

***THE LADIES' HERMITAGE
ASSOCIATION***

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

JUNE 30, 2013 and 2012

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:

Report on the Financial Statements

We have audited the accompanying financial statements of The Ladies' Hermitage Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by the State of Tennessee, Department of Audit, Audit Manual for Local Governmental Units and Other Organizations, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of The Ladies' Hermitage Association's internal control over financial reporting and on 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* in considering The Ladies' Hermitage Association's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Mullins Clemmons & Mager, PLLC". The signature is written in a cursive, flowing style.

Brentwood, Tennessee
October 21, 2013

THE LADIES' HERMITAGE ASSOCIATION**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 637,464	\$ 500,245
Unspent grant funds	-	454,388
Accounts receivable	44,451	47,178
Grants receivable	87,433	75,845
Promises to give	12,800	2,650
Inventories	190,662	173,199
Prepaid expenses	23,822	12,790
Total current assets	<u>996,632</u>	<u>1,266,295</u>
LONG-TERM ASSETS:		
Collections, property and equipment, net	6,013,774	6,129,325
Construction-in-progress	32,924	15,720
Long-term investments	368,694	348,199
Beneficial interest in charitable remainder trust	154,797	144,736
Total long-term assets	<u>6,570,189</u>	<u>6,637,980</u>
TOTAL ASSETS	<u>\$ 7,566,821</u>	<u>\$ 7,904,275</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	\$ 119,076	\$ 194,373
Employees' compensation payable	112,781	106,383
Unearned grant receipts	-	454,388
Sales tax payable	10,828	11,883
Total current liabilities and total liabilities	<u>242,685</u>	<u>767,027</u>
NET ASSETS:		
Unrestricted:		
Undesignated	1,002,249	676,471
Board designated	6,046,698	6,145,045
Total unrestricted	<u>7,048,947</u>	<u>6,821,516</u>
Temporarily restricted	210,189	250,732
Permanently restricted	65,000	65,000
Total net assets	<u>7,324,136</u>	<u>7,137,248</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,566,821</u>	<u>\$ 7,904,275</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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT:				
Admissions	\$ 2,245,870	\$ -	\$ -	\$ 2,245,870
Museum store	709,836	-	-	709,836
Contributions	461,819	45,276	-	507,095
Café and concession sales	10,508	-	-	10,508
Government grants	545,113	-	-	545,113
Programs	145,594	-	-	145,594
Miscellaneous income	54,203	-	-	54,203
After-hours events	150,330	-	-	150,330
Vending	16,370	-	-	16,370
Memberships	29,292	-	-	29,292
Change in value of charitable remainder trust	-	10,061	-	10,061
Net investment return	38,386	-	-	38,386
Total	4,407,321	55,337	-	4,462,658
Net assets released from restrictions	95,880	(95,880)	-	-
Total revenues, gains and other support	4,503,201	(40,543)	-	4,462,658
EXPENSES:				
Program services	3,262,013	-	-	3,262,013
Fundraising	348,671	-	-	348,671
Management and general	665,086	-	-	665,086
Total expenses	4,275,770	-	-	4,275,770
CHANGES IN NET ASSETS	227,431	(40,543)	-	186,888
NET ASSETS:				
Beginning of year	6,821,516	250,732	65,000	7,137,248
End of year	\$ 7,048,947	\$ 210,189	\$ 65,000	\$ 7,324,136

