579	1,070,486	409,309	189,756	4,851,130	702,608	491,385	494,074	1,688,067	6,539,197
Exhibitions	2,206,768	7,679	0	0	2,214,447	0	0	0	0	2,214,447
Advertising	0	0	0	0	0	475,581	0	0	475,581	475,581
Rent expense - MDHA's building	386,231	151,405	26,802	35,062	599,500	61,461	6,333	43,910	111,704	711,204
Utilities	240,713	94,123	16,662	21,797	373,295	38,208	3,937	27,297	69,442	442,737
Insurance	74,225	220	0	0	74,445	94,267	0	0	94,267	168,712
Occupancy	188,873	46,530	8,938	8,455	252,796	15,492	5,383	17,266	38,141	290,937
Travel, catering, and meals	91,566	94,263	31,060	223	217,112	17,083	34,802	281	52,166	269,278
Supplies and equipment	95,977	157,741	21,434	9,719	284,871	41,728	196,269	8,676	246,673	531,544
Printing	75,638	37,342	147,213	36	260,229	17,602	31,606	516	49,724	309,953
Telephone, internet, and website	22,617	21,238	5,100	2,601	51,556	40,958	3,998	3,822	48,778	100,334
Consulting and professional fees	145,572	3,855	1,498	765	151,690	120,289	6,167	813	127,269	278,959
Cost of sales	0	0	0	349,093	349,093	0	0	310,229	310,229	659,322
Special event - Cost of direct benefits to donors	0	0	0	0	0	0	77,451	0	77,451	77,451
Maintenance and repairs	86,784	31,906	47,250	7,078	173,018	29,855	4,776	20,005	54,636	227,654
Dues and licenses	34,433	14,021	44,679	17,700	110,833	59,853	19,325	30,805	109,983	220,816
Professional development and publications	15,626	2,427	199	50	18,302	5,497	12,719	231	18,447	36,749
Postage and shipping	7,957	13,226	28,974	2	50,159	1,311	13,250	483	15,044	65,203
Depreciation and amortization	284,181	160,806	33,145	25,261	503,393	65,997	10,091	51,071	127,159	630,552
Miscellaneous expense	750	12,686	5,815	0	19,251	11,212	2,079	0	13,291	32,542
<b>TOTAL EXPENSES</b>	<b>7,139,490</b>	<b>1,919,954</b>	<b>828,078</b>	<b>667,598</b>	<b>10,555,120</b>	<b>1,799,002</b>	<b>919,571</b>	<b>1,009,479</b>	<b>3,728,052</b>	<b>14,283,172</b>
Less: Costs netted with Support and Revenues:										
Cost of direct benefits to donors	0	0	0	0	0	0	(77,451)	0	(77,451)	(77,451)
<b>TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES</b>	<b>\$ 7,139,490</b>	<b>\$ 1,919,954</b>	<b>\$ 828,078</b>	<b>\$ 667,598</b>	<b>\$ 10,555,120</b>	<b>\$ 1,799,002</b>	<b>\$ 842,120</b>	<b>\$ 1,009,479</b>	<b>\$ 3,650,601</b>	<b>\$ 14,205,721</b>



