

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2005

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT .....	1
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position .....	2
Statement of Activities .....	3
Statements of Cash Flows.....	4
Statement of Functional Expenses.....	5
Notes to Financial Statements .....	6 - 18
 <u>ADDITIONAL INFORMATION</u>	
Independent Auditors' Report on Additional Information .....	19
Swan Ball Statements of Financial Position.....	20
Swan Ball Statement of Activities.....	21



## 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, 2005 and 2004, the related statements of activities and functional expenses for the year ended September 30, 2005, and the statements of cash flows for the years ended September 30, 2005 and 2004. 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 2004 financial statements and, in our report dated November 5, 2004, 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, 2005 and 2004, the changes in its net assets for the year ended September 30, 2005, and its cash flows for the years ended September 30, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

*Kraft CPAs PLLC*

Nashville, Tennessee  
November 11, 2005

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 9	\$ 1,553,893	\$ 628,855
Investments, at market value - Note 2	4,366,105	4,110,766
Pledges and accounts receivable - Note 3	1,326,997	1,360,509
Inventories	89,376	141,764
Prepaid expenses	91,620	76,365
Cash surrender value of life insurance policy	557,416	504,901
Property, plant and equipment, net - Note 5	<u>16,256,014</u>	<u>16,878,964</u>
TOTAL ASSETS	<u>\$ 24,241,421</u>	<u>\$ 23,702,124</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 499,204	\$ 696,393
Notes payable - Note 10	600,405	601,866
Unearned revenue	<u>105,369</u>	<u>124,226</u>
TOTAL LIABILITIES	<u>1,204,978</u>	<u>1,422,485</u>
COMMITMENTS - Note 6		
NET ASSETS - Note 8		
Unrestricted	18,283,939	17,913,128
Temporarily restricted	2,074,142	1,706,743
Permanently restricted	<u>2,678,362</u>	<u>2,659,768</u>
TOTAL NET ASSETS	<u>23,036,443</u>	<u>22,279,639</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,241,421</u>	<u>\$ 23,702,124</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2005	2004
<b>SUPPORT AND REVENUES</b>					
Contributions	\$ 903,507	\$ 656,971	\$ 109,254	\$ 1,669,732	\$ 1,864,781
Grants	266,250	25,000	-	291,250	273,000
Contributions and net revenues from special events - Note 4	1,657,439	-	-	1,657,439	1,325,401
In-kind contributions	184,719	-	-	184,719	94,958
Volunteer fundraising	368,671	-	882	369,553	381,119
Admission fees	259,755	-	-	259,755	266,011
Membership dues	485,959	-	-	485,959	419,629
Educational programs	171,988	-	-	171,988	222,298
Restaurant and gift shop	1,145,392	-	-	1,145,392	1,222,264
Rental income	500,935	-	-	500,935	517,436
Increase in cash surrender value of life insurance	52,515	-	-	52,515	51,045
Investment income - net	302,964	101,095	-	404,059	356,817
Sale of art	-	-	-	-	74
Miscellaneous income	16,028	-	-	16,028	10,725
Gain on sale of property	166,312	-	-	166,312	-
Net assets released resulting from satisfaction of donor restrictions - Note 8	507,209	(415,667)	(91,542)	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>6,989,643</u>	<u>367,399</u>	<u>18,594</u>	<u>7,375,636</u>	<u>7,005,558</u>
<b>FUNCTIONAL EXPENSES</b>					
Program services	4,993,458	-	-	4,993,458	5,492,424
Administrative	711,523	-	-	711,523	978,063
Fundraising	913,851	-	-	913,851	944,242
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>6,618,832</u>	<u>-</u>	<u>-</u>	<u>6,618,832</u>	<u>7,414,729</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	370,811	367,399	18,594	756,804	(409,171)
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>17,913,128</u>	<u>1,706,743</u>	<u>2,659,768</u>	<u>22,279,639</u>	<u>22,688,810</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 18,283,939</u>	<u>\$ 2,074,142</u>	<u>\$ 2,678,362</u>	<u>\$ 23,036,443</u>	<u>\$ 22,279,639</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 756,804	\$ (409,171)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	635,031	654,406
Restricted contributions	(18,594)	(51,134)
Increase in cash surrender value of life insurance	(52,515)	(51,045)
Gain on sale of property	(166,312)	-
Realized and unrealized gains on investments	(300,640)	(266,239)
(Increase) decrease in:		
Pledges and accounts receivable	33,512	(367,694)
Inventories	52,388	15,098
Prepaid expenses	(15,255)	111,068
Increase (decrease) in:		
Accounts payable and accrued expenses	(197,189)	133,953
Unearned revenue	(18,857)	82,633
TOTAL ADJUSTMENTS	<u>(48,431)</u>	<u>261,046</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>708,373</u>	<u>(148,125)</u>
INVESTING ACTIVITIES		
Purchases of investment securities	(159,699)	(83,462)
Proceeds from sale of investment securities	205,000	269,370
Proceeds from sale of property	351,014	-
Purchase of property, plant and equipment	<u>(196,783)</u>	<u>(171,276)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>199,532</u>	<u>14,632</u>
FINANCING ACTIVITIES		
Proceeds from restricted contributions	18,594	51,134
Collections of contributions receivable for Capital Campaign	-	41,550
Net payments on notes payable	<u>(1,461)</u>	<u>(4,631)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>17,133</u>	<u>88,053</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	925,038	(45,440)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>628,855</u>	<u>674,295</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,553,893</u>	<u>\$ 628,855</u>
Interest paid	<u>\$ 26,297</u>	<u>\$ 17,184</u>

