

**THE LADIES' HERMITAGE ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**June 30, 2006 and 2005**

## TABLE OF CONTENTS

Independent Auditor's Report.....	2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets .....	4 – 5
Statements of Cash Flows .....	6
Notes to Financial Statements.....	7 – 17



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
The Ladies' Hermitage Association  
Hermitage, Tennessee

We have audited the accompanying statements of financial position of The Ladies' Hermitage Association as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ladies' Hermitage Association as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Frasier, Dean & Howard, PLLC*

August 18, 2006

## TABLE OF CONTENTS

Independent Auditor's Report.....	2
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets .....	4 – 5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7 – 17
Supplementary Information:	
Combining Statement of Financial Position .....	18
Combining Statement of Activities and Changes in Net Assets .....	19
Schedule of Functional Expenses .....	20



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We have audited the accompanying statements of financial position of The Ladies' Hermitage Association as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Ladies' Hermitage Association as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The Ladies' Hermitage Association taken as a whole. The accompanying additional information on pages 18 – 20 is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Frasier, Dean & Howard, PLLC*

August 18, 2006

**THE LADIES' HERMITAGE ASSOCIATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 463,229	\$ 330,902
Temporary investments	95,261	44,036
Accounts and contributions receivable	69,806	83,378
Inventories	225,106	200,309
Prepaid expenses	46,214	41,504
Total current assets	899,616	700,129
Collections, property and equipment - net	6,106,466	5,859,564
Construction-in-progress	-	506,984
Long-term investments	768,248	721,915
Total assets	<u>\$ 7,774,330</u>	<u>\$ 7,788,592</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 22,507	\$ 31,063
Accrued expenses:		
Employees' compensation	107,910	79,981
Sales tax	10,359	7,718
Total current liabilities	140,776	118,762
Net assets:		
Unrestricted:		
Operating	399,559	259,204
Board designated	6,783,189	6,942,217
Board designated - membership	-	303,158
Temporarily restricted	386,806	102,251
Permanently restricted	64,000	63,000
Total net assets	7,633,554	7,669,830
Total liabilities and net assets	<u>\$ 7,774,330</u>	<u>\$ 7,788,592</u>

See accompanying notes.

**THE LADIES' HERMITAGE ASSOCIATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended June 30, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Admissions	\$ 1,380,267	\$ -	\$ -	\$ 1,380,267
Museum store	720,851	-	-	720,851
Contributions	193,932	360,980	1,000	555,912
Café and concession sales	140,914	-	-	140,914
Programs	93,421	-	-	93,421
Government grant	60,000	8,802	-	68,802
Investment income	56,226	-	-	56,226
After-hours events	53,750	-	-	53,750
Miscellaneous	49,845	-	-	49,845
Memberships	33,131	-	-	33,131
Restaurant lease	18,795	-	-	18,795
Vending	18,154	-	-	18,154
Royalty income	119	-	-	119
Released from restriction	85,227	(85,227)	-	-
Total support and revenue	2,904,632	284,555	1,000	3,190,187
Expenses:				
Program services	2,507,326	-	-	2,507,326
Management and general	637,919	-	-	637,919
Fundraising	81,218	-	-	81,218
Total expenses	3,226,463	-	-	3,226,463
Change in net assets	(321,831)	284,555	1,000	(36,276)
Net assets beginning of year	7,504,579	102,251	63,000	7,669,830
Net assets end of year	\$ 7,182,748	\$ 386,806	\$ 64,000	\$ 7,633,554

See accompanying notes.

**THE LADIES' HERMITAGE ASSOCIATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended June 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Admissions	\$ 1,381,273	\$ -	\$ -	\$ 1,381,273
Museum store	746,642	-	-	746,642
Government grants	385,422	-	-	385,422
Contributions	211,775	69,370	1,000	282,145
Programs	96,597	-	-	96,597
After-hours events	61,759	-	-	61,759
Miscellaneous	59,993	-	-	59,993
Investment income	42,764	-	-	42,764
Restaurant lease	27,375	-	-	27,375
Memberships	23,470	-	-	23,470
Vending	20,836	-	-	20,836
Royalty income	105	-	-	105
Released from restriction	<u>258,520</u>	<u>(258,520)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,316,531</u>	<u>(189,150)</u>	<u>1,000</u>	<u>3,128,381</u>
Expenses:				
Program services	2,516,360	-	-	2,516,360
Management and general	558,014	-	-	558,014
Fundraising	<u>67,730</u>	<u>-</u>	<u>-</u>	<u>67,730</u>
Total expenses	<u>3,142,104</u>	<u>-</u>	<u>-</u>	<u>3,142,104</u>
Change in net assets	174,427	(189,150)	1,000	(13,723)
Net assets beginning of year	<u>7,330,152</u>	<u>291,401</u>	<u>62,000</u>	<u>7,683,553</u>
Net assets end of year	<u>\$ 7,504,579</u>	<u>\$ 102,251</u>	<u>\$ 63,000</u>	<u>\$ 7,669,830</u>

