

***THE LADIES' HERMITAGE  
ASSOCIATION***

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

**JUNE 30, 2011 and 2010**

## **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, 2011 and 2010, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 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 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011, 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.



Brentwood, Tennessee  
September 29, 2011

**THE LADIES' HERMITAGE ASSOCIATION**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 409,934	\$ 252,001
Accounts receivable	16,814	33,965
Grants receivable	285,938	172,874
Promises to give	-	8,350
Inventories	210,125	405,001
Prepaid expenses	20,873	20,629
Total current assets	<u>943,684</u>	<u>892,820</u>
<b>LONG-TERM ASSETS:</b>		
Collections, property and equipment, net	6,122,393	5,395,695
Construction-in-progress	36,713	701,814
Long-term investments	327,236	354,395
Beneficial interest in charitable remainder trust	162,692	134,356
Total long-term assets	<u>6,649,034</u>	<u>6,586,260</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,592,718</u></u>	<u><u>\$ 7,479,080</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Line of credit advances	\$ 100,000	\$ 100,000
Accounts payable and other accrued liabilities	270,567	259,566
Employees' compensation payable	135,065	122,072
Sales tax payable	8,765	8,478
Total current liabilities and total liabilities	<u>514,397</u>	<u>490,116</u>
<b>NET ASSETS:</b>		
Unrestricted:		
Undesignated	646,224	485,337
Board designated	6,159,106	6,097,509
Total unrestricted	6,805,330	6,582,846
Temporarily restricted	207,991	341,118
Permanently restricted	65,000	65,000
Total net assets	<u>7,078,321</u>	<u>6,988,964</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 7,592,718</u></u>	<u><u>\$ 7,479,080</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, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>				
Admissions	\$ 1,678,270	\$ -	\$ -	\$ 1,678,270
Museum store	558,556	-	-	558,556
Contributions	904,919	33,796	-	938,715
Café and concession sales	98,007	-	-	98,007
Government grants	495,021	-	-	495,021
Programs	115,103	-	-	115,103
Miscellaneous income	91,395	-	-	91,395
After-hours events	53,726	-	-	53,726
Vending	32,019	-	-	32,019
Memberships	26,427	-	-	26,427
Change in value of charitable remainder trust	-	28,336	-	28,336
Net investment return	45,959	-	-	45,959
<b>Total</b>	<b>4,099,402</b>	<b>62,132</b>	<b>-</b>	<b>4,161,534</b>
Net assets released from restrictions	195,259	(195,259)	-	-
<b>Total revenues, gains and other support</b>	<b>4,294,661</b>	<b>(133,127)</b>	<b>-</b>	<b>4,161,534</b>
<b>EXPENSES:</b>				
Program services	3,128,404	-	-	3,128,404
Fundraising	252,753	-	-	252,753
Management and general	691,020	-	-	691,020
<b>Total expenses</b>	<b>4,072,177</b>	<b>-</b>	<b>-</b>	<b>4,072,177</b>
<b>CHANGES IN NET ASSETS</b>	<b>222,484</b>	<b>(133,127)</b>	<b>-</b>	<b>89,357</b>
<b>NET ASSETS:</b>				
Beginning of year	6,582,846	341,118	65,000	6,988,964
<b>End of year</b>	<b>\$ 6,805,330</b>	<b>\$ 207,991</b>	<b>\$ 65,000</b>	<b>\$ 7,078,321</b>

