

**THE LADIES' HERMITAGE
ASSOCIATION**

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE &
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2010 and 2009

THE LADIES' HERMITAGE ASSOCIATION

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MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Ladies' Hermitage Association:

We have audited the accompanying statement of financial position of The Ladies' Hermitage Association (a nonprofit organization) as of June 30, 2010 and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of The Ladies' Hermitage Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Ladies' Hermitage Association as of and for the year ended June 30, 2009, were audited by other auditors whose report dated October 16, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 The Ladies' Hermitage Association as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2010, on our consideration of The Ladies' Hermitage Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic 2010 financial statements of The Ladies' Hermitage Association taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis and is not a required part of the basic 2010 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2010 financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic 2010 financial statements taken as a whole.



Brentwood, Tennessee
October 11, 2010

THE LADIES' HERMITAGE ASSOCIATION**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 252,001	\$ 238,180
Accounts receivable	33,965	41,467
Grants receivable	172,874	92,857
Promises to give	8,350	-
Inventories	405,001	247,857
Prepaid expenses	20,629	45,319
Total current assets	<u>892,820</u>	<u>665,680</u>
LONG-TERM ASSETS:		
Collections, property and equipment, net	5,395,696	5,622,072
Construction-in-progress	701,814	46,228
Long-term investments	354,394	414,280
Beneficial interest in charitable remainder trust	134,356	90,636
Total long-term assets	<u>6,586,260</u>	<u>6,173,216</u>
TOTAL ASSETS	<u><u>\$ 7,479,080</u></u>	<u><u>\$ 6,838,896</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Line of credit advances	\$ 100,000	\$ -
Accounts payable and other accrued liabilities	258,394	211,786
Deferred revenue	1,172	4,530
Employees' compensation payable	122,072	134,147
Sales tax payable	8,478	10,935
Total current liabilities and total liabilities	<u>490,116</u>	<u>361,398</u>
NET ASSETS:		
Unrestricted:		
Undesignated	485,336	568,277
Board designated	6,097,510	5,668,300
Total unrestricted	<u>6,582,846</u>	<u>6,236,577</u>
Temporarily restricted	341,118	175,921
Permanently restricted	65,000	65,000
Total net assets	<u>6,988,964</u>	<u>6,477,498</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,479,080</u></u>	<u><u>\$ 6,838,896</u></u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT:				
Admissions	\$ 1,752,780	\$ -	\$ -	\$ 1,752,780
Museum store	475,501	-	-	475,501
Contributions	434,520	199,714	-	634,234
Café and concession sales	187,709	-	-	187,709
Government grants	708,163	-	-	708,163
Programs	109,144	-	-	109,144
Miscellaneous income	49,909	-	-	49,909
After-hours events	53,457	-	-	53,457
Vending	21,478	-	-	21,478
Memberships	18,084	-	-	18,084
Change in value of charitable remainder trust	-	43,720	-	43,720
Net investment return	51,447	-	-	51,447
Total	<u>3,862,192</u>	<u>243,434</u>	<u>-</u>	<u>4,105,626</u>
