

**SOUTHEASTERN JURISDICTION OF THE
UNITED METHODIST CHURCH AND
AGENCIES**

Consolidated Financial Statements

Year Ended December 31, 2010

(with Independent Auditors' Report thereon)

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

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December 31, 2010

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

- Independent Auditors' Report -

To the Committee on Finance and Administration of the
Southeastern Jurisdiction of the United Methodist Church
Lake Junaluska, North Carolina

We have audited the accompanying consolidated statement of financial position of Southeastern Jurisdiction of the United Methodist Church and Agencies (the "Organization"), a non-profit organization, as of December 31, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Hinton Rural Life Center, Inc. or the Gulfside Association of the United Methodist Church, Inc., wholly owned subsidiaries, whose statements reflect total assets of \$3,397,255 as of December 31, 2010, and total revenues of \$1,538,718 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hinton Rural Life Center, Inc. and the Gulfside Association of the United Methodist Church, Inc. is based solely on the report of the other auditors.

We have conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Jurisdiction of the United Methodist Church and Agencies as of December 31, 2010, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Committee on Finance and Administration of the
Southeastern Jurisdiction of the United Methodist Church
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Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary statements of financial position, activities and cash flows without agencies and consolidating statement of financial position and activities are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 1, 2012

Dixon Hughes Goodman LLP

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidated Statement of Financial Position

December 31, 2010

Assets

| | |
|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 2,500,207 |
| Investments | 6,458,641 |
| Receivables | 1,783,450 |
| Property and equipment, net | 21,157,070 |
| Other assets | <u>178,854</u> |
| Total assets | <u><u>\$ 32,078,222</u></u> |

Liabilities and Net Assets

Liabilities:

| | |
|--------------------------|-------------------------|
| Accounts payable | \$ 276,107 |
| Advance lodging deposits | 619,328 |
| Accrued expenses | 221,591 |
| Capital leases payable | 168,536 |
| Notes payable | <u>5,094,311</u> |
| Total liabilities | <u><u>6,379,873</u></u> |

Net assets:

| | |
|------------------------|--------------------------|
| Unrestricted | 18,784,611 |
| Temporarily restricted | 3,029,844 |
| Permanently restricted | <u>3,883,894</u> |
| Total net assets | <u><u>25,698,349</u></u> |

| | |
|----------------------------------|-----------------------------|
| Total liabilities and net assets | <u><u>\$ 32,078,222</u></u> |
|----------------------------------|-----------------------------|

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

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidated Statement of Activities

For the Year Ended December 31, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Revenues, gains and other support: | | | | |
| Annual conference apportionment contributions and special asking | \$ 1,809,829 | \$ - | \$ - | \$ 1,809,829 |
| Contributions and bequests | 1,188,184 | 831,772 | 163,838 | 2,183,794 |
| Program revenue | 8,523,062 | 96,981 | - | 8,620,043 |
| Investment return, net of distributions and fees | 204,695 | 25,611 | (82,938) | 147,368 |
| Realized gains (losses) on investments | 50,576 | (21) | 93,992 | 144,547 |
| Unrealized gains on investments | 112,352 | 19,811 | 176,475 | 308,638 |
| Loss on disposal of property and equipment | (11,571) | - | - | (11,571) |
| Other--fees, rents and miscellaneous | 566,955 | 8,161 | - | 575,116 |
| Associates revenue | - | 48,221 | - | 48,221 |
| SEJ special asking for lake restoration | - | 401,319 | - | 401,319 |
| In-kind rental income | 116,655 | - | - | 116,655 |
| Net assets released from restrictions | 2,191,393 | (2,191,393) | - | - |
| Total revenues, gains and other support | <u>14,752,130</u> | <u>(759,538)</u> | <u>351,367</u> | <u>14,343,959</u> |
| Expenses: | | | | |
| Program services | 11,631,779 | - | - | 11,631,779 |
| General administration | 2,537,072 | - | - | 2,537,072 |
| Fundraising | 439,420 | - | - | 439,420 |
| Interest expense | 194,921 | - | - | 194,921 |
| Total expenses | <u>14,803,192</u> | <u>-</u> | <u>-</u> | <u>14,803,192</u> |
| Increase (decrease) in net assets | (51,062) | (759,538) | 351,367 | (459,233) |
| Net assets, beginning of year | <u>18,835,673</u> | <u>3,789,382</u> | <u>3,532,527</u> | <u>26,157,582</u> |
| Net assets, end of year | <u>\$ 18,784,611</u> | <u>\$ 3,029,844</u> | <u>\$ 3,883,894</u> | <u>\$ 25,698,349</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2010