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>
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>				
Admissions	\$ 1,752,780	\$ -	\$ -	\$ 1,752,780
Museum store	475,501	-	-	475,501
Contributions	437,620	199,714	-	637,334
Café and concession sales	187,709	-	-	187,709
Government grants	708,163	-	-	708,163
Programs	109,144	-	-	109,144
Miscellaneous	46,809	-	-	46,809
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
<b>Total</b>	<b>3,862,192</b>	<b>243,434</b>	<b>-</b>	<b>4,105,626</b>
Net assets released from restrictions	78,237	(78,237)	-	-
<b>Total revenues, gains and other support</b>	<b>3,940,429</b>	<b>165,197</b>	<b>-</b>	<b>4,105,626</b>
<b>EXPENSES:</b>				
Program services	2,743,830	-	-	2,743,830
Fundraising	228,499	-	-	228,499
Management and general	621,831	-	-	621,831
<b>Total expenses</b>	<b>3,594,160</b>	<b>-</b>	<b>-</b>	<b>3,594,160</b>
<b>CHANGES IN NET ASSETS</b>	<b>346,269</b>	<b>165,197</b>	<b>-</b>	<b>511,466</b>
<b>NET ASSETS:</b>				
Beginning of year	6,236,577	175,921	65,000	6,477,498
<b>End of year</b>	<b>\$ 6,582,846</b>	<b>\$ 341,118</b>	<b>\$ 65,000</b>	<b>\$ 6,988,964</b>

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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 89,357	\$ 511,466
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	327,330	329,909
Net loss on equipment disposals	199,463	-
Net unrealized and realized gains on investments	(30,845)	(36,153)
Grant receipts for restoration and renovation projects	(338,803)	(604,576)
Net changes in other operating assets and liabilities:		
Accounts receivable, grants receivable and promises to give	(87,563)	(80,865)
Inventories	194,876	(157,144)
Prepaid expenses	(244)	24,690
Beneficial interest in charitable remainder trust	(28,336)	(43,720)
Accounts payable and accrued liabilities	24,281	28,718
Net cash provided by (used in) operating activities	<u>349,516</u>	<u>(27,675)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of collections, property and equipment	(543,732)	(48,856)
Construction-in-progress acquisitions	(44,658)	(710,263)
Purchases of investments	(39,332)	(19,988)
Proceeds from sales of investments	97,336	116,027
Net cash used in investing activities	<u>(530,386)</u>	<u>(663,080)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Grant receipts for restoration and renovation projects	338,803	604,576
Net advances on line of credit	-	100,000
Net cash provided by financing activities	<u>338,803</u>	<u>704,576</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	157,933	13,821
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>252,001</u>	<u>238,180</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 409,934</u></u>	<u><u>\$ 252,001</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, 2011

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Expenses</b>
Museum store	\$ 558,222	\$ -	\$ -	\$ 558,222
Public programs-interpretation	472,982	-	52,554	525,536
Buildings and maintenance	451,400	-	50,156	501,556
Administration overhead	-	-	342,057	342,057
Gardens and grounds	253,921	-	28,214	282,135
Security	237,968	-	26,441	264,409
Development	-	227,667	-	227,667
Executive Director's office	98,159	21,813	98,158	218,130
Marketing and public relations	156,022	-	17,336	173,358
Café	143,805	-	-	143,805
Public programs - education	102,406	-	11,379	113,785
Collections	76,087	-	8,454	84,541
Site operations	66,538	-	7,393	73,931
Tulip Grove lease	-	-	21,435	21,435
Archeology	10,440	-	1,160	11,600
Investment expense	-	-	3,217	3,217
Total expenses before depreciation and loss on disposals	2,627,950	249,480	667,954	3,545,384
Loss on disposals	189,490	-	9,973	199,463
Depreciation	310,964	3,273	13,093	327,330
Total expenses	<u>\$ 3,128,404</u>	<u>\$ 252,753</u>	<u>\$ 691,020</u>	<u>\$ 4,072,177</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**

	<b>Program Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Expenses</b>
Buildings and maintenance	\$ 480,024	\$ -	\$ 53,336	\$ 533,360
Public programs-interpretation	515,626	-	-	515,626
Museum store	398,391	-	-	398,391
Security	244,834	-	27,202	272,036
Administration overhead	-	-	270,820	270,820
Gardens and grounds	235,120	-	-	235,120
Executive Director's office	95,553	21,235	95,553	212,341
Marketing and public relations	180,412	-	20,046	200,458
Café	190,780	-	-	190,780
Development	-	141,283	-	141,283
Public programs - education	109,811	-	-	109,811
Collections	93,726	-	-	93,726
Site operations	67,214	-	-	67,214
Tulip Grove lease	-	-	19,125	19,125
Investment expense	-	-	3,785	3,785
Archeology	375	-	-	375
Total expenses before depreciation	2,611,866	162,518	489,867	3,264,251
Depreciation	131,964	65,981	131,964	329,909
Total expenses	<u>\$ 2,743,830</u>	<u>\$ 228,499</u>	<u>\$ 621,831</u>	<u>\$ 3,594,160</u>

