

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2016 AND 2015

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2016 and 2015, 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, 2016 and 2015, 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.

Kraft CPAs PLLC

Nashville, Tennessee
June 14, 2017

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 894,050	\$ 1,374,772
Pledges and accounts receivable - operating	896,592	802,825
Inventories	118,528	77,105
Prepaid expenses	210,591	241,380
Restricted cash:		
Endowment	274,378	147,173
Other long-term purposes	1,803,085	574,847
Pledges receivable:		
Endowment	4,876,871	587,862
Other long-term purposes	4,618,469	1,122,405
Investments - endowment	5,354,606	4,862,847
Property, plant and equipment, net	14,658,504	13,988,181
Collections - Notes 1 and 6	-	-
TOTAL ASSETS	<u>\$ 33,705,674</u>	<u>\$ 23,779,397</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 922,959	\$ 1,065,749
Line of credit	-	1,006,001
Deferred income	483,815	429,156
TOTAL LIABILITIES	<u>1,406,774</u>	<u>2,500,906</u>
NET ASSETS		
Unrestricted - undesignated	13,213,514	11,911,484
Unrestricted - Board-designated for future operations	900,000	-
Unrestricted - Board-designated endowment	716,412	668,294
Unrestricted - Board-designated Swan Ball	151,222	989,401
Total unrestricted	14,981,148	13,569,179
Temporarily restricted	7,807,203	2,944,581
Permanently restricted	9,510,549	4,764,731
TOTAL NET ASSETS	<u>32,298,900</u>	<u>21,278,491</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,705,674</u>	<u>\$ 23,779,397</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUES				
Contributions	\$ 1,321,007	\$ 5,698,581	\$ 4,695,818	\$ 11,715,406
Volunteer fundraising contributions	362,109	-	50,000	412,109
Government grants	183,683	-	-	183,683
Contributions and net revenues from special events	2,151,702	-	-	2,151,702
Changes in value of split-interest gifts	-	7,312	-	7,312
In-kind contributions	210,158	-	-	210,158
Donated property	1,050,000	-	-	1,050,000
Admission fees	2,267,322	-	-	2,267,322
Membership dues	1,065,516	-	-	1,065,516
Educational programs	231,566	-	-	231,566
Restaurant, catering and gift shop	1,336,659	-	-	1,336,659
Rental event income	788,339	-	-	788,339
Investment income (loss)	152,550	202,691	-	355,241
Loss on disposal of property, plant and equipment	-	-	-	-
Gain on sale leaseback	115,982	-	-	115,982
Miscellaneous income	449,669	-	-	449,669
Net assets released resulting from satisfaction of donor restrictions	1,045,962	(1,045,962)	-	-
TOTAL SUPPORT AND REVENUE	<u>12,732,224</u>	<u>4,862,622</u>	<u>4,745,818</u>	<u>22,340,664</u>
FUNCTIONAL EXPENSES				
Program services	8,641,846	-	-	8,641,846
Administrative	864,535	-	-	864,535
Fundraising	1,813,874	-	-	1,813,874
TOTAL FUNCTIONAL EXPENSES	<u>11,320,255</u>	<u>-</u>	<u>-</u>	<u>11,320,255</u>
CHANGE IN NET ASSETS	1,411,969	4,862,622	4,745,818	11,020,409
NET ASSETS - BEGINNING OF YEAR	<u>13,569,179</u>	<u>2,944,581</u>	<u>4,764,731</u>	<u>21,278,491</u>
NET ASSETS - END OF YEAR	<u>\$ 14,981,148</u>	<u>\$ 7,807,203</u>	<u>\$ 9,510,549</u>	<u>\$ 32,298,900</u>

