

CHEEKWOOD BOTANICAL GARDEN
AND MUSEUM OF ART

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2007

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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, 2007 and 2006, the related statements of activities and functional expenses for the year ended September 30, 2007, and the statements of cash flows for the years ended September 30, 2007 and 2006. 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 2006 financial statements and, in our report dated November 10, 2006, 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 at September 30, 2007 and 2006, the changes in its net assets for the year ended September 30, 2007, and its cash flows for the years ended September 30, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
January 7, 2008

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
		(Restated - Note 15)
<u>ASSETS</u>		
Cash and cash equivalents - Note 9	\$ 2,439,611	\$ 1,843,857
Investments, at market value - Note 2	3,801,733	4,558,753
Pledges and accounts receivable - Note 3	1,313,680	1,031,438
Inventories	209,770	107,043
Prepaid expenses	94,715	88,639
Cash surrender value of life insurance	-	610,726
Property, plant and equipment, net - Note 5	18,340,217	16,135,260
Collections - Note 12	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 26,199,726</u>	<u>\$ 24,375,716</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 961,618	\$ 572,702
Notes payable - Note 10	2,314,605	571,747
Unearned revenue	<u>17,165</u>	<u>75,647</u>
TOTAL LIABILITIES	<u>3,293,388</u>	<u>1,220,096</u>
COMMITMENTS - Note 6		
<u>NET ASSETS - Notes 8 and 14</u>		
Unrestricted	17,876,899	18,230,982
Temporarily restricted	2,501,387	2,185,986
Permanently restricted	<u>2,528,052</u>	<u>2,738,652</u>
TOTAL NET ASSETS	<u>22,906,338</u>	<u>23,155,620</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,199,726</u>	<u>\$ 24,375,716</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2007, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2007</u>	<u>2006</u>
					(Restated - Note 15)
SUPPORT AND REVENUES					
Contributions	\$ 1,231,907	\$ 1,552,677	\$ 64,400	\$ 2,848,984	\$ 1,426,721
Government grants	255,286	-	-	255,286	261,340
Contributions and net revenues from special events - Note 4	1,804,734	-	-	1,804,734	1,692,302
Change in value of split-interest gifts	-	33,263	-	33,263	20,067
In-kind contributions	40,441	-	-	40,441	67,997
Volunteer fundraising	325,117	-	-	325,117	214,121
Admission fees	239,887	-	-	239,887	216,915
Membership dues	497,680	-	-	497,680	500,257
Educational programs	215,241	-	-	215,241	205,784
Restaurant, catering and gift shop	1,327,901	-	-	1,327,901	1,141,676
Rental event income	649,942	-	-	649,942	447,000
Increase in cash surrender value of life insurance	53,006	-	-	53,006	53,310
Investment income - net - Note 2	479,762	156,041	-	635,803	313,177
Sale of art - Note 12	-	-	-	-	116,894
Miscellaneous income	59,450	-	-	59,450	43,961
Net assets released resulting from satisfaction of donor restrictions - Note 8	1,279,521	(1,279,521)	-	-	-
 TOTAL SUPPORT AND REVENUE	 8,459,875	 462,460	 64,400	 8,986,735	 6,721,522
FUNCTIONAL EXPENSES					
Program services	5,787,217	-	-	5,787,217	4,968,709
Administrative	506,138	-	-	506,138	585,566
Fundraising	1,343,139	-	-	1,343,139	1,048,070
 TOTAL FUNCTIONAL EXPENSES	 7,636,494	 -	 -	 7,636,494	 6,602,345
 INCREASE IN NET ASSETS	 823,381	 462,460	 64,400	 1,350,241	 119,177
 NET ASSETS - BEGINNING OF YEAR, as restated - Note 15	 18,230,982	 2,185,986	 2,738,652	 23,155,620	 23,036,443
 SPIN-OUT OF NET ASSETS ATTRIBUTABLE TO OWL'S HILL NATURE SANCTUARY - Note 14	 (1,177,464)	 (147,059)	 (275,000)	 (1,599,523)	 -
 NET ASSETS - END OF YEAR	 <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>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
		(Restated - Note 15)
OPERATING ACTIVITIES		
Change in net assets	\$ 1,350,241	\$ 119,177
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	721,465	672,691
Contributions restricted or designated for long-term purposes	(1,104,530)	(401,423)
Gain from sale of art	-	(116,894)
Realized and unrealized gains on investments	(458,065)	(200,910)
(Increase) decrease in:		
Pledges and accounts receivable - operating	(75,242)	145,559
Cash surrender value of life insurance	(53,006)	(53,310)
Inventories	(102,727)	(17,667)
Prepaid expenses	(6,076)	2,981
Increase (decrease) in:		
Accounts payable and accrued expenses	388,916	73,498
Unearned revenue	<u>(58,482)</u>	<u>(29,722)</u>
TOTAL ADJUSTMENTS	<u>(747,747)</u>	<u>74,803</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>602,494</u>	<u>193,980</u>
INVESTING ACTIVITIES		
Purchases of investment securities	(234,490)	(166,738)
Proceeds from sale of investment securities	144,038	175,000
Proceeds from sale of art	-	116,894
Purchase of property, plant and equipment	(3,134,200)	(551,937)
Proceeds from life insurance policy	663,732	-
Cash related to spin-out of Owl's Hill Nature Sanctuary - Note 14	<u>(86,208)</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,647,128)</u>	<u>(426,781)</u>
FINANCING ACTIVITIES		
Proceeds from contributions restricted or designated for:		
Investment in permanently restricted net assets	64,400	60,290
Investment in capital improvements	833,130	491,133
Proceeds from notes payable	1,592,296	-
Payments on notes payable	(34,468)	(900)
Net borrowings (payments) on line of credit	<u>185,030</u>	<u>(27,758)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,640,388</u>	<u>522,765</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	595,754	289,964
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,843,857</u>	<u>1,553,893</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,439,611</u>	<u>\$ 1,843,857</u>
Interest paid	<u>\$ 53,538</u>	<u>\$ 42,709</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Non-cash contributions of collection items	\$ 244,200	\$ 192,100
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, 2007, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2006