# FRIST ART MUSEUM

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	PROGRAM SERVICES				TOTAL PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL SUPPORTING SERVICES	TOTAL EXPENSES
	Exhibitions	Education and Outreach	Member and Visitor Services	Gift Shop		General and Administrative	Development and Fundraising	Other Operating Expenses		
Labor Costs										
Employee costs										
Salaries and wages	\$ 1,814,556	\$ 624,356	\$ 334,596	\$ 141,090	\$ 2,914,598	\$ 578,919	\$ 321,473	\$ 352,587	\$ 1,252,979	\$ 4,167,577
Payroll taxes	125,664	43,239	23,172	9,771	201,846	40,091	22,263	24,418	86,772	288,618
Employee benefits	257,967	89,736	50,743	20,641	419,087	88,868	52,695	47,676	189,239	608,326
Retirement plan benefits	73,200	25,187	13,498	5,692	117,577	23,352	12,968	14,224	50,544	168,121
Total Employee Costs	2,271,387	782,518	422,009	177,194	3,653,108	731,230	409,399	438,905	1,579,534	5,232,642
Temporary labor	794,618	94,703	25,325	11,089	925,735	18,805	57,727	77,689	154,221	1,079,956
Total Labor Costs	3,066,005	877,221	447,334	188,283	4,578,843	750,035	467,126	516,594	1,733,755	6,312,598
Exhibitions	1,272,568	17,693	0	0	1,290,261	0	0	0	0	1,290,261
Advertising	0	0	0	0	0	417,039	0	0	417,039	417,039
Rent expense - MDHA's building	386,794	152,072	29,499	35,062	603,427	62,379	7,921	37,477	107,777	711,204
Utilities	260,359	102,363	19,856	23,601	406,179	41,989	5,332	25,226	72,547	478,726
Insurance	92,290	178	0	0	92,468	96,253	0	0	96,253	188,721
Occupancy	177,439	39,041	8,017	7,328	231,825	13,899	10,172	13,662	37,733	269,558
Travel, catering, and meals	63,798	37,749	22,064	342	123,953	14,474	38,278	332	53,084	177,037
Supplies and equipment	76,937	67,318	23,631	7,508	175,394	37,025	168,655	3,458	209,138	384,532
Printing	58,420	17,574	155,501	7	231,502	7,508	38,607	140	46,255	277,757
Telephone, internet, and website	22,819	17,343	4,693	2,513	47,368	40,125	3,471	3,648	47,244	94,612
Consulting and professional fees	49,997	6,953	4,495	1,755	63,200	117,290	2,361	9,498	129,149	192,349
Cost of sales	0	0	0	269,804	269,804	0	0	334,087	334,087	603,891
Special event - Cost of direct benefits to donors	0	0	0	0	0	0	82,326	0	82,326	82,326
Maintenance and repairs	122,774	43,433	44,115	11,033	221,355	34,928	4,909	30,831	70,668	292,023
Dues and licenses	28,817	5,501	35,301	14,129	83,748	37,576	18,535	22,469	78,580	162,328
Professional development and publications	12,948	886	616	12	14,462	2,203	2,806	1,007	6,016	20,478
Postage and shipping	2,518	2,763	26,113	74	31,468	1,477	10,377	495	12,349	43,817
Depreciation and amortization	296,065	120,194	35,634	25,449	477,342	55,908	13,644	46,572	116,124	593,466
Miscellaneous expense	255	6,859	919	0	8,033	6,442	3,376	185	10,003	18,036
<b>TOTAL EXPENSES</b>	<b>5,990,803</b>	<b>1,515,141</b>	<b>857,788</b>	<b>586,900</b>	<b>8,950,632</b>	<b>1,736,550</b>	<b>877,896</b>	<b>1,045,681</b>	<b>3,660,127</b>	<b>12,610,759</b>
Less: Costs netted with Support and Revenues:										
Cost of direct benefits to donors	0	0	0	0	0	0	(82,326)	0	(82,326)	(82,326)
<b>TOTAL EXPENSES PRESENTED ON STATEMENT OF ACTIVITIES</b>	<b>\$ 5,990,803</b>	<b>\$ 1,515,141</b>	<b>\$ 857,788</b>	<b>\$ 586,900</b>	<b>\$ 8,950,632</b>	<b>\$ 1,736,550</b>	<b>\$ 795,570</b>	<b>\$ 1,045,681</b>	<b>\$ 3,577,801</b>	<b>\$ 12,528,433</b>

# FRIST ART MUSEUM

## STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions and grants received	\$ 8,160,051	\$ 7,596,208
Support received from Art Museum Foundation	1,520,450	1,495,617
Memberships received	1,329,182	1,285,862
Admissions received	730,183	622,701
Traveling exhibition revenue received	123,349	77,500
Education program fees received	37,957	45,576
Special event revenue received	1,034,116	1,107,734
Gift shop revenue received	592,354	456,131
Other operating revenue received	1,175,995	1,003,181
Investment income received	28,408	12,208
Miscellaneous income received	25,638	8,824
Labor costs paid	(6,526,240)	(6,270,684)
Cash paid to suppliers, consultants, and others	<u>(6,470,091)</u>	<u>(5,233,523)</u>
Net Cash Provided by Operating Activities	<u>1,761,352</u>	<u>2,207,335</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(1,912,881)</u>	<u>(418,176)</u>
Net Cash Used in Investing Activities	<u>(1,912,881)</u>	<u>(418,176)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments under capital lease obligation	<u>(15,276)</u>	<u>(8,432)</u>
Net Cash Used in Financing Activities	<u>(15,276)</u>	<u>(8,432)</u>
<b>NET INCREASE (DECREASE) FROM CASH FLOWS BEFORE TRANSFER TO SUPPORTING ORGANIZATION</b>	(166,805)	1,780,727
Transfer to Frist Art Museum Foundation	<u>(25,000)</u>	<u>(25,000)</u>
<b>NET INCREASE (DECREASE) FROM CASH FLOWS</b>	\$ (191,805)	\$ 1,755,727
Cash and Cash Equivalents at Beginning of Year	<u>3,544,165</u>	<u>1,788,438</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 3,352,360</u>	<u>\$ 3,544,165</u>

See notes to financial statements.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

**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.

**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 may remain at FAM for a few months or a few years, however, FAM is dedicated to providing new opportunities for discovery with each visit.
- **Education and Outreach:** 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 Visitor Services:** FAM provides an enriching member and visitor experience through gallery guidance. Exhibition content is made available to members and visitors through member publications, audio guides, and exhibition brochures.
- **Gift Shop:** 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.

