

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2009

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
 <u>FINANCIAL STATEMENTS</u>	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses.....	5
Notes to Financial Statements	6 - 22
 <u>ADDITIONAL INFORMATION</u>	
Independent Auditors' Report on Additional Information.....	23
Swan Ball Statement of Financial Position	24
Swan Ball Statement of Activities.....	25

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cheekwood Botanical Garden
and Museum of Art

We have audited the accompanying statement of financial position of Cheekwood Botanical Garden and Museum of Art ("Cheekwood") as of December 31, 2009, and the related statements of activities, cash flows, and functional expenses for the fifteen months then ended. These financial statements are the responsibility of Cheekwood's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, and the changes in its net assets and its cash flows for the fifteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
July 27, 2010

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

ASSETS

Cash and cash equivalents	\$ 1,961,966
Investments - Note 15	3,165,633
Pledges and accounts receivable - Note 3	589,728
Inventories	306,481
Prepaid expenses	182,628
Property, plant and equipment, net - Note 5	17,391,460
Collections - Note 13	<u>-</u>
 TOTAL ASSETS	 <u><u>\$ 23,597,896</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 446,488
Notes payable - Note 11	2,806,299
Unearned revenue	<u>201,746</u>
 TOTAL LIABILITIES	 <u>3,454,533</u>

COMMITMENTS - Note 6

NET ASSETS - Notes 8 and 9

Unrestricted	15,578,126
Temporarily restricted	1,923,447
Permanently restricted	<u>2,641,790</u>
 TOTAL NET ASSETS	 <u>20,143,363</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 23,597,896</u></u>
----------------------------------	-----------------------------

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF ACTIVITIES

FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
Contributions	\$ 519,412	\$ 957,562	\$ 64,794	\$ 1,541,768
Government grants	310,371	-	-	310,371
Contributions and net revenues from special events - Note 4	1,575,664	-	-	1,575,664
Change in value of split-interest gifts	-	(14,082)	-	(14,082)
In-kind contributions	110,878	-	-	110,878
Volunteer fundraising	318,509	-	-	318,509
Admission fees	284,951	-	-	284,951
Membership dues	514,196	-	-	514,196
Educational programs	198,076	-	-	198,076
Restaurant, catering and gift shop	1,284,810	-	-	1,284,810
Rental event income	616,453	-	-	616,453
Investment income - net - Note 2	183,678	82,832	-	266,510
Miscellaneous income	17,494	-	-	17,494
Net assets released resulting from satisfaction of donor restrictions	<u>944,430</u>	<u>(944,430)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>6,878,922</u>	<u>81,882</u>	<u>64,794</u>	<u>7,025,598</u>
FUNCTIONAL EXPENSES				
Program services	5,820,403	-	-	5,820,403
Administrative	1,037,883	-	-	1,037,883
Fundraising	<u>1,681,514</u>	<u>-</u>	<u>-</u>	<u>1,681,514</u>
TOTAL FUNCTIONAL EXPENSES	<u>8,539,800</u>	<u>-</u>	<u>-</u>	<u>8,539,800</u>
CHANGE IN NET ASSETS	(1,660,878)	81,882	64,794	(1,514,202)
NET ASSETS - BEGINNING OF PERIOD	<u>17,239,004</u>	<u>1,841,565</u>	<u>2,576,996</u>	<u>21,657,565</u>
NET ASSETS - END OF PERIOD	<u>\$ 15,578,126</u>	<u>\$ 1,923,447</u>	<u>\$ 2,641,790</u>	<u>\$ 20,143,363</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF CASH FLOWS

FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2009

OPERATING ACTIVITIES

Change in net assets	\$ (1,514,202)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	874,107
Contributions restricted or designated for long-term purposes	(174,794)
Realized and unrealized gains on investments	(142,146)
Decrease (increase) in:	
Pledges and accounts receivable - operating	165,604
Inventories	(70,856)
Prepaid expenses	(66,565)
Increase (decrease) in:	
Accounts payable and accrued expenses	(171,208)
Unearned revenue	193,246

TOTAL ADJUSTMENTS 607,388

NET CASH USED IN OPERATING ACTIVITIES (906,814)

INVESTING ACTIVITIES

Purchases of investment securities	(509,355)
Proceeds from sale of investment securities	782,185
Purchase of property, plant and equipment	<u>(244,695)</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 28,135

FINANCING ACTIVITIES

Proceeds from contributions restricted or designated for:	
Investment in permanently restricted net assets	64,794
Investment in capital improvements	215,000
Payments on notes payable	(44,774)
Net draws on line of credit	<u>287,078</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES 522,098

NET DECREASE IN CASH AND CASH EQUIVALENTS (356,581)

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD 2,318,547

CASH AND CASH EQUIVALENTS - END OF PERIOD \$ 1,961,966

Interest paid \$ 115,248

NON-CASH INVESTING AND FINANCING ACTIVITIES

Equipment financed with note payable \$ 6,847

See accompanying notes to financial statements.