See accompanying notes to financial statements.

# CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2004

	Program Services			Supporting Services			Totals
	Exhibitions and Programs	Owl's Hill Nature Sanctuary	Restaurant and Gift Shops	Total	Administrative	Fundraising	
Salaries	\$ 1,233,938	\$ 97,006	\$ 500,655	\$ 1,831,599	\$ 271,386	\$ 174,428	\$ 2,277,413
Employee benefits and payroll taxes	198,774	16,381	67,546	282,701	63,943	38,412	385,056
Total Salaries and Related Expenses	1,432,712	113,387	568,201	2,114,300	335,329	212,840	2,662,469
Advertising	269,954	613	3,716	274,283	2,068	65	276,416
Art objects purchased	167,373	-	-	167,373	-	-	167,373
Bad debt expense	-	500	9,251	9,751	-	41,113	50,864
Bank charges	7,147	3,466	28,588	39,201	10,851	2,858	52,910
Cost of goods sold	-	3,244	688,884	692,128	-	-	692,128
Depreciation	505,430	14,399	7,997	527,826	94,713	12,492	635,031
Donor/volunteer recognition	-	2,746	-	2,746	71	2,974	5,791
Dues and subscriptions	2,751	377	120	3,248	6,254	1,039	10,541
Exhibitions and public programs	216,604	11,940	520	229,064	-	2,855	231,919
Insurance	96,697	2,091	3,137	101,925	13,216	-	115,141
Interest expense	47	20	3	70	26,875	-	26,945
Security, maintenance and vehicle expense	144,655	6,075	21,003	171,733	25,395	5,216	202,344
Miscellaneous	-	-	-	-	1,096	218	1,314
Travel, meals and entertainment	17,267	1,679	1,183	20,129	15,767	1,590	37,486
Equipment rental and small office equipment	10,051	2,465	11,826	24,342	32,631	744	57,717
Printing, postage and stationery	28,513	4,113	1,919	34,545	3,486	29,532	67,563
Professional fees and contract services	31,946	8,699	100,183	140,828	91,651	19,672	252,151
Staff development	2,749	-	101	2,850	3,173	10	6,033
Special events and projects	9,058	-	-	9,058	-	558,065	567,123
Supplies	96,951	7,487	53,778	158,216	7,404	7,493	173,113
Taxes and permits	175	10	7,633	7,818	11,796	300	19,914
Telephone	15,567	3,685	3,391	22,643	10,464	6,005	39,112
Utilities	215,360	1,356	22,665	239,381	19,283	8,770	267,434
Total Functional Expenses	\$ 3,271,007	\$ 188,352	\$ 1,534,099	\$ 4,993,458	\$ 711,523	\$ 913,851	\$ 6,618,832
							\$ 7,414,729

See accompanying notes to financial statements.

# CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

### 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, 2005

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

Art objects, which were acquired through purchases and contributions since Cheekwood's inception, are not included 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. Contributed collection items are recorded on the financial statements at estimated fair value as an unrestricted in-kind contribution and corresponding art objects purchased expense.

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 activities of the unrestricted net assets class.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

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 (4.18% in 2005). 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

Cheekwood is owner and beneficiary of a \$1 million whole life insurance policy which was contributed to Cheekwood by one of its donors. Cash surrender value for this policy is reported in the Statement of Financial Position as an asset. Changes in cash surrender value, net of any premiums paid, are recognized 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.

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 2005 or 2004.

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, 2005

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

##### Income Taxes

Cheekwood is exempt from federal income taxes on related income 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. Horticulture Society of Middle Tennessee (see Note 4) is an exempt organization under Section 501(c)(3) and files a separate federal Form 990.

##### 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 of 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.

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, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supporting Services

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

Rental income is derived from rental of the Cheekwood campus for weddings, receptions, etc. Other revenues are received for events, classes, sponsorships, etc. Any revenues received in advance are deferred initially 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 contributions.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

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 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, 2004, 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

A summary of investments at September 30, 2005 and 2004, follows:

	2005		2004	
	Market	Cost	Market	Cost
Money market funds	\$ 140,421	\$ 140,421	\$ 247,410	\$ 247,410
U.S. Government bonds and notes	-	-	5,000	5,000
Equity securities	1,335,453	1,011,031	2,599,662	2,172,067
Mutual funds	2,890,231	2,790,217	1,258,694	1,227,912
	<u>\$ 4,366,105</u>	<u>\$ 3,941,669</u>	<u>\$ 4,110,766</u>	<u>\$ 3,652,389</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 2 - INVESTMENTS (CONTINUED)

A summary of investment income for the years ended September 30, 2005 and 2004, follows:

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 103,419	\$ 90,578
Realized and unrealized gains on investments - net	<u>300,640</u>	<u>266,239</u>
Total investment income	<u>\$ 404,059</u>	<u>\$ 356,817</u>

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2005</u>	<u>2004</u>
Pledges Receivable:		
Due in less than one year	\$ 388,011	\$ 347,060
Due in one to five years	<u>250,000</u>	<u>-</u>
	638,011	347,060
Less: Discount to present value	<u>(24,716)</u>	<u>-</u>
Total pledges receivable	<u>\$ 613,295</u>	<u>\$ 347,060</u>

In addition, Cheekwood received a \$200,000 conditional promise to give which is conditioned upon satisfactory progress on the Massey Hall project and the fundraising campaign. Upon satisfaction of the conditions, this contribution is to be used to fund deferred maintenance on Massey Hall. It has not been recognized as an asset in the statement of financial position.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE (CONTINUED)

Other accounts receivable consisted of the following at September 30:

	<u>2005</u>	<u>2004</u>
Other Receivables:		
Beneficial interests in charitable trusts	\$ 541,301	\$ 517,887
Rental and catering clients	52,051	401,127
Swan Ball patrons	104,159	59,989
Other	<u>16,191</u>	<u>34,446</u>
Total other receivables	<u>\$ 713,702</u>	<u>\$ 1,013,449</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. 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, 2005

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>2005</u>	<u>2004</u>
Contributions	\$ 760,964	\$ 723,692
Special event revenues	1,290,275	1,109,940
Direct benefits to donors	<u>(393,800)</u>	<u>(508,231)</u>
Contributions and net revenues from special events	<u>\$ 1,657,439</u>	<u>\$ 1,325,401</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

A summary of plant and equipment at September 30, 2005 and 2004, follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 520,000	\$ 520,000
Buildings	23,140,342	23,255,447
Equipment and furnishings	<u>1,921,817</u>	<u>1,816,999</u>
	25,582,159	25,592,446
Less accumulated depreciation	<u>9,326,145</u>	<u>8,713,482</u>
	<u>\$ 16,256,014</u>	<u>\$ 16,878,964</u>

During 2005, Cheekwood sold certain property at 105 Cheek Road for \$351,014. The resulting gain of \$166,312 has been recognized in the accompanying Statement of Activities.