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Changes in net assets | \$ (459,233) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 1,323,984 |
| Realized and unrealized gains on investments | (453,185) |
| Losses on sale and disposal of property | 11,571 |
| Changes in operating assets and liabilities: | |
| Receivables | (146,757) |
| Other assets | 5,646 |
| Accounts payable | (201,094) |
| Refundable deposits | 201,621 |
| Accrued expenses | (57,607) |
| Net cash provided by operations | <u>224,946</u> |
| Cash flows from investing activities: | |
| Proceeds from sale of investments | 1,955,769 |
| Acquisition of investments | (1,034,111) |
| Expenditures for asset additions | (275,150) |
| Proceeds from asset disposals | 1,000 |
| Net cash provided by investing activities | <u>647,508</u> |
| Cash flows from financing activities: | |
| Borrowing of long-term debt | 134,157 |
| Payments on capital leases | (102,713) |
| Payments on notes payable | (684,970) |
| Net cash used by financing activities | <u>(653,526)</u> |
| Net increase in cash and cash equivalents | 218,928 |
| Cash and cash equivalents: | |
| Beginning of year | <u>2,281,279</u> |
| End of year | <u>\$ 2,500,207</u> |
| Supplemental schedule of cash flow information: | |
| Cash payment for interest expense | <u>\$ 252,685</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Notes to Consolidated Financial Statements

For Years Ended December 31, 2010

1. Nature of Organization

The Southeastern Jurisdiction of the United Methodist Church and Agencies (the “Organization”) functions as an agent of the United Methodist Church within the Southeastern Jurisdiction of the United States. The Organization receives apportionment contributions remitted by annual conference treasurers and allocates the contributions received to three affiliated agencies and other associated groups and boards. The allocation of funds to these related entities is made based upon a quadrennial jurisdictional conference expense budget. The quadrennial budget also provides the Jurisdiction retain certain funds for administrative and conference expenses.

In its agency role, the Organization supports three affiliated agencies: Lake Junaluska Assembly Inc. (“Lake Junaluska”); the Gulfside Association of the United Methodist Church, Inc. (“Gulfside”); and Hinton Rural Life Center, Inc. (“Hinton”). Lake Junaluska's mission is to be God’s agent in assisting the annual conferences in equipping leaders and developing Christian disciples who strengthen the Body of Christ and transform the world. They also provide conference and retreat services for the Southeastern Jurisdiction of the United Methodist Church. The Gulfside Association of the United Methodist Church, Inc. provides retreat and meeting facilities to foster, promote, and develop Christian fellowship, evangelism, and education. Hinton Rural Life Center, Inc. provides facilities, staff, and other resources to develop leadership, programs, and support for the total mission and ministry of United Methodist churches.

These three agencies receive a budgeted allocation of apportionments from the Organization that constitutes a substantial economic interest in each of the affiliate agencies (approximately \$1,855,000 for the year ended December 31, 2010). The Organization also has control over the agencies through its ability to appoint board members for each agency.

The Organization financially supports other established associated groups. These groups receive budgeted allocation of apportionments from the Jurisdiction, but their board members are not elected by the Organization. These groups include: Intentional Growth Center, Inc. (transforming leaders for shared, Christ-centered ministry), United Methodist Volunteers in Mission, Inc. (facilitation of persons serving in jurisdictional missions), and Southeastern United Methodist Agency for Rehabilitation, Inc. (providing a faith-based option for individuals with disabilities).

2. **Significant Accounting Policies**

Principles of Consolidation - The consolidated financial statements include the accounts of the Organization and three affiliated agencies: Lake Junaluska Assembly Inc., The Gulfside Association of the United Methodist Church, Inc., and Hinton Rural Life Center, Inc. All significant intercompany items and transactions have been eliminated in consolidation.

Consolidated Financial Statement Presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes of net assets are defined as follows:

Unrestricted - Unrestricted funds account for all resources over which the Organization has discretionary control.