Net assets released from restrictions	<u>78,237</u>	<u>(78,237)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>3,940,429</u>	<u>165,197</u>	<u>-</u>	<u>4,105,626</u>
EXPENSES:				
Program services	2,461,231	-	-	2,461,231
Fundraising	228,499	-	-	228,499
Management and general	904,430	-	-	904,430
Total expenses	<u>3,594,160</u>	<u>-</u>	<u>-</u>	<u>3,594,160</u>
CHANGES IN NET ASSETS	346,269	165,197	-	511,466
NET ASSETS:				
Beginning of year	<u>6,236,577</u>	<u>175,921</u>	<u>65,000</u>	<u>6,477,498</u>
End of year	<u>\$ 6,582,846</u>	<u>\$ 341,118</u>	<u>\$ 65,000</u>	<u>\$ 6,988,964</u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT:				
Admissions	\$ 1,824,658	\$ -	\$ -	\$ 1,824,658
Museum store	596,121	-	-	596,121
Contributions	343,148	33,819	1,000	377,967
Café and concession sales	240,963	-	-	240,963
Government grants	365,224	116,107	-	481,331
Programs	101,998	-	-	101,998
Miscellaneous	68,536	-	-	68,536
After-hours events	49,901	-	-	49,901
Vending	23,006	-	-	23,006
Memberships	13,818	-	-	13,818
Change in value of charitable remainder trust	-	21,707	-	21,707
Net investment return	(107,465)	-	-	(107,465)
Total	<u>3,519,908</u>	<u>171,633</u>	<u>1,000</u>	<u>3,692,541</u>
Net assets released from restrictions	<u>378,862</u>	<u>(378,862)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>3,898,770</u>	<u>(207,229)</u>	<u>1,000</u>	<u>3,692,541</u>
EXPENSES:				
Program services	3,060,335	-	-	3,060,335
Fundraising	162,324	-	-	162,324
Management and general	900,053	-	-	900,053
Total expenses	<u>4,122,712</u>	<u>-</u>	<u>-</u>	<u>4,122,712</u>
CHANGES IN NET ASSETS	<u>(223,942)</u>	<u>(207,229)</u>	<u>1,000</u>	<u>(430,171)</u>
NET ASSETS:				
Beginning of year	<u>6,460,519</u>	<u>383,150</u>	<u>64,000</u>	<u>6,907,669</u>
End of year	<u>\$ 6,236,577</u>	<u>\$ 175,921</u>	<u>\$ 65,000</u>	<u>\$ 6,477,498</u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 511,466	\$ (430,171)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	329,909	326,896
Net unrealized and realized (gains) losses on investments	(36,153)	131,814
State grant receipts for restoration project	(604,576)	(143,093)
Net changes in other operating assets and liabilities:		
Accounts receivable, grants receivable and promises to give	(80,865)	(72,461)
Inventories	(157,144)	39,304
Prepaid expenses	24,690	(3,198)
Beneficial interest in charitable remainder trust	(43,720)	(21,707)
Accounts payable and accrued liabilities	32,076	(19,193)
Deferred revenue	(3,358)	(2,034)
Net cash used in operating activities	<u>(27,675)</u>	<u>(193,843)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of collections, property and equipment	(48,856)	(174,718)
Construction-in-progress acquisitions	(710,263)	(82,928)
Purchases of investments	(19,988)	(19,147)
Proceeds from sales of investments	116,027	205,564
Net cash used in investing activities	<u>(663,080)</u>	<u>(71,229)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
State grant receipts for restoration project	604,576	143,093
Net advances on line of credit	100,000	-
Net cash provided by financing activities	<u>704,576</u>	<u>143,093</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,821	(121,979)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>238,180</u>	<u>360,159</u>
CASH AND CASH EQUIVALENTS, ENDING	<u><u>\$ 252,001</u></u>	<u><u>\$ 238,180</u></u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2010

