

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART
FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS
DECEMBER 31, 2018 AND 2017

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cheekwood Botanical Garden
and Museum of Art
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cheekwood Botanical Garden and Museum of Art which comprise 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; this includes 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.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cheekwood Botanical Garden and Museum of Art 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.

Knight CPAs PLLC

Nashville, Tennessee
June 14, 2019

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,642,419	\$ 1,414,334
Promises to give and accounts receivable - operating	837,847	763,629
Inventories	126,958	147,441
Prepaid expenses	360,023	424,068
Restricted cash:		
Endowment	809,808	600,376
Other long-term purposes	2,254,982	3,228,249
Promises to give, net:		
Endowment	4,411,762	5,138,436
Other long-term purposes	5,849,315	7,753,774
Investments - endowment	9,171,917	8,010,043
Property, plant and equipment, net	19,564,485	15,130,948
Collections - Notes 1 and 7	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 45,029,516</u>	<u>\$ 42,611,298</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,162,379	\$ 891,909
Deferred income	<u>512,936</u>	<u>776,530</u>
TOTAL LIABILITIES	<u>1,675,315</u>	<u>1,668,439</u>
NET ASSETS		
Without donor restrictions:		
Undesignated	18,412,536	14,026,729
Board-designated endowment	840,153	1,018,168
Board-designated Swan Ball	<u>1,118,146</u>	<u>923,465</u>
Total without donor restrictions	20,370,835	15,968,362
With donor restrictions	<u>22,983,366</u>	<u>24,974,497</u>
TOTAL NET ASSETS	<u>43,354,201</u>	<u>40,942,859</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,029,516</u>	<u>\$ 42,611,298</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Totals
SUPPORT AND REVENUES			
Contributions	\$ 2,067,466	\$ 3,949,783	\$ 6,017,249
Volunteer fundraising contributions	410,644	50,000	460,644
Government grants	216,500	-	216,500
Contributions and net revenues from special events	2,382,739	350,000	2,732,739
Changes in value of split-interest gifts	-	130,287	130,287
In-kind contributions	367,319	-	367,319
Admission fees	2,549,666	-	2,549,666
Membership dues	1,130,296	-	1,130,296
Educational programs	241,136	-	241,136
Restaurant, catering and gift shop	849,971	-	849,971
Rental event income	675,688	-	675,688
Investment income (loss)	(242,145)	(562,733)	(804,878)
Loss on disposal of property, plant and equipment	(134,353)	-	(134,353)
Miscellaneous income	51,603	150,356	201,959
Net assets released resulting from satisfaction of donor restrictions	6,058,824	(6,058,824)	-
TOTAL SUPPORT AND REVENUE	16,625,354	(1,991,131)	14,634,223
FUNCTIONAL EXPENSES			
Program services	8,975,607	-	8,975,607
Administrative	1,101,582	-	1,101,582
Fundraising	2,145,692	-	2,145,692
TOTAL FUNCTIONAL EXPENSES	12,222,881	-	12,222,881
Provision for uncollectible pledges receivable	-	-	-
CHANGE IN NET ASSETS	4,402,473	(1,991,131)	2,411,342
NET ASSETS - BEGINNING OF YEAR	15,968,362	24,974,497	40,942,859
NET ASSETS - END OF YEAR	\$ 20,370,835	\$ 22,983,366	\$ 43,354,201

See accompanying notes to financial statements.