See accompanying notes to financial statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
\$ 1,439,115	\$ 1,273,659	\$ 617,584	\$ 3,330,358
404,847	-	100,000	504,847
228,592	-	-	228,592
1,875,804	-	-	1,875,804
-	(35,025)	-	(35,025)
116,492	-	-	116,492
-	-	-	-
1,911,421	-	-	1,911,421
872,763	-	-	872,763
247,658	-	-	247,658
1,244,822	-	-	1,244,822
763,331	-	-	763,331
(425)	(2,179)	-	(2,604)
(2,073)	-	-	(2,073)
56,933	-	-	56,933
49,359	-	-	49,359
<u>1,642,038</u>	<u>(1,642,038)</u>	<u>-</u>	<u>-</u>
<u>10,850,677</u>	<u>(405,583)</u>	<u>717,584</u>	<u>11,162,678</u>
8,665,970	-	-	8,665,970
715,851	-	-	715,851
<u>1,660,371</u>	<u>-</u>	<u>-</u>	<u>1,660,371</u>
<u>11,042,192</u>	<u>-</u>	<u>-</u>	<u>11,042,192</u>
(191,515)	(405,583)	717,584	120,486
<u>13,760,694</u>	<u>3,350,164</u>	<u>4,047,147</u>	<u>21,158,005</u>
<u>\$ 13,569,179</u>	<u>\$ 2,944,581</u>	<u>\$ 4,764,731</u>	<u>\$ 21,278,491</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 11,020,409	\$ 120,486
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	831,265	757,531
Contributions restricted or designated for long-term purposes	(9,874,017)	(1,778,384)
Loss on disposal of property, plant and equipment, net	-	2,073
Gain on sale leaseback	(115,982)	(56,933)
Realized and unrealized (gains) losses on investments	(269,296)	76,738
Donation of in-kind property, plant and equipment	(1,119,879)	-
Decrease (increase) in:		
Pledges and accounts receivable - operating	(93,767)	554,659
Inventories	(41,423)	(782)
Prepaid expenses	30,789	(80,414)
Increase (decrease) in:		
Accounts payable and accrued expenses	(98,436)	773,291
Deferred income	<u>170,641</u>	<u>(83,678)</u>
TOTAL ADJUSTMENTS	<u>(10,580,105)</u>	<u>164,101</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>440,304</u>	<u>284,587</u>
INVESTING ACTIVITIES		
Increase in restricted cash	(1,355,443)	(325,171)
Purchases of investment securities	(6,129,187)	(1,303,009)
Proceeds from sale of investment securities	5,906,724	1,375,866
Purchase of property, plant and equipment	(482,413)	(454,514)
Proceeds received in exchange of property, plant and equipment	<u>56,351</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,003,968)</u>	<u>(706,828)</u>
FINANCING ACTIVITIES		
Proceeds from contributions restricted or designated for:		
Investment in permanently restricted net assets	458,212	129,722
Investment in capital improvements	1,630,731	438,395
Net payments on line of credit	<u>(1,006,001)</u>	<u>(1,009,092)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>1,082,942</u>	<u>(440,975)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(480,722)	(863,216)
CASH - BEGINNING OF YEAR	<u>1,374,772</u>	<u>2,237,988</u>
CASH - END OF YEAR	<u>\$ 894,050</u>	<u>\$ 1,374,772</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	<u>\$ 28,575</u>	<u>\$ 33,384</u>
NONCASH OPERATING TRANSACTIONS		
Accrual relieved for chiller exchange	<u>\$ 44,354</u>	<u>\$ -</u>
NONCASH INVESTING TRANSACTIONS		
Contribution of collection items	<u>\$ 237,800</u>	<u>\$ 24,500</u>
Value of new chiller received in exchange	<u>\$ 83,284</u>	<u>\$ -</u>
See accompanying notes to financial statements.		

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Exhibitions and Programs</u>	<u>Restaurant and Gift Shops</u>	<u>Total</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,625,614	\$ 618,951	\$ 3,244,565	\$ 435,237	\$ 479,202	\$ 4,159,004
Professional fees and contract services	103,472	11,347	114,819	88,144	7,536	210,499
Exhibitions and public programs	1,561,073	662	1,561,735	92	202	1,562,029
Special events	35,014	5,992	41,006	-	1,104,964	1,145,970
Communication, advertising and donor cultivation	453,419	37,147	490,566	24,947	197,539	713,052
Utilities	321,694	52,190	373,884	613	-	374,497
Maintenance and repairs	522,229	12,585	534,814	4,184	-	538,998
Software and equipment	68,828	17,540	86,368	115,775	6,319	208,462
Supplies	82,160	37,144	119,304	8,486	1,257	129,047
Travel	39,183	3,106	42,289	4,689	2,654	49,632
Insurance	127,405	11,208	138,613	20,642	-	159,255
Interest expense and bank fees	92,703	29,941	122,644	43,102	6,909	172,655
Miscellaneous	30,740	18,227	48,967	18,081	3,839	70,887
Cost of goods sold	983	881,127	882,110	-	3,453	885,563
Depreciation	805,529	24,633	830,162	1,103	-	831,265
Future of Cheekwood	10,000	-	10,000	99,440	-	109,440
Total	<u>\$ 6,880,046</u>	<u>\$ 1,761,800</u>	<u>\$ 8,641,846</u>	<u>\$ 864,535</u>	<u>\$ 1,813,874</u>	<u>\$ 11,320,255</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Exhibitions and Programs</u>	<u>Restaurant and Gift Shops</u>	<u>Total</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,620,370	\$ 686,731	\$ 3,307,101	\$ 376,116	\$ 390,013	\$ 4,073,230
Professional fees and contract services	197,717	17,261	214,978	84,985	32,452	332,415
Exhibitions and public programs	1,598,596	-	1,598,596	-	-	1,598,596
Special events	26,119	-	26,119	-	1,063,275	1,089,394
Communication, advertising and donor cultivation	551,226	10,596	561,822	29,436	142,802	734,060
Utilities	256,215	45,249	301,464	2,090	-	303,554
Maintenance and repairs	457,735	5,901	463,636	894	533	465,063
Equipment	102,897	31,932	134,829	110,192	7,065	252,086
Supplies	102,297	59,050	161,347	8,948	1,449	171,744
Travel	67,191	152	67,343	14,523	572	82,438
Insurance	114,908	9,130	124,038	19,790	-	143,828
Interest expense and bank fees	61,542	28,788	90,330	41,344	7,711	139,385
Miscellaneous	20,878	29,576	50,454	16,218	9,859	76,531
Bad debt expense	-	-	-	-	4,060	4,060
Cost of goods sold	126	802,621	802,747	-	580	803,327
Depreciation	725,258	32,273	757,531	-	-	757,531
Future of Cheekwood	3,635	-	3,635	11,315	-	14,950
	<u>\$ 6,906,710</u>	<u>\$ 1,759,260</u>	<u>\$ 8,665,970</u>	<u>\$ 715,851</u>	<u>\$ 1,660,371</u>	<u>\$ 11,042,192</u>
Total						