NOTE 6 - OPERATING LEASES

Cheekwood leases some of its office, restaurant, and gift shop equipment under non-cancelable operating leases with monthly rental expense of approximately \$7,020.



CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 6 - OPERATING LEASES (CONTINUED)

As of September 30, 2005, aggregate future minimum lease commitments for various office, restaurant, and gift shop equipment are as follows:

For the year ending September 30,

2006	\$	35,960
2007		22,820
2008		8,032
2009		<u>942</u>
Total future minimum lease payments	\$	<u>67,754</u>

Total rental expense incurred under all such agreements amounted to \$40,337 for the year ended September 30, 2005 (\$37,081 in 2004).

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. Cheekwood's contribution equals 50% of the employees' contribution, limited to 2.5% of their annual compensation. Cheekwood's matching contributions for the year ended September 30, 2005 totaled \$27,390 (\$29,057 for the year ended September 30, 2004).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 8 - NET ASSETS

Unrestricted net assets at September 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Accumulated deficit from unrestricted operations	\$ (692,639)	\$ (959,874)
Unexpended balance of cumulative distributions received from Swan Ball	350,966	86,000
Net assets of the Swan Ball	740,968	513,465
Amounts functioning as endowment	1,628,630	1,394,573
Amounts designated for property, plant, and equipment	<u>16,256,014</u>	<u>16,878,964</u>
	<u>\$ 18,283,939</u>	<u>\$ 17,913,128</u>

Temporarily restricted net assets at September 30, 2005 and 2004, are available for the following general purposes:

	<u>2005</u>	<u>2004</u>
Museum of Art	\$ 468,340	\$ 351,092
Botanical Garden	330,124	370,611
Beneficial interests in trusts	541,301	517,887
Owl's Hill Nature Sanctuary	103,433	97,175
Marketing activities	-	150,000
Maintenance	489,784	-
Other	<u>141,160</u>	<u>219,978</u>
Total temporarily restricted net assets	<u>\$ 2,074,142</u>	<u>\$ 1,706,743</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 8 - NET ASSETS (CONTINUED)

Permanently restricted net assets at September 30, 2005 and 2004, are comprised of the following:

	<u>2005</u>	<u>2004</u>
Endowment funds on which income is restricted	\$ 945,985	\$ 850,789
Endowment funds on which income is unrestricted	<u>1,732,377</u>	<u>1,808,979</u>
Total permanently restricted net assets	<u>\$ 2,678,362</u>	<u>\$ 2,659,768</u>

During the 2005 fiscal year, management determined that \$91,542 in contributions previously recorded as permanently restricted were, in fact, Board designated and, therefore, unrestricted. Accordingly, the amount was reclassified from permanently restricted to unrestricted net assets in 2005.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains its cash balances in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2005, approximately \$1,667,000 was uninsured.

At September 30, 2005, investments with account balances totaling \$4,366,105 were managed by two brokerage and investment companies. These investments consist of money market funds, equities, 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, 2005, a pledge receivable from one source amounted to \$300,000, or 23% of total pledges and accounts receivable, and 18% of contribution revenue. For the year ended September 30, 2004, combined contributions from two sources amounted to \$500,000, or 27% of contributions revenue (there were no concentrations of receivables in 2004).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2005

NOTE 10 - NOTES PAYABLE

At September 30, 2004, and during most of the year ended September 30, 2005, Cheekwood had two lines of credit with a local bank, in the amounts of \$600,000 and \$500,000. Both lines matured in May 2005, one converting to a single principal payment loan in the principal amount of \$572,647, and the other continuing as a line of credit in the amount of \$700,000. The single principal payment loan requires monthly interest payments on the outstanding principal balance at the rate of 1.1% above the LIBOR rate (4.79% effective rate at September 30, 2005) with the principal payment due on May 4, 2006. Cheekwood's deposits and securities are pledged as collateral for this loan. At September 30, 2005, the outstanding balance was \$572,647 (\$574,897 at September 30, 2004).