CHEEK WOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2009

	Program Services			Supporting Services		
	Exhibitions and Programs	Restaurant and Gift Shops	Total	Administrative	Fundraising	Total
Personnel	\$ 1,860,112	\$ 706,379	\$ 2,566,491	\$ 664,809	\$ 491,712	\$ 3,723,012
Professional fees and contract services	60,937	143,028	203,965	62,815	30,784	297,564
Exhibitions and public programs	173,981	494	174,475	-	6,188	180,663
Special events and projects	-	-	-	-	986,079	986,079
Communication, advertising and donor cultivation	340,512	7,233	347,745	37,572	99,410	484,727
Utilities	351,132	55,471	406,603	2,659	6,457	415,719
Maintenance and repairs	197,350	26,002	223,352	10,121	4,955	238,428
Equipment	-	16,336	16,336	30,813	18,542	65,691
Supplies	46,634	58,231	104,865	6,534	4,646	116,045
Travel	14,340	1,030	15,370	5,430	5,640	26,440
Insurance	149,942	14,340	164,282	15,027	-	179,309
Interest expense and bank fees	17,548	37,021	54,569	120,796	8,198	183,563
Permits/fees/miscellaneous	10,915	21,626	32,541	16,458	4,091	53,090
Bad debt expense	-	896	896	-	-	896
Cost of goods sold	-	714,467	714,467	-	-	714,467
Depreciation	761,982	32,464	794,446	64,849	14,812	874,107
Total	\$ 3,985,385	\$ 1,835,018	\$ 5,820,403	\$ 1,037,883	\$ 1,681,514	\$ 8,539,800

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

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 inspire and educate a diverse audience by making historic and contemporary principles of art, horticulture, and nature available to all. Located on 55 acres of botanical gardens, the institution provides unique art and garden educational experiences for residents of Middle Tennessee and visitors from across the nation. The financial statements include the accounts and operations of the Swan Ball, an unincorporated group operating under Cheekwood's tax exemptions with the sole purpose of raising funds to support Cheekwood. 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.

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, 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.

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

Designated for property, plant and equipment - Net investment in land, buildings and equipment.

Various other designations (see Note 8).

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.

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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiscal Year

During January 2009, Cheekwood changed its fiscal reporting year from September 30 to December 31 for financial statement and tax reporting purposes. Accordingly, the accompanying financial statements are presented as of and for the fifteen-month period ended December 31, 2009. A short-period tax return for the 3-months ended December 31, 2008 was filed timely.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

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. 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 entitle 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.

Direct Benefits to Donors

Direct benefits to donors include the cost of dinners and other direct benefits associated with special events and are netted against the related revenue.

Art Collection

In accordance with professional standards, art objects acquired through purchases and contributions since Cheekwood's inception are not valued in the accompanying statements of financial position. The cost of art 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. 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.

Cash and Cash Equivalents

Cheekwood considers all highly liquid instruments with original maturities when purchased of three months or less to be cash equivalents, except for money market funds with brokerage firms, which 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 (none for the fifteen months ended December 31, 2009). 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 BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Charitable Lead Trust

Cheekwood is beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, Cheekwood is to receive an annuity over an eight-year period ending in 2011. At the end of the period, the trust is to terminate, and remaining trust assets are to be distributed to the residual beneficiary. A temporarily restricted contribution and related receivable were recognized in the year the trust was established based on the present value of benefits expected to be received. Receipts are recorded as a reduction in the receivable and a corresponding reclassification from temporarily restricted to unrestricted net assets. The discount on the estimated present value of future benefits is amortized annually to unrestricted net assets.

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 market.

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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 shown 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.

Income Taxes

Cheekwood is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. All activities of the Swan Ball (see Note 4) are included in the federal Form 990 filed by Cheekwood. The Horticulture Society of Middle Tennessee and the Antiques and Garden Show (see Note 4) are exempt organizations under Section 501(c)(3) and file separate federal Form 990s.