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT

DECEMBER 31, 2016 AND 2015

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 in a historic residence and on 55 acres of botanical gardens, the institution provides historical interpretation, unique art and garden educational experiences for residents of Middle Tennessee and visitors from across the world. The 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 accompanying financial statements present the financial position and changes in net assets of Cheekwood on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions (see Notes 8 and 9), as follows:

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction. Cheekwood has classified unrestricted net assets as follows:

Undesignated - Cumulative results from activities which have not been designated by management or the Board of Directors for specific purposes, including land buildings and equipment, net of any related debt.

Board-designated for future operations - Cash from current year Swan Ball designated for use in next year’s operations.

Board-designated endowment - Contributions received with no specific restrictions by donors, but which have been designated by the Board of Directors to function as endowments.

Board-designated Swan Ball - Cumulative results of the Swan Ball designated by the Board of Directors for use by the Swan Ball volunteers to fund Swan Ball activities. Amounts become undesignated and available for use by Cheekwood when funds are transferred from Swan Ball to Cheekwood accounts at the direction of the Swan Ball volunteers and approval from the Board.

Temporarily restricted net assets are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for certain restricted or unrestricted purposes.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor; however, unrestricted contributions may be designated by the Board of Directors. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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.

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.

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 for weddings, receptions, etc. Other revenues are received for special events, classes, sponsorships, etc. Revenues received in advance are deferred and recognized in the period the related event or class takes place.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (1.47% in 2016 and 1.02% in 2015). 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.

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 temporarily 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 temporarily restricted support.

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

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

Land, 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 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 unrestricted net assets in the year in which the items are acquired or as decreases in temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Proceeds from the sale of any deaccessioned items are classified as temporarily restricted net assets, 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.

Advertising costs

Advertising costs are expensed as incurred. Advertising expense amount to \$332,301 and \$392,064 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes

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

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

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.

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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

There have been no changes in the methodologies used at December 31, 2016 and 2015.

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 permanently 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 Directors 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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 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 BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (continued)

Cheekwood recognizes that higher returns require an acceptance of 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, and a small portion is held in cash.

Functional Allocation of Expenses

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:

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 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, lectures, family days and festivals.

Restaurant and Gift Shops - The Pineapple Room Restaurant and Gift Shop offer visitors of Cheekwood an oasis to enjoy delicious food and beverages and take away a souvenir of their day's experience. This service area also provides rental and catering facilities to further open Cheekwood to the public through the hosting of events on the grounds.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Direct expenses are allocated to applicable functional classifications. Indirect expenses are allocated to functional classifications based on objectively determinable factors (e.g. square footage, time, etc.) or reasonable subjective methods determined by management.

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.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 annual reporting periods beginning after December 15, 2018. The adoption of ASU 2015-14 is not expected to have a significant impact on Cheekwood’s financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

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 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 pending adoption of the new standard on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. Cheekwood is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for Cheekwood on January 1, 2019. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Cheekwood is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

Events Occurring After Reporting Date

Cheekwood has evaluated events and transactions that occurred between December 31, 2016 and June 14, 2017, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no effect on the results of operations previously reported.