2017

<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Totals</u>
\$ 1,396,228	\$ 9,225,978	\$ 10,622,206
336,472	50,000	386,472
202,255	-	202,255
1,941,484	-	1,941,484
-	20,644	20,644
386,553	-	386,553
2,805,780	-	2,805,780
1,137,773	-	1,137,773
238,071	-	238,071
1,539,101	-	1,539,101
779,926	-	779,926
321,763	487,550	809,313
(3,623)	-	(3,623)
42,408	254,445	296,853
<u>2,181,872</u>	<u>(2,181,872)</u>	<u>-</u>
<u>13,306,063</u>	<u>7,856,745</u>	<u>21,162,808</u>
9,570,631	-	9,570,631
897,243	-	897,243
<u>1,850,975</u>	<u>-</u>	<u>1,850,975</u>
<u>12,318,849</u>	<u>-</u>	<u>12,318,849</u>
<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
987,214	7,656,745	8,643,959
<u>14,981,148</u>	<u>17,317,752</u>	<u>32,298,900</u>
<u>\$ 15,968,362</u>	<u>\$ 24,974,497</u>	<u>\$ 40,942,859</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Exhibitions and Programs</u>	<u>Restaurant, Rentals and Gift Shops</u>	<u>Total</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 3,060,157	\$ 445,224	\$ 3,505,381	\$ 477,622	\$ 519,575	\$ 4,502,578
Professional fees and contract services	392,487	7,995	400,482	210,967	10,493	621,942
Exhibitions and public programs	1,536,317	40	1,536,357	6,171	-	1,542,528
Special events	-	80,687	80,687	2,250	1,243,533	1,326,470
Communication, advertising and donor cultivation	528,097	20,087	548,184	32,297	209,916	790,397
Utilities	213,286	4,796	218,082	46,119	1,733	265,934
Maintenance and repairs	425,723	2,067	427,790	50,464	-	478,254
Software and equipment	80,655	19,451	100,106	101,656	22,570	224,332
Supplies	75,119	17,265	92,384	9,123	2,446	103,953
Travel and transportation	41,474	1,940	43,414	6,714	72,762	122,890
Insurance	186,137	38,200	224,337	47,033	-	271,370
Interest expense, bank and credit card fees	101,790	44,837	146,627	26,971	9,256	182,854
Miscellaneous	37,440	2,243	39,683	29,404	53,408	122,495
Cost of goods sold	5,279	680,558	685,837	-	-	685,837
Depreciation	814,440	111,816	926,256	54,791	-	981,047
Total	\$ 7,498,401	\$ 1,477,206	\$ 8,975,607	\$ 1,101,582	\$ 2,145,692	\$ 12,222,881

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Exhibitions and Programs</u>	<u>Restaurant, Rentals and Gift Shops</u>	<u>Total</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,815,986	\$ 632,875	\$ 3,448,861	\$ 536,896	\$ 493,051	\$ 4,478,808
Professional fees and contract services	516,369	39,127	555,496	100,611	7,150	663,257
Exhibitions and public programs	1,558,551	10,318	1,568,869	13	-	1,568,882
Special events	2,088	51,422	53,510	-	1,022,786	1,076,296
Communication, advertising and donor cultivation	615,941	19,745	635,686	31,936	220,372	887,994
Utilities	294,491	57,098	351,589	2,313	-	353,902
Maintenance and repairs	437,647	4,135	441,782	12,355	10	454,147
Software and equipment	86,717	33,007	119,724	113,305	10,331	243,360
Supplies	90,889	48,557	139,446	9,490	2,736	151,672
Travel and transportation	34,274	3,768	38,042	4,754	56,904	99,700
Insurance	116,680	10,149	126,829	19,588	-	146,417
Interest expense, bank and credit card fees	101,683	48,259	149,942	23,362	10,505	183,809
Miscellaneous	38,104	16,715	54,819	21,576	6,595	82,990
Cost of goods sold	19,541	955,477	975,018	-	773	975,791
Depreciation	852,773	18,245	871,018	-	-	871,018
Future of Cheekwood	40,000	-	40,000	21,044	19,762	80,806
Total	\$ 7,621,734	\$ 1,948,897	\$ 9,570,631	\$ 897,243	\$ 1,850,975	\$ 12,318,849