See accompanying notes.



**THE LADIES' HERMITAGE ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Changes in net assets	\$ (36,276)	\$ (13,723)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	348,442	340,568
In-kind donation of property and equipment	-	(57,426)
Net realized and unrealized (gain) loss on investments	(11,760)	(19,828)
Investment income	(32,867)	(20,986)
Investment fees	4,077	7,406
Change in operating assets and liabilities:		
Temporary investments	(51,225)	(462)
Accounts and contributions receivable	13,572	228,634
Inventories	(24,797)	11,251
Prepaid expenses	(4,710)	13,671
Accounts payable	(8,556)	(956)
Accrued expenses:		
Employee's compensation	27,929	12,147
Sales tax	2,641	(159)
Net cash provided by operating activities	<u>226,470</u>	<u>500,137</u>
Cash flows from investing activities:		
Property and equipment acquisitions	(52,079)	(40,160)
Construction-in-progress	(36,281)	(531,589)
Purchase of investments	(50,546)	(53,261)
Proceeds from sale of investments	<u>44,763</u>	<u>153,258</u>
Net cash used by investing activities	<u>(94,143)</u>	<u>(471,752)</u>
Net increase in cash and cash equivalents	132,327	28,385
Cash and cash equivalents, beginning of year	<u>330,902</u>	<u>302,517</u>
Cash and cash equivalents, end of year	<u><u>\$ 463,229</u></u>	<u><u>\$ 330,902</u></u>
Noncash investing activity:		
Transfer of construction-in-progress to property and equipment	<u><u>\$ 543,264</u></u>	<u><u>\$ 507,020</u></u>

See accompanying notes.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006 and 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

The Ladies' Hermitage Association (the "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 board's 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, and
- 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.

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.

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements for Not-for-Profit Organizations*. Accordingly, net assets of the Association, and changes therein are classified and reported as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or 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.

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, donors of these assets permit the Association to use all or part of the income earned for general or specific purposes.

**Government Grants**

Grants received from government agencies are generally recognized to the extent qualifying expenditures have been incurred.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents include cash (on hand and in demand deposits, savings accounts, and money market accounts) and securities purchased from the Association's bank under repurchase agreements as well as other short-term securities with an original maturity of three months or less when purchased.

**Temporary Investments**

Temporary investments consist of certificates of deposit and savings accounts. Certificates of deposit and savings accounts are stated at cost, which approximates fair value.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventory – Museum Store**

Museum store inventories are stated at the lower of cost (first-in, first-out method) or market.

**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 attributable to such historical treasures are generally not measurable in monetary terms. Restoration, property and equipment are stated at cost, less accumulated depreciation. Contributions of property and equipment are reported at their fair value. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets (other than collections) over their estimated useful lives using the straight-line method. Estimated useful lives of all major classes of assets are as follows:

Residences	10 – 40 years
Other buildings	10 – 40 years
Museum properties	7 – 40 years
Other improvements	5 – 40 years
Equipment	3 – 10 years
Access road	40 years
Farm animals	5 years

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. The unrealized gain or loss on investments is reflected in the statement of activities.

**In-Kind Contributions**

The Association records various types of in-kind support including contributed materials, equipment and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received.

Additionally, the Association receives a significant amount of contributed time from volunteers which does not meet the recognition criteria described above. Accordingly, the value of this contributed time approximating 3,600 hours, which does not include additional time contributed by the Association's board of directors, is not reflected in the accompanying financial statements.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes**

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) as a charitable organization. As such, only unrelated business income, as defined by Section 512 (a)(1) of the Code, is subject to federal income tax.

During 2006 and 2005, the Association had no taxable unrelated business income. The Association has been classified as an organization that is not a private foundation under Section 509 (a).

