

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2006

CHEEKWOOD BOTANICAL GARDEN  
AND MUSEUM OF ART

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORTS

SEPTEMBER 30, 2006

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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, 2006 and 2005, the related statements of activities and functional expenses for the year ended September 30, 2006, and the statements of cash flows for the years ended September 30, 2006 and 2005. 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 2005 financial statements and, in our report dated November 11, 2005, 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, 2006 and 2005, the changes in its net assets for the year ended September 30, 2006, and its cash flows for the years ended September 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the 2005 financial statements have been restated to correct the presentation of the purchase of collection items in the statement of cash flows and the reporting of in-kind contributions of collection items in the statement of activities.

Nashville, Tennessee  
November 10, 2006

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents - Note 9	\$ 1,843,857	\$ 1,553,893
Investments, at market value - Note 2	4,558,753	4,366,105
Pledges and accounts receivable - Note 3	1,484,996	1,326,997
Inventories	107,043	89,376
Prepaid expenses	88,639	91,620
Cash surrender value of life insurance	610,726	557,416
Property, plant and equipment, net - Note 5	<u>16,135,260</u>	<u>16,256,014</u>
 TOTAL ASSETS	 <u>\$ 24,829,274</u>	 <u>\$ 24,241,421</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable and accrued expenses	\$ 572,702	\$ 499,204
Notes payable - Note 10	571,747	600,405
Unearned revenue	<u>75,647</u>	<u>105,369</u>
 TOTAL LIABILITIES	 <u>1,220,096</u>	 <u>1,204,978</u>
 COMMITMENTS - Note 6		
 NET ASSETS - Notes 8 and 14		
Unrestricted	18,430,982	18,283,939
Temporarily restricted	2,439,544	2,074,142
Permanently restricted	<u>2,738,652</u>	<u>2,678,362</u>
 TOTAL NET ASSETS	 <u>23,609,178</u>	 <u>23,036,443</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 24,829,274</u>	 <u>\$ 24,241,421</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2006</u>	<u>2005</u>
					(Restated - Note 15)
SUPPORT AND REVENUES					
Contributions	\$ 1,024,199	\$ 815,857	\$ 60,290	\$ 1,900,346	\$ 1,669,732
Grants	261,340	-	-	261,340	291,250
Contributions and net revenues from special events - Note 4	1,692,302	-	-	1,692,302	1,657,439
In-kind contributions	67,997	-	-	67,997	60,919
Volunteer fundraising	245,421	-	-	245,421	369,553
Admission fees	216,915	-	-	216,915	259,755
Membership dues	500,257	-	-	500,257	485,959
Educational programs	174,484	-	-	174,484	171,988
Restaurant and gift shop	1,141,676	-	-	1,141,676	1,145,392
Rental income	456,341	-	-	456,341	500,935
Increase in cash surrender value of life insurance	53,310	-	-	53,310	52,515
Investment income - net - Note 2	148,597	164,580	-	313,177	404,059
Sale of art - Note 12	-	116,894	-	116,894	-
Miscellaneous income	34,620	-	-	34,620	16,028
Gain on sale of property - Note 5	-	-	-	-	166,312
Net assets released resulting from satisfaction of donor restrictions - Note 8	<u>731,929</u>	<u>(731,929)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>6,749,388</u>	 <u>365,402</u>	 <u>60,290</u>	 <u>7,175,080</u>	 <u>7,251,836</u>
 FUNCTIONAL EXPENSES					
Program services	4,968,709	-	-	4,968,709	4,869,658
Administrative	585,566	-	-	585,566	711,523
Fundraising	<u>1,048,070</u>	<u>-</u>	<u>-</u>	<u>1,048,070</u>	<u>913,851</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>6,602,345</u>	 <u>-</u>	 <u>-</u>	 <u>6,602,345</u>	 <u>6,495,032</u>
 INCREASE IN NET ASSETS	 147,043	 365,402	 60,290	 572,735	 756,804
 NET ASSETS - BEGINNING OF YEAR	 <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>
 NET ASSETS - END OF YEAR	 <u>\$ 18,430,982</u>	 <u>\$ 2,439,544</u>	 <u>\$ 2,738,652</u>	 <u>\$ 23,609,178</u>	 <u>\$ 23,036,443</u>