Temporarily Restricted - Temporarily restricted funds represent resources whose use is limited by donors for the purpose and/or time in which they may be expended. Eventually, temporarily restricted funds are reclassified to unrestricted, as their time and purpose requirements are met. Temporarily restricted resources for which donor-imposed restrictions have been met within the same fiscal year as received are reported as unrestricted contributions.

Permanently Restricted - Permanently restricted funds are restricted as to the expendability of principal and may or may not be restricted as to the use of investment return. Investment income earned and gains or losses on sales of investments on endowment and similar funds are accounted for in the unrestricted, temporarily restricted or permanently restricted funds depending upon the respective donor restrictions.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the Consolidated Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Consolidated Statement of Activities based on net asset class.

Accounts Receivable - Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience, and other circumstances, which may affect the ability of patrons to meet their obligations.

Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property and Equipment - Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis for all depreciable assets over

the estimated useful lives. Contributed property is recorded at appraised or market value at the date of contribution. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment purchased in excess of \$5,000 are capitalized and depreciated using the straight-line method over the following estimated useful lives of the assets: Land Improvements, fifteen years; Buildings, forty years; Equipment, five years; and Vehicles, three years.

Contributions - Contributions are recorded when cash or property is received, when payments are made on behalf of the Organization, or when indebtedness is forgiven. Contributed property is recorded at appraised or market value at the date of the contribution. All contributions are considered unrestricted unless specifically restricted by the donor. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction has been fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restrictions.

Pledges are recorded as receivables in the year received, less an allowance for uncollectible amounts. Pledges that are expected to be collected in future years and recorded at their net present value, using discount rates that approximate United States Treasury borrowing rates for the respective periods of these contributions.

Donated Services - No amounts have been reflected in the accompanying consolidated financial statements for donated services. The Organization generally pays for services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

Cash and Cash Equivalents - For purposes of the Consolidated Statement of Cash Flows, the Organization considers all cash accounts that are not subject to withdrawal restrictions or penalties, and all highly liquid instruments with an initial maturity of three months or less to be cash equivalents. At times, cash balances may exceed federally insured amounts. The Organization has not experienced any losses on such accounts and management does not believe the Organization is exposed to any significant credit risk on cash and cash equivalents.

Income Taxes - The Organization (including the three affiliated agencies) is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the statutes of the State of North Carolina. Accordingly, no provision for income taxes is provided in the consolidated financial statements.

The Organization's policy is to record a liability for any tax position taken that is beneficial to Lake Junaluska, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2010 and, accordingly, no liability has been accrued. Fiscal years ending on or after 2007 remain subject to examination by federal tax authorities.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Subsequent Events - Subsequent events have been evaluated through February 1, 2012, which is the date the consolidated financial statements were available to be issued.

3. **Investments and Fair Value Measurement**

Investments as of December 31, 2010 are as follows:

| | |
|----------------------------------|--------------|
| Certificates of deposit | \$ 47,914 |
| Marketable equity securities | 3,698,355 |
| Marketable non-equity securities | 1,953,426 |
| Allocated investment | 678,867 |
| Mutual funds--equity | 80,079 |
| | <hr/> |
| | \$ 6,458,641 |

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Organization's own data.)

The following table represents the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2010.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------------|---------------------|-------------------|----------------|
| Assets: | | | |
| Certificates of deposit | \$ 47,914 | \$ - | \$ - |
| Marketable equity securities | 3,698,355 | - | - |
| Marketable non-equity securities | 1,953,426 | - | - |
| Allocated investments | - | 678,867 | - |
| Mutual funds--equity | 80,079 | - | - |
| | <u>\$ 5,779,774</u> | <u>\$ 678,867</u> | <u>\$ -</u> |

4. Endowments

As of December 31, 2010, the Organization's endowment consists of approximately 55 individual funds established for a variety of purposes. The endowment includes permanent and donor-restricted funds and board designated funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - In March 2009, the North Carolina Uniform Prudent Management of Institutional Funds Act ("NCUPMIFA") was passed. This Act requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Lake Junaluska in a manner consistent with the standard of prudence prescribed by NCUPMIFA. In accordance with NCUPMIFA, the Organization 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 and strategies

- (4) The role that each investment or course of action plays within the overall investment portfolio of the fund
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The needs of Organization and the fund to make distributions and to preserve capital
- (8) An assets special relationship or special value, if any, to the charitable purposes of the Organization

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Organization has a policy of appropriating for distribution each year up to 4.5 percent of its endowment fund's average fair value over the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment as discussed below.