Contributions to the Association qualify for the charitable contributions deduction to the extent provided by Section 170 of the Internal Revenue Code.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates that affect the reported amounts of assets and liabilities and reported revenues and expenses. Accordingly, actual results could differ from those estimates.

**Functional Expenses**

Certain expenses have been allocated between program, management and general and fundraising based on estimates made by management.

**Advertising Costs**

Advertising costs are charged to operations when incurred. Advertising expense totaled \$50,242 and \$42,582 for the years ended June 30, 2006 and 2005, respectively.

**NOTE 2 – ACCOUNTS AND CONTRIBUTIONS RECEIVABLE**

Accounts and contributions receivable reflected in current assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Trade	\$ 59,806	\$ 52,388
Contributions	5,000	5,000
Grants	<u>5,000</u>	<u>25,990</u>
	<u>\$ 69,806</u>	<u>\$ 83,378</u>

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 3 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable represent unconditional promises to give which are receivable over a period of time. These receivables are deemed to be fully collectible by management.

	<u>2006</u>	<u>2005</u>
Receivable in less than one year	\$ 5,000	\$ 5,000
Receivable in one to five years	<u>-</u>	<u>-</u>
	5,000	5,000
Less discounts to net present value and allowances	<u>-</u>	<u>-</u>
Net contributions receivable	<u>\$ 5,000</u>	<u>\$ 5,000</u>

Unconditional promises to give are primarily from individuals, foundations and corporations located in the Middle Tennessee area. Balances of contributions receivable in less than one year are considered to approximate fair value. Contributions receivable in one to five years, if any, are reflected at present value of estimated future cash flows using a discount rate of 8%.

**NOTE 4 – COLLECTIONS, PROPERTY AND EQUIPMENT**

Collections, property and equipment are summarized as follows:

	<u>2006</u>	<u>2005</u>
Depreciable assets:		
Museum properties	\$ 4,329,216	\$ 4,289,782
Residences	168,348	162,590
Other buildings	3,634,092	3,634,092
Equipment	935,509	918,113
Access road project	66,994	66,994
Other improvements	501,727	501,727
Farm animals	<u>10,500</u>	<u>10,500</u>
	9,646,386	9,583,798
Less accumulated depreciation	<u>(4,978,214)</u>	<u>(4,629,773)</u>
Subtotal	<u>4,668,172</u>	<u>4,954,025</u>
Nondepreciable assets:		
Land	683,467	176,447
Collections	<u>754,827</u>	<u>729,092</u>
	<u>\$ 6,106,466</u>	<u>\$ 5,859,564</u>

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 4 – COLLECTIONS, PROPERTY AND EQUIPMENT (Continued)**

Museum properties reflect identifiable acquisition and renovation costs for the Hermitage mansion, the first Hermitage, Tulip Grove mansion, the Hermitage church and other historic buildings on the property.

Residences represent construction costs and subsequent capital improvements to the director's residence and the identifiable costs of renovating certain caretaker residences.

Other buildings consist of capital expenditures for non-historic structures (other than residences), including the Andrew Jackson Center and administrative facilities.

Equipment represents cost of operating equipment.

Access road project represents construction costs attributable to the primary access road to the Hermitage properties.

Other improvements represent costs incurred for improvements to the grounds of the Hermitage and Tulip Grove mansions.

Farm animals represent the value of animals donated to the Hermitage to live on the grounds.

Land represents expenditures incurred in purchasing property adjoining the Hermitage and Tulip Grove tracts.

Collections reflect the accumulated cost of those assets acquired since 1935. Donated collections of material worth are stated at appraised value as of the date of the gift. Collections are not depreciated due to their continuing historical value and continuing preservation.

**NOTE 5 – CONSTRUCTION-IN-PROGRESS**

Construction-in-progress of \$506,984 at June 30, 2005 represented the cost of work relating to the first Hermitage project. The project which was substantially funded through federal awards (Note 14) was completed during the year ending June 30, 2006 and the resulting balance of \$543,264 was transferred to land and restoration improvements.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 6 – LONG-TERM INVESTMENTS**

During 1998, the Association placed all of its long-term investments with a financial institution as custodian. Investments are stated at fair value and consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Master note	\$ 817	\$ 472
Bonds	303,908	292,455
Common stocks	<u>463,523</u>	<u>428,988</u>
	<u>\$ 768,248</u>	<u>\$ 721,915</u>
	<u>2006</u>	<u>2005</u>
Components of investment income:		
Interest and dividends from long-term investments	\$ 11,764	\$ 20,986
Net realized and unrealized gain (loss) on long-term investments	<u>38,649</u>	<u>19,828</u>
	50,413	40,814
Interest and dividends from cash and and cash equivalents	<u>5,813</u>	<u>1,950</u>
	<u>\$ 56,226</u>	<u>\$ 42,764</u>

The Association has developed an investment policy stipulating asset mix, asset quality, asset diversification and investment manager accountability.