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

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**Change in Accounting Principle:** Effective January 1, 2018, FAM adopted Financial Accounting Standards Board - Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ("ASU 2016-14"). The guidance in ASU No. 2016-14 provides for: (1) reporting donor-imposed restrictions using two classes of net assets (with and without donor restrictions); (2) requiring qualitative and quantitative disclosures regarding an organization's liquidity and availability of assets to meet general cash needs within one year of the balance sheet date; (3) requiring presentation of expenses by both function and nature in a single financial statement, along with guidance regarding cost allocations and disclosure of the organization's methodology; (4) reporting investment return net of external and direct internal investment expenses, and (5) allowing the presentation of cash flows from operations using a direct method without an accompanying indirect method reconciliation.

ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and is required to be applied retrospectively to all periods presented in the year of adoption. Adoption of ASU 2016-14 by FAM did not affect the reported amounts of total net assets, net increase (decrease) in net assets, or cash flows for the years ended December 31, 2018 or 2017.

As permitted by ASU 2016-14, management has elected to present cash flows from operations using a direct method without an accompanying indirect method reconciliation. Accordingly, the "Reconciliation of Change in Net Assets to Cash Flows from Operating Activities", which was previously included in FAM's financial statements for the year ended December 31, 2017, has been omitted from the accompanying financial statements.

As required by ASU 2016-14, the classification of net assets has been updated in the respective Statements of Financial Position and Activities to reflect net assets with and without donor restrictions. In addition, FAM's cost allocation methodology has been updated to conform with the revised reporting requirements for expenses, which resulted in reclassifications among Program Services and Supporting Services (i.e., functional expenses), but had no impact on the natural classification of expenses. Previously-reported 2017 expenses impacted by the new guidance have been reclassified in the accompanying 2017 Statements of Financial Position, Activities, and Functional Expenses to conform to the 2018 presentation, as summarized below.

	<u>As Previously Reported</u>	<u>Reclassifications</u>	<u>As Currently Reported</u>
<b>EXPENSES</b>			
Program Services			
Exhibitions	\$ 6,592,352	\$ (601,549)	\$ 5,990,803
Education and outreach	1,610,834	(95,693)	1,515,141
Member and visitor services	864,227	(6,439)	857,788
Gift shop	600,328	(13,428)	586,900
Total Program Services	<u>9,667,741</u>	<u>(717,109)</u>	<u>8,950,632</u>
Supporting Services			
General and administrative	960,904	775,646	1,736,550
Development and fundraising	815,017	(19,447)	795,570
Other operating expenses	1,084,771	(39,090)	1,045,681
Total Supporting Services	<u>2,860,692</u>	<u>717,109</u>	<u>3,577,801</u>
TOTAL EXPENSES	<u>\$ 12,528,433</u>	<u>\$ 0</u>	<u>\$ 12,528,433</u>

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**Financial Statement Presentation:** FAM reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Net assets available for use in general operations and not subject to donor restrictions are classified as "Net Assets Without Donor Restrictions". This net asset category includes net assets designated by the Board of Directors for specific purposes, if any. Net assets subject to donor-imposed restrictions are classified as "Net Assets With Donor Restrictions". FAM uses the calendar year as its annual reporting period.

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

**Subsequent Events:** In preparing the accompanying financial statements, management has evaluated subsequent events through May 13, 2019, which represents the date the financial statements were available to be issued.

**Cash and Cash Equivalents:** Cash consists of amounts on hand and on deposit in bank accounts. 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. As of December 31, 2018, FAM had cash balances on deposit at four commercial banks, three of which exceeded the FDIC insurance limit by approximately \$1,454,000, \$614,000, and \$268,000, respectively.

At December 31, 2018 and 2017, the reported cash balances include \$1,292,427 and \$1,479,841, respectively, of contribution proceeds that are restricted for use in connection with specific purposes designated by the donors.

Cash equivalents include all highly-liquid investments, such as money market funds, that have a scheduled maturity of three months or less as of the respective acquisition date. These investments earn interest at variable short-term market rates and are presented at fair value, based on readily available quoted market prices (i.e., categorized as a Level 1 security, in accordance with the U.S. GAAP fair value hierarchy). FAM held no cash equivalents at December 31, 2018 or 2017.