NOTE 2 - 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:

	2016			
	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	\$ 95,514	\$ -	\$ -	\$ 95,514
Mutual funds:				
Real estate	132,355	-	-	132,355
Large cap	430,177	-	-	430,177
Long/short fund	104,495	-	-	104,495
Small cap	817,433	-	-	817,433
Multi-alternative	107,056	-	-	107,056
Intermediate term bond	1,717,070	-	-	1,717,070
Value	129,416	-	-	129,416
Mid cap	137,105	-	-	137,105
Growth	129,394	-	-	129,394
Equity securities:				
Value	980,263	-	-	980,263
Growth	574,328	-	-	574,328
	<u>5,354,606</u>	-	-	<u>5,354,606</u>
Beneficial interests in charitable trusts included in pledges and accounts receivable	<u>-</u>	<u>-</u>	<u>424,570</u>	<u>424,570</u>
	<u>\$ 5,354,606</u>	<u>\$ -</u>	<u>\$ 424,570</u>	<u>\$ 5,779,176</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2015			
	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	\$ 92,715	\$ -	\$ -	\$ 92,715
Mutual funds:				
Real estate	116,961	-	-	116,961
Large cap	1,665,058	-	-	1,665,058
Long/short fund	83,064	-	-	83,064
Small cap	418,159	-	-	418,159
Multi-alternative	244,913	-	-	244,913
Ultrashort bond	821	-	-	821
High yield bond	452,102	-	-	452,102
Intermediate term bond	98,762	-	-	98,762
World bond	148,989	-	-	148,989
Equity securities:				
Mid cap	251,380	-	-	251,380
Value	467,575	-	-	467,575
Growth	519,982	-	-	519,982
Bond index fund	302,366	-	-	302,366
	4,862,847	-	-	4,862,847
Beneficial interests in charitable trusts included in pledges and accounts receivable	-	-	417,258	417,258
	\$ 4,862,847	\$ -	\$ 417,258	\$ 5,280,105

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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>2016</u>	<u>2015</u>
<u>Beneficial interests in charitable trusts</u>		
Balance, beginning of year	\$ 417,258	\$ 452,283
Change in value of beneficial interests	<u>7,312</u>	<u>(35,025)</u>
Balance, end of year	<u>\$ 424,570</u>	<u>\$ 417,258</u>

NOTE 3 - INVESTMENTS

The investments consist of the following for the years ended December 31:

	<u>2016</u>		
	<u>Cost</u>	<u>Unrealized Gain (Loss), net</u>	<u>Fair Value</u>
Investments:			
Money market funds	\$ 95,514	\$ -	\$ 95,514
Equity securities	1,293,922	260,668	1,554,590
Mutual funds	<u>3,718,918</u>	<u>(14,416)</u>	<u>3,704,502</u>
	<u>\$ 5,108,354</u>	<u>\$ 246,252</u>	<u>\$ 5,354,606</u>
	<u>2015</u>		
	<u>Cost</u>	<u>Unrealized Gain, net</u>	<u>Fair Value</u>
Investments:			
Money market funds	\$ 92,715	\$ -	\$ 92,715
Equity securities	1,364,271	177,032	1,541,303
Mutual funds	<u>2,991,895</u>	<u>236,934</u>	<u>3,228,829</u>
	<u>\$ 4,448,881</u>	<u>\$ 413,966</u>	<u>\$ 4,862,847</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 3 - INVESTMENTS (CONTINUED)

A summary of investment income (loss) follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 85,945	\$ 74,134
Realized gain on investments	437,010	6,279
Unrealized loss on investments	<u>(167,714)</u>	<u>(83,017)</u>
Total investment income (loss)	<u>\$ 355,241</u>	<u>\$ (2,604)</u>

NOTE 4 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges and accounts receivable consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Pledges receivable - operating	\$ 345,499	\$ 260,080
Other receivables:		
Beneficial interests in charitable trusts	424,570	417,258
Rental and catering clients	23,814	26,874
Grants	5,670	72,750
Other	<u>97,039</u>	<u>25,863</u>
Total pledges and accounts receivables - operating	<u>\$ 896,592</u>	<u>\$ 802,825</u>

	<u>2016</u>	<u>2015</u>
Pledges receivable:		
Operating	\$ 345,499	\$ 260,080
Endowment	4,876,871	587,862
Other long-term purposes	<u>4,618,469</u>	<u>1,122,405</u>
Total pledges receivable	<u>\$ 9,840,839</u>	<u>\$ 1,970,347</u>

Total pledges receivable were due as follows at December 31:

	<u>2016</u>	<u>2015</u>
In less than one year	\$ 2,671,606	\$ 784,840
In one to five years	<u>7,376,981</u>	<u>1,209,261</u>
	10,048,587	1,994,101
Less: discount to present value	<u>(207,748)</u>	<u>(23,754)</u>
	<u>\$ 9,840,839</u>	<u>\$ 1,970,347</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 1,570,000	\$ 520,000
Land improvements	212,169	90,000
Buildings	24,288,478	24,261,673
Equipment and furnishings	2,654,732	2,559,436
Construction in progress	<u>176,600</u>	<u>-</u>
	28,901,979	27,431,109
Less accumulated depreciation	<u>14,243,475</u>	<u>13,442,928</u>
	<u>\$ 14,658,504</u>	<u>\$ 13,988,181</u>

During 2012, Cheekwood sold a building and land for \$350,000. Upon the sale of the property, Cheekwood entered into a three year lease agreement with the buyer for one dollar per year, which included a three year renewal option. Under the lease agreement, Cheekwood was responsible for all utilities, maintenance, repairs, insurance and property taxes related to the building. The resulting gain of approximately \$340,000 was accounted for as a sale/leaseback transaction, and was being recognized over the six year lease term. For the year ended December 31, 2015, \$56,933 of the gain was recognized with \$115,982 reported as deferred income at December 31, 2015. During 2016, this property was donated back to Cheekwood. Accordingly, the remaining deferred revenue was recognized as a gain during 2016, in addition to the value of the property received (\$1,050,000).

Construction in progress as of December 31, 2016 is related to the historic mansion restoration. The restoration should be completed in 2017 with an estimated cost to complete of approximately \$322,000.

NOTE 6 - 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 no sales for the years ended December 31, 2016 and 2015.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 7 - LINE OF CREDIT

Cheekwood has a \$2,500,000 line of credit requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate with a minimum of 3.0% (effective rate of 3.0% at December 31, 2016). The terms of the note require all unpaid principal and interest to be paid on October 11, 2018. This line is secured by Cheekwood's investments and certain property. There was no balance outstanding under this line at December 31, 2016 (\$1,006,001 outstanding at December 31, 2015).

Interest expense for the year ended December 31, 2016 was \$28,575 (\$33,384 for 2015).

NOTE 8 - NET ASSETS

Unrestricted net assets consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Unrestricted - undesignated:		
Accumulated deficit from unrestricted operations	\$ (1,451,439)	\$ (2,083,161)
Unexpended balance of cumulative distributions received from Swan Ball	6,449	6,464
Amounts invested in property, plant, and equipment	<u>14,658,504</u>	<u>13,988,181</u>
	13,213,514	11,911,484
Board designated:		
Amounts designated for future operations	900,000	-
Amounts functioning as endowment	716,412	668,294
Amounts designated as Swan Ball	<u>151,222</u>	<u>989,401</u>
	<u>\$ 14,981,148</u>	<u>\$ 13,569,179</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 8 - NET ASSETS (CONTINUED)

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Future years' operations	\$ 275,253	\$ 15,040
Museum of art	244,203	209,479
Artist-in-residency program	54,592	1,241
Botanical garden	285,471	215,909
Sculpture trail	2,000,000	-
Beneficial interests in trusts	424,570	417,258
Future development	4,147	71,514
Future exhibits	165,000	99,989
Historic room restoration and ongoing museum maintenance	952,608	1,285,448
Cheekwood campaign	3,229,359	450,000
Other	<u>172,000</u>	<u>178,703</u>
Total temporarily restricted net assets	<u>\$ 7,807,203</u>	<u>\$ 2,944,581</u>

NOTE 9 - ENDOWMENT

The endowment net asset composition by type of fund was as follows, as of December 31, 2016 and 2015:

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 278,894	\$ 4,633,678	\$ 4,912,572
Board-designated endowment funds	<u>716,412</u>	<u>-</u>	<u>-</u>	<u>716,412</u>
Total	<u>\$ 716,412</u>	<u>\$ 278,894</u>	<u>\$ 4,633,678</u>	<u>\$ 5,628,984</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 9 - ENDOWMENT (CONTINUED)

	2015			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor-restricted endowment funds	\$ -	\$ 165,239	\$ 4,176,487	\$ 4,341,726
Board-designated endowment funds	<u>668,294</u>	<u>-</u>	<u>-</u>	<u>668,294</u>
Total	<u>\$ 668,294</u>	<u>\$ 165,239</u>	<u>\$ 4,176,487</u>	<u>\$ 5,010,020</u>

A summary of changes in endowments follows for the years ended December 31, 2016 and 2015:

	2016			Total
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, January 1, 2016	\$ 668,294	\$ 165,239	\$ 4,176,487	\$ 5,010,020
Interest and dividend income	37,600	48,345	-	85,945
Realized gain on investment	189,769	247,241	-	437,010
Unrealized loss on investment	(74,819)	(92,895)	-	(167,714)
Contributions	-	-	457,191	457,191
Bank fees	(9,951)	(12,733)	-	(22,684)
Appropriation of endowment assets for expenditure	<u>(94,481)</u>	<u>(76,303)</u>	<u>-</u>	<u>(170,784)</u>
Endowment net assets, December 31, 2016	<u>\$ 716,412</u>	<u>\$ 278,894</u>	<u>\$ 4,633,678</u>	<u>\$ 5,628,984</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 9 - ENDOWMENT (CONTINUED)

	<u>2015</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, January 1, 2015	\$ 796,915	\$ 290,729	\$ 4,047,147	\$ 5,134,791
Interest and dividend income	34,163	39,727	-	73,890
Realized gain on investment	2,376	3,903	-	6,279
Unrealized loss on investment	(37,208)	(45,809)	-	(83,017)
Contributions	-	-	129,340	129,340
Bank fees	(10,472)	(12,038)	-	(22,510)
Appropriation of endowment assets for expenditure	<u>(117,480)</u>	<u>(111,273)</u>	<u>-</u>	<u>(228,753)</u>
Endowment net assets, December 31, 2015	<u>\$ 668,294</u>	<u>\$ 165,239</u>	<u>\$ 4,176,487</u>	<u>\$ 5,010,020</u>

NOTE 10 - OPERATING LEASES

Cheekwood leases storage units and a portion of its office equipment under non-cancelable operating leases which expire at various times through August 2021, and require specified minimum rental payments. Also see Note 5 regarding lease of property that was sold during 2012 and donated back to Cheekwood during 2016.

A schedule of future minimum lease commitments under all noncancelable operating leases as of December 31, 2016, follows:

For the year ending December 31,

2017	\$ 36,490
2018	36,860
2019	23,709
2020	21,215
2021	<u>14,143</u>
Total future minimum lease payments	<u>\$ 132,417</u>

Total rental expense incurred under all such agreements amounted to approximately \$45,000 and \$32,000 for the years ended December 31, 2016 and 2015, respectively.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 11 - RETIREMENT PLAN

Cheekwood sponsors a Section 403(b) retirement plan for the benefit of eligible employees. Under the plan, employees may contribute a specified amount or percentage of their annual compensation, not to exceed statutory limits. Cheekwood's contribution equals 100% of the employees' contribution, limited to 5% of their annual compensation. Cheekwood's matching contributions for the years ended December 31, 2016 and 2015 totaled \$74,236 and \$96,677 respectively.

NOTE 12 - AFFILIATED ORGANIZATIONS AND SPECIAL EVENTS

The Horticulture Society of Middle Tennessee (HSMT), Garden Club of Nashville and the Antiques and Garden Show are affiliated but autonomously operating organizations with a primary objective of supporting Cheekwood. Accordingly, these organizations contribute significant portions of their net revenues to Cheekwood annually. Cheekwood is also beneficiary of activities of the Swan Ball, administered by an unincorporated volunteer group. Contributions and revenues from HSMT, Garden Club of Nashville and the Antiques and Garden Show are reported in volunteer fundraising contributions in the period received. No significant direct benefits to donors are applicable to these activities.

Following is a summary of contributions provided by these parties:

	<u>2016</u>	<u>2015</u>
Horticulture Society of Middle Tennessee	\$ 45,000	\$ 30,000
Garden Club of Nashville	79,585	163,250
Antique and Garden Show	<u>284,593</u>	<u>305,062</u>
Contributions from affiliated parties	<u>\$ 409,178</u>	<u>\$ 498,312</u>

Following is a summary of the activity of the Swan Ball for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Contributions	\$ 1,227,814	\$ 1,197,489
Special event revenues	1,294,724	1,106,291
Interest income	2,406	2,131
Direct benefits to donors	<u>(373,242)</u>	<u>(430,107)</u>
Contributions and net revenues from special events	2,151,702	1,875,804
Less fundraising expenses	<u>(1,104,964)</u>	<u>(1,063,275)</u>
	<u>\$ 1,046,738</u>	<u>\$ 812,529</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENT (CONTINUED)

DECEMBER 31, 2016 AND 2015

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains cash at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of December 31, 2016, Cheekwood's depositor accounts exceeded the FDIC insurance limits by approximately \$2,541,000.