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,411,342	\$ 8,643,959
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	981,047	871,018
Contributions restricted or designated for long-term purposes	(4,509,365)	(9,023,819)
Loss on disposal of property, plant and equipment	134,353	3,623
Realized and unrealized losses (gains) on investments	951,442	(692,623)
Decrease (increase) in:		
Pledges and accounts receivable - operating	(74,218)	340,711
Inventories	20,483	(28,913)
Prepaid expenses	64,045	(213,477)
Increase (decrease) in:		
Accounts payable and accrued expenses	270,470	(31,050)
Deferred income	(263,594)	292,715
TOTAL ADJUSTMENTS	(2,425,337)	(8,481,815)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(13,995)	162,144
INVESTING ACTIVITIES		
Purchases of investment securities	(11,661,491)	(11,130,456)
Proceeds from sale of investment securities	9,548,175	9,167,642
Purchase of property, plant and equipment	(5,584,631)	(1,354,191)
Proceeds received in sale of property, plant and equipment	35,694	7,106
NET CASH USED IN INVESTING ACTIVITIES	(7,662,253)	(3,309,899)
FINANCING ACTIVITIES		
Proceeds from contributions restricted or designated for:		
Investment in endowment	2,272,905	1,286,058
Investment in capital improvements	4,717,257	4,133,143
Investment in future art acquisitions	150,336	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,140,498	5,419,201
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(535,750)	2,271,446
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - BEGINNING OF YEAR	5,242,959	2,971,513
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 4,707,209	\$ 5,242,959

(continued on next page)

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

CASH, CASH EQUIVALENTS AND RESTRICTED CASH ARE REPORTED IN THE STATEMENTS
OF FINANCIAL POSITION AS FOLLOWS:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,642,419	\$ 1,414,334
Restricted cash - endowment	809,808	600,376
Restricted cash - other long-term purposes	<u>2,254,982</u>	<u>3,228,249</u>
	<u>\$ 4,707,209</u>	<u>\$ 5,242,959</u>

SUPPLEMENTAL CASH FLOW DISCLOSURE

Interest paid	<u>\$ 20,601</u>	<u>\$ 12,848</u>
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NONCASH INVESTING TRANSACTIONS

Contribution of collection items	<u>\$ 250,000</u>	<u>\$ -</u>
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See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Cheekwood Botanical Garden and Museum of Art ("Cheekwood") is a Tennessee not-for-profit corporation whose mission is to preserve the institution as a historical landmark where beauty and excellence in art and horticulture stimulate the mind and nurture the spirit. Located on the Cheek estate, including the historic residence and 55-acres of botanical gardens, Cheekwood provides historical interpretation, unique art and garden educational experiences for residents of Middle Tennessee and visitors from across the world. Cheekwood's financial statements include the accounts and operations of the Swan Ball. The Swan Ball volunteers administer an annual special event (the "Swan Ball") to benefit Cheekwood.

Basis of Presentation

The financial statements of Cheekwood have been prepared in accordance with U.S generally accepted accounting principles ("GAAP"), which require Cheekwood 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 Cheekwood's management and the Board of Trustees. Cheekwood's Board of Trustees has designated from net assets without donor restrictions, certain net assets for the Swan Ball and for a board-designated endowment.

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 Cheekwood or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

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

Contributions and Support

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Contributed property and equipment are recorded at fair value at the date of the donation. Cheekwood reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service. Contributions intended for construction projects are released from restriction when such funds are spent for construction.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions and Support (continued)

Cheekwood also receives grant revenue from various state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

Revenue Recognition

Membership dues, at differing levels, are generally collected for a one-year period throughout the fiscal year. Dues income is recognized when paid and entitles the member to certain benefits. Memberships are generally not cancelable, and dues collected are non-refundable.

Rental income is derived from rental of the Cheekwood campus primarily for weddings, receptions, and corporate and other events. Other revenues are received for special events, classes and programs, and sponsorships. Revenues received in advance are deferred and recognized in the period the related event or class takes place.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible to cash, with maturities of three months or less from the date of purchase. Cash and cash equivalents held in brokerage accounts are included in investments.

Promises to Give

Unconditional promises to give that are expected to be collected in future years are reported in pledges and accounts receivable and 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 (2.63% in 2018 and 1.55% in 2017). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met. Cheekwood determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions and a review of subsequent collections.