Return Objectives and Risk Parameters - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of benchmark indices while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The change in the endowment assets for the year ended December 31, 2010 is as follows:

| | <u>Unrestricted Board Designated</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---|--|--|---------------------|
| Endowment net assets: | | | | |
| Beginning of year | \$ 1,453,417 | \$ 199,757 | \$ 3,532,531 | \$ 5,185,705 |
| Investment return, net of fees | 18,201 | 1,576 | 49,913 | 69,690 |
| Net appreciation (realized and unrealized) | 46,100 | 15,686 | 270,467 | 332,253 |
| Contributions | 745,488 | 4,809 | 172,642 | 922,939 |
| Appropriation of endowment assets for expenditure | <u>(219,150)</u> | <u>(14,167)</u> | <u>(141,659)</u> | <u>(374,976)</u> |
| Endowment net assets end of year | <u>\$ 2,044,056</u> | <u>\$ 207,661</u> | <u>\$ 3,883,894</u> | <u>\$ 6,135,611</u> |

5. **Receivables**

Lake Junaluska has trade receivables arising from certain residential service fees charged to property owners and from lodging and food service operations. These receivables were approximately \$812,000 at December 31, 2010 and are reported net of an allowance for uncollectible accounts in the amount of approximately \$40,000.

Revenues for the Organization are received from annual conference treasurers, and consist of prescribed portions of collections submitted by member churches to the conference treasurers. Accounts receivable are recorded for revenues collected by the conference treasurers in the current period but not received by the Organization until the subsequent period. These receivables were approximately \$374,000 at December 31, 2010. No allowance for doubtful accounts has been recorded based on collection history.

Lake Junaluska has pledges receivable which are scheduled to be received as follows:

| | |
|---|------------------|
| Less than one year | \$ 447,103 |
| One to five years | 245,981 |
| | <hr/> 693,084 |
| Less allowance for uncollectible accounts | (83,892) |
| Less discount to net present value (with a 3.0% rate) | (12,145) |
| | <hr/> \$ 597,047 |

6. **Property and Equipment**

Property and equipment consisted of the following at December 31, 2010:

| | |
|----------------------------|---------------------------|
| Land and land improvements | \$ 8,200,843 |
| Land developed for sale | 543,678 |
| Buildings | 35,006,924 |
| Equipment | 8,756,469 |
| Vehicles | 547,962 |
| | <hr/> 53,055,876 |
| Accumulated depreciation | (31,898,806) |
| | <hr/> <hr/> \$ 21,157,070 |

7. **Accrued Expenses**

Accrued expenses consisted of the following at December 31, 2010:

| | |
|------------------------------|------------|
| Salaries payable | \$ 54,694 |
| Fully-insured claims payable | 72,370 |
| Other accrued expenses | 94,527 |
| | <hr/> |
| | \$ 221,591 |
| | <hr/> |

Lake Junaluska has a fully-insured health/medical benefit program for all eligible employees and their dependents. The fully-insured program offers an annual deductible of \$500 for an individual and \$1,000 for a family. The program pays 85% after the annual deductible. Maximum benefits are limited to \$2,000,000 per lifetime per employee/participant. The cost of the program for employees is fully covered by employee contributions. The employee pays for all dependent coverage.

8. **Notes Payable**

Notes payable consisted of the following at December 31, 2010:

| | |
|---|--------------|
| Revolving line of credit note payable to bank in the amount of \$2,500,000, interest payable monthly at the LIBOR market interest rate plus 1.9%, all principal and interest due in November 2011; collateralized by a brokerage account. | \$ 1,029,045 |
| Revolving line of credit note payable to bank in the amount of \$810,000, interest payable monthly with a current interest rate of 5.25%; all principal and interest due in November 2025; secured by real estate. | 697,719 |
| Revolving line of credit note payable to bank in the amount of \$1,000,000, interest payable monthly at the LIBOR market interest rate plus 2%, all principal and interest due in November 2011; collateralized by a brokerage account. | 100,000 |
| Revolving line of credit note payable to bank in the amount of \$150,000, interest payable monthly with a current interest rate of 6.36%; all principal and interest due in July 2011; secured by real estate. | 147,746 |