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, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT:				
Admissions	\$ 1,918,267	\$ -	\$ -	\$ 1,918,267
Museum store	650,574	-	-	650,574
Contributions	515,247	100,392	-	615,639
Café and concession sales	4,202	-	-	4,202
Government grants	667,355	-	-	667,355
Programs	142,093	-	-	142,093
Miscellaneous	52,379	1,000	-	53,379
After-hours events	78,621	-	-	78,621
Vending	40,016	-	-	40,016
Memberships	22,471	-	-	22,471
Change in value of charitable remainder trust	-	(17,956)	-	(17,956)
Net investment return	28,505	-	-	28,505
Total	4,119,730	83,436	-	4,203,166
Net assets released from restrictions	40,695	(40,695)	-	-
Total revenues, gains and other support	4,160,425	42,741	-	4,203,166
EXPENSES:				
Program services	3,058,155	-	-	3,058,155
Fundraising	277,579	-	-	277,579
Management and general	808,505	-	-	808,505
Total expenses	4,144,239	-	-	4,144,239
CHANGES IN NET ASSETS	16,186	42,741	-	58,927
NET ASSETS:				
Beginning of year	6,805,330	207,991	65,000	7,078,321
End of year	<u>\$ 6,821,516</u>	<u>\$ 250,732</u>	<u>\$ 65,000</u>	<u>\$ 7,137,248</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 186,888	\$ 58,927
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	445,673	413,782
Net loss on equipment disposals	1,275	189,187
Net unrealized and realized gains on investments	(22,655)	(13,231)
Grant receipts for restoration and renovation projects	-	(381,790)
Net changes in other operating assets and liabilities:		
Accounts receivable, grants receivable and promises to give	(19,011)	177,079
Inventories	(17,463)	36,926
Prepaid expenses	(11,032)	8,083
Beneficial interest in charitable remainder trust	(10,061)	17,956
Accounts payable and accrued liabilities	(69,954)	(101,758)
Net cash provided by operating activities	<u>483,660</u>	<u>405,161</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of collections, property and equipment	(247,358)	(118,558)
Construction-in-progress acquisitions	(101,376)	(470,350)
Purchases of investments	(30,768)	(27,120)
Proceeds from sales of property and equipment	133	-
Proceeds from sales of investments	32,928	19,388
Net cash used in investing activities	<u>(346,441)</u>	<u>(596,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Grant receipts for restoration and renovation projects	-	381,790
Net repayments on line of credit	-	(100,000)
Net cash provided by financing activities	<u>-</u>	<u>281,790</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	137,219	90,311
CASH AND CASH EQUIVALENTS, BEGINNING	<u>500,245</u>	<u>409,934</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 637,464</u>	<u>\$ 500,245</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, 2013**

	Program Services	Fundraising	Management and General	Total Expenses
Museum store	\$ 433,038	\$ -	\$ 76,418	\$ 509,456
Public programs-interpretation	492,477	-	34,842	527,319
Buildings and maintenance	247,432	-	27,492	274,924
Administration overhead	150,966	-	269,993	420,959
Gardens and grounds	200,449	-	22,272	222,721
Security	266,571	-	29,619	296,190
Development	-	297,441	-	297,441
Executive Director's office	105,240	46,773	81,853	233,866
Marketing and public relations	303,704	-	33,745	337,449
Public programs - education	206,884	-	24,192	231,076
Collections	131,833	-	14,648	146,481
Site operations	265,298	-	29,478	294,776
Tulip Grove lease	33,521	-	-	33,521
Investment expense	-	-	2,643	2,643
Total expenses before depreciation and loss on disposals	2,837,413	344,214	647,195	3,828,822
Loss on disposals	1,211	-	64	1,275
Depreciation	423,389	4,457	17,827	445,673
Total expenses	<u>\$ 3,262,013</u>	<u>\$ 348,671</u>	<u>\$ 665,086</u>	<u>\$ 4,275,770</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, 2012**