**Accounts Receivable and Allowance for Uncollectible Amounts:** Receivables and related accrued interest, if applicable, are recorded at each reporting date for amounts due from various parties in conjunction with financial transactions. An allowance is recognized for potentially uncollectible balances and amounts deemed worthless are written off. At December 31, 2018 and 2017, respectively, all accounts receivable balances are due within one year and are deemed to be collectible. Accordingly, no allowance was recognized as of either date.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**Contributions Receivable:** A contribution receivable, also known as a "donor's promise to give", is recognized as support if the donor communicates an unconditional promise to FAM. Conditional promises to give are not recognized as support until the donor's conditions are substantially met. Contributions that are restricted by the donor (e.g., as to the passage of time or use for a specific purpose), are reported as increases in net assets with donor restrictions. Upon satisfaction or expiration of a donor restriction, the applicable net assets are reclassified to net assets without donor restrictions.

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

**Inventories:** Inventories are maintained in connection with the café and catering operations, the gift shop, and exhibition catalogs. Inventory is generally reported at the lower of cost (first-in, first-out method) or market. Café and catering inventory, which principally consists of food, beverages, and supplies, represents \$22,867 and \$19,143 of the total inventory value at December 31, 2018 and 2017, respectively. Gift shop inventory, which consists of products acquired for resale in the gift shop, represents \$144,254 and \$159,360 of the total inventory value at the respective dates. Exhibition catalogs, 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 sales value determined subsequent to the exhibition year.

**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 non-current amounts. The amortization in each reporting period is included as a component of "Exhibitions" expense in the Statement of Activities. (Refer to Note O for additional information.)

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

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Loan fee revenue from traveling exhibitions totaled \$97,080 and \$10,000 for the years ended December 31, 2018 and 2017, respectively. The related amount of allocable costs recouped in 2018 and 2017 totaled \$37,693 and \$0, respectively, which is reported as an offset to "Exhibitions" expense in the respective Statement of Activities.

**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 20 years for leasehold improvements. Significant additions and improvements that extend an asset's original useful life or enhance its future service potential are capitalized. Leased equipment is capitalized if the terms of the lease transfer substantially all of the economic benefits and risks associated with the use of the equipment to FAM. Normal repairs and maintenance are charged to expense as incurred. Property and equipment is reported net of accumulated depreciation and amortization in the Statement of Financial Position. (Refer to Notes F, G, and H for additional information.)

**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 Statement of Functional Expenses, and the unexpired portion of the asset is reported as a component of property and equipment in the Statement of Financial Position. (Refer to Note F for additional information regarding FAM's recognition in 1998 of a building lease contributed by MDHA.)

**Endowment:** Upon agreeing to accept a donor's restricted contribution to provide ongoing support for a particular activity or program, FAM will establish an "endowment" using the contributed proceeds. Once established, FAM will oversee 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 initially 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. (Refer to Note I for additional information.)

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**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 deaccess the sculpture, it would be donated to another not-for-profit arts institution. Management has adopted a non-capitalization accounting policy in regard to the valuation and reporting of collected art objects. In accordance with U.S. GAAP, a line item caption for the donated collection item is presented in the Statements of Financial Position, however, no value has been assigned or reported for this item since it was received in 2013.

**Gift-in-Kind Contributions:** The estimated fair value of "gift-in-kind" contributions recognized by FAM during the years ended December 31, 2018 and 2017, totaled \$86,984 and \$165,807, respectively. These contributions consist of various goods, services, and indemnity coverage that were utilized by FAM and expensed in its operations during the respective year, except for \$18,935 of indemnity coverage and \$4,000 of travel vouchers that are included as a component of prepaid expenses at December 31, 2017.

**Donated Services:** In accordance with U.S. GAAP, donated services are recognized as support (along with a corresponding asset or expense) when such services create or enhance a non-financial asset (e.g., property or equipment), or such services require specialized skills that would typically need to be purchased by the organization had they not been donated. During the years ended December 31, 2018 and 2017, FAM recognized \$52,030 and \$52,994 for donated services, which includes donated entertainment performances and other professional 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, 2018 and 2017, volunteer hours totaled approximately 25,200 and 24,500, respectively. However, in accordance with U.S. GAAP, the estimated fair value of these volunteer services has not been reflected in the accompanying financial statements.

**Membership Dues:** FAM offers various levels of basic and contributing memberships to its patrons. The portion of each member's dues that represents the value of membership benefits provided by 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 (\$402,511 and \$372,309 at December 31, 2018 and 2017, respectively) is reported as a component of "Deferred revenue" in the Statement of Financial Position. The portion of a member's dues that represents a contribution is recognized as contribution support upon receipt. The support and revenue portions of membership dues in the reporting period are combined and presented, net of any portion representing unearned revenue, in the Statement of Activities.



# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**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.

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, 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 departmental 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.

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

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

In accordance with U.S. GAAP, management routinely evaluates FAM's federal and state income tax and regulatory filing positions to identify uncertain tax positions for consideration of whether to record an estimated liability or disclose a potential liability, including applicable interest and penalties. Management has not identified any material uncertain tax positions that require financial statement recognition as of December 31, 2018 or 2017. FAM's federal and state income tax and regulatory filings are subject to examination by the applicable taxing or regulatory authority generally for a period of three years after a return is filed. As of December 31, 2018, management considers FAM's open tax years to include the returns filed for 2015, 2016, and 2017, as well as the returns that will be filed for 2018.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

**Advertising Costs:** FAM expenses all advertising costs as incurred. During the years ended December 31, 2018 and 2017, advertising costs totaled approximately \$476,000 and \$417,000, respectively.

### NOTE B -- AVAILABLE RESOURCES AND LIQUIDITY

As of December 31, 2018, financial assets expected to be available to fund general expenditures during the following year (i.e., reasonably liquid assets without donor or other restrictions limiting their use), are comprised of the following:

Cash and equivalents	\$ 2,059,933
Accounts receivable	39,673
Contributions receivable	453,586
Funds deposited with Frist Art Museum Foundation for investment	<u>2,290,510</u>
Total	<u>\$ 4,843,702</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, projections of cash needs, and adjustment of planned expenditures as necessary. As described in Notes E and O, 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. Coupled with its on-going fund-raising efforts and historical giving trends, FAM anticipates that it will collect sufficient support and revenue to fund operations.

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

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

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE D -- CONTRIBUTIONS RECEIVABLE

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

Contributions receivable recognized by FAM are summarized as follows:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Without Donor Restrictions	\$ 81,386	\$ 16,625
With Donor Restrictions	<u>372,200</u>	<u>275,400</u>
Contributions Receivable	<u>\$ 453,586</u>	<u>\$ 292,025</u>

All contributions receivable as of December 31, 2018, are scheduled to be received in 2019.

During the years ended December 31, 2018 and 2017, installment payments were generally received as scheduled. Accordingly, management deemed recognition of an allowance for possible uncollectible amounts receivable to be unnecessary at both December 31, 2018 and 2017.

### NOTE E -- 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, 2018 and 2017, support provided by the Foundation totaled \$1,520,450 and \$1,495,617, respectively, which represents an assumed annual return of 4% of its average monthly portfolio value for the prior 3-year period. There were no outstanding grant requests at December 31, 2018; 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

December 31, 2018 and 2017

**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 appreciation or depreciation in fair value of the specified investments held in the Foundation's investment portfolio. Generally, FAM funds on deposit are repayable by the Foundation within 30 to 60 days after receiving FAM's withdrawal request.

During 2017, management recorded estimated appreciation of \$273,827, which increased the estimated fair value of FAM's cumulative amount on deposit to \$2,349,155 at December 31, 2017. During 2018, management recorded estimated depreciation of (\$58,645), which decreased the estimated fair value of FAM's cumulative amount on deposit to \$2,290,510 at December 31, 2018.

**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. During each of the years ended December 31, 2018 and 2017, FAM identified and transferred \$25,000 of applicable donor contributions to the Foundation.

### NOTE F -- 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

December 31, 2018 and 2017

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 G for information regarding rent expense recognized during the years ended December 31, 2018 and 2017.)

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

December 31, 2018 and 2017

### NOTE G -- PROPERTY AND EQUIPMENT

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
<b><u>Contributed Assets</u></b>		
Without Donor Restrictions		
Land -- redevelopment project	\$ 152,411	\$ 152,411
With Donor Restrictions (Note J)		
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>(13,024,986)</u>	<u>(12,313,782)</u>
Total With Donor Restrictions	<u>6,875,014</u>	<u>7,586,218</u>
<b>Total Contributed Assets</b>	<b><u>7,027,425</u></b>	<b><u>7,738,629</u></b>
<b><u>Purchased Assets – Without Donor Restrictions</u></b>		
Land -- redevelopment project	2,557,964	2,557,964
Land improvements -- redevelopment project	1,876,794	1,876,794
Furniture and equipment, including computers, software, and capital lease equipment	3,865,973	3,615,074
Leasehold improvements	12,860,146	11,061,285
Deposits and work in progress	<u>28,650</u>	<u>330,555</u>
	21,189,527	19,441,672
Less: Accumulated depreciation and amortization	<u>(11,152,111)</u>	<u>(10,672,550)</u>
<b>Total Purchased Assets</b>	<b><u>10,037,416</u></b>	<b><u>8,769,122</u></b>
<b>TOTAL PROPERTY AND EQUIPMENT, net</b>	<b><u>\$ 17,064,841</u></b>	<b><u>\$ 16,507,751</u></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, 2018 and 2017. Depreciation and amortization expense for all other assets during these years totaled \$630,552 and 593,466, respectively.