At December 31, 2016, the investments were held under custodial care by one brokerage and investment company. These investments are not insured by the FDIC or any other government agency and are subject to investment risk, including loss of principal. The investments are insured by the Securities Investor Protection Corporation ("SIPC"), which insures investor losses attributable to bankruptcy or fraudulent practices of brokerage firms up to \$500,000 (including \$250,000 in cash).

Contributions received from two and one source during the years ended December 31, 2016 and 2015, represented 52% and 13% of total volunteer fundraising and contribution revenue, respectively. At December 31, 2016, pledges receivable from two sources represented 61% total pledges receivable. At December 31, 2015, pledges receivable from three sources represented 61% total pledges receivable.

NOTE 14 - DONOR-DESIGNATED ENDOWMENT FUNDS IN TRUST

Two donors have established donor-designated endowment funds with the Community Foundation of Middle Tennessee for the benefit of the Cheekwood Botanical Garden and Museum of Art. The Community Foundation of Middle Tennessee has the ultimate authority and control over these Funds and, therefore, these investments are not included in the financial statements of Cheekwood. Income distributions from these funds are recognized by Cheekwood in the year received. Such distributions amounted to approximately \$14,100 during the year ended December 31, 2016 (\$15,000 during 2015). Total assets held in these funds amounted to \$273,549 at December 31, 2016 (\$276,674 at December 31, 2015).

NOTE 15 - OTHER MATTERS

Cheekwood occasionally contracts with businesses controlled by or affiliated with members of its Board of Directors, and/or their family members, for outside services in the ordinary course of business, including insurance coverage, banking relationships and occasional other professional services. In management's opinion, the effect of these relationships on the nature and terms of the business arrangements entered into with the providers of these services was not significant.

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

The Board of Directors
Cheekwood Botanical Garden
and Museum of Art
Nashville, Tennessee

We have audited the financial statements of Cheekwood Botanical Garden and Museum of Art ("Cheekwood") as of and for the year ended December 31, 2016 and 2015, and have issued our report thereon dated June 14, 2017, which expressed an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The following statements of financial position of Cheekwood - excluding Swan Ball (a component of Cheekwood) and statements of financial position of Swan Ball (only) as of December 31, 2016 and 2015, and the related statements of activities for the respective components, for the years then ended, are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KraftCPAs PLLC

Nashville, Tennessee
June 14, 2017

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

(EXCLUDING SWAN BALL)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 750,580	\$ 327,530
Pledges and accounts receivable	881,607	802,825
Inventories	117,218	75,795
Prepaid expenses	144,534	151,570
Restricted cash:		
Endowment	274,378	147,173
Other long-term purposes	1,803,085	574,847
Pledges receivable:		
Endowment	4,876,871	587,862
Other long-term purposes	4,618,469	1,122,405
Investments - endowment	5,354,606	4,862,847
Property, plant and equipment, net	14,658,504	13,988,181
Collections - Notes 1 and 6	-	-
TOTAL ASSETS	<u>\$ 33,479,852</u>	<u>\$ 22,641,035</u>

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 922,959	\$ 1,040,983
Line of credit	-	1,006,001
Deferred income	409,215	304,961
TOTAL LIABILITIES	<u>1,332,174</u>	<u>2,351,945</u>
<u>NET ASSETS</u>		
Unrestricted - undesignated	13,213,514	11,911,484
Unrestricted - Board-designated for future operations	900,000	-
Unrestricted - Board-designated endowment	716,412	668,294
Total unrestricted	14,829,926	12,579,778
Temporarily restricted	7,807,203	2,944,581
Permanently restricted	9,510,549	4,764,731
TOTAL NET ASSETS	<u>32,147,678</u>	<u>20,289,090</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,479,852</u>	<u>\$ 22,641,035</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

(EXCLUDING SWAN BALL)