	Program Services	Fundraising	Management and General	Total Expenses
Buildings and maintenance	\$ 480,024	\$ -	\$ 53,336	\$ 533,360
Museum store	398,391	-	-	398,391
Public programs-interpretation	294,354	-	32,706	327,060
Security	244,834	-	27,203	272,037
Administration overhead	-	-	270,820	270,820
Gardens and grounds	211,608	-	23,512	235,120
Executive Director's office	95,553	21,235	95,553	212,341
Marketing and public relations	-	-	200,458	200,458
Café	190,780	-	-	190,780
Other	158,246	-	17,582	175,828
Development	-	141,283	-	141,283
Public programs - education	98,830	-	10,981	109,811
Collections	84,353	-	9,373	93,726
Visitor services - ticket office	71,956	-	7,995	79,951
Tulip Grove lease	-	-	19,125	19,125
Investment expense	-	-	3,785	3,785
Archeology	338	-	37	375
Total expenses before depreciation	2,329,267	162,518	772,466	3,264,251
Depreciation	131,964	65,981	131,964	329,909
Total expenses	<u>\$ 2,461,231</u>	<u>\$ 228,499</u>	<u>\$ 904,430</u>	<u>\$ 3,594,160</u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009**

	Program Services	Fundraising	Management and General	Total Expenses
Buildings and maintenance	\$ 521,194	\$ -	\$ 130,298	\$ 651,492
Museum store	413,330	-	-	413,330
Administration overhead	-	-	404,598	404,598
Public programs-interpretation	302,953	-	-	302,953
Security	271,143	-	-	271,143
Archeology	254,668	-	-	254,668
Marketing and public relations	-	-	247,482	247,482
Café	241,868	-	-	241,868
Gardens and grounds	222,099	-	-	222,099
Other	195,397	-	-	195,397
Development	-	144,623	-	144,623
Executive Director's office	70,209	15,602	70,209	156,020
Collections	105,759	-	-	105,759
Visitor services - ticket office	84,158	-	-	84,158
Public programs - education	81,251	-	-	81,251
Tulip Grove lease	-	-	7,475	7,475
Membership functions	2,100	2,099	2,099	6,298
Investment expense	-	-	5,202	5,202
Total expenses before depreciation	2,766,129	162,324	867,363	3,795,816
Depreciation	294,206	-	32,690	326,896
Total expenses	<u>\$ 3,060,335</u>	<u>\$ 162,324</u>	<u>\$ 900,053</u>	<u>\$ 4,122,712</u>

The accompanying notes are an integral part of the financial statements.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 1 – THE ENTITY

The Ladies' Hermitage Association ("Association"), a non-profit corporation, was incorporated in February 1889, for the purpose of preserving the historical and cultural materials and exhibits related to the life and times of President Andrew Jackson. At such time, the State of Tennessee conveyed the "Hermitage", the historic property consisting of the land, residence, and tomb of President Jackson, in trust to a Board of Trustees to permit and encourage the Association to improve and beautify the property. In 1964, the Association entered into an agreement with family descendants to operate neighboring "Tulip Grove", home of President Jackson's nephew, in a manner similar to the Hermitage. During 1990, pursuant to an agreement reached with the State of Tennessee, the Association was deemed successor in interest to the Board of Trustees and assumed all such rights, responsibilities, and liabilities. The historic properties were transferred to the Association, in trust for the people of the State of Tennessee, subject to the following restrictions:

- a. Prohibition of the mortgage, sale, or other transfer of the property
- b. Maintenance and availability for audit of records and financial accounts in conformity with generally accepted accounting principles
- c. Submission of plans for construction, alteration, or modification of the properties to the State Architect
- d. Compliance with State laws and regulations attributable to funds appropriated by the State
- e. Approval by the State of changes in the Association's by-laws or purchasing procedures
- f. Compliance with certain specified financial reporting requirements.

The historic properties may revert to the State of Tennessee, without compensation, only if the Association fails, neglects, or refuses to preserve and beautify the historic properties or fails to comply with the above-mentioned requirements. At June 30, 2010, there was no indication of any factors that would cause the historic properties to revert to the State of Tennessee.

Major sources of revenue are admission fees and the sale of souvenirs related to the Hermitage. Since the Association's operations depend upon the tourist trade, they are subject to seasonal fluctuations and other conditions common to this industry.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2010 and 2009 in these financial statements refer to the years ended June 30, 2010 and 2009 unless otherwise noted.

Financial Statement Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets as follows:

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (continued)

- **Unrestricted** - This class includes net assets that are not subject to any donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.
- **Temporarily Restricted** – This class includes net assets whose use by the Association is subject to donor-imposed restrictions that can be fulfilled by actions of the Association pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Additionally, any temporarily restricted contributions whose restrictions are met in the same reporting year are shown as unrestricted revenues.
- **Permanently Restricted** – This class includes net assets subject to donor-imposed restrictions that require the assets to be maintained permanently by the Association. Generally, the donors of these assets permit the Association to use all or part of the income earned on any related investments for general or specific purposes.