(continued)

| | |
|---|-----------|
| Revolving line of credit note payable to bank in the amount of \$129,000, interest payable monthly with a current interest rate of 6.55%; all principal and interest due in December 2010; secured by real estate. | \$ 38,400 |
| Note payable to bank due in monthly installments of \$2,828, including interest at the Federal not to exceed 13% or fall below 7.875%, matures in February 2016; collateralized by real estate. | 141,034 |
| Note payable to bank due in monthly installments including interest at 4.75% per annum, matures in 2033; collateralized by real estate. | 135,231 |
| Note payable to bank due in monthly installments of \$7,366, including interest at 5.25% per annum, matures in 2020; collateralized by real estate. | 632,571 |
| Note payable to bank due in monthly installments of \$15,277, including interest at a fixed rate of 6.35%, matures in 2012; collateralized by real estate. | 915,572 |
| Monthly payments of \$9,272 began in December 2006, including interest at a fixed rate of 5.85%, balloon payment of \$586,989 due December 2017; collateralized by real estate. | 1,022,256 |
| Five Housing Assistance Council (HAC) loans issued 2006 thru 2009 for \$345,750. Interest is 0%, due upon the earlier of (1) the sale of land purchased or upon which infrastructure improvements are made or (2) maturity dates ranging from 2011 to 2012. Eighty percent of loan may be forgiven at HAC's sole discretion when funds have been used to produce the required number of affordable self-help housing units by the deadline and other loan agreement conditions have been satisfied. These grant conversion funds may be passed on as grants or loans to self-help families, or may be used to capitalize an internal revolving development loan fund. | 231,571 |

(continued)

HAC Homeownership Loan Program (HLP Loan) approved February 2009 in the amount of \$15,000 for the development of one self-help unit. Up to twenty percent of the loan may be forgiven by HAC upon satisfaction of the terms of the loan agreement. The HLP Loan is due upon the earlier of (1) the sale of the land purchased or upon which infrastructure improvements are made or (2) December 31, 2012. Interest is -0-%.

| | |
|---|--------------|
| | \$ 3,166 |
| Total notes payable | 5,094,311 |
| Current maturities | (1,793,808) |
| Notes payable, excluding current maturities | \$ 3,300,503 |

Maturities of long-term debt at December 31, 2010 are as follows:

| | |
|------------|--------------|
| 2011 | \$ 1,793,808 |
| 2012 | 1,017,050 |
| 2013 | 188,382 |
| 2014 | 199,688 |
| 2015 | 211,689 |
| Thereafter | 1,683,694 |
| | \$ 5,094,311 |

In 2010, Lake Junaluska entered into a line of credit agreement that expires in November 2011 whereby Lake Junaluska may borrow up to \$50,000 for working capital needs of Residential Services department. Borrowings on the line of credit bear interest at the bank's prime rate of interest 0.5% not to fall below 3.75%. There were no borrowings outstanding on this line of credit at December 31, 2010.

9. Operating Leases

The Organization has entered into several non-cancelable operating lease agreements. The future minimum lease payments as of December 31, 2010 as follows:

| | |
|------|------------|
| 2011 | \$ 43,000 |
| 2012 | 41,000 |
| 2013 | 34,000 |
| 2014 | 31,000 |
| 2015 | 10,000 |
| | \$ 159,000 |

Total lease expense for the years ending December 31, 2010 was approximately \$48,000.

10. **Retirement Plans**

The Organization participates in various retirement plans covering different classes of employees.

The Organization provides eligible fulltime clergy coverage to *UMPIP (Clergy)*, a defined contribution pension plan. For the years ended December 31, 2010, Lake Junaluska contributed approximately \$63,000, or 12% of eligible compensation, including housing allowances of ordained staff.

For eligible full time Lay employees who have completed 1,000 hours of work in the prior calendar year, the Organization contributes 7% of employee compensation to *UMPIP (Lay)*, a defined contribution pension. Contributions amounted to approximately \$168,000 in 2010. Employees are required to contribute 1% of compensation to the plan; higher contributions are allowed under certain circumstances.

