

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2008

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2008

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Cheekwood Botanical Garden  
and Museum of Art

We have audited the accompanying statements of financial position of Cheekwood Botanical Garden and Museum of Art ("Cheekwood") as of September 30, 2008 and 2007, the related statements of activities and functional expenses for the year ended September 30, 2008, and the statements of cash flows for the years ended September 30, 2008 and 2007. These financial statements are the responsibility of Cheekwood's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from Cheekwood's 2007 financial statements and, in our report dated January 7, 2008, we expressed an unqualified opinion on those financial statements.

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 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 audits provide 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 September 30, 2008 and 2007, the changes in its net assets for the year ended September 30, 2008, and its cash flows for the years ended September 30, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
January 26, 2009

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 9	\$ 2,318,547	\$ 2,439,611
Investments, at market value - Note 2	3,296,317	3,801,733
Pledges and accounts receivable - Note 3	860,332	1,313,680
Inventories	235,625	209,770
Prepaid expenses	116,063	94,715
Property, plant and equipment, net - Note 5	18,014,025	18,340,217
Collections - Note 12	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 24,840,909</u>	<u>\$ 26,199,726</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 617,696	\$ 961,618
Notes payable - Note 10	2,557,148	2,314,605
Unearned revenue	<u>8,500</u>	<u>17,165</u>
TOTAL LIABILITIES	<u>3,183,344</u>	<u>3,293,388</u>
COMMITMENTS - Note 6		
<u>NET ASSETS - Notes 8 and 14</u>		
Unrestricted	17,239,004	17,876,899
Temporarily restricted	1,841,565	2,501,387
Permanently restricted	<u>2,576,996</u>	<u>2,528,052</u>
TOTAL NET ASSETS	<u>21,657,565</u>	<u>22,906,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,840,909</u>	<u>\$ 26,199,726</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2008, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2008</u>	<u>2007</u>
<b>SUPPORT AND REVENUES</b>					
Contributions	\$ 1,351,134	\$ 471,682	\$ 48,944	\$ 1,871,760	\$ 2,848,984
Government grants	207,132	-	-	207,132	255,286
Contributions and net revenues from special events - Note 4	1,869,049	-	-	1,869,049	1,804,734
Change in value of split-interest gifts	-	(98,045)	-	(98,045)	33,263
In-kind contributions	32,467	-	-	32,467	40,441
Volunteer fundraising	327,793	-	-	327,793	325,117
Admission fees	213,352	-	-	213,352	239,887
Membership dues	466,264	-	-	466,264	497,680
Educational programs	220,800	-	-	220,800	215,241
Restaurant, catering and gift shop	1,334,767	-	-	1,334,767	1,327,901
Rental event income	634,331	-	-	634,331	649,942
Increase in cash surrender value of life insurance	-	-	-	-	53,006
Investment (loss) income - net - Note 2	(547,016)	(165,752)	-	(712,768)	635,803
Gain on sale of property, plant and equipment	72,470	-	-	72,470	-
Miscellaneous income	49,431	-	-	49,431	59,450
Net assets released resulting from satisfaction of donor restrictions - Note 8	867,707	(867,707)	-	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>7,099,681</u>	<u>(659,822)</u>	<u>48,944</u>	<u>6,488,803</u>	<u>8,986,735</u>
<b>FUNCTIONAL EXPENSES</b>					
Program services	5,557,551	-	-	5,557,551	5,787,217
Administrative	634,580	-	-	634,580	506,138
Fundraising	1,545,445	-	-	1,545,445	1,343,139
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>7,737,576</u>	<u>-</u>	<u>-</u>	<u>7,737,576</u>	<u>7,636,494</u>
<b>(DECREASE) INCREASE IN NET ASSETS</b>	<u>(637,895)</u>	<u>(659,822)</u>	<u>48,944</u>	<u>(1,248,773)</u>	<u>1,350,241</u>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>17,876,899</u>	<u>2,501,387</u>	<u>2,528,052</u>	<u>22,906,338</u>	<u>23,155,620</u>
<b>SPIN-OUT OF NET ASSETS ATTRIBUTABLE TO OWL'S HILL NATURE SANCTUARY - Note 14</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,599,523)</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 17,239,004</u>	<u>\$ 1,841,565</u>	<u>\$ 2,576,996</u>	<u>\$ 21,657,565</u>	<u>\$ 22,906,338</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (1,248,773)	\$ 1,350,241
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	708,787	721,465
Contributions restricted or designated for long-term purposes	(349,025)	(1,104,530)
Gain from sale of property, plant and equipment	(72,470)	-
Realized and unrealized losses (gains) on investments	933,389	(458,065)
(Increase) decrease in:		
Pledges and accounts receivable - operating	176,348	(75,242)
Cash surrender value of life insurance	-	(53,006)
Inventories	(25,855)	(102,727)
Prepaid expenses	(21,348)	(6,076)
Increase (decrease) in:		
Accounts payable and accrued expenses	(343,922)	388,916
Unearned revenue	(8,665)	(58,482)
TOTAL ADJUSTMENTS	<u>997,239</u>	<u>(747,747)</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(251,534)</u>	<u>602,494</u>
INVESTING ACTIVITIES		
Purchases of investment securities	(517,477)	(234,490)
Proceeds from sale of investment securities	89,504	144,038
Purchase of property, plant and equipment	(688,375)	(3,134,200)
Proceeds from sale of property, plant and equipment	378,250	-
Proceeds from life insurance policy	-	663,732
Cash related to spin-out of Owl's Hill Nature Sanctuary - Note 14	-	(86,208)
NET CASH USED IN INVESTING ACTIVITIES	<u>(738,098)</u>	<u>(2,647,128)</u>
FINANCING ACTIVITIES		
Proceeds from contributions restricted or designated for:		
Investment in permanently restricted net assets	48,944	64,400
Investment in capital improvements	577,081	833,130
Proceeds from notes payable	-	1,592,296
Payments on notes payable	(34,062)	(34,468)
Line of credit draws	1,824,904	731,576
Line of credit payments	(1,548,299)	(546,546)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>868,568</u>	<u>2,640,388</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(121,064)</u>	<u>595,754</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,439,611</u>	<u>1,843,857</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,318,547</u>	<u>\$ 2,439,611</u>
Interest paid	<u>\$ 139,908</u>	<u>\$ 53,538</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash contributions of collection items	\$ -	\$ 244,200
Assets spun out to Owl's Hill, net of cash - Note 14	\$ -	\$ 1,513,315