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

## **THE LADIES' HERMITAGE ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010**

#### **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, 2011, 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 2011 and 2010 in these financial statements refer to the years ended June 30, 2011 and 2010 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, 2011 AND 2010**

#### **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, 2011 and 2010, 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, 2011 AND 2010**

#### **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, 2011 and 2010, 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, 2011 AND 2010**

### **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 \$105,400 and \$69,640 for 2011 and 2010, 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 2011 and 2010, the Association's unrelated business income of approximately \$3,000 and \$22,000, 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, 2011, the Association has approximately \$457,000 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, 2011, the Association is no longer subject to U.S. tax examinations of these returns by tax authorities for years before June 30, 2008.

#### **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, 2011 AND 2010

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Advertising Costs

Advertising costs are expensed when incurred. Advertising expense totaled \$47,243 and \$55,003 for the years ended June 30, 2011 and 2010, respectively.

#### 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, 2011 and September 29, 2011, 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 2010 financial statements for consistency with the presentation for 2011. 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

As a result of recent changes in the Association's market for certain products, the carrying amounts for those existing inventories were reduced during 2011 by approximately \$70,000 due to quantities in excess of current requirements. In addition, the Association established a general reserve in the amount of \$25,000 at June 30, 2011 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Museum store	\$ 208,138	\$ 347,913
Reproduction furniture	26,987	34,916
Café	-	22,172
Reserve for potential markdowns	(25,000)	-
Net inventories	<u>\$ 210,125</u>	<u>\$ 405,001</u>

# THE LADIES' HERMITAGE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 AND 2010

### NOTE 4 – LONG-TERM INVESTMENTS

The fair values of investments consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Corporate debt securities	\$ 143,120	\$ 183,347
Registered investment companies	49,753	19,983
Equity securities - common stocks	134,363	151,065
Total investments	<u>\$ 327,236</u>	<u>\$ 354,395</u>

The net investment return consisted of the following for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 15,108	\$ 15,294
Net realized and unrealized gains	30,851	36,153
Total investment return	<u>\$ 45,959</u>	<u>\$ 51,447</u>

The Association has established certain investment allocation guidelines for the Association's investment portfolio. The investment allocations at June 30, 2011 were as follows:

	<u>Board Approved %</u>	<u>Actual %</u>	<u>Fair Values</u>
Equity securities	45% - 65%	49.8%	\$ 184,116
Fixed income securities	35% - 55%	38.7%	143,120
Total investments			<u>\$ 327,236</u>
Cash reserves	0% - 5%	11.5%	\$ 42,362

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, 2011 AND 2010

### 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 \$162,692 and \$134,356 represents the Association's share of the fair value of the trust principal at June 30, 2011 and 2010, 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, 2011 and 2010 were as follows:

	Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
At June 30, 2011:			
Corporate debt securities	\$ 143,120	\$ 143,120	\$ -
Registered investment companies	49,753	49,753	-
Equity securities - common stocks	134,363	134,363	-
Beneficial interest in charitable remainder trust	162,692	-	162,692
Total	<u>\$ 489,928</u>	<u>\$ 327,236</u>	<u>\$ 162,692</u>



**THE LADIES' HERMITAGE ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

**NOTE 6 – FAIR VALUE MEASUREMENTS (CONTINUED)**

	Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<b>At June 30, 2010:</b>			
Corporate debt securities	\$ 183,347	\$ 183,347	\$ -
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
<b>Total</b>	<b>\$ 488,751</b>	<b>\$ 354,395</b>	<b>\$ 134,356</b>

*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 0.25% and 0.5% for 2011 and 2010, 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, 2011 and 2010:

	2011	2010
Balance at beginning of year	\$ 134,356	\$ 90,636
Change in value of beneficial interest in charitable remainder trust	28,336	43,720
<b>Balance at end of year</b>	<b>\$ 162,692</b>	<b>\$ 134,356</b>