During 2018 and 2017, FAM disposed of obsolete tangible and intangible assets that were no longer in service, for which the original cost basis totaled of \$165,026 and \$87,383, respectively. Most of these assets were either fully depreciated or amortized, resulting in a loss of \$14,035 and \$0 on the disposals in the respective year. Original cost basis totals by major asset category are summarized as follows for 2018 and 2017, respectively: technology equipment and software licenses -- \$0 and \$44,996; furniture and equipment -- \$13,450 and \$42,387; and leasehold and land improvements -- \$151,576 and \$0.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE H -- CAPITALIZED EQUIPMENT LEASE

Effective October 1, 2017, FAM entered into a five-year lease with a commercial vendor for certain printer and copier equipment. Management determined that this lease met the criteria for recognition as a "capital lease". Accordingly, management capitalized the office equipment as a component of property and equipment and also recorded a corresponding liability for the "capital lease obligation" payable over the lease term.

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%, which represented FAM's incremental borrowing rate at inception of the lease. During the years ended December 31, 2018 and 2017, interest expense associated with this lease obligation totaled \$3,665 and \$1,039, and amortization expense related to the capitalized equipment totaled \$16,782 and \$4,195, respectively.

At December 31, 2018 and 2017, accumulated amortization totaled \$20,977 and \$4,195, respectively. At December 31, 2018, the future minimum lease payments under the capital lease are summarized as follows:

Future Minimum Lease Payments	
2019	\$ 14,205
2020	18,942
2021	18,942
2022	<u>14,206</u>
Total minimum lease payments	\$ 66,295
Less: Amount representing interest	<u>(6,093)</u>
Present value of net minimum lease payments	<u>\$ 60,202</u>

### NOTE I -- 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 E).

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

A summary of activity during the years ended December 31, 2018 and 2017, is as follows:

	<u>With Donor Restrictions</u>		<u>Total</u>
	<u>Purpose Restriction</u>	<u>Perpetuity Restriction</u>	
Endowment Asset at December 31, 2016	\$ 0	\$ 199,600	\$ 199,600
Investment income	26,335	0	26,335
Amount withdrawn to fund expenditures by FAM to support the CAP Gallery	<u>(26,335)</u>	<u>0</u>	<u>(26,335)</u>
Endowment Asset at December 31, 2017	0	199,600	199,600
Net depreciation in fair value	<u>0</u>	<u>(4,660)</u>	<u>(4,660)</u>
Endowment Asset at December 31, 2018	<u>\$ 0</u>	<u>\$ 194,940</u>	<u>\$ 194,940</u>

Due to the depreciation in fair value of investments during 2018, the fair value of the donor-restricted endowment funds was less than the amount of the original gift by \$4,660.



# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE J -- NET ASSETS WITH DONOR RESTRICTIONS

Activity involving net assets with donor restrictions during the current and prior years is summarized below and on the following page:

	Year Ended December 31, 2018			
	December 31, 2017	Additions	Release of Restrictions	December 31, 2018
<b>Donor Restrictions:</b>				
<u>Subject to passage of time:</u>				
Contributions receivable	\$ 275,400	\$ 715,000	\$ (618,200)	\$ 372,200
Building lease contributed by MDHA, including MDHA's renovations and improvements	<u>7,586,218</u>	<u>0</u>	<u>(711,204)</u>	<u>6,875,014</u>
Total Time Restricted	<u>7,861,618</u>	<u>715,000</u>	<u>(1,329,404)</u>	<u>7,247,214</u>
<u>Subject to expenditure for specified purpose:</u>				
Cash proceeds from contributions designated for specific purposes	1,479,841	2,207,762	(2,395,176)	1,292,427
Investment income withdrawn from endowment	0	0	0	0
Net assets converted from passage of time restriction to specific purpose restriction	<u>0</u>	<u>(34,000)</u>	<u>34,000</u>	<u>0</u>
Total Purpose Restricted	<u>1,479,841</u>	<u>2,173,762</u>	<u>(2,361,176)</u>	<u>1,292,427</u>
<u>Perpetuity restriction:</u>				
Endowment for support of CAP gallery (Note I)	199,600	0	0	199,600
Net depreciation in fair value	<u>0</u>	<u>(4,660)</u>	<u>0</u>	<u>(4,660)</u>
Total Perpetuity Restricted	<u>199,600</u>	<u>(4,660)</u>	<u>0</u>	<u>194,940</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>\$ 9,541,059</u>	<u>\$ 2,884,102</u>	<u>\$ (3,690,580)</u>	<u>\$ 8,734,581</u>