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2008, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2007

	<u>Program Services</u>				<u>Supporting Services</u>		<u>Totals</u>	
	<u>Exhibitions and Programs</u>	<u>Owl's Hill Nature Sanctuary</u>	<u>Restaurant and Gift Shops</u>	<u>Total</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>2008</u>	<u>2007</u>
Personnel	\$ 1,795,697	\$ -	\$ 698,470	\$ 2,494,167	\$ 243,539	\$ 470,747	\$ 3,208,453	\$ 3,014,236
Professional fees and contract services	58,131	-	142,898	201,029	67,024	62,273	330,326	267,606
Exhibitions and public programs	190,545	-	325	190,870	380	10,454	201,704	456,363
Special events and projects	-	-	-	-	-	848,855	848,855	825,370
Communication, advertising and donor cultivation	315,199	-	9,308	324,507	24,915	91,921	441,343	455,623
Utilities	291,062	-	45,288	336,350	1,975	4,096	342,421	316,431
Maintenance and repairs	188,906	-	24,889	213,795	4,554	9,584	227,933	199,131
Equipment	96,139	-	18,822	114,961	21,191	6,855	143,007	106,151
Supplies	39,180	-	61,409	100,589	7,237	7,941	115,767	143,759
Travel	20,838	-	1,165	22,003	10,207	4,552	36,762	28,926
Insurance	112,603	-	9,689	122,292	16,450	-	138,742	135,372
Interest expense and bank fees	16,386	-	35,535	51,921	141,187	7,972	201,080	109,488
Permits/fees/miscellaneous	8,035	-	4,918	12,953	18,194	6,260	37,407	45,974
Bad debt expense	-	-	-	-	-	-	-	5,394
Cost of goods sold	-	-	754,989	754,989	-	-	754,989	805,205
Depreciation	592,251	-	24,874	617,125	77,727	13,935	708,787	721,465
 Total functional expenses for the year ended September 30, 2008	 \$ 3,724,972	 \$ -	 \$ 1,832,579	 \$ 5,557,551	 \$ 634,580	 \$ 1,545,445	 \$ 7,737,576	
 Total functional expenses for the year ended September 30, 2007	 \$ 3,693,829	 \$ 167,511	 \$ 1,925,877	 \$ 5,787,217	 \$ 506,138	 \$ 1,343,139		 \$ 7,636,494

See accompanying notes to financial statements.

# CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

### 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 operations 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)

SEPTEMBER 30, 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

The Organization 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.

The Organization 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.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### 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 amount 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Investments

Investments are stated at market value. Interest and dividend income, as well as realized and unrealized gains and losses, are accounted for in accordance with donor restrictions (temporarily restricted) or, in the absence of specific donor restrictions, as unrestricted.

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 in 2008, 4.03% in 2007). 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.

Cash Surrender Value of Life Insurance

In previous years, Cheekwood was the owner and beneficiary of a \$1 million whole life insurance policy contributed to Cheekwood by one of its donors. The donor made contributions to cover the annual premium cost. Cash surrender value of this policy was reported in the Statement of Financial Position as an asset, with changes in cash surrender value recognized in the Statement of Activities. During the year ended September 30, 2007, Cheekwood was advised that the donor would no longer pay the annual premiums on the policy, at which time Cheekwood cashed out the policy.

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. Depreciation of plant and equipment other than land is provided on a straight-line basis over estimated useful lives ranging from five to forty years. Interest costs are capitalized in connection with construction of qualifying assets. Capitalization begins when expenditures for qualifying assets are made, activities necessary to prepare the asset for its intended use are in progress, and interest cost is being incurred. Capitalization ends when the asset is ready for its intended use. Capitalized interest cost is depreciated the same as the associated qualifying asset. No interest was capitalized in 2008 or 2007.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

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.

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 three 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, dogwood, and wildflowers among others. These offerings are brought alive regularly through classes, lectures, family days and festivals.

Owl's Hill Nature Sanctuary - Owl's Hill resides on nearly 160 acres of preserved ancient hardwood forest and recovered farmland in nearby Williamson County. This green space is established as a nature sanctuary offering wildlife counts, habitat study and a restoration area for native flora and fauna. By design to limit habitat overexposure, visitation is offered only for educational programs including scouting, nature camps and school field trips. Committed volunteers join teaching, conservation and on-hands restoration projects welcoming more than 7,000 visitors annually. As discussed in Note 14, Owl's Hill officially separated from Cheekwood in fiscal year 2007.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses (Continued)

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.

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.

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 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

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 noncharitable beneficiary 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 others. 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.

Prior Year Summarized Comparative Information

The statement of activities includes certain prior year summarized comparative information in total but not by net asset class, and the statement of functional expenses includes the prior year total of natural expenses but not a breakdown of such expenses by function. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, it should be read in conjunction with Cheekwood's financial statements for the year ended September 30, 2007, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year presentation.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 2 - INVESTMENTS

Investments consisted of the following at September 30:

	<u>2008</u>		<u>2007</u>	
	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>
Money market funds	\$ 101,369	\$ 101,369	\$ 39,219	\$ 39,219
Mutual funds	<u>3,194,948</u>	<u>3,722,434</u>	<u>3,762,514</u>	<u>3,354,902</u>
	<u>\$ 3,296,317</u>	<u>\$ 3,823,803</u>	<u>\$ 3,801,733</u>	<u>\$ 3,394,121</u>

A summary of investment (loss) income follows for the years ended September 30:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 100,128	\$ 97,010
Capital gain distributions	120,493	80,728
Realized and unrealized (losses) gains on investments - net	<u>(933,389)</u>	<u>458,065</u>
Total investment (loss) income	<u>\$ (712,768)</u>	<u>\$ 635,803</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Pledges Receivable:		
Due in less than one year	\$ 226,866	\$ 513,458
Due in one to five years	<u>150,000</u>	<u>225,000</u>
	376,866	738,458
Less: Discount to present value	(7,023)	(20,774)
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total pledges receivable	<u>\$ 369,843</u>	<u>\$ 717,684</u>