## THE LADIES' HERMITAGE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 AND 2010

#### NOTE 7 – COLLECTIONS, PROPERTY AND EQUIPMENT

Collections, property and equipment consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Depreciable assets:		
Museum properties	\$ 4,902,852	\$ 4,363,967
Residences	160,410	170,906
Other buildings	3,564,667	3,636,872
Equipment	1,131,364	1,380,419
Access road project	66,994	66,994
Other improvements	567,904	636,033
Farm animals	10,500	10,500
Total cost	<u>10,404,691</u>	<u>10,265,691</u>
Accumulated depreciation	<u>(5,725,932)</u>	<u>(6,313,630)</u>
Subtotal	<u>4,678,759</u>	<u>3,952,061</u>
Nondepreciable assets:		
Land	683,467	683,467
Collections acquired since June 1994	<u>760,167</u>	<u>760,167</u>
Net book value	<u><u>\$ 6,122,393</u></u>	<u><u>\$ 5,395,695</u></u>

#### NOTE 8 – CONSTRUCTION-IN-PROGRESS

Construction-in-progress at June 30, 2011 and 2010 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 9, 2012. Maximum borrowings available under the agreement are \$250,000 (\$150,000 in 2010).

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% (4% in 2010). Borrowings under the agreement are collateralized by substantially all of the Association's assets except real estate, including historic properties. Outstanding borrowings under the terms of the agreement totaling \$100,000 at June 30, 2011 and 2010 are presented as line of credit advances in the accompanying statements of financial position.

## THE LADIES' HERMITAGE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 AND 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 \$31,125 and \$30,996 for 2011 and 2010, respectively.

#### NOTE 11 – BOARD DESIGNATED NET ASSETS

Unrestricted net assets include amounts totaling \$6,159,106 and \$6,097,509 at June 30, 2011 and 2010, 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 12 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Beneficial interest in charitable remainder trust	\$ 162,692	\$ 134,356
Mansion restoration	11,608	114,423
Education program	-	64,000
NEH matching funds	-	11,081
Web-conferencing program	7,000	-
Rachel's Garden	5,788	591
Underground Railroad Freedom Center and Technology initiatives	5,668	6,328
Electrical surge suppression for sensitive mechanical equipment	5,500	-
Collections acquisition - Jackson's letters and lithograph	4,702	5,143
Black History month	1,293	1,987
Replanting and landscape	2,117	1,170
Presidential library	-	1,059
Other temporarily restricted net assets, individually less than \$1,000	<u>1,623</u>	<u>979</u>
Total temporarily restricted net assets	<u>\$ 207,991</u>	<u>\$ 341,117</u>

## **THE LADIES' HERMITAGE ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 AND 2010**

#### **NOTE 12 – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)**

During 2011 and 2010, temporarily restricted net assets of \$195,259 and \$78,237, 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, 2011 and 2010.

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, 2011 AND 2010

### 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, 2011 and 2010:

	<u>2011</u>	<u>2010</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 \$29,545 for each of the years ended June 30, 2011 and 2010.

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 \$40,014 and \$42,835 for the years ended June 30, 2011 and 2010, respectively.

## **THE LADIES' HERMITAGE ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011 AND 2010**

#### **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. Total payments amounted to \$1,200 for each of the years ended June 30, 2011 and 2010. 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 July 18, 2011, a Final Order was entered by the court dismissing all of the remaining Plaintiffs' claims. One of the plaintiffs has filed a Notice of Appeal from the trial court's rulings. The Association's management and legal counsel believe that the Association 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 have the use of 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, 2011, a portion of the former employee's claim has been dismissed, and the Association has filed a Motion for Summary Judgment seeking a dismissal of the remaining claims. The Association's management and legal counsel believe that substantial defenses exist to the claims made.

## **ADDITIONAL INFORMATION**

# 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, 2011, and have issued our report thereon dated September 29, 2011. 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.

### **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 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.

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 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 September 29, 2011.

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.

*Mullin Clemmons & Mayes, PLLC*

Brentwood, Tennessee  
September 29, 2011