See Notes 11 through 13 for further details related to net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Association may, at times, maintain bank accounts whose balances exceed federally insured limits. However, the Association has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Accounts receivable are written off when all collection efforts have ceased. The Association uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific accounts receivable. At June 30, 2010 and 2009, management deemed all accounts receivable to be fully collectible, and no allowances were recorded.

Inventories

Inventories are stated at the lower of average cost or market. See Note 3 for further details related to inventories.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses, whether realized or unrealized, are included in the statements of activities and changes in net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

See Notes 4 and 6 for further details related to investments.

Contributions and Promises to Give

Contributions are recognized as revenues when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

At June 30, 2010, all promises to give were due within one year.

The Association uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2010 and 2009, management deemed all promises to give to be fully collectible, and no allowances were recorded.

Historic Site, Collections, Property and Equipment

Values attributable to historic sites (transferred to the Association by the State of Tennessee) are not recognized in the financial statements since the values to such historical treasures are not generally measurable in monetary terms. Restoration, collections, property and equipment are stated at cost, less accumulated depreciation. Contributions of collections, property and equipment are reported at the fair value. Depreciation expense (for assets other than land and collections) is computed by using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years.

See Note 7 for further details related to collections, property and equipment.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants

The Association receives grant revenue from government agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant.

Donated Materials and Services

Donated services are recognized, at fair value, if they create or enhance nonfinancial assets or require specialized skills and would be purchased by the Association if not contributed. The Association received a substantial amount of donated services from unpaid volunteers which did not meet the criteria for recognition.

Donated assets and rights or benefits (e.g. leases, etc.) are recognized at fair value on the date contributed.

The value of recorded donated services totaled \$69,640 and \$50,243 for 2010 and 2009, respectively. These amounts are reported as contributions and offsetting expenses in the statements of activities and changes in net assets.

Income Taxes

The Association is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, ("the Code") and is not classified as a private foundation. As such, only unrelated business income, as defined by Sections 512(a)(1) of the Code, is subject to federal income tax. During 2010 and 2009, the Association had no taxable unrelated business income.

The Association files an annual information return (Form 990) and an Exempt Organization Business Income Tax Return (Form 990-T) with the U.S. government. At June 30, 2010, the Association is no longer subject to U.S. tax examinations of these returns by tax authorities for years before June 30, 2007.

Functional Allocation of Expenses

Expenses, which are directly related to a function, are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense totaled \$55,003 and \$67,960 for the years ended June 30, 2010 and 2009, respectively.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Events Occurring After the Reporting Date

The Association has evaluated events and transactions that occurred between June 30, 2010 and October 11, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements for consistency with the presentation for 2010. These reclassifications did not have a significant impact on the previously reported financial position, changes in net assets, and cash flows of the Association.

NOTE 3 – INVENTORIES

Inventories consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Museum store	\$ 347,913	\$ 233,451
Reproduction furniture	34,916	-
Café	22,172	14,406
Total inventories	<u>\$ 405,001</u>	<u>\$ 247,857</u>

NOTE 4 – LONG-TERM INVESTMENTS

The fair values of investments consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Corporate debt securities	\$ 183,346	\$ 206,462
Registered investment companies	19,983	45,038
Equity securities - common stocks	151,065	162,780
Total	<u>\$ 354,394</u>	<u>\$ 414,280</u>

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 4 – LONG-TERM INVESTMENTS (CONTINUED)

The net investment return consisted of the following for 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 15,294	\$ 24,349
Net realized and unrealized gains (losses)	36,153	(131,814)
Total	<u>\$ 51,447</u>	<u>\$ (107,465)</u>

The Association has established certain investment allocation guidelines for the Association's investment portfolio. The investment allocations at June 30, 2010 were as follows:

	<u>Board Approved %</u>	<u>Actual %</u>	<u>Fair Values</u>
Equity securities	45% - 65%	45.2%	\$ 171,048
Fixed income securities	35% - 55%	48.4%	183,346
Total investments			<u>\$ 354,394</u>
Cash reserves	0% - 5%	6.4%	\$ 24,327

The Association's investments are classified as long-term assets based on management's intent.