See accompanying notes to financial statements.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
		(Restated - Note 15)
OPERATING ACTIVITIES		
Change in net assets	\$ 572,735	\$ 756,804
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	672,691	635,031
Contributions restricted for long-term purposes	(410,290)	(18,594)
Cash paid for collection items charged to expense	-	43,573
Increase in cash surrender value of life insurance	(53,310)	(52,515)
Gain on sale of property	-	(166,312)
Gain from sale of art	(116,894)	-
Realized and unrealized gains on investments	(200,910)	(300,640)
(Increase) decrease in:		
Pledges and accounts receivable	(157,999)	33,512
Inventories	(17,667)	52,388
Prepaid expenses	2,981	(15,255)
Increase (decrease) in:		
Accounts payable and accrued expenses	73,498	(197,189)
Unearned revenue	(29,722)	(18,857)
TOTAL ADJUSTMENTS	<u>(237,622)</u>	<u>(4,858)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>335,113</u>	<u>751,946</u>
INVESTING ACTIVITIES		
Purchases of investment securities	(166,738)	(159,699)
Purchase of collection items	-	(43,573)
Proceeds from sale of investment securities	175,000	205,000
Proceeds from sale of property	-	351,014
Proceeds from sale of art	116,894	-
Purchase of property, plant and equipment	<u>(551,937)</u>	<u>(196,783)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(426,781)</u>	<u>155,959</u>
FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in permanently restricted net assets	60,290	18,594
Investment in capital improvements	350,000	-
Net payments on notes payable	<u>(28,658)</u>	<u>(1,461)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>381,632</u>	<u>17,133</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	289,964	925,038
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,553,893</u>	<u>628,855</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,843,857</u>	<u>\$ 1,553,893</u>
Interest paid	<u>\$ 42,709</u>	<u>\$ 26,297</u>
CERTAIN NON-CASH ACTIVITIES		
Noncash contributions of collection items	<u>\$ 192,100</u>	<u>\$ 123,800</u>

See accompanying notes to financial statements.

# CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

## STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2005

	Program Services				Supporting Services		Totals	
	Exhibitions and Programs	Owl's Hill Nature Sanctuary	Restaurant and Gift Shops	Total	Administrative	Fundraising	2006	2005
	\$ 1,501,140	\$ 123,452	\$ 612,258	\$ 2,236,850	\$ 275,850	\$ 263,042	\$ 2,775,742	\$ 2,667,628
Personnel								
Professional fees and contract services	60,552	8,623	106,883	176,058	40,934	13,585	230,577	252,151
Exhibitions and public programs	216,891	11,474	370	228,735	3,071	1,113	232,919	251,642
Special events and projects	40,557	7,356	-	47,913	-	645,171	693,084	650,347
Communication, advertising and donor cultivation	308,309	9,397	8,327	326,033	25,177	74,524	425,734	417,433
Utilities	280,084	1,944	36,865	318,893	1,857	10,047	330,797	267,435
Maintenance and repairs	83,901	4,164	24,414	112,479	15,367	1,891	129,737	125,265
Equipment	32,538	2,978	23,059	58,575	31,382	4,090	94,047	102,012
Supplies	22,242	1,177	53,491	76,910	6,851	6,601	90,362	91,547
Travel	18,645	2,709	1,242	22,596	3,953	5,628	32,177	21,426
Insurance	100,754	2,239	3,468	106,461	19,168	-	125,629	115,141
Interest expense and bank fees	7,293	2,739	24,997	35,029	48,256	5,658	88,943	79,548
Permits/fees/miscellaneous	5,219	2,599	11,863	19,681	14,789	2,229	36,699	31,862
Bad debt expense	-	-	873	873	-	300	1,173	50,864
Cost of goods sold	-	4,564	637,470	642,034	-	-	642,034	692,127
Depreciation	532,565	15,383	11,641	559,589	98,911	14,191	672,691	635,031
Collection items purchased	-	-	-	-	-	-	-	43,573
Total Functional Expenses	\$ 3,210,690	\$ 200,798	\$ 1,557,221	\$ 4,968,709	\$ 585,566	\$ 1,048,070	\$ 6,602,345	\$ 6,495,032

See accompanying notes to financial statements

# CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

### 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, 2006

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 included in the accompanying statements of financial position. The costs 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 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, 2006

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 (4.62% and 4.18% in 2006 and 2005, 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

Cheekwood is owner and beneficiary of an annual premium \$1 million whole life insurance policy which was contributed to Cheekwood by one of its donors. The donor has made contributions to cover the annual premium cost. Cash surrender value for this policy is reported in the Statement of Financial Position as an asset. Changes in cash surrender value 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.