11. **Advertising Costs**

The Organization advertises its services through printed media and radio. All costs are expensed as incurred since they represent no future economic benefit. The total advertising expense for the year ended December 31, 2010 was approximately \$200,000.

12. **Commitments**

During 2006, Lake Junaluska entered into a contingent indemnification agreement for the permanent financing of a HUD-financed housing project on property adjacent to Lake Junaluska Assembly grounds. The project was commenced by Southeastern United Methodist Agency for Rehabilitation, Inc., an agency of the Southeastern Jurisdiction of the United Methodist Church, in partnership with Givens Estates, Inc., an agency of the Western North Carolina Conference of the United Methodist Church. The contingent obligation indemnification has a maximum limit of \$350,000 and will only be applicable if the cash flow and reserves of the project are first exhausted and Givens Estates, Inc. is required to make up any shortfall.

13. **Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2010 are available for the following purposes:

| | |
|--------------------------------|--------------|
| Buildings and grounds | \$ 1,382,176 |
| Ministry and program | 408,495 |
| Group-organized directed funds | 305,574 |
| Capital fund | 258,970 |
| Endowment holding | 235,794 |
| First Parish project | 224,752 |
| SHOP loan revolving fund | 149,914 |
| Other | 64,169 |
| | <hr/> |
| | \$ 3,029,844 |
| | <hr/> <hr/> |

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH**

Statement of Financial Position (Without Agencies)

December 31, 2010

Assets

| | |
|-------------------------------|--------------------------------|
| Cash and cash equivalents | \$ 669,001 |
| Annual conference receivables | 371,680 |
| Agency and group receivables | <u>2,582</u> |
| Total assets | <u><u>\$ 1,043,263</u></u> |

Liabilities and Net Assets

Liabilities:

| | |
|--|------------|
| Payable to Lake Junaluska Assembly, Inc. groups and agencies | \$ 407,322 |
|--|------------|

Net assets:

Unrestricted:

| | |
|------------------------------|-----------------------|
| Designated--conference fund | 507,675 |
| Designated--contingency fund | <u>128,266</u> |
| Total net assets | <u><u>635,941</u></u> |

| | |
|----------------------------------|----------------------------|
| Total liabilities and net assets | <u><u>\$ 1,043,263</u></u> |
|----------------------------------|----------------------------|

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH**

Statement of Activities (Without Agencies)

For the Year Ended December 31, 2010

| | <u>Unrestricted</u> |
|--|----------------------------|
| Revenues and other support: | |
| Annual conference apportionment contributions | \$ 1,779,571 |
| Interest earned | 117 |
| Southeastern Jurisdiction special asking | 401,319 |
| Total revenues and other support | <u>2,181,007</u> |
| Expenses and payments: | |
| Jurisdictional conference expenses: | |
| Finance and administration | 5,123 |
| Committee on Episcopacy | 375 |
| Program Committee | 2,080 |
| Committee on Coordinating | 16,718 |
| Committee on Arrangements | 843 |
| Total program services | <u>25,139</u> |
| Quadrennial budget allocation payments: | |
| Affiliated agencies | 1,855,452 |
| Associated groups | 103,438 |
| Other groups and boards | 58,490 |
| Total quadrennial budget allocation payments | <u>2,017,380</u> |
| Total expenses | <u>2,042,519</u> |
| Excess of revenues and other support over expenses and payments | 138,488 |
| Net assets, beginning of year | <u>497,453</u> |
| Net assets, end of year | <u><u>\$ 635,941</u></u> |

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH**

Statement of Cash Flows (without Agencies)

For the Year Ended December 31, 2010

Cash flows from operating activities:

Excess of revenues and other support
over expenses and payments

\$ 138,488

Changes in operating assets and liabilities:

Increase in annual conference receivables

(31,119)

Decrease in agency and group receivables

10,732

Increase in accounts payable

69,005

Net cash provided by operations

187,106

Cash and cash equivalents:

Beginning of year

481,895

End of year

\$ 669,001

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidating Statement of Financial Position