Charitable Remainder Trusts

Cheekwood has remainder interests in, and is the named charitable beneficiary of, certain charitable trusts. A charitable remainder trust is a split-interest agreement in which the charitable beneficiary receives its beneficial interest in the donated assets after the primary beneficiary (life income recipient) has received benefits for a specified time period. At the termination of the agreement, the remaining assets in the trust pass to the charitable beneficiary for its use. A donor restricted contribution and the related receivable are recognized in the period the trust is established based on the fair value of the assets contributed less the present value of the future payments to be made to the donor or other beneficiaries. Beneficial interests in charitable remainder trusts are based on the actuarial life expectancy of the life income recipient using the discount rate in existence at the time of notification by the trustee of Cheekwood's remainder interest. Discount amortization and any revaluations of expected future payments to the donor or other beneficiaries are recognized as periodic adjustments to the receivable. Corresponding changes in the value of split-interest agreements are recognized currently and included in net assets with donor restrictions. (See Note 17.)

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at the quoted market value on the last business day of the reporting period. Net realized and unrealized gains and losses are reflected in the statement of activities.

Inventories

Inventories consist principally of catering supplies and gift shop items and are reported at the lower of cost (first-in, first-out method) or net realizable value.

Property, Plant and Equipment

Land and land improvements, buildings, equipment and furnishings are stated at cost or, if donated, at estimated fair value at the date of donation. Cheekwood capitalizes assets with a cost over \$1,000 and an estimated useful life greater than one year. Depreciation of land improvements, buildings, equipment and furnishings is provided on a straight-line basis over estimated useful lives ranging from five to forty years. Costs of maintenance and repairs are charged to expense. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except trade-ins) or loss is included in operations for the period. Gains on trade-ins are applied to reduce the cost of the new acquisition.

Collections

In accordance with professional standards, Cheekwood has elected that certain objects acquired through purchases and contributions since Cheekwood's inception not be valued in the accompanying statements of financial position. The cost of such objects purchased are reflected as program expenses and treated as decreases in net assets without donor restrictions in the year in which the items are acquired or as decreases in net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Proceeds from the sale of any deaccessioned items are classified as net assets with donor restrictions, to be applied toward future art acquisitions or uses that directly support preservation of the collection. The value of collection items contributed each year by donors is not recorded in the financial statements but is disclosed at estimated fair value as a non-cash activity in the statement of cash flows.

Donated Services

A substantial number of volunteers have donated significant amounts of their time to Cheekwood's program services and fundraising activities; however, no amounts have been reflected in the accompanying financial statements for donated services by volunteers since there is no objective basis by which to measure the value of such services. Donated services that require specialized skills and would be purchased if not provided by the donor are recognized as support and expenses based on the estimated fair value of the services received.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$410,526 and \$463,140 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

Cheekwood is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cheekwood files U.S. Federal Form 990 for organizations exempt from income tax. Cheekwood files U.S. Federal Form 990T, for organizations exempt from income tax with unrelated business income, as well as a State of Tennessee income tax return.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing Cheekwood'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.

Fair Value Measurements

Cheekwood classifies its assets measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs). Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy places the highest priority on unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements). In some cases, a valuation technique used to measure fair value may include inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Money market funds, mutual funds and equity securities are valued at the closing price reported on the active market which they are traded and are classified within Level 1 of the valuation hierarchy.

Beneficial interest in charitable trusts - The measurement of Cheekwood's beneficial interest in charitable trusts is adjusted annually to the present value of the estimated future cash flows. The valuation is based on the fair value of underlying investments on the reporting date and the actuarial life expectancy of the life income recipient using the discount rate (4% and 6%) in existence at the time of notification by the trustee of Cheekwood's interest.

There have been no changes in the methodologies used at December 31, 2018 and 2017.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Cheekwood's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Endowment Funds

Cheekwood has various endowment funds, which include both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Cheekwood's donor-restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

Interpretation of applicable law - The Board of Trustees has interpreted SUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Cheekwood classified as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (continued)

Spending policy - Cheekwood has a policy of appropriating for distribution each year a payout of 4.5% of the moving average, which is based on the rolling quarterly average of the portfolio value over the previous three years.

Investment return objective, risk parameters and strategies - Cheekwood has adopted investment and spending policies to establish asset allocation targets, investment objectives and guidelines and the degree of investment risk the Board deems acceptable.