See Note 6 for further details related to the fair value measurements.

NOTE 5 – CHARITABLE REMAINDER TRUST

The Association has been named a remainder beneficiary of a charitable remainder trust. Two income beneficiaries are to receive, first from income and, to the extent that income is insufficient, from principal, a total annuity each year equal to a percentage of the net fair market value of the trust assets. Upon the death of both beneficiaries, thirty-three percent of the remaining principal is to be distributed to the Association.

A long-term asset for the beneficial interest in the charitable remainder trust has been recognized in the statements of financial position. The recorded amounts of \$134,356 and \$90,636 represents the Association's share of the fair value of the trust principal at June 30, 2010 and 2009, respectively. Changes in the fair value of the Association's beneficial interest have been included in the change in temporarily restricted net assets in the statements of activities and changes in net assets. See Note 6 for further details related to the fair value measurements.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 6 – FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. Level 2 inputs are inputs from quoted market prices in active markets for similar assets and liabilities, which are observable for the asset or liability, either directly or indirectly. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

The fair values of assets measured on a recurring basis at June 30, 2010 and 2009 were as follows:

	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
	Fair Value		
At June 30, 2010:			
Corporate debt securities	\$ 183,346	\$ 183,346	\$ -
Registered investment companies	19,983	19,983	-
Equity securities - common stocks	151,065	151,065	-
Beneficial interest in charitable remainder trust	134,356	-	134,356
Total	\$ 488,750	\$ 354,394	\$ 134,356
At June 30, 2009:			
Corporate debt securities	\$ 206,462	\$ 206,462	\$ -
Registered investment companies	45,038	45,038	-
Equity securities - common stocks	162,780	162,780	-
Beneficial interest in charitable remainder trust	90,636	-	90,636
Total	\$ 504,916	\$ 414,280	\$ 90,636

Level 1 Fair Value Measurements

The fair values of the corporate debt securities, registered investment companies, and equity securities are based on quoted prices in active markets for identical assets.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 6 – FAIR VALUE MEASUREMENTS

Level 3 Fair Value Measurements

The fair value of the beneficial interest in charitable remainder trust is estimated as the present value of the expected future cash inflows discounted at the average one-year Treasury bill rate, which was approximately 0.5% and 1.82% for 2010 and 2009, respectively.

The following table provides further details of the Level 3 fair value measurements for the beneficial interest in charitable remainder trust for the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 90,636	\$ 68,929
Change in value of beneficial interest in charitable remainder trust	43,720	21,707
Balance at end of year	<u>\$ 134,356</u>	<u>\$ 90,636</u>

NOTE 7 – COLLECTIONS, PROPERTY AND EQUIPMENT

Collections, property and equipment consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Depreciable assets:		
Museum properties	\$ 4,363,967	\$ 4,345,363
Residences	170,906	170,905
Other buildings	3,636,872	3,636,873
Equipment	1,380,420	1,295,492
Access road project	66,994	66,994
Other improvements	636,033	636,033
Farm animals	10,500	10,500
Total cost	10,265,692	10,162,160
Accumulated depreciation	(6,313,630)	(5,983,722)
Subtotal	3,952,062	4,178,438
Nondepreciable assets:		
Land	683,467	683,467
Collections acquired since June 1994	760,167	760,167
Net book value	<u>\$ 5,395,696</u>	<u>\$ 5,622,072</u>

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 8 – CONSTRUCTION-IN-PROGRESS

Construction-in-progress at June 30, 2010 consisted of costs related to the restoration of the Hermitage Mansion and other historic buildings on the property. The restoration is expected to be completed during the next fiscal year. Construction-in-progress at June 30, 2009 consisted of the costs to purchase and implement software, which was placed in service during 2010.