During the fifteen months ended December 31, 2009, Cheekwood adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Adoption of this guidance had no material effect on Cheekwood's financial position and change in net assets.

As of December 31, 2009, Cheekwood did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the fifteen months then ended.

Cheekwood files U.S. Federal Form 990 for organizations exempt from income tax. Tax returns are subject to audit by the U.S. Internal Revenue Service for three years following the date of filing. Tax returns for years prior to fiscal year ended September 30, 2007 are closed.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Cheekwood has the ability to access.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Investments - Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity, or less transparency around inputs to the valuation, investments are classified within Level 3 of the valuation hierarchy.

Beneficial interest in charitable lead and remainder trusts - The measurement of Cheekwood's beneficial interest in charitable lead and remainder trusts was determined at the date of gift and is adjusted annually for the change in present value of the estimated future cash flows. The valuation is based on the term of the trust or 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 interest and is classified within Level 3 of the valuation hierarchy.

No changes in the valuation methodologies have been made since the prior measurement date.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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"). This Act became effective July 1, 2007.

In August 2008, the FASB issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted as part of the Board-designated endowment fund, which is consistent with the standard of prudence prescribed by UPMIFA.

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 quarter-end values of the portfolio over the previous three years. The spending amount resulting from this calculation is withdrawn over four quarters.

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 goal of the investment program is for the purpose of providing funds that grow in value and provide a source of income primarily for the support of operating costs. Investment objectives are as follows:

- Maintain the purchasing power of current assets and all future contributions by protecting and growing the investments with a total return strategy.
- Maintain a consistent spending rate. The desire, at a minimum, is to maintain the level of programs and services currently provided.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (Continued)

Investment return objective, risk parameters and strategies (continued)

- Apply a smoothing rule to mitigate the effects of short-term volatility on spending.
- Maximize return within reasonable and prudent levels of risk.
- Maintain an appropriate asset allocation based on a total return policy that is compatible with the spending policy, while still having the potential to produce positive real returns.

Cheekwood recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives, and there are uncertainties and complexities associated with contemporary investment markets. Cheekwood's prospects for the future, current financial condition and level of funding suggest collectively some interim fluctuations in market value rates of return may be tolerated in order to achieve longer-term objectives.

The asset allocation is structured to consist of 15% to 25% large cap growth equity and large cap value equity, 5% to 10% mid cap equity and small cap equity, 12% to 18% international equity, and 25% to 35% fixed income.

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 and hosted traveling exhibitions, and is also recognized as a center for contemporary art. The Botanical Garden, named in the Top Five Southern Gardens, encompasses 55 acres of woodland, pastoral and landscaped gardens. Original sections designed by Bryant Fleming in 1930 mingle harmoniously with specialized gardens featuring outstanding collections of perennials, herbs, dogwoods, and wildflowers among others. 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 STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (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. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative duties.

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.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

Cheekwood has evaluated events and transactions that occurred between December 31, 2009 and July 27, 2010, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements

NOTE 2 - INVESTMENTS

A summary of investment income follows for the period ended December 31, 2009:

Interest and dividend income	\$ 110,838
Capital gain distributions	13,526
Realized and unrealized gains on investments - net	<u>142,146</u>
Total investment income	<u>\$ 266,510</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges and accounts receivable consisted of the following at December 31, 2009:

Pledges receivable	\$ 185,481
Other receivables:	
Beneficial interests in charitable trusts	394,341
Rental and catering clients	7,596
Other	<u>2,310</u>
Total receivables	<u>\$ 589,728</u>

At December 31, 2009, all pledges receivable were due within one year.

During 2006, Cheekwood was notified that a donor would recommend to the Community Foundation of Middle Tennessee, Inc. (the "Foundation") that gifts totaling \$700,000 be made to Cheekwood over a five-year period from donor advised funds, beginning in fiscal year 2006, for marketing and the Cheekwood restoration project. The first \$200,000 of these gifts was approved by the Foundation and recognized as support by Cheekwood in 2006. Additional gifts of \$200,000, \$100,000, and \$100,000 were recognized in 2007, 2008, and 2009, respectively. During the fifteen months ended December 31, 2009, Cheekwood recognized an additional \$100,000 in support from donor advised funds for marketing, which was the final gift on a \$200,000 recommendation made to the Foundation in 2008. In addition, Cheekwood has been notified that the same donor will recommend to the Foundation that additional gifts totaling \$200,000 be made to Cheekwood over a two-year period from donor advised funds, beginning in fiscal year 2010, for marketing. The Foundation has final authority over these donor recommendations, which are advisory only and, accordingly, the balance of these contributions will not be recognized by Cheekwood until the period approved by the Foundation.