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,321,007	\$ 5,698,581	\$ 4,695,818	\$ 11,715,406
Volunteer fundraising contributions	362,109	-	50,000	412,109
Government grants	183,683	-	-	183,683
Changes in value of split-interest gifts	-	7,312	-	7,312
In-kind contributions	210,158	-	-	210,158
Donated property	1,050,000	-	-	1,050,000
Admission fees	2,267,322	-	-	2,267,322
Membership dues	1,065,516	-	-	1,065,516
Educational programs	231,566	-	-	231,566
Restaurant, catering and gift shop	1,336,659	-	-	1,336,659
Rental event income	788,339	-	-	788,339
Investment income	152,550	202,691	-	355,241
Loss on disposal of property, plant and equipment	-	-	-	-
Gain on sale leaseback	115,982	-	-	115,982
Miscellaneous income	449,669	-	-	449,669
Net assets released resulting from satisfaction of donor restrictions	1,045,962	(1,045,962)	-	-
TOTAL SUPPORT AND REVENUE	<u>10,580,522</u>	<u>4,862,622</u>	<u>4,745,818</u>	<u>20,188,962</u>
FUNCTIONAL EXPENSES				
Program services	8,641,846	-	-	8,641,846
Administrative	864,535	-	-	864,535
Fundraising	708,910	-	-	708,910
TOTAL FUNCTIONAL EXPENSES	<u>10,215,291</u>	<u>-</u>	<u>-</u>	<u>10,215,291</u>
EXCESS OF (EXPENSE OVER SUPPORT AND REVENUE) SUPPORT AND REVENUE OVER EXPENSES	365,231	4,862,622	4,745,818	9,973,671
CONTRIBUTION FROM SWAN BALL	<u>1,884,917</u>	<u>-</u>	<u>-</u>	<u>1,884,917</u>
CHANGE IN NET ASSETS	2,250,148	4,862,622	4,745,818	11,858,588
NET ASSETS - BEGINNING OF YEAR	<u>12,579,778</u>	<u>2,944,581</u>	<u>4,764,731</u>	<u>20,289,090</u>
NET ASSETS - END OF YEAR	<u>\$ 14,829,926</u>	<u>\$ 7,807,203</u>	<u>\$ 9,510,549</u>	<u>\$ 32,147,678</u>

2015

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
\$ 1,439,115	\$ 1,273,659	\$ 617,584	\$ 3,330,358
404,847	-	100,000	504,847
228,592	-	-	228,592
-	(35,025)	-	(35,025)
116,492	-	-	116,492
-	-	-	-
1,911,421	-	-	1,911,421
872,763	-	-	872,763
247,658	-	-	247,658
1,244,822	-	-	1,244,822
763,331	-	-	763,331
(425)	(2,179)	-	(2,604)
(2,073)	-	-	(2,073)
56,933	-	-	56,933
49,359	-	-	49,359
<u>1,642,038</u>	<u>(1,642,038)</u>	<u>-</u>	<u>-</u>
<u>8,974,873</u>	<u>(405,583)</u>	<u>717,584</u>	<u>9,286,874</u>
8,665,970	-	-	8,665,970
715,851	-	-	715,851
<u>597,096</u>	<u>-</u>	<u>-</u>	<u>597,096</u>
<u>9,978,917</u>	<u>-</u>	<u>-</u>	<u>9,978,917</u>
(1,004,044)	(405,583)	717,584	(692,043)
<u>1,100,000</u>	<u>-</u>	<u>-</u>	<u>1,100,000</u>
95,956	(405,583)	717,584	407,957
<u>12,483,822</u>	<u>3,350,164</u>	<u>4,047,147</u>	<u>19,881,133</u>
<u>\$ 12,579,778</u>	<u>\$ 2,944,581</u>	<u>\$ 4,764,731</u>	<u>\$ 20,289,090</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 143,470	\$ 1,047,242
Pledges receivable	14,985	-
Inventories	1,310	1,310
Prepaid expenses	<u>66,057</u>	<u>89,810</u>
TOTAL ASSETS	<u>\$ 225,822</u>	<u>\$ 1,138,362</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ -	\$ 24,766
Deferred income	<u>74,600</u>	<u>124,195</u>
TOTAL LIABILITIES	<u>74,600</u>	<u>148,961</u>
<u>NET ASSETS</u>		
Unrestricted - Board-designated	<u>151,222</u>	<u>989,401</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 225,822</u>	<u>\$ 1,138,362</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CONTRIBUTIONS AND NET REVENUES		
Contributions	\$ 1,227,814	\$ 1,197,489
Revenues from special events	1,294,724	1,106,291
Interest income	2,406	2,131
Less direct benefits to donors	<u>(373,242)</u>	<u>(430,107)</u>
TOTAL CONTRIBUTIONS AND NET REVENUES	2,151,702	1,875,804
TOTAL FUNDRAISING EXPENSES	<u>1,104,964</u>	<u>1,063,275</u>
EXCESS OF CONTRIBUTIONS AND NET REVENUES OVER FUNDRAISING EXPENSES	1,046,738	812,529
CONTRIBUTIONS TO CHEEKWOOD	<u>(1,884,917)</u>	<u>(1,100,000)</u>
CHANGE IN NET ASSETS	(838,179)	(287,471)
NET ASSETS - BEGINNING OF YEAR	<u>989,401</u>	<u>1,276,872</u>
NET ASSETS - END OF YEAR	<u>\$ 151,222</u>	<u>\$ 989,401</u>