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

	Year Ended December 31, 2017			
	December 31, 2016	Additions	Release of Restrictions	December 31, 2017
<b>Donor Restrictions:</b>				
<u>Subject to passage of time:</u>				
Contributions receivable	\$ 403,063	\$ 586,000	\$ (713,663)	\$ 275,400
Building lease contributed by MDHA, including MDHA's renovations and improvements	8,297,422	0	(711,204)	7,586,218
Total Time Restricted	<u>8,700,485</u>	<u>586,000</u>	<u>(1,424,867)</u>	<u>7,861,618</u>
<u>Subject to expenditure for specified purpose:</u>				
Cash proceeds from contributions designated for specific purposes	648,132	1,660,188	(828,479)	1,479,841
Investment income withdrawn from endowment	0	26,335	(26,335)	0
Net assets converted from passage of time restriction to specific purpose restriction	0	(237,368)	237,368	0
Total Purpose Restricted	<u>648,132</u>	<u>1,449,155</u>	<u>(617,446)</u>	<u>1,479,841</u>
<u>Perpetuity restriction:</u>				
Endowment for support of CAP gallery (Note I)	199,600	0	0	199,600
Net depreciation in fair value	0	0	0	0
Total Perpetuity Restricted	<u>199,600</u>	<u>0</u>	<u>0</u>	<u>199,600</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>\$ 9,548,217</u>	<u>\$ 2,035,155</u>	<u>\$ (2,042,313)</u>	<u>\$ 9,541,059</u>

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE K -- 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 5% of eligible compensation.

Contributions to the plan totaled \$169,292 and \$168,121 for the years ended December 31, 2018 and 2017, respectively. Discretionary employer contributions are permitted under the plan; however, no such contributions were made during the years ended December 31, 2018 and 2017.

### NOTE L -- SPECIAL EVENT REVENUE

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

	Year Ended December 31	
	2018	2017
<b>Special Event</b>		
2017 Gala (Total event revenue \$ 1,027,907 including \$396,979 received in 2016)	\$ 0	\$ 630,928
2018 Gala (Total event revenue \$ 1,029,523)	582,717	446,806
2019 Gala (Event revenue to-date \$ 446,400)	<u>446,400</u>	<u>0</u>
GROSS REVENUE (Before Expenses)	<u>\$ 1,029,117</u>	<u>\$ 1,077,734</u>

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

Since its inception, FAM has obtained various legal services from an attorney and the law firm of which he is a member, while the attorney served as FAM's corporate Secretary. These services and the related professional fees incurred (approximately \$25,500 and \$25,800 during the years ended December 31, 2018 and 2017, respectively) have been subjected to FAM's approval control policies and payment procedures that are applicable to unrelated service providers.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

FAM offers various amenities and services that are designed to enhance the convenience of its members and patrons while they are visiting the museum. Examples of amenities and services include an on-site café, catering services, venue rentals, and on-site parking. The venue rental activity provides private groups with meeting rooms, catering services, and admission to the exhibition galleries during and after regular business hours. Operating revenue from venue rentals for the years ended December 31, 2018 and 2017, is net of approximately \$46,000 and \$54,000, respectively, of admissions revenue generated during venue rental activities.

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

	Café and Catering	Venue Rentals	Parking	Total
<b>Year Ended December 31, 2018</b>				
<b>Other Operating Revenue</b>	\$ 514,387	\$ 316,945	\$ 331,673	<b>\$ 1,163,005</b>
Direct Operating Expenses				
Labor costs	(325,126)	(52,814)	0	(377,940)
Cost of sales	(167,304)	(142,925)	0	(310,229)
Other direct expenses	(94,528)	(4,367)	(24,245)	(123,140)
Total Direct Operating Expenses	<u>(586,958)</u>	<u>(200,106)</u>	<u>(24,245)</u>	<u>(811,309)</u>
Operating Income (Loss) before Depreciation and Allocated Indirect Expenses	(72,571)	116,839	307,428	351,696
Depreciation expense	(10,407)	0	(10,165)	(20,572)
Allocated indirect expenses	<u>(121,498)</u>	<u>(40,097)</u>	<u>(16,003)</u>	<u>(177,598)</u>
Total Depreciation and Allocated Indirect Expenses	<u>(131,905)</u>	<u>(40,097)</u>	<u>(26,168)</u>	<u>(198,170)</u>
<b>NET OPERATING INCOME (LOSS)</b>	<b><u>\$ (204,476)</u></b>	<b><u>\$ 76,742</u></b>	<b><u>\$ 281,260</u></b>	<b><u>\$ 153,526</u></b>