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2006</u>	<u>2005</u>
Presidential library	\$ 350,000	\$ -
Mansion restoration	21,782	47,552
Replanting and landscape	6,177	6,226
NEH Matching Funds	3,951	-
NEH Interpretive Grant	1,182	2,583
Sponsored programs	1,021	1,331
Cemetery	990	990
Collection purchases	440	445
State of Tennessee	411	-
Map Survey	370	370
National Trust – First Hermitage	282	36,633



**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS (Continued)**

	<u>2006</u>	<u>2005</u>
Marsha Mullin Postcard Collection	100	100
Brandywine Women's Club	100	-
Bicentennial banners	-	4,411
National Trust – Dendrochronology	-	1,000
Rachel's Garden benches	<u>-</u>	<u>610</u>
	<u>\$ 386,806</u>	<u>\$ 102,251</u>

During fiscal 2006 and 2005, temporarily restricted net assets of \$85,227 and \$258,520, respectively, were released from restrictions based on satisfaction of purpose restrictions.

**NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
General Endowment	\$ 19,000	\$ 18,000
Tulip Grove Endowment	<u>45,000</u>	<u>45,000</u>
Total	<u>\$ 64,000</u>	<u>\$ 63,000</u>

Income earned on endowment investments is generally utilized for general upkeep of the Association's property.

**NOTE 9 – BOARD DESIGNATED NET ASSETS**

Unrestricted net assets include amounts totaling \$6,783,189 and \$6,942,217 at June 30, 2006 and 2005, 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.

**NOTE 10 – PROFIT SHARING PLAN**

Effective January 1, 1997, the Association adopted 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 the employee. The amount deferred by the employee may not exceed 15% or the maximum annual amount allowed by law. Expense relating to this plan amounted to \$30,270 and \$31,993 for fiscal years 2006 and 2005, respectively.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The Association leased its restaurant facilities to an independent vendor. The lease extended through December 2005 with the monthly payments equal to 8% of gross receipts at the Hermitage and 8% of gross receipts out of the Hermitage Kitchen. Related revenues amounted to \$12,795 during fiscal 2006 and \$15,375 in fiscal 2005. Effective January 2006, the Association began internal operation of its restaurant facilities.

The Association also 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 two employees at no cost.

The Association provides part of its land to the Rotary Club of Donelson (the Club) for use as a youth baseball park, generally at no cost to the Club; however, the Rotary Club assesses a \$3 fee per athlete payable to the Association. The agreement extends through December 2007.

The Association entered into several lease agreements with an outside party to cultivate the land. The lease terms commenced February 2003 and extends through February 2007. Income was \$32,470 and \$40,470 during the fiscal years ended June 30, 2006 and 2005, respectively.

The Association has entered into a contract agreement extending to December 30, 2006 with an organization to provide horse-drawn wagon tours. Under this contract, the Association will receive 20% of gross revenue from ticket and special event sales. Revenue recognized under the contract during fiscal 2006 totaled \$20,100 and during fiscal 2005 totaled \$19,500.

In 1964, the Association was granted a warranty deed to the Tulip Grove property. The terms require the Association to make annual payments based on one-third of the annual admissions income from visitors to 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 during the fiscal years ended June 30, 2006 and 2005, respectively.

The Association has entered into an agreement with a furniture manufacturer to reproduce a limited edition of Hermitage furniture, including 300 candle stands, 100 washstands, and 100 shaving mirrors to be sold to the Hermitage at established wholesale prices for resale to the general public. According to the contract, the Association paid fifty percent of the total wholesale costs in the amount of \$158,500 and \$34,372 remains as prepaid assets. The remaining costs are to be paid at the time of sale and subsequent delivery of furniture from manufacturer. In the event the Association cannot sell the furniture, the furniture may be sold by the manufacturer, at which time the Association can recoup its manufacturing costs plus receive a 5% royalty on items sold.