	Program Services	Fundraising	Management and General	Total Expenses
Museum store	\$ 436,455	\$ -	\$ 77,022	\$ 513,477
Public programs-interpretation	487,319	-	54,147	541,466
Buildings and maintenance	357,905	-	39,767	397,672
Administration overhead	-	-	394,751	394,751
Gardens and grounds	217,686	-	24,187	241,873
Security	265,587	-	29,510	295,097
Development	-	252,868	-	252,868
Executive Director's office	92,579	20,573	92,579	205,731
Marketing and public relations	203,141	-	22,571	225,712
Public programs - education	165,808	-	18,423	184,231
Collections	126,146	-	14,016	140,162
Site operations	110,876	-	12,320	123,196
Tulip Grove lease	21,832	-	-	21,832
Investment expense	-	-	3,202	3,202
Total expenses before depreciation and loss on disposals	2,485,334	273,441	782,495	3,541,270
Loss on disposals	179,728	-	9,459	189,187
Depreciation	393,093	4,138	16,551	413,782
Total expenses	<u>\$ 3,058,155</u>	<u>\$ 277,579</u>	<u>\$ 808,505</u>	<u>\$ 4,144,239</u>

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

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013 AND 2012

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, 2013, 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 2013 and 2012 in these financial statements refer to the years ended June 30, 2013 and 2012 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, 2013 AND 2012

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, 2013 and 2012, 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, 2013 AND 2012

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.

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, 2013 and 2012, 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, 2013 AND 2012**

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 \$45,152 and \$67,270 for 2013 and 2012, 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. The Association's primary source of unrelated business income is a portion of the museum store's activity. During 2013 and 2012, the Association's unrelated business income of approximately \$42,000 and \$36,000, respectively, was fully offset by prior net operating losses carryforwards, and therefore, there was no federal income tax liability for those years. At June 30, 2013, the Association has approximately \$366,000 of remaining net operating loss carryforwards, which will begin to expire in 2014, if not utilized before then. Due to the uncertainty of the realization of these net operating loss carryforwards, management has recorded an allowance to fully offset the estimated deferred tax asset.

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, 2013, the Association is no longer subject to U.S. tax examinations of these returns by tax authorities for years before June 30, 2010.

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.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense totaled \$126,389 and \$52,512 for the years ended June 30, 2013 and 2012, respectively.

Shipping and Handling Costs

Shipping handling costs are expensed when incurred. Any shipping and handling costs billed to customers are included in museum store revenues.

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, 2013 and October 21, 2013, 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 2012 financial statements for consistency with the presentation for 2013. 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

The Association has established a general reserve in the amount of \$25,000 at June 30, 2013 and 2012 for potential future markdowns on slow-moving items. Management believes that these markdowns and reserves reduce inventories to lower of cost or market, and no additional losses will be incurred upon disposition.

Inventories consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Museum store	\$ 215,662	\$ 198,199
Reserve for potential markdowns	(25,000)	(25,000)
Net inventories	<u>\$ 190,662</u>	<u>\$ 173,199</u>

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 4 – LONG-TERM INVESTMENTS

The fair values of investments consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Corporate debt securities	\$ 117,983	\$ 150,660
Registered investment companies	77,482	65,999
Equity securities - common stocks	162,563	131,540
Alternative investments	10,666	-
Total investments	<u>\$ 368,694</u>	<u>\$ 348,199</u>

The net investment return consisted of the following for 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 15,731	\$ 15,274
Net realized and unrealized gains	22,655	13,231
Total investment return	<u>\$ 38,386</u>	<u>\$ 28,505</u>

The Association has established certain investment allocation guidelines for the Association's investment portfolio. The investment allocations at June 30, 2013 were as follows:

	<u>Board Approved %</u>	<u>Actual %</u>	<u>Fair Values</u>
Equity securities	45% - 65%	56.3%	\$ 240,045
Fixed income securities	35% - 55%	27.7%	117,983
Alternative investments	0%	2.5%	10,666
Total investments			<u>\$ 368,694</u>

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.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 5 – CHARITABLE REMAINDER TRUST (CONTINUED)

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 \$154,797 and \$144,736 represents the Association's share of the fair value of the trust principal at June 30, 2013 and 2012, 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.