December 31, 2010

| <u>Assets</u> | <u>LJA</u> | <u>Gulfside</u> |
|---------------------------------------|-------------------------|----------------------|
| Cash and cash equivalents | \$ 1,590,297 | \$ 56,046 |
| Investments | 5,481,265 | 397,173 |
| Receivables | 1,794,213 | 10,551 |
| Property and equipment, net | 19,009,786 | 467,221 |
| Other assets | 169,465 | - |
| | <hr/> | <hr/> |
| Total assets | <u>\$ 28,045,026</u> | <u>\$ 930,991</u> |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Accounts payable | 231,147 | 8,263 |
| Advance lodging deposits | 565,053 | 39,900 |
| Accrued expenses | 216,369 | 5,222 |
| Capital leases payable | 168,536 | - |
| Notes payable | 3,840,478 | - |
| Total liabilities | <hr/> <u>5,021,583</u> | <hr/> <u>53,385</u> |
| Net assets: | | |
| Unrestricted | 17,157,322 | 507,700 |
| Temporarily restricted | 2,376,705 | 264,197 |
| Permanently restricted | 3,489,416 | 105,709 |
| Total net assets | <hr/> <u>23,023,443</u> | <hr/> <u>877,606</u> |
| Total liabilities and net assets | <u>\$ 28,045,026</u> | <u>\$ 930,991</u> |

| <u>Hinton</u> | <u>SEJUM</u> | <u>Consolidation</u> | <u>Total</u> |
|---------------------|---------------------|----------------------|----------------------|
| \$ 184,863 | \$ 669,001 | \$ - | \$ 2,500,207 |
| 580,203 | - | - | 6,458,641 |
| 11,746 | 374,262 | (407,322) | 1,783,450 |
| 1,680,063 | - | - | 21,157,070 |
| 9,389 | - | - | 178,854 |
| <u>\$ 2,466,264</u> | <u>\$ 1,043,263</u> | <u>\$ (407,322)</u> | <u>\$ 32,078,222</u> |
| 36,697 | 407,322 | (407,322) | 276,107 |
| 14,375 | - | - | 619,328 |
| - | - | - | 221,591 |
| - | - | - | 168,536 |
| 1,253,833 | - | - | 5,094,311 |
| <u>1,304,905</u> | <u>407,322</u> | <u>(407,322)</u> | <u>6,379,873</u> |
| 483,648 | 635,941 | - | 18,784,611 |
| 388,942 | - | - | 3,029,844 |
| 288,769 | - | - | 3,883,894 |
| <u>1,161,359</u> | <u>635,941</u> | <u>-</u> | <u>25,698,349</u> |
| <u>\$ 2,466,264</u> | <u>\$ 1,043,263</u> | <u>\$ (407,322)</u> | <u>\$ 32,078,222</u> |

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidating Statement of Activities

December 31, 2010

| | <u>LJA</u> | <u>Gulfside</u> |
|--|---------------|-----------------|
| Revenues, gains and other support: | | |
| Contributions from Southeastern Jurisdiction of the United Methodist Church | \$ 1,388,542 | \$ 95,849 |
| Annual conference apportionment contributions and special asking | - | - |
| Contributions and bequests | 909,302 | 61,613 |
| Program revenue | 8,114,225 | 2,630 |
| Investment return, net of distributions and fees | 180,903 | 1,549 |
| Realized gains (losses) on investments | 46,100 | - |
| Unrealized gains on investments | 112,023 | 329 |
| Loss on disposal of property and equipment | (10,721) | - |
| Other--fees, rents and miscellaneous | 358,990 | 10,346 |
| In-kind rental income | 116,655 | - |
| Net assets released from restrictions | 406,498 | 991,689 |
| Total revenues, gains and other support | 11,622,517 | 1,164,005 |
| Expenses | | |
| Program services | 9,555,918 | 1,052,530 |
| General administration | 1,463,177 | 121,330 |
| Fundraising | 433,967 | 3,260 |
| Interest expense | 194,921 | - |
| Total expenses | 11,647,983 | 1,177,120 |
| Increase (decrease) in net assets | (25,466) | (13,115) |
| Net assets, beginning of year | 17,182,788 | 520,815 |
| Net assets as restated, end of year | \$ 17,157,322 | \$ 507,700 |