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.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 12 – CONCENTRATION OF CREDIT RISK**

The Association maintains its cash and temporary investments in bank deposit accounts at high credit quality institutions. The balances, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to any significant credit risk related to cash and temporary investments.

**NOTE 13– IN-KIND CONTRIBUTIONS**

The Association received contributed goods and services during the year that required specialized skills and would have been purchased if not provided by the donor. Goods and services are recorded at their fair value on the date of donation.

In-kind contributions amounted to the following during the year ended June 30:

	<u>2006</u>	<u>2005</u>
Catering and meeting room facilities	\$ 4,643	\$ -
Other	480	10,280
Equipment	300	3,500
Collection items	35	1,200
Construction services	-	48,800
Landscaping supplies	<u>-</u>	<u>3,926</u>
	<u>\$ 5,458</u>	<u>\$ 67,706</u>

**NOTE 14 – GRANTS**

In September 2000, the Association received notice from the United States Department of Interior that it had been awarded \$340,000 from the Save America's Treasures Historic Preservation Fund. The award, requiring a dollar-for-dollar match by the Association, was used to restore the first Hermitage residence of Andrew Jackson. The required match of \$340,000 has been met and recognized through an anonymous donation recognizing all past Regents of the Ladies' Hermitage Association. During the year ended June 30, 2005, the Association recognized revenue of \$340,000 and capital expenses of approximately \$507,000 under the grant. During the year ended June 30, 2006, the Association recognized capital expenses of approximately \$36,000 under the grant. Receivable balances at June 30, 2006 and 2005 include \$5,000 under this grant.

**THE LADIES' HERMITAGE ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2006 and 2005**

**NOTE 14 – GRANTS (Continued)**

In May 1999, the Association received notice from the United States Department of Transportation that it had been awarded a \$250,000 grant, which was used to replant trees destroyed in a 1998 tornado. In December 2002, the grant was amended to allow for an additional \$240,000. The award also requires a match of \$122,500, which had been met and recognized as of June 30, 2003. During the year ended June 30, 2004, the Association recognized revenue of \$441,854 under the grant. Receivable balances include \$215,737 due the Association under this grant at June 30, 2004. During the year ended June 30, 2005, the Association recognized revenue of \$23,681 and capital expenses of approximately the same amount under this award. Amounts receivable at June 30, 2005, under this grant total \$15,049. The grant project was substantially complete by June 30, 2005.

In September 2004, the Association was awarded a \$225,000 grant from the National Endowment for the Humanities for historic site-wide interpretation. During fiscal 2005, the Association recognized revenue and expense under this grant of \$17,800. The Association must provide matching funds of \$209,000 under this grant.

During July 2006, the Association was awarded a \$68,780 grant from the Institute of Museum and Library Services for archeological processing of artifacts. As of June 30, 2006, no funds had been drawn or expended relating to this grant.

## **SUPPLEMENTARY INFORMATION**

**THE LADIES' HERMITAGE ASSOCIATION**  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
June 30, 2006

ASSETS	Operations		Site		Endowment		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Permanently Restricted	
Current assets:							
Cash and cash equivalents	\$ 430,140	\$ -	\$ -	\$ -	\$ -	\$ 33,089	\$ 463,229
Temporary investments	95,261	-	-	-	-	-	95,261
Accounts receivable:							
Trade	59,806	-	-	-	-	-	59,806
Contributions	-	-	-	5,000	-	-	5,000
Grants	5,000	-	-	-	-	-	5,000
Interfund receivable (payable)	(375,756)	-	-	375,470	-	286	-
	(310,950)	-	-	380,470	-	286	69,806
Inventories	225,106	-	-	-	-	-	225,106
Prepaid expenses	46,214	-	-	-	-	-	46,214
Total current assets	485,771	-	-	380,470	-	33,375	899,616
Collections, property, and equipment	6,106,466	-	-	-	-	-	6,106,466
Construction-in-progress	-	-	-	-	-	-	-
Long-term investments	659,360	-	71,927	6,336	-	30,625	768,248
	\$ 7,251,597	\$ -	\$ 71,927	\$ 386,806	\$ -	\$ 64,000	\$ 7,774,330
<b>LIABILITIES AND NET ASSETS</b>							
Current liabilities:							
Accounts payable	\$ 22,507	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,507
Accrued expenses:							
Employees compensation	107,910	-	-	-	-	-	107,910
Sales taxes	10,359	-	-	-	-	-	10,359
Total current liabilities	140,776	-	-	-	-	-	140,776
Net assets:							
Unrestricted:							
Operating	399,559	-	-	-	-	-	399,559
Board designated	6,711,262	-	71,927	-	-	-	6,783,189
Board designated - membership	-	-	-	-	-	-	-
Temporarily restricted	-	-	-	386,806	-	-	386,806
Permanently restricted	-	-	-	-	-	64,000	64,000
Total net assets	7,110,821	-	71,927	386,806	-	64,000	7,633,554
	\$ 7,251,597	\$ -	\$ 71,927	\$ 386,806	\$ -	\$ 64,000	\$ 7,774,330