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, 2013 and 2012 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, 2013:			
Corporate debt securities	\$ 117,983	\$ 117,983	\$ -
Registered investment companies	77,482	77,482	-
Equity securities - common stocks	162,563	162,563	-
Alternative investments	10,666	10,666	-
Beneficial interest in charitable remainder trust	154,797	-	154,797
Total	\$ 523,491	\$ 368,694	\$ 154,797

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013 AND 2012

NOTE 6 – FAIR VALUE MEASUREMENTS (CONTINUED)

		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, 2012:			
Corporate debt securities	\$ 150,660	\$ 150,660	\$ -
Registered investment companies	65,999	65,999	-
Equity securities - common stocks	131,540	131,540	-
Beneficial interest in charitable remainder trust	144,736	-	144,736
Total	\$ 492,935	\$ 348,199	\$ 144,736

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.

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 0.16% and 0.25% for 2013 and 2012, 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, 2013 and 2012:

	2013	2012
Balance at beginning of year	\$ 144,736	\$ 162,692
Change in value of beneficial interest in charitable remainder trust	10,061	(17,956)
Balance at end of year	\$ 154,797	\$ 144,736

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 7 – COLLECTIONS, PROPERTY AND EQUIPMENT

Collections, property and equipment consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Depreciable assets:		
Museum properties	\$ 4,556,662	\$ 4,564,845
Residences	579,670	548,545
Other buildings	3,672,073	3,678,387
Equipment	1,264,956	1,194,771
Access road project	73,267	71,711
Other improvements	621,801	556,459
Farm animals	-	10,500
Total cost	<u>10,768,429</u>	<u>10,625,218</u>
Accumulated depreciation	<u>(6,348,282)</u>	<u>(5,941,129)</u>
Subtotal	<u>4,420,147</u>	<u>4,684,089</u>
Nondepreciable assets:		
Land	683,467	683,467
Collections acquired since June 1994	<u>910,160</u>	<u>761,769</u>
Net book value	<u><u>\$ 6,013,774</u></u>	<u><u>\$ 6,129,325</u></u>

NOTE 8 – CONSTRUCTION-IN-PROGRESS

Construction-in-progress at June 30, 2013 and 2012 consisted of costs related to the restoration of the Hermitage Mansion and other historic buildings on the property.

NOTE 9 – LINE OF CREDIT

The Association has a revolving line of credit agreement ("agreement") with a financial institution. The agreement matures on January 25, 2015. Maximum borrowings available under the agreement are \$250,000.

Interest is payable monthly at an annual interest rate equal to the index rate as established by the lender plus 0.5%, not to be less than 5.50%. Borrowings under the agreement are collateralized by substantially all of the Association's assets except real estate, including historic properties. There were no such borrowings at June 30, 2013 and 2012.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

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 \$38,790 and \$37,365 for 2013 and 2012, respectively.

NOTE 11 – BOARD DESIGNATED NET ASSETS

Unrestricted net assets include amounts totaling \$6,046,698 and \$6,145,045 at June 30, 2013 and 2012, respectively, which have been designated by the Board to reflect its fiduciary responsibility to maintain the historic properties in trust for the State of Tennessee.

NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beneficial interest in charitable remainder trust	\$ 154,797	\$ 144,736
Newseum project	-	67,681
President's discretionary fund	25,000	-
Rachel's Garden	9,786	9,447
Capital projects	-	10,000
Mansion restoration	5,440	5,440
Web-conferencing program	1,960	660
Underground Railroad Freedom Center and Technology initiatives	4,718	5,668
Technology grant	5,400	-
Collections acquisition - Jackson's letters and lithograph	-	3,100
Other temporarily restricted net assets, individually \$1,000 or less	<u>3,088</u>	<u>4,000</u>
Total temporarily restricted net assets	<u>\$ 210,189</u>	<u>\$ 250,732</u>

During 2013 and 2012, temporarily restricted net assets of \$95,880 and \$40,695, respectively, were released from donor restrictions by either incurring expenses satisfying the restrictions or by the passage of time restrictions.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

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, 2013 and 2012.

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.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
General endowment	\$ 20,000	\$ 20,000
Tulip Grove endowment	45,000	45,000
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 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 December 31, 2014. Income earned related to this lease was \$30,780 and \$31,398 for the years ended June 30, 2013 and 2012, respectively.