The line of credit requires monthly interest payments on the outstanding principal balance at the rate of 2.5% above the LIBOR rate (6.19% effective rate at September 30, 2005) with the principal payment due on May 4, 2006. At September 30, 2005, the outstanding balance on the line was \$27,758 (\$26,969 at September 30, 2004).

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 \$3,540 during the year ended September 30, 2005 (approximately \$3,180 during the year ended September 30, 2004). Total assets held in these funds amounted to \$98,858 and \$96,301 at September 30, 2005 and 2004, 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.

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.

ADDITIONAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Board of Directors  
Cheekwood Botanical Garden  
and Museum of Art

Our report on our audits of the basic financial statements of Cheekwood Botanical Garden and Museum of Art ("Cheekwood") for the years ended September 30, 2005 and 2004, appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following statements of financial position of the Swan Ball (a component of Cheekwood) as of September 30, 2005 and 2004, and the related statement of activities for the year ended September 30, 2005, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The prior year summarized comparative information was derived from the Swan Ball's 2004 financial statements, which were a component of Cheekwood's 2004 financial statements. Such information has been subjected to the auditing procedures applied in the audits 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  
November 11, 2005

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 652,326	\$ 543,559
Pledges and accounts receivable	104,159	59,989
Prepaid expenses	<u>28,833</u>	<u>19,444</u>
TOTAL ASSETS	<u>\$ 785,318</u>	<u>\$ 622,992</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 44,350	\$ 109,527
<u>NET ASSETS</u>		
Unrestricted	<u>740,968</u>	<u>513,465</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 785,318</u>	<u>\$ 622,992</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2004

	<u>Dinner and Parties</u>	<u>Auction</u>	<u>Exhibits</u>	<u>Other</u>	<u>Totals</u>	
					<u>2005</u>	<u>2004</u>
CONTRIBUTIONS AND NET REVENUES						
Contributions	\$ 760,964	\$ -	\$ -	\$ -	\$ 760,964	\$ 723,692
Revenues from special events	690,738	549,054	20,529	29,954	1,290,275	1,109,940
Less direct benefits to donors	<u>(312,723)</u>	<u>(81,077)</u>	<u>-</u>	<u>-</u>	<u>(393,800)</u>	<u>(508,231)</u>
 TOTAL CONTRIBUTIONS AND NET REVENUES	 <u>1,138,979</u>	 <u>467,977</u>	 <u>20,529</u>	 <u>29,954</u>	 <u>1,657,439</u>	 <u>1,325,401</u>
 FUNDRAISING EXPENSES						
Properties and staging	397,508	-	-	-	397,508	469,817
Special features	78,527	-	11,335	1,408	91,270	77,153
Administrative	<u>58,061</u>	<u>7,522</u>	<u>-</u>	<u>-</u>	<u>65,583</u>	<u>63,900</u>
 TOTAL FUNDRAISING EXPENSES	 <u>534,096</u>	 <u>7,522</u>	 <u>11,335</u>	 <u>1,408</u>	 <u>554,361</u>	 <u>610,870</u>
 EXCESS OF CONTRIBUTIONS AND NET REVENUES OVER FUNDRAISING EXPENSES	 <u>\$ 604,883</u>	 <u>\$ 460,455</u>	 <u>\$ 9,194</u>	 <u>\$ 28,546</u>	 1,103,078	 714,531
 CONTRIBUTIONS TO CHEEKWOOD					<u>(875,575)</u>	<u>(649,000)</u>
 INCREASE IN NET ASSETS					227,503	65,531
 NET ASSETS - BEGINNING OF YEAR					<u>513,465</u>	<u>447,934</u>
 NET ASSETS - END OF YEAR					<u>\$ 740,968</u>	<u>\$ 513,465</u>