	Program Services				Supporting Services		Totals	
	Exhibitions and Programs	Owl's Hill Nature Sanctuary	Restaurant and Gift Shops	Total	Administrative	Fundraising	2007	2006
Personnel	\$ 1,617,779	\$ 108,894	\$ 741,314	\$ 2,467,987	\$ 205,663	\$ 340,586	\$ 3,014,236	\$ 2,775,742
Professional fees and contract services	90,019	1,930	131,001	222,950	32,829	11,827	267,606	230,577
Exhibitions and public programs	434,463	11,807	739	447,009	1,650	7,704	456,363	232,919
Special events and projects	-	-	-	-	-	825,370	825,370	693,084
Communication, advertising and donor cultivation	321,488	7,825	12,084	341,397	21,389	92,837	455,623	425,734
Utilities	262,711	1,428	38,987	303,126	1,885	11,420	316,431	330,797
Maintenance and repairs	148,302	12,140	23,380	183,822	11,770	3,539	199,131	129,737
Equipment	38,741	1,724	25,253	65,718	31,731	8,702	106,151	94,047
Supplies	55,805	1,057	72,433	129,295	5,591	8,873	143,759	90,362
Travel	15,983	85	1,581	17,649	6,539	4,738	28,926	32,177
Insurance	115,410	1,314	5,766	122,490	12,791	91	135,372	125,629
Interest expense and bank fees	15,169	1,458	32,196	48,823	52,003	8,662	109,488	88,943
Permits/fees/miscellaneous	5,988	233	12,012	18,233	23,932	3,809	45,974	36,699
Bad debt expense	-	-	4,906	4,906	-	488	5,394	1,173
Cost of goods sold	-	2,099	803,106	805,205	-	-	805,205	642,034
Depreciation	571,971	15,517	21,119	608,607	98,365	14,493	721,465	672,691
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	
Total functional expenses for the year ended September 30, 2006	\$ 3,210,690	\$ 200,798	\$ 1,557,221	\$ 4,968,709	\$ 585,566	\$ 1,048,070		\$ 6,602,345

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

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

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.

Gifts of equipment or materials are reported 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 cash or other assets that must be used to acquire 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.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor-imposed stipulations. 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets

Temporarily restricted net assets are subject to donor-imposed stipulations that may be met either by actions of Cheekwood and/or the passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor-imposed restrictions that they be maintained permanently by Cheekwood. Generally, income earned on the investment of these funds is available for general or specific purposes.

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.

Cash and Cash Equivalents

Cheekwood considers all highly liquid instruments with original maturities when purchased of three months or less to be cash equivalents.

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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected in future years are 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 (4.03% and 4.62% in 2007 and 2006, respectively). 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

As of September 30, 2006, 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 2007 or 2006.

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 fair value of the services received.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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)

SEPTEMBER 30, 2007

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.

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.

Charitable Remainder Trusts

Cheekwood has remainder interests in 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. 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2006, 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.