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 2006 or 2005.

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, 2006

### 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 and 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 is expected to separate 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, 2006

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. 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, 2006

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, 2005, 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>2006</u>		<u>2005</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Money market funds	\$ 112,528	\$ 112,528	\$ 140,421	\$ 140,421
Equity securities	-	-	1,335,453	1,011,031
Mutual funds	<u>4,446,225</u>	<u>4,387,217</u>	<u>2,890,231</u>	<u>2,790,217</u>
	<u>\$ 4,558,753</u>	<u>\$ 4,499,745</u>	<u>\$ 4,366,105</u>	<u>\$ 3,941,669</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 2 - INVESTMENTS (CONTINUED)

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

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 112,267	\$ 103,419
Realized and unrealized gains on investments - net	<u>200,910</u>	<u>300,640</u>
Total investment income	<u>\$ 313,177</u>	<u>\$ 404,059</u>

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE

Pledges receivable consisted of the following at September 30:

	<u>2006</u>	<u>2005</u>
Pledges Receivable:		
Due in less than one year	\$ 426,542	\$ 388,011
Due in one to five years	<u>400,000</u>	<u>250,000</u>
	826,542	638,011
Less: Discount to present value	<u>(50,948)</u>	<u>(24,716)</u>
Total pledges receivable	<u>\$ 775,594</u>	<u>\$ 613,295</u>

Cheekwood has also received a \$200,000 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 BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 3 - PLEDGES AND ACCOUNTS RECEIVABLE (CONTINUED)

Other accounts receivable consisted of the following at September 30:

	<u>2006</u>	<u>2005</u>
Other Receivables:		
Beneficial interests in charitable trusts	\$ 543,301	\$ 541,301
Rental and catering clients	30,834	52,051
Swan Ball patrons	57,126	104,159
Deaccessed art	62,174	-
Other	<u>15,967</u>	<u>16,191</u>
Total other receivables	<u>\$ 709,402</u>	<u>\$ 713,702</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, 2006

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>2006</u>	<u>2005</u>
Contributions	\$ 799,630	\$ 760,964
Special event revenues	1,363,373	1,290,275
Direct benefits to donors	<u>(470,701)</u>	<u>(393,800)</u>
Contributions and net revenues from special events	<u>\$ 1,692,302</u>	<u>\$ 1,657,439</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Land	\$ 520,000	\$ 520,000
Buildings	23,484,859	23,140,342
Equipment and furnishings	<u>2,129,237</u>	<u>1,921,817</u>
	26,134,096	25,582,159
Less accumulated depreciation	<u>9,998,836</u>	<u>9,326,145</u>
	<u>\$ 16,135,260</u>	<u>\$ 16,256,014</u>

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

NOTE 6 - OPERATING LEASES

Cheekwood leases a portion of its office, restaurant, and gift shop equipment under non-cancelable operating leases with monthly rental expense of approximately \$2,400.



CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 6 - OPERATING LEASES (CONTINUED)

A schedule of future minimum lease commitments under all noncancelable operating leases as of September 30, 2006, follows:

For the year ending September 30,

2007	\$ 28,428
2008	9,368
2009	<u>2,218</u>
Total future minimum lease payments	<u>\$ 40,014</u>

Total rental expense incurred under all such agreements amounted to \$37,714 for the year ended September 30, 2006 (\$51,206 in 2005).

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 100% of the employees' contribution, limited to 3% of their annual compensation. Cheekwood's matching contributions for the year ended September 30, 2006 totaled \$30,620 (\$27,390 for the year ended September 30, 2005).