NOTE 4 - AFFILIATED ORGANIZATIONS AND SPECIAL EVENTS

The Horticulture Society of Middle Tennessee (HSMT) 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 and Friends of Cheekwood, unincorporated volunteer groups. Contributions and revenues from HSMT, Friends of Cheekwood, and the Antiques and Garden Show are reported in volunteer fundraising in the period received. No significant direct benefits to donors are applicable to these activities.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 4 - AFFILIATED ORGANIZATIONS AND SPECIAL EVENTS (CONTINUED)

Following is a summary of contributions and net revenues (before applicable direct fundraising expenses) from the Swan Ball for the period ended December 31, 2009:

Contributions	\$ 878,619
Special event revenues	939,617
Interest income	5,338
Direct benefits to donors	<u>(247,910)</u>
Contributions and net revenues from special events	<u>\$ 1,575,664</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2009:

Land	\$ 2,620,000
Buildings	24,221,181
Equipment and furnishings	<u>2,578,106</u>
	29,419,287
Less accumulated depreciation	<u>12,027,827</u>
	<u>\$ 17,391,460</u>

NOTE 6 - OPERATING LEASES

Cheekwood leases a portion of its office equipment under non-cancelable operating leases which expire at various times through May 2013, and require specified minimum rental payments.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 6 - OPERATING LEASES (CONTINUED)

A schedule of future minimum lease commitments under all noncancelable operating leases as of December 31, 2009, follows:

For the year ending December 31,

2010	\$ 18,996
2011	20,028
2012	20,543
2013	<u>5,501</u>
Total future minimum lease payments	<u>\$ 65,068</u>

Total rental expense incurred under all such agreements amounted to \$26,165 for the fifteen months ended December 31, 2009.

NOTE 7 - 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 fifteen months ended December 31, 2009 totaled \$34,751.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 8 - NET ASSETS

Unrestricted net assets consisted of the following at December 31, 2009:

Accumulated deficit from unrestricted operations	\$ (1,976,217)
Unexpended balance of cumulative distributions received from Swan Ball	404,186
Net assets of the Swan Ball	633,461
Amounts functioning as endowment	530,455
Amounts designated for 2010 operations	119,679
Amounts invested in property, plant, and equipment, less related debt	<u>15,866,620</u>
	<u>\$ 15,578,184</u>

Temporarily restricted net assets are available for the following purposes at December 31, 2009:

Museum of Art	\$ 974,536
Botanical Garden	167,805
Beneficial interests in trusts	394,341
Maintenance	371,861
Other	<u>14,904</u>
Total temporarily restricted net assets	<u>\$ 1,923,447</u>

NOTE 9 - ENDOWMENT

As of December 31, 2009, the endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ -	\$ 22,706	\$ 2,641,790
Board-designated endowment funds	<u>530,455</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 530,455</u>	<u>\$ 22,706</u>	<u>\$ 2,641,790</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 9 - ENDOWMENT (CONTINUED)

A summary of changes in endowments follows for the fifteen months ended December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, October 1, 2008	\$ 755,454	\$ (31,551)	\$ 2,576,996
Interest and dividend income	81,400	29,438	-
Realized gain/loss on investment	(179,354)	(61,730)	-
Unrealized gain/loss on investment	271,648	111,582	-
Capital gain distributions	9,984	3,542	-
Contributions	-	-	64,794
Appropriation of endowment assets for expenditure	<u>(408,677)</u>	<u>(28,575)</u>	<u>-</u>
Endowment net assets, December 31, 2009	<u>\$ 530,455</u>	<u>\$ 22,706</u>	<u>\$ 2,641,790</u>

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains cash at financial institutions who accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. FDIC coverage has been increased from \$100,000 to \$250,000 per depositor through December 31, 2013. As of December 31, 2009, Cheekwood's depositor accounts exceeded the FDIC insurance limits by approximately \$1,470,000.

At December 31, 2009, investments with account balances totaling \$3,165,633 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.