NOTE 2 - INVESTMENTS

Investments consisted of the following at September 30:

	<u>2007</u>		<u>2006</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Money market funds	\$ 39,219	\$ 39,219	\$ 112,528	\$ 112,528
Mutual funds	<u>3,762,514</u>	<u>3,354,902</u>	<u>4,446,225</u>	<u>4,387,217</u>
	<u>\$ 3,801,733</u>	<u>\$ 3,394,121</u>	<u>\$ 4,558,753</u>	<u>\$ 4,499,745</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 2 - INVESTMENTS (CONTINUED)

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

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 97,010	\$ 112,267
Capital gain distributions	80,728	-
Realized and unrealized gains on investments - net	<u>458,065</u>	<u>200,910</u>
Total investment income	<u>\$ 635,803</u>	<u>\$ 313,177</u>

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2007</u>	<u>2006</u>
		(Restated - Note 15)
Pledges Receivable:		
Due in less than one year	\$ 513,458	\$ 226,542
Due in one to five years	<u>225,000</u>	<u>100,000</u>
	738,458	326,542
Less: Discount to present value	(20,774)	(4,506)
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
Total pledges receivable	<u>\$ 717,684</u>	<u>\$ 322,036</u>

Cheekwood is also beneficiary of a \$100,000 conditional promise to give which is conditioned upon satisfactory progress, at the donor's discretion, on the Massey Hall project and related fundraising campaign. Upon satisfaction of the conditions, this contribution is to be used to fund deferred maintenance on Massey Hall. The conditional promise has not been recognized as an asset in the statement of financial position.

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. An additional \$200,000 has been recognized in 2007. The Foundation has final authority over these donor recommendations, which are advisory only and, accordingly, the balance of these contributions will not be recognized until the period approved by the Foundation.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE (CONTINUED)

Other accounts receivable consisted of the following at September 30:

	<u>2007</u>	<u>2006</u>
Other Receivables:		
Beneficial interests in charitable trusts	\$ 560,549	\$ 543,301
Rental and catering clients	27,780	30,834
Swan Ball patrons	5,000	57,126
Deaccessioned art	-	62,174
Other	<u>2,667</u>	<u>15,967</u>
Total other receivables	<u>\$ 595,996</u>	<u>\$ 709,402</u>

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.

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, 2007

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>2007</u>	<u>2006</u>
Contributions	\$ 914,191	\$ 799,630
Special event revenues	1,898,511	1,363,373
Direct benefits to donors	<u>(1,007,968)</u>	<u>(470,701)</u>
Contributions and net revenues from special events	<u>\$ 1,804,734</u>	<u>\$ 1,692,302</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Land	\$ 2,620,000	\$ 520,000
Buildings	23,853,152	23,484,859
Equipment and furnishings	<u>2,401,796</u>	<u>2,129,237</u>
	28,874,948	26,134,096
Less accumulated depreciation	<u>10,534,731</u>	<u>9,998,836</u>
	<u>\$ 18,340,217</u>	<u>\$ 16,135,260</u>

In October 2007, Cheekwood sold certain property located on Highway 100 for \$378,250.

NOTE 6 - OPERATING LEASES

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

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 6 - OPERATING LEASES (CONTINUED)

A schedule of future minimum lease commitments under all noncancelable operating leases as of September 30, 2007, follows:

For the year ending September 30,

2008	\$ 24,735
2009	20,674
2010	<u>15,691</u>
Total future minimum lease payments	<u>\$ 61,100</u>

Total rental expense incurred under all such agreements amounted to \$30,171 for the year ended September 30, 2007 (\$37,714 in 2006).

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 4% (3% in 2006) of their annual compensation. Cheekwood's matching contributions for the year ended September 30, 2007 totaled \$48,501 (\$30,620 for the year ended September 30, 2006).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 8 - NET ASSETS

Unrestricted net assets consisted of the following at September 30:

	<u>2007</u>	<u>2006</u> (Restated - Note 15)
Accumulated deficit from unrestricted operations	\$ (3,325,283)	\$ (1,137,952)
Unexpended balance of cumulative distributions received from Swan Ball	412,668	400,514
Net assets of the Swan Ball	946,393	972,751
Amounts functioning as endowment	1,404,332	1,715,654
Amounts designated for restoration projects	30,934	65,117
Amounts designated for other projects	67,638	79,638
Amounts designated for property, plant, and equipment	<u>18,340,217</u>	<u>16,135,260</u>
	<u>\$ 17,876,899</u>	<u>\$ 18,230,982</u>

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

	<u>2007</u>	<u>2006</u> (Restated - Note 15)
Museum of Art	\$ 664,228	\$ 644,365
Botanical Garden	435,586	304,346
Beneficial interests in trusts	560,549	543,301
Owl's Hill Nature Sanctuary	-	106,687
Maintenance	680,667	430,494
Other	<u>160,357</u>	<u>156,793</u>
Total temporarily restricted net assets	<u>\$ 2,501,387</u>	<u>\$ 2,185,986</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 8 - NET ASSETS (CONTINUED)

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

	<u>2007</u>	<u>2006</u>
Endowment funds on which income is restricted	\$ 769,595	\$ 1,006,195
Endowment funds on which income is unrestricted	<u>1,758,457</u>	<u>1,732,457</u>
Total permanently restricted net assets	<u>\$ 2,528,052</u>	<u>\$ 2,738,652</u>

The decrease in permanently restricted net assets in 2007 resulted from the spin-out of the Owl's Hill Nature Sanctuary to a separate entity. (See Note 14.)