The primary investment objective of the endowment is to provide long term growth of capital sufficient to meet Cheekwood's current and future spending obligations and to protect the endowment from long term effects of inflation. To achieve its investment objectives, Cheekwood acknowledges that risk tolerance and diversification are overriding guiding principles of its investment policy and that the primary objectives of diversification across uncorrelated asset classes are to enhance long term total return and reducing portfolio volatility.

Cheekwood recognizes that higher returns require an acceptance of higher risk and the potential for higher volatility. Cheekwood is willing to accept a moderate level of volatility, based on the target allocation of the assets, in order to optimize total return within an acceptable risk tolerance. In order to reduce volatility, the assets will be diversified fully across a range of approved asset classes. These include small, medium and large capitalization domestic equities, international equities from emerging and developed markets and fixed income securities.

The asset allocation target is 20% to 70% large cap growth equity, 0% to 10% mid cap and small cap equity, 0% to 15% international and emerging market equity, 20% to 50% fixed income and 0% to 15% non-traditional.

Currently, the majority of endowment monies are held in an investment account. The portion held in cash represents amounts received near year end and transferred to the investment account subsequent to year end.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - expenses related to providing a premiere cultural resource for Tennessee residents and visitors to Middle Tennessee. Cheekwood provides arts, gardens and nature to students of all ages through a significant commitment to educational programming. Cheekwood programs are blended through two distinctive areas:

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

Program Services (continued)

Exhibitions and Programs - Cheekwood provides a wide variety of activities inspired by its extensive indoor and outdoor collections. The Museum of Art, accredited by the American Association of Museums, is housed in the former Cheek residence and named to the National Register of Historic Places. It offers a spectrum of American and European art and decorative arts through its permanent collection, traveling exhibitions, and Carell Woodland Sculpture Trail. Cheekwood encompasses 55 acres of woodland, pastoral and landscaped gardens and is designated as a level IV Arboretum by the Tennessee Urban Forestry Council. The historic gardens designed by Bryant Fleming in 1930, mingle harmoniously with specialized gardens featuring outstanding collections of plants that thrive in this area of the country, including boxwoods, dogwoods, and plants native to the Southeastern United States. These offerings are brought alive regularly through classes, school programs and fieldtrips, lectures, family days and festivals.

Restaurant, Rentals and Gift Shops - Through 2017, the Pineapple Room Restaurant and Gift Shop offered visitors of Cheekwood an oasis to enjoy delicious food and beverages and take away a souvenir of their day's experience. Operations ceased as of December 31, 2017. Subsequent to December 31, 2017, after forty years of service, the Pineapple Room Restaurant and Gift Shop building was demolished, and the equipment used therein was liquidated. The Museum Gift Shop remained open on the grounds in the Cheekwood Mansion during 2018. In August 2018, the new Café 29 and the new Garden Gift Shop opened in the Frist Learning Center. This service area also provides rental and catering facilities to further open Cheekwood to the public through the hosting of events on the grounds.

The Pineapple Room and Gift Shop consisted approximately 7% of unrestricted support and revenue for 2017.

Supporting Services

Administrative - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the organization.

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

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include personnel, which is allocated based on based on time and effort, and utilities, insurance and depreciation, which are allocated primarily based on a location or square footage basis.

Sales Taxes Collected

Sales taxes collected and remitted to governmental authorities are excluded from sales and costs and presented on a net basis in the financial statements.

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.

New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for Cheekwood in 2018, and accordingly, Cheekwood has adjusted the presentation of these financial statements. The ASU has been applied retrospectively to all periods presented.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. Cheekwood elected to early adopt ASU 2016-18 within the accompanying financial statements. ASU 2016-18 was applied using a retrospective transition method.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU 2015-14 is effective for Cheekwood for annual reporting periods beginning after December 15, 2018. Cheekwood is currently evaluating the impact of the adoption of ASU 2015-14 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for Cheekwood for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Cheekwood is currently evaluating the impact of the adoption of this guidance on its financial statements but does not expect the impact to be material.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As Cheekwood is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after June 15, 2018, including interim periods. Cheekwood is currently evaluating the impact of the adoption of this guidance on its financial statements but does not expect the impact to be material.