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 8 - NET ASSETS

Unrestricted net assets consisted of the following at September 30:

	<u>2006</u>	<u>2005</u>
Accumulated deficit from unrestricted operations	\$ (793,197)	\$ (692,639)
Unexpended balance of cumulative distributions received from Swan Ball	400,514	350,966
Net assets of the Swan Ball	972,751	740,968
Amounts functioning as endowment	1,715,654	1,628,630
Amounts designated for property, plant, and equipment	<u>16,135,260</u>	<u>16,256,014</u>
	<u>\$ 18,430,982</u>	<u>\$ 18,283,939</u>

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

	<u>2006</u>	<u>2005</u>
Museum of Art	\$ 644,365	\$ 468,340
Botanical Garden	304,346	330,124
Beneficial interests in trusts	543,301	541,301
Owl's Hill Nature Sanctuary	106,687	103,433
Marketing activities	100,000	-
Maintenance	584,052	489,784
Other	<u>156,793</u>	<u>141,160</u>
Total temporarily restricted net assets	<u>\$ 2,439,544</u>	<u>\$ 2,074,142</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 8 - NET ASSETS (CONTINUED)

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

	<u>2006</u>	<u>2005</u>
Endowment funds on which income is restricted	\$ 1,006,195	\$ 945,985
Endowment funds on which income is unrestricted	<u>1,732,457</u>	<u>1,732,377</u>
Total permanently restricted net assets	<u>\$ 2,738,652</u>	<u>\$ 2,678,362</u>

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Cheekwood maintains its cash balances in bank deposit accounts which, at times, exceed federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At September 30, 2006, approximately \$1,626,000 was uninsured.

At September 30, 2006, investments with account balances totaling \$4,558,753 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, 2006, a pledge receivable from one source amounted to \$500,000, or 34% of total pledges and accounts receivable, and 27% of contribution revenue. 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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 10 - NOTES PAYABLE

At September 30, 2006, and 2005, Cheekwood had a \$700,000 line of credit and a term loan with a local bank. Both loans mature May 4, 2007.

The line of credit requires monthly interest payments on the outstanding principal balance at the rate of 2.5% above the LIBOR rate (7.83% effective rate at September 30, 2006). At September 30, 2006, the outstanding balance on the line was zero (\$27,758 at September 30, 2005).

The term loan had a balance of \$571,747 and \$572,647 at September 30, 2006 and 2005, respectively. Monthly interest payments on the outstanding principal balance are required at the rate of 1.1% above the LIBOR rate (6.43% effective rate at September 30, 2006). Cheekwood's deposits and securities are pledged as collateral for this loan.

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 \$3,600 during the year ended September 30, 2006 (approximately \$3,540 during the year ended September 30, 2005). Total assets held in these funds amounted to \$102,076 and \$98,858 at September 30, 2006 and 2005, 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. Proceeds from the sale of certain art collections amounted to \$116,894 for the year ended September 30, 2006 (\$0 for the year ended September 30, 2005).

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.

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SEPTEMBER 30, 2006

NOTE 14 - OWL'S HILL

During fiscal year 2006, Owl's Hill Nature Sanctuary filed for Section 501(c)(3) status as a not-for-profit organization and expects to receive a determination letter from the IRS in 2007. Cheekwood's Board of Directors has approved contribution of certain assets and liabilities relating to the Owl's Hill program to the new entity, subject to its receipt of tax-exempt status.

Owls' Hill related assets, liabilities and net assets consisted of the following at September 30, 2006:

ASSETS

Cash and cash equivalents	\$ 76,509
Investments, at market value	1,186,455
Property, plant and equipment, net	<u>211,561</u>
 TOTAL ASSETS	 <u>\$ 1,474,525</u>

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>	
Accounts payable and accrued expenses	\$ 7,299
Unearned revenue	<u>2,786</u>
 TOTAL LIABILITIES	 <u>10,085</u>
 <u>NET ASSETS</u>	
Unrestricted (including \$800,000 designated as amounts functioning as endowment)	1,082,753
Temporarily restricted	106,687
Permanently restricted	<u>275,000</u>
 TOTAL NET ASSETS	 <u>1,464,440</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,474,525</u>