Cheekwood has been notified that a donor will 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 and \$100,000 were recognized in 2007 and 2008, respectively. 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 2008, for marketing. The first \$100,000 of these gifts was approved by the Foundation and recognized as support by Cheekwood in 2008. 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE (CONTINUED)

Other accounts receivable consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Other Receivables:		
Beneficial interests in charitable trusts	\$ 444,423	\$ 560,549
Rental and catering clients	13,513	27,780
Swan Ball patrons	28,025	5,000
Other	<u>4,528</u>	<u>2,667</u>
Total other receivables	<u>\$ 490,489</u>	<u>\$ 595,996</u>

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)

SEPTEMBER 30, 2008

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 years ended September 30:

	<u>2008</u>	<u>2007</u>
Contributions	\$ 1,042,083	\$ 914,191
Special event revenues	1,420,020	1,898,511
Interest income	18,810	-
Direct benefits to donors	<u>(611,864)</u>	<u>(1,007,968)</u>
Contributions and net revenues from special events	<u>\$ 1,869,049</u>	<u>\$ 1,804,734</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Land	\$ 2,620,000	\$ 2,620,000
Buildings	24,033,351	23,853,152
Equipment and furnishings	<u>2,514,394</u>	<u>2,401,796</u>
	29,167,745	28,874,948
Less accumulated depreciation	<u>11,153,720</u>	<u>10,534,731</u>
	<u>\$ 18,014,025</u>	<u>\$ 18,340,217</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 6 - OPERATING LEASES

Cheekwood leases a portion of its office equipment under non-cancelable operating leases which expire at various times through October 2010, and require specified minimum rental payments

A schedule of future minimum lease commitments under all noncancelable operating leases as of September 30, 2008, follows:

For the year ending September 30,

2009	\$ 19,732
2010	<u>15,691</u>
Total future minimum lease payments	<u>\$ 35,423</u>

Total rental expense incurred under all such agreements amounted to \$24,735 for the year ended September 30, 2008 (\$30,171 in 2007).

NOTE 7 - RETIREMENT PLAN

Cheekwood sponsors a Section 403(b) retirement plan for the benefit of eligible employees. This plan covers substantially all full-time and defined part-time employees. Under the plan, employees may contribute up to 25% of their annual compensation, not to exceed statutory limits. Cheekwood's contribution equals 100% of the employees' contribution, limited to 5% (4% in 2007) of their annual compensation. Cheekwood's matching contributions for the year ended September 30, 2008 totaled \$62,478 (\$48,501 for the year ended September 30, 2007).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 8 - NET ASSETS

Unrestricted net assets consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Accumulated deficit from unrestricted operations	\$ (1,701.778)	\$ (2,131.455)
Unexpended balance of cumulative distributions received from Swan Ball	403.999	412.668
Net assets of the Swan Ball	1,000.252	946,393
Amounts functioning as endowment	755,454	1,404.332
Amounts designated for maintenance	314,818	376.000
Amounts designated for restoration projects	-	30,934
Amounts designated for other projects	-	67.638
Amounts designated for property, plant, and equipment, less related debt	<u>16,466,259</u>	<u>16,770,389</u>
	<u>\$ 17,239,004</u>	<u>\$ 17,876.899</u>

Temporarily restricted net assets are available for the following general purposes at September 30:

	<u>2008</u>	<u>2007</u>
Museum of Art	\$ 629,072	\$ 664,228
Botanical Garden	176,855	435,586
Beneficial interests in trusts	444.423	560,549
Maintenance	435.226	680,667
Other	<u>155,989</u>	<u>160,357</u>
Total temporarily restricted net assets	<u>\$ 1,841,565</u>	<u>\$ 2,501.387</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 8 - NET ASSETS (CONTINUED)

Permanently restricted net assets consisted of the following at September 30:

	<u>2008</u>	<u>2007</u>
Endowment funds on which income is restricted	\$ 807,539	\$ 769,595
Endowment funds on which income is unrestricted	<u>1,769,457</u>	<u>1,758,457</u>
Total permanently restricted net assets	<u>\$ 2,576,996</u>	<u>\$ 2,528,052</u>

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains its cash balances in bank deposit accounts at one financial institution which, at times, exceed federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of September 30, 2008, cash accounts exceeded the FDIC insured amounts by approximately \$2,100,000.