Events Occurring After Reporting Date

Cheekwood has evaluated events and transactions that occurred between December 31, 2018 and June 14, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made in the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no effect on the results of operations previously reported.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 2 - AVAILABILITY AND LIQUIDITY

Financial assets available for expenditure within one year of the balance sheet date, consist of the following as of December 31, 2018:

Assets available for general expenditure:

Cash and cash equivalents	\$ 1,530,493
Promises to give and accounts receivable - operating	164,420

Assets limited as to use:

Promises to give	97,926
Endowment spending rate distributions	<u>264,896</u>

\$ 2,057,735

Cheekwood has certain assets limited as to use which will be available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included above. The Cheekwood's other donor-restricted assets limited as to use, which are principally for construction or other long-term purposes, are not available for general expenditure and are not included above.

Cheekwood's liquidity management includes structuring its financial assets to be available as its general expenditures and obligations come due. As part of the liquidity management plan, cash in excess of daily requirements is invested in a money market account. Additionally, Cheekwood maintains a \$2,500,000 line-of-credit, as described in Note 8. The line-of-credit is used primarily for cash flow purposes during seasonal periods. As of December 31, 2018, there was no amount outstanding on the line-of-credit; and therefore, the entire credit limit is available to meet liquidity needs in the upcoming period as needed.

Cheekwood also has \$840,153 in Board-designated endowment. Although Cheekwood does not intend to spend from the Board-designated endowment, other than amounts appropriated for general expenditure as part of its annual spending-rate distribution, amounts from the Board-designated endowment could be made available for general expenditure, if needed and approved by the Board.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 3 - FAIR VALUE MEASUREMENTS

The following table sets forth Cheekwood's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31:

	2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Money market funds	\$ 160,133	\$ -	\$ -	\$ 160,133
Mutual funds:				
Equities:				
Large cap	1,472,865	-	-	1,472,865
Small cap	415,627	-	-	415,627
Mid cap	434,361	-	-	434,361
International	1,058,783	-	-	1,058,783
Growth	1,837,089	-	-	1,837,089
Value	484,704	-	-	484,704
Fixed income:				
High yield bond	702,800	-	-	702,800
Corporate bond	1,904,174	-	-	1,904,174
Non-traditional:				
Commodities	203,813	-	-	203,813
Real estate	212,663	-	-	212,663
Equity securities:				
Small cap	284,905	-	-	284,905
	<u>9,171,917</u>	<u>-</u>	<u>-</u>	<u>9,171,917</u>
Beneficial interests in charitable trusts included in pledges and accounts receivable	<u>-</u>	<u>-</u>	<u>575,501</u>	<u>575,501</u>
	<u>\$ 9,171,917</u>	<u>\$ -</u>	<u>\$ 575,501</u>	<u>\$ 9,747,418</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Money market funds	\$ 37,244	\$ -	\$ -	\$ 37,244
Mutual funds:				
Large cap	1,355,812	-	-	1,355,812
Long/short fund	456,615	-	-	456,615
Small cap	944,267	-	-	944,267
Multi-alternative	262,488	-	-	262,488
Intermediate term bond	789,283	-	-	789,283
Value	1,186,804	-	-	1,186,804
Mid cap	456,040	-	-	456,040
Growth	1,163,934	-	-	1,163,934
Equity securities:				
Small cap	249,615			249,615
Bond fund	967,398	-	-	967,398
Value	<u>140,543</u>	<u>-</u>	<u>-</u>	<u>140,543</u>
	8,010,043	-	-	8,010,043
Beneficial interests in charitable trusts included in pledges and accounts receivable	<u>-</u>	<u>-</u>	<u>445,214</u>	<u>445,214</u>
	<u><u>\$ 8,010,043</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 445,214</u></u>	<u><u>\$ 8,455,257</u></u>