Revenues and expenses related to Owl's Hill operations 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, 2006

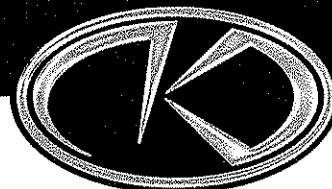
NOTE 15 - RESTATEMENT OF PRIOR YEAR

The 2005 statement of cash flows has been restated to correct the presentation of cash paid for collection items charged to expense. Generally accepted accounting principles require that such amounts be added back to cash flows from operating activities, with a corresponding cash outflow reported under investing activities. The effects of this change were to increase net cash provided by operating activities, and decrease net cash provided by investing activities, by \$43,573 in 2005.

In addition, the 2005 statements of activities and cash flows have been restated to correct the reporting of donated collection items. Under generally accepted accounting principles, if the entity's policy is not to capitalize collection items, such in-kind contributions and the related expense are not recorded but are disclosed as a non-cash activity. The effects of this change were to decrease 2005 in-kind contributions and collection items purchased by \$123,800.

These changes had no effect on net assets or the change in net assets as previously reported as of and for the year ended September 30, 2005.

ADDITIONAL INFORMATION



**KraftCPAs**  
PLLC

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, 2006 and 2005, 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, 2006 and 2005, and the related statement of activities for the year ended September 30, 2006, 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 2005 financial statements, which were a component of Cheekwood's 2005 financial statements on which we expressed an unqualified opinion in our report dated November 11, 2005. 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 10, 2006



CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 943,866	\$ 652,326
Pledges and accounts receivable	57,126	104,159
Prepaid expenses	<u>20,759</u>	<u>28,833</u>
TOTAL ASSETS	<u>\$ 1,021,751</u>	<u>\$ 785,318</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 49,000	\$ 44,350
<u>NET ASSETS</u>		
Unrestricted	<u>972,751</u>	<u>740,968</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,021,751</u>	<u>\$ 785,318</u>

CHEEKWOOD BOTANICAL GARDEN AND MUSEUM OF ART

SWAN BALL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2005

	<u>Dinner and Parties</u>	<u>Auction</u>	<u>Exhibits</u>	<u>Other</u>	<u>Totals</u>	
					<u>2006</u>	<u>2005</u>
CONTRIBUTIONS AND NET REVENUES						
Contributions	\$ 799,630	\$ -	\$ -	\$ -	\$ 799,630	\$ 760,964
Revenues from special events	701,986	588,384	6,964	66,039	1,363,373	1,290,275
Less direct benefits to donors	<u>(333,325)</u>	<u>(137,376)</u>	<u>-</u>	<u>-</u>	<u>(470,701)</u>	<u>(393,800)</u>
TOTAL CONTRIBUTIONS AND NET REVENUES	<u>1,168,291</u>	<u>451,008</u>	<u>6,964</u>	<u>66,039</u>	<u>1,692,302</u>	<u>1,657,439</u>
FUNDRAISING EXPENSES						
Properties and staging	418,843	-	-	-	418,843	397,508
Special features	119,417	-	7,904	1,766	129,087	91,270
Administrative	<u>64,790</u>	<u>2,050</u>	<u>-</u>	<u>-</u>	<u>66,840</u>	<u>65,583</u>
TOTAL FUNDRAISING EXPENSES	<u>603,050</u>	<u>2,050</u>	<u>7,904</u>	<u>1,766</u>	<u>614,770</u>	<u>554,361</u>
EXCESS OF CONTRIBUTIONS AND NET REVENUES OVER FUNDRAISING EXPENSES	<u>\$ 565,241</u>	<u>\$ 448,958</u>	<u>\$ (940)</u>	<u>\$ 64,273</u>	1,077,532	1,103,078
CONTRIBUTIONS TO CHEEKWOOD					<u>(845,749)</u>	<u>(875,575)</u>
INCREASE IN NET ASSETS					231,783	227,503
NET ASSETS - BEGINNING OF YEAR					<u>740,968</u>	<u>513,465</u>
NET ASSETS - END OF YEAR					<u>\$ 972,751</u>	<u>\$ 740,968</u>