Contributions received from two sources during the fifteen months ended December 31, 2009, represented 27% of contribution revenue.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 11 - NOTES PAYABLE

Notes payable consisted of the following as of December 31, 2009:

Note payable requiring monthly interest payments on the outstanding principal balance at the rate of 1.1% above the LIBOR rate (1.33% at December 31, 2009). All unpaid principal and interest were due May 5, 2010. Management is in the process of renewing this loan. Cheekwood's deposits and investments are pledged as collateral for this loan.	\$ 532,747
\$1,000,000 line of credit requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate (2.23% at December 31, 2009). All unpaid principal and interest were due June 5, 2010. Management is in the process of renewing this loan.	748,712
Note payable for the purchase of museum security equipment requiring monthly principal and interest payments of \$1,689. All unpaid principal and interest are due on January 19, 2012. Interest is charged at a fixed rate of 7.05%. Security equipment is pledged as collateral for this loan.	39,126
Note payable for the purchase of certain land, requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate (2.23% at December 31, 2009). All unpaid principal and interest were due on May 28, 2010. Management is in the process of renewing this loan. This loan is secured by the land and all deposits and investments maintained at the financing source. In addition, each quarter Cheekwood must demonstrate that it maintains a balance in cash and cash equivalents (including endowment funds invested in money market and mutual funds) of at least \$1.5 million.	1,480,000
Other note payable, due in monthly installments of \$219 through 2012.	<u>5,714</u>
	<u>\$ 2,806,299</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 11 - NOTES PAYABLE (CONTINUED)

A schedule of annual principal maturities of all notes payable as of December 31, 2009, follows:

For the year ending December 31,

2010	\$ 2,782,142
2011	22,020
2012	<u>2,137</u>
	<u>\$ 2,806,299</u>

NOTE 12 - 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 \$4,700 during the fifteen months ended December 31, 2009. Total assets held in these funds amounted to \$83,614 December 31, 2009.

NOTE 13 - COLLECTIONS

The art 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. There were no art collection sales for the fifteen months ended December 31, 2009.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2009

NOTE 14 - 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.

NOTE 15 - 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, 2009:

	<u>Level 1</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>	<u>Total</u>
Investments:				
Money market funds	\$ 102,217	\$ -	\$ -	\$ 102,217
Mutual funds:				
Fixed income	1,103,943	-	-	1,103,943
Large cap	1,137,199	-	-	1,137,199
Mid cap	214,382	-	-	214,382
Small cap	203,145	-	-	203,145
International	404,747	-	-	404,747
	<u>3,165,633</u>	<u>-</u>	<u>-</u>	<u>3,165,633</u>
Beneficial interests in charitable trusts	<u>-</u>	<u>-</u>	<u>394,341</u>	<u>394,341</u>
	<u>\$ 3,165,633</u>	<u>\$ -</u>	<u>\$ 394,341</u>	<u>\$ 3,559,974</u>

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

Beneficial interests in charitable trusts

Balance, October 1, 2008	\$ 444,423
Distribution received from charitable lead trust	(36,000)
Change in value of beneficial interests	<u>(14,082)</u>
Balance, December 31, 2009	<u>\$ 394,341</u>

ADDITIONAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Board of Directors
Cheekwood Botanical Garden
and Museum of Art

Our report on our audit of the basic financial statements of Cheekwood Botanical Garden and Museum of Art ("Cheekwood") for the fifteen months ended December 31, 2009 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following statement of financial position of the Swan Ball (a component of Cheekwood) as of December 31, 2009, and the related statement of activities for the fifteen months then ended, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KraftCPAs PLLC

Nashville, Tennessee
July 27, 2010

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2009

ASSETS

Cash and cash equivalents	\$ 737,901
Inventory	2,618
Prepaid expenses	<u>50,504</u>
TOTAL ASSETS	<u>\$ 791,023</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Unearned revenue	\$ 157,562
NET ASSETS	
Unrestricted	<u>633,461</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 791,023</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENT OF ACTIVITIES

FOR THE FIFTEEN MONTHS ENDED DECEMBER 31, 2009

CONTRIBUTIONS AND NET REVENUES

Contributions	\$ 878,619
Revenues from special events	939,617
Interest income	5,338
Less direct benefits to donors	<u>(247,910)</u>

TOTAL CONTRIBUTIONS AND NET REVENUES 1,575,664

TOTAL FUNDRAISING EXPENSES 931,455

EXCESS OF CONTRIBUTIONS AND NET REVENUES OVER
FUNDRAISING EXPENSES 644,209

CONTRIBUTIONS TO CHEEKWOOD (1,011,000)

DECREASE IN NET ASSETS (366,791)

NET ASSETS - BEGINNING OF PERIOD 1,000,252

NET ASSETS - END OF PERIOD \$ 633,461