A summary of the changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
<u>Beneficial interests in charitable trusts</u>		
Balance, beginning of year	\$ 445,214	\$ 424,570
Change in value of beneficial interests	<u>130,287</u>	<u>20,644</u>
Balance, end of year	<u><u>\$ 575,501</u></u>	<u><u>\$ 445,214</u></u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 4 - INVESTMENTS

The investments consisted of the following as of December 31:

	2018		
	Cost	Unrealized Gain (Loss), net	Fair Value
Investments:			
Money market funds	\$ 160,133	\$ -	\$ 160,133
Equity securities	352,661	(67,756)	284,905
Mutual funds	9,683,884	(957,005)	8,726,879
	<u>\$ 10,196,678</u>	<u>\$ (1,024,761)</u>	<u>\$ 9,171,917</u>
	2017		
	Cost	Unrealized Gain (Loss), net	Fair Value
Investments:			
Money market funds	\$ 37,244	\$ -	\$ 37,244
Equity securities	1,328,735	28,821	1,357,556
Mutual funds	6,342,850	272,393	6,615,243
	<u>\$ 7,708,829</u>	<u>\$ 301,214</u>	<u>\$ 8,010,043</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 5 - PROMISES TO GIVE AND ACCOUNTS RECEIVABLE

Promises to give and accounts receivable consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Promises to give - operating	\$ 152,645	\$ 152,992
Other receivables:		
Beneficial interests in charitable trusts	575,501	445,214
Rental and catering clients	27,310	76,058
Grants	36,250	4,950
Other	<u>46,141</u>	<u>84,415</u>
Total promises to give and accounts receivables - operating	<u>\$ 837,847</u>	<u>\$ 763,629</u>

	<u>2018</u>	<u>2017</u>
Promises to give:		
Operating	\$ 152,645	\$ 152,992
Endowment	4,411,762	5,138,436
Other long-term purposes	<u>5,849,315</u>	<u>7,753,774</u>
Total promises to give, net	<u>\$ 10,413,722</u>	<u>\$ 13,045,202</u>

Total promises to give were due as follows at December 31:

	<u>2018</u>	<u>2017</u>
In less than one year	\$ 6,154,899	\$ 5,343,204
In one to five years	<u>4,633,967</u>	<u>8,136,360</u>
	10,788,866	13,479,564
Less: Allowance for doubtful accounts	(200,000)	(200,000)
Less: Discount to present value	<u>(175,144)</u>	<u>(234,362)</u>
	<u>\$ 10,413,722</u>	<u>\$ 13,045,202</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018 AND 2017

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,570,000	\$ 1,570,000
Land improvements	6,910,487	6,666,870
Buildings	22,315,351	18,504,668
Equipment and furnishings	3,323,947	2,787,954
Construction in progress	<u>1,141,658</u>	<u>635,543</u>
	35,261,443	30,165,035
Less accumulated depreciation	<u>15,696,958</u>	<u>15,034,087</u>
	<u>\$ 19,564,485</u>	<u>\$ 15,130,948</u>

Construction in progress as of December 31, 2018 is related to the Bracken Foundation Children's Garden, redevelopment of the Carell Woodland Sculpture Trail and enhancements of the Blevins Japanese Garden. The projects are expected to be completed by April 2020, with an estimated cost to complete of approximately \$8,400,000.

NOTE 7 - COLLECTIONS

The collections at Cheekwood consist of a wide range of media from different periods and cultures, with special emphasis on American art from the 18th through the 20th centuries, American and English Silver, Worcester porcelain, and contemporary outdoor sculpture. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sale to be used to acquire other items for collections or uses that directly support preservation of the collection. There were sales of \$150,356 and \$254,445 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 - LINE OF CREDIT

Cheekwood has a \$2,500,000 line of credit with a financial institution requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate (effective rate of 4.35% at December 31, 2018). The terms of the note require all unpaid principal and interest to be paid on September 21, 2020. This line is collateralized by Cheekwood's endowment investment assets held with the financial institution. There was no balance outstanding under this line at December 31, 2018 or 2017.

Interest expense for the year ended December 31, 2018 was \$20,601 (\$12,848 for 2017).