NOTE 9 – LINE OF CREDIT

The Association has a revolving line of credit agreement ("agreement") with a financial institution. The agreement matures on March 3, 2011. Maximum borrowings available under the agreement are \$200,000.

Interest is payable monthly at an annual interest rate equal to the index rate as established by the lender plus 1%, not to be less than 4% or exceed 6%. Borrowings under the agreement are collateralized by the Association's investments. Outstanding borrowings under the terms of the agreement totaling \$100,000 at June 30, 2010 are presented as line of credit advances in the accompanying statements of financial position. There were no outstanding borrowings at June 30, 2009.

Prior to June 30, 2010, the Association entered into an agreement with another financial institution for a \$150,000 line of credit, which is intended to replace the above agreement. No activity under this line of credit occurred during 2010.

NOTE 10 – PROFIT SHARING PLAN

The Association maintains a qualified profit sharing plan with a 401(k) deferred compensation provision. All employees are eligible to participate in the Association's profit sharing plan and 401(k) plan as long as they have completed one year of service and have attained age 21.

The Association makes a discretionary matching contribution equal to a percentage of the amount of the salary reduction deferred by each eligible employee. The amount deferred by the employee may not exceed 15% or the maximum annual amount allowed by law. Expenses related to this plan amounted to \$30,996 and \$32,073 for 2010 and 2009, respectively.

NOTE 11 – BOARD DESIGNATED NET ASSETS

Unrestricted net assets include amounts totaling \$6,097,509 and \$5,668,300 at June 30, 2010 and 2009, respectively, that have been designated by the Board to reflect its fiduciary responsibility to maintain the historic properties in trust for the State of Tennessee.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Beneficial interest in charitable remainder trust	\$ 134,356	\$ 90,636
Mansion restoration	114,423	19,403
Education program	64,000	-
NEH matching funds	11,081	22,400
Underground Railroad Freedom Center and Technology initiatives	6,328	-
Collections acquisition - Jackson's letters and lithograph	5,143	6,256
Black History month	1,987	-
Replanting and landscape	1,170	1,170
Presidential library	1,059	31,803
Other temporarily restricted net assets, individually less than \$1,000	<u>1,571</u>	<u>4,253</u>
Total temporarily restricted net assets	<u>\$ 341,118</u>	<u>\$ 175,921</u>

During 2010 and 2009, temporarily restricted net assets of \$78,237 and \$378,862, respectively, were released from donor restrictions by either incurring expenses satisfying the restrictions or by the passage of time restrictions.

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS

The State of Tennessee has passed the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Association has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit restrictions to the contrary. The Association classifies as permanently restricted net assets the sum of (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. At the current time, none of the endowment funds have donor-imposed instructions that specify accumulations, as noted in item (c) of the preceding sentence.

The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. There were no temporarily restricted assets related to the donor-restricted endowment funds at June 30, 2010 and 2009.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions;
- (2) The possible effect of inflation and deflation;
- (3) The expected tax consequences, if any, of investment decisions or strategies;
- (4) The role that each investment or course of action plays within the overall investment portfolio;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Association;
- (7) The needs of the Association and the endowment funds to make distributions and to preserve capital; and
- (8) An asset's special relationship or special value, if any, to the charitable purposes of the Association.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity or for a donor-specified period as well as any entity-designated funds.

To satisfy its long-term return objectives, the Association relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment assets are commingled with non-endowment assets in the Association's long-term investments. See Note 4 for further details related to investments.

Permanently restricted net assets consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
General endowment	\$ 20,000	\$ 20,000
Tulip Grove endowment	<u>45,000</u>	<u>45,000</u>
Total permanently restricted net assets	<u>\$ 65,000</u>	<u>\$ 65,000</u>

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Grant expenditures are subject to review and audit by the grantor agencies. Although such audits could result in disallowance of expenditures, management believes that any required reimbursements to the grantors would not be significant. Accordingly, no provision has been made for potential reimbursements.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2010 AND 2009

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Association leases three houses to individuals under arrangements requiring monthly payments to the Association of \$250 each on a month-to-month basis. The Association also provides housing on the Hermitage property to one employee at no cost.