**THE LADIES' HERMITAGE ASSOCIATION**  
**COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
Year ended June 30, 2006

	Operations		Site		Endowment	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Permanently Restricted
Support and revenue:						Total
Admissions	\$ 1,380,267	\$ -	\$ -	\$ -	\$ -	\$ 1,380,267
Museum store	720,851	-	-	-	-	720,851
Government grant	-	-	-	369,782	-	369,782
Contributions	253,932	-	-	-	-	254,932
Café and concession sales	140,914	-	-	-	-	140,914
Programs	93,421	-	-	-	-	93,421
Investment income	56,226	-	-	-	-	56,226
After-hours events	53,750	-	-	-	-	53,750
Miscellaneous	49,845	-	-	-	-	49,845
Memberships	33,131	-	-	-	-	33,131
Restaurant lease	18,795	-	-	-	-	18,795
Vending	18,154	-	-	-	-	18,154
Royalty income	119	-	-	-	-	119
Released from restriction	85,227	-	-	(85,227)	-	-
Total support and revenue	2,904,632	-	-	284,555	-	3,190,187
Expenses:						
Program services	2,434,514	-	72,812	-	-	2,507,326
Management and general	637,919	-	-	-	-	637,919
Fundraising	81,218	-	-	-	-	81,218
Total expenses	3,153,651	-	72,812	-	-	3,226,463
Changes in net assets	(249,019)	-	(72,812)	284,555	-	(36,276)
Transfers	-	-	-	-	-	-
Net assets, beginning of year	6,975,207	-	529,372	102,251	-	7,669,830
Net assets, end of year	\$ 6,726,188	\$ -	\$ 456,560	\$ 386,806	\$ -	\$ 7,633,554

**THE LADIES' HERMITAGE ASSOCIATION**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2006

	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Fund Raising</b>	<b>Total</b>
Operating:				
Museum store	\$ 521,161	\$ -	\$ -	\$ 521,161
Buildings and maintenance	339,124	84,780	-	423,904
Depreciation	313,597	34,844	-	348,441
Security	251,555	-	-	251,555
Marketing, public relations and sales	-	223,723	-	223,723
Public programs - interpretation	213,066	-	-	213,066
Executive Director's office	73,697	73,697	16,377	163,771
Café	146,675	-	-	146,675
Gardens and grounds	141,635	-	-	141,635
Finance and office services	-	110,650	-	110,650
Administration overhead	-	97,290	-	97,290
Collections	87,368	-	-	87,368
Public programs - education	84,346	-	-	84,346
Visitor services - ticket office	76,230	-	-	76,230
Other	64,199	-	-	64,199
Development	-	-	59,535	59,535
Farm operations	53,535	-	-	53,535
Archeology	39,879	-	-	39,879
Board functions	23,141	-	-	23,141
Membership functions	5,306	5,306	5,306	15,918
Investment expense	-	6,429	-	6,429
Tulip Grove lease	-	1,200	-	1,200
Operating fund expense totals	<u>2,434,514</u>	<u>637,919</u>	<u>81,218</u>	<u>3,153,651</u>
Site:				
Mansion restoration	25,770	-	-	25,770
First Hermitage restoration project	41,912	-	-	41,912
NEH	1,400	-	-	1,400
Other	3,730	-	-	3,730
Site fund expense totals	<u>72,812</u>	<u>-</u>	<u>-</u>	<u>72,812</u>
Endowment:				
Investment expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment fund expense totals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 2,507,326</u>	<u>\$ 637,919</u>	<u>\$ 81,218</u>	<u>\$ 3,226,463</u>