As presented in the 2018 Statement of Activities, "Other operating expenses" is comprised of the following totals shown above:

Total Direct Operating Expenses	\$ (811,309)
Total Depreciation and Allocated Indirect Expenses	<u>(198,170)</u>
<b>Other Operating Expenses</b>	<b><u>\$ (1,009,479)</u></b>

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

	Café and Catering	Venue Rentals	Parking	Total
<b>Year Ended December 31, 2017</b>				
<b>Other Operating Revenue</b>	\$ 483,874	\$ 234,523	\$ 277,017	\$ <b>995,414</b>
Direct Operating Expenses				
Labor costs	(359,457)	(49,105)	0	(408,562)
Cost of sales	(198,579)	(135,508)	0	(334,087)
Other direct expenses	(83,640)	(3,290)	(22,846)	(109,776)
Total Direct Operating Expenses	<u>(641,676)</u>	<u>(187,903)</u>	<u>(22,846)</u>	<u>(852,425)</u>
Operating Income (Loss) before Depreciation and Allocated Indirect Expenses	(157,802)	46,620	254,171	142,989
Depreciation expense	(10,045)	0	(10,234)	(20,279)
Allocated indirect expenses	<u>(127,367)</u>	<u>(27,678)</u>	<u>(17,932)</u>	<u>(172,977)</u>
Total Depreciation and Allocated Indirect Expenses	<u>(137,412)</u>	<u>(27,678)</u>	<u>(28,166)</u>	<u>(193,256)</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>\$ (295,214)</u>	<u>\$ 18,942</u>	<u>\$ 226,005</u>	<u>\$ (50,267)</u>

As presented in the 2017 Statement of Activities, "Other operating expenses" is comprised of the following totals shown above:

Total Direct Operating Expenses	\$ (852,425)
Total Depreciation and Allocated Indirect Expenses	<u>(193,256)</u>
<b>Other Operating Expenses</b>	<u><b>\$ (1,045,681)</b></u>

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

#### COMMITMENTS

**Exhibition Participation Fees:** In addition to loan fees, exhibition loan agreements typically require that a portion of incidental exhibition costs (i.e., "shared costs") be paid by 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.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

With respect to exhibition loan agreements executed through December 31, 2018, FAM is obligated to make future payments of participation fees as follows:

<u>Calendar Year:</u>	<u>Exhibition Loan Fees</u>	<u>Estimated Shared Costs</u>	<u>Total</u>
2019	\$ 1,030,321	\$ 265,336	\$ 1,295,657
2020	527,079	542,241	1,069,320
2021	50,000	485,741	535,741
2022	0	70,000	70,000
Total	<u>\$ 1,607,400</u>	<u>\$ 1,363,318</u>	<u>\$ 2,970,718</u>

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

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

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

### **CONCENTRATIONS**

**Annual Operating Support from Private Foundation:** Since its inception, 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, 2018 and 2017, totaled \$6,212,205 and \$6,105,000, respectively, which represents 42% and 44%, respectively, 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 is deemed to exist with respect to this private foundation donor.

# FRIST ART MUSEUM

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### NOTE P -- RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which supersedes previous revenue recognition guidance, including industry-specific guidance. The core principle of the new standard is to depict the transfer of goods or services to a customer in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for those goods or services. The guidance in ASU 2014-09 provides for: (1) a five-step analysis of transactions to determine when and how revenue is recognized, (2) capitalization of certain contract costs, (3) consideration of time value of money in the transaction price, (4) estimation of variable consideration to be recognized before contingencies are resolved, and (5) enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. With respect to nonpublic entities, ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early application permitted. FAM expects to adopt the new standard on January 1, 2019. FAM has not yet determined the impact that adoption of ASU 2014-09 will have on its financial statements, however, based on preliminary review, it is not expected to have a material impact.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which requires lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements. The new standard establishes a right-of-use model ("ROU") that requires a lessee to recognize a ROU asset and lease liability on the Statement of Financial Position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the Statement of Activities. With respect to nonpublic entities, ASU 2016-02 is effective for years beginning after December 15, 2019, with early application permitted. A modified retrospective transition approach is required with application of the new standard to all leases existing at the date of initial application. FAM expects to adopt the new standard on January 1, 2020, and use the effective date as the date of initial application. FAM has not yet determined the impact that adoption of ASU 2016-02 will have on its financial statements, however, based on preliminary review, it is not expected to have a material impact.