The Association has a contract extending to June 30, 2013 with an organization to provide horse-drawn wagon tours. Under this contract, the Association will receive 30% of the gross revenue from ticket and special event sales. Revenue recognized under the contract totaled \$44,474 and \$57,594 for the years ended June 30, 2013 and 2012, respectively.

THE LADIES' HERMITAGE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2013 AND 2012

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. 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 asserted that the Association had not made proper payments. On October 19, 2012, the Court of Appeals issued its ruling, affirming the Chancery Court's ruling that the decision of the Association to no longer make Tulip Grove House available to public general admission tours in 2001 was not a breach of the warranty deed, and therefore, the property should not revert to the grantor. Additionally, the appellate court ruled that the rentals from special events held at Tulip Grove House were to be considered part of "gate receipts" for purposes of calculating the amount due under the warranty deed. Based on its reading of the appellate court's decision, the Association made payments to the plaintiffs. However, there are unresolved issues, including whether the calculation is to be based on a gross or net calculation and whether the Association has to remit a "make up" payment to the one of the original plaintiffs, since the Association obtained a default judgment against that plaintiff in 2010. A resolution of the past-due amounts, as well as how calculations are to be made in the future will be determined by the Davidson County Chancery Court. Based on these remaining uncertainties and the inability to determine the amount, no additional liability has been recorded in the Association's financial statements.

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 have the use of the land at no cost. The contract extends through October 2032.

ADDITIONAL INFORMATION

THE LADIES' HERMITAGE ASSOCIATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013**

CFDA Number	Program Name	Grant/Contract Number	Grantor Agency	Beginning Receivable (Unearned Receipts)	Cash Receipts	Expenditures	Ending Receivable (Unearned Receipts)
<u>Federal Awards:</u>							
97.036	Public Assistance Grant	34101-0000006259	Federal Emergency Management Agency	\$ 73,005	\$ -	\$ -	\$ 73,005
45.301	Museums for America Grant	MA-04-11-0083-11	Institute of Museum and Library Services	\$ (1,675)	\$ 28,746	\$ 38,116	\$ 7,695
15.904	Historic Preservation Grant	GR1237095	U.S. Department of Interior	\$ 2,840	\$ 15,000	\$ 12,160	\$ -
Total Federal Awards				<u>\$ 74,170</u>	<u>\$ 43,746</u>	<u>\$ 50,276</u>	<u>\$ 80,700</u>

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

THE LADIES' HERMITAGE ASSOCIATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

CFDA Number	Program Name	Grant/Contract Number	Grantor Agency	Beginning Receivable (Unearned Receipts)	Cash Receipts	Expenditures	Ending Receivable (Unearned Receipts)
<u>State Financial Assistance:</u>							
N/A	Operational and Flood Revenue Loss	None	TN Historical Commission - Dept of Environment and Conservation	\$ (452,713)	\$ -	\$ 452,713	\$ -
Total Federal Awards and State Financial Assistance				<u>\$ (378,543)</u>	<u>\$ 43,746</u>	<u>\$ 502,989</u>	<u>\$ 80,700</u>
<u>Memo Item - Local Government Financial Assistance:</u>							
N/A	Rebranding The Hermitage	L-2873	Metro Govt of Nashville and Davidson County	\$ -	\$ 35,391	\$ 42,124	\$ 6,733
Total Government Grants reported in the Financial Statements				<u>\$ (378,543)</u>	<u>\$ 79,137</u>	<u>\$ 545,113</u>	<u>\$ 87,433</u>

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, 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, the financial statements of The Ladies' Hermitage Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Ladies' Hermitage Association's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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 and correct 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Ladies' Hermitage Association's financial statements are free from 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 21, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Mullins Clemmons & Meyer, PLLC". The signature is written in a cursive, flowing style.

Brentwood, Tennessee
October 21, 2013