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains cash balances in bank deposit accounts at one financial institution which, at times, exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of high quality financial institutions.

At September 30, 2007, investments with account balances totaling \$3,801,733 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 covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

For the year ended September 30, 2007, pledges and contributions from two sources comprised \$422,000, or 32% of total pledges and accounts receivable, and \$694,000 or 24% of contribution revenue. For the year ended September 30, 2006, a pledge receivable from one source amounted to \$200,000, or 19% of total pledges and accounts receivable. Contributions from one source for the year ended September 30, 2007, represented 10% of contribution revenue (24% from two sources for the year ended September 30, 2006).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following as of September 30:

	<u>2007</u>	<u>2006</u>
Note payable requiring monthly interest payments on the outstanding principal balance at the rate of 1.1% above the LIBOR rate (6.22% at September 30, 2007). All unpaid principal and interest are due May 4, 2008. Cheekwood's deposits and securities are pledged as collateral for this loan.	\$ 559,747	\$ 571,747
\$700,000 line of credit requiring monthly interest payments on the outstanding principal balance at the rate of 2.0% above the LIBOR rate (7.12% at September 30, 2007). All unpaid principal and interest are due May 5, 2008. Effective October 31, 2007, the maximum available credit was reduced to \$500,000.	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 \$74,096 at September 30, 2007, is pledged as collateral for this loan.	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 \$16,186 at September 30, 2007, is pledged as collateral for this loan.	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.	1,480,000	-
	<u>\$ 2,314,605</u>	<u>\$ 571,747</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 10 - NOTES PAYABLE (CONTINUED)

A schedule of annual principal maturities of all notes payable as of September 30, 2007, follows:

For the year ending September 30,

2008	\$ 766,842
2009	1,503,692
2010	18,351
2011	19,045
2012	<u>6,675</u>
	<u>\$ 2,314,605</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 \$5,200 during the year ended September 30, 2007 (approximately \$3,600 during the year ended September 30, 2006). Total assets held in these funds amounted to \$115,643 and \$102,076 at September 30, 2007 and 2006, 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 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 year ended September 30, 2007 (\$116,894 for the year ended September 30, 2006).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 13 - OTHER MATTERS

Cheekwood routinely 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. Such revenues and expenses for the year ended September 30, 2006, totaled \$203,047 and \$200,798, respectively.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2007

NOTE 15 - RESTATEMENT OF PRIOR YEAR

Prior period adjustments have been made to net assets as of September 30, 2006, and the 2006 financial statements have been restated, in order to properly reflect pledges and accounts receivable as of September 30, 2006, and contributions for the year then ended, and to reclassify certain net assets from unrestricted to temporarily restricted. One adjustment related to a pledge recognized as contribution support and revenue in the amount of \$453,558 in the 2006 fiscal year that was subsequently determined to be a conditional promise to give. Under generally accepted accounting principles, conditional promises are not recognized until the conditions are substantially met. (See second paragraph of Note 3 for related disclosure.) The other adjustment was made to reclassify \$200,000 of net assets previously classified as unrestricted that were subsequently determined to be restricted. The effects of the restatement were (i) to decrease total assets, revenues and the change in net assets by \$453,558 as of and for the year ended September 30, 2006, and (ii) to decrease unrestricted and temporarily restricted net assets by \$200,000 and \$253,558, respectively, as of September 30, 2006. A schedule summarizing the restatement follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance - September 30, 2006, as previously reported	\$ 18,430,982	\$ 2,439,544	\$ 2,738,652	\$ 23,609,178
Prior period adjustments:				
To properly reflect contributions receivable	-	(453,558)	-	(453,558)
To reclassify unrestricted net assets as temporarily restricted	<u>(200,000)</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
Balance - September 30, 2006, as restated	<u>\$ 18,230,982</u>	<u>\$ 2,185,986</u>	<u>\$ 2,738,652</u>	<u>\$ 23,155,620</u>

NOTE 16 - 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, 2007. 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 retained earnings in the period of adoption. Cheekwood is currently evaluating the impact, if any, of the adoption of FIN 48 on the financial statements.

ADDITIONAL INFORMATION