Subsequent to year end, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009.

At September 30, 2008, investments with account balances totaling \$3,296,317 were held under custodial care by one brokerage and investment company. These investments consist of money market funds and mutual funds. They 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.

The credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, Cheekwood's investments have incurred a significant decline in market value during the 2008 fiscal year, and have likely incurred additional declines in market value since September 30, 2008.

For the year ended September 30, 2008, pledges receivable from one source comprised \$150,000, or 17% of total pledges and accounts receivable. For the year ended September 30, 2007, pledges receivable from two sources amounted to \$422,000, or 32% of total pledges and accounts receivable, and \$694,000 or 24% of contribution revenue. Contributions from one source for the year ended September 30, 2008, represented 11% of contribution revenue (10% from one source for the year ended September 30, 2007).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following as of September 30:

	<u>2008</u>	<u>2007</u>
Note payable requiring monthly interest payments on the outstanding principal balance at the rate of 1.1% above the LIBOR rate (3.58% at September 30, 2008). All unpaid principal and interest are due May 5, 2009. Cheekwood's deposits and securities are pledged as collateral for this loan.	\$ 547,747	\$ 559,747
\$750,000 line of credit requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate (4.48% at September 30, 2008). All unpaid principal and interest are due June 5, 2009. Effective December 11, 2008, the maximum available credit was reduced to \$500,000.	461,635	185,030
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 with a carrying value of \$56,997 at September 30, 2008, is pledged as collateral for this loan.	59,962	75,331
Note payable for the purchase of kitchen equipment requiring monthly principal and interest payments of \$625. All unpaid principal and interest are due on October 18, 2009. Interest is charged at a fixed rate of 6.95%. Kitchen equipment with a carrying value of \$12,140 at September 30, 2008, is pledged as collateral for this loan.	7,804	14,497
Note payable for the purchase of certain land, requiring monthly interest payments on the outstanding principal balance at a fixed rate of 6.65%. All unpaid principal and interest are due on March 28, 2009. 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.	<u>1,480,000</u>	<u>1,480,000</u>
	<u>\$ 2,557,148</u>	<u>\$ 2,314,605</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 10 - NOTES PAYABLE (CONTINUED)

A schedule of annual principal maturities of all notes payable as of September 30, 2008, follows:

For the year ending September 30,

2009	\$ 2,513,074
2010	18,353
2011	19,045
2012	<u>6,676</u>
	<u>\$ 2,557,148</u>

NOTE 11 - 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 \$5,600 during the year ended September 30, 2008 (approximately \$5,200 during the year ended September 30, 2007). Total assets held in these funds amounted to \$92,623 and \$115,643 at September 30, 2008 and 2007, respectively.

NOTE 12 - 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 18<sup>th</sup> through the 20<sup>th</sup> 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 years ended September 30, 2008 and 2007.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 13 - 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 14 - SPIN-OUT OF OWL'S HILL NATURE SANCTUARY

During 2007, Owl's Hill Nature Sanctuary (Owl's Hill) was granted separate 501(c)(3) status as a not-for-profit organization by the Internal Revenue Service. As of May 1, 2007, net assets attributable to Owl's Hill were distributed to the new entity, as follows:

ASSETS

Cash and cash equivalents	\$ 86,208
Investments, at market value	1,305,537
Property, plant and equipment, net	<u>207,778</u>
TOTAL ASSETS	<u>\$ 1,599,523</u>

NET ASSETS

Unrestricted (including \$969,686 designated as amounts functioning as endowment)	1,177,464
Temporarily restricted	147,059
Permanently restricted	<u>275,000</u>
TOTAL NET ASSETS	<u>\$ 1,599,523</u>

Revenues and expenses related to Owl's Hill operations included in activities of Cheekwood for the period from October 1, 2006 through April 30, 2007, totaled \$138,700 and \$167,511, respectively.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2008

NOTE 15 - NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2008. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements*. FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for fiscal years beginning after November 15, 2007.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS-159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. The fair value option established by FAS-159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in operations at each subsequent reporting date. FAS-159 is effective for fiscal years beginning after November 15, 2007.

Cheekwood is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.