The Association provides part of its land to the Rotary Club of Donelson ("Club") for use as a youth baseball park, generally at no cost to the Club. However, the Club assesses a \$3 fee per athlete payable to the Association. The original agreement expired in December 2007 and has continued thereafter on a month-to-month basis.

The Association has entered into a lease agreement with an outside party to cultivate the land through January 31, 2011. Income earned related to this lease was \$29,545 and \$29,545 during the years ended June 30, 2010 and 2009, respectively.

The Association has a contract extending to June 30, 2011 with an organization to provide horse-drawn wagon tours. Under this contract, the Association will receive 20% of the gross revenue from ticket and special event sales. Revenue recognized under the contract totaled \$42,835 and \$43,337 for the years ended June 30, 2010 and 2009, respectively.

In 1964 the Association was granted a warranty deed to the Tulip Grove property. The terms of the warranty deed require the Association to make annual payments based on one-third of the annual admission income from visitors to the Tulip Grove with a minimum payment of \$1,200 annually for a period of ninety-nine years. Title to the property reverts to the grantor if the Association fails to make such payments. Total payments amounted to \$1,200 each year for the years ended June 30, 2010 and 2009. During 2007, the Association was named as the defendant in a lawsuit claiming that the Tulip Grove property should revert to the grantor. The lawsuit asserts that the Association has not made proper payments. During the year ended June 30, 2010, a favorable court decision was awarded to the Association and was upheld in appellate court. As of June 30, 2010, one of the plaintiffs has applied for appeal of this decision to the Tennessee Supreme Court. This application is pending at the present time. The Association's management and legal counsel believe that it has substantial defenses to the claims made.

In October 2002, the Association entered into a contract with the State of Tennessee to lease approximately 457 acres adjacent to the Hermitage property. Under the agreement, the Association will receive the land at no cost. The contract extends through October 2032.

In July 2009, the Association was named as the defendant in a lawsuit claiming wrongful dismissal by a former employee. As of June 30, 2010, the ultimate outcome of this lawsuit cannot be determined. However, the Association's management and legal counsel believe that substantial defenses exist to the claim made.

ADDITIONAL INFORMATION

THE LADIES' HERMITAGE ASSOCIATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2010**

CFDA Number	Program Name	Grant/Contract Number	Grantor Agency	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable
<u>Federal Awards:</u>							
45.149	Archaeology - DAACS	PM-50172-08	National Endowment for Humanities	\$ 12,570	\$ 12,570	\$ -	\$ -
Total Federal Awards				\$ 12,570	\$ 12,570	\$ -	\$ -
<u>State Financial Assistance:</u>							
N/A	Preservation and Restoration of Hermitage Mansion	SBC #529/000-11-2007	TN Dept of Finance and Administration	\$ 69,287	\$ 604,576	\$ 708,163	\$ 172,874
N/A	Sinkhole Project	None	TN Dept. of Wildlife Resources	\$ 11,000	\$ 11,000	\$ -	\$ -
Total State Financial Assistance				\$ 80,287	\$ 615,576	\$ 708,163	\$ 172,874
Total Federal Awards and State Financial Assistance				\$ 92,857	\$ 628,146	\$ 708,163	\$ 172,874

Basis of Presentation: The above schedule is prepared on the accrual basis of accounting.

MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
The Ladies' Hermitage Association:

We have audited the financial statements of The Ladies' Hermitage Association (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 11, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Ladies' Hermitage Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Ladies' Hermitage Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Ladies' Hermitage Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of The Ladies' Hermitage Association in a separate letter dated October 11, 2010.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mullins Clemens & Meyer, PLLC

Brentwood, Tennessee
October 11, 2010