| Unrestricted | | | |
|----------------------|---------------------|-----------------------------|----------------------|
| <u>Hinton</u> | <u>SEJUM</u> | <u>Consolidation</u> | <u>Total</u> |
| \$ - | \$ - | \$ (1,484,391) | \$ - |
| - | 2,180,890 | (371,061) | 1,809,829 |
| 217,269 | - | - | 1,188,184 |
| 406,207 | - | - | 8,523,062 |
| 22,126 | 117 | - | 204,695 |
| 4,476 | - | - | 50,576 |
| - | - | - | 112,352 |
| (850) | - | - | (11,571) |
| 197,619 | - | - | 566,955 |
| - | - | - | 116,655 |
| 793,206 | - | - | 2,191,393 |
| <u>1,640,053</u> | <u>2,181,007</u> | <u>(1,855,452)</u> | <u>14,752,130</u> |
| 836,264 | 2,042,519 | (1,855,452) | 11,631,779 |
| 952,565 | - | - | 2,537,072 |
| 2,193 | - | - | 439,420 |
| - | - | - | 194,921 |
| <u>1,791,022</u> | <u>2,042,519</u> | <u>(1,855,452)</u> | <u>14,803,192</u> |
| (150,969) | 138,488 | - | (51,062) |
| <u>634,617</u> | <u>497,453</u> | <u>-</u> | <u>18,835,673</u> |
| <u>\$ 483,648</u> | <u>\$ 635,941</u> | <u>\$ -</u> | <u>\$ 18,784,611</u> |

(continued)

**SOUTHEASTERN JURISDICTION OF
THE UNITED METHODIST CHURCH AND AGENCIES**

Consolidating Statement of Activities, Continued

December 31, 2010

| | <u>LJA</u> | <u>Gulfside</u> |
|--|---------------------|-------------------|
| Revenues, gains and other support: | | |
| Contributions and bequests | \$ 381,751 | \$ - |
| Program revenue | 96,981 | |
| Investment return, net of distributions and fees | (12,591) | 23,433 |
| Realized gains (losses) on investments | 5,061 | (5,082) |
| Unrealized gains (losses) on investments | 10,625 | 9,186 |
| Other--fees, rents and miscellaneous | 8,161 | - |
| Associates revenue | 48,221 | - |
| SEJ special asking for lake restoration | 401,319 | - |
| Net assets released from restrictions | (406,498) | (991,689) |
| Total revenues, gains and other support | <u>533,030</u> | <u>(964,152)</u> |
| Increase (decrease) in net assets | 533,030 | (964,152) |
| Net assets, beginning of year | <u>1,843,675</u> | <u>1,228,349</u> |
| Net assets as restated, end of year | <u>\$ 2,376,705</u> | <u>\$ 264,197</u> |

| | <u>LJA</u> | <u>Gulfside</u> |
|--|---------------------|-------------------|
| Revenues, gains and other support: | | |
| Contributions and bequests | \$ 146,423 | \$ - |
| Investment return, net of distributions and fees | (91,901) | - |
| Realized gains (losses) on investments | 93,143 | - |
| Unrealized gains (losses) on investments | 176,475 | - |
| Total revenues, gains and other support | <u>324,140</u> | <u>-</u> |
| Increase in net assets | 324,140 | - |
| Net assets, beginning of year | <u>3,165,276</u> | <u>105,709</u> |
| Net assets as restated, end of year | <u>\$ 3,489,416</u> | <u>\$ 105,709</u> |

| Temporarily Restricted | | | |
|-------------------------------|--------------|----------------------|---------------------|
| <u>Hinton</u> | <u>SEJUM</u> | <u>Consolidation</u> | <u>Total</u> |
| \$ 450,021 | \$ - | \$ - | \$ 831,772 |
| | | | 96,981 |
| 14,769 | - | - | 25,611 |
| - | - | - | (21) |
| - | - | - | 19,811 |
| - | - | - | 8,161 |
| - | - | - | 48,221 |
| - | - | - | 401,319 |
| (793,206) | - | - | (2,191,393) |
| <u>(328,416)</u> | <u>-</u> | <u>-</u> | <u>(759,538)</u> |
| (328,416) | - | - | (759,538) |
| 717,358 | - | - | 3,789,382 |
| <u>\$ 388,942</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,029,844</u> |

| Permanently Restricted | | | |
|-------------------------------|--------------|----------------------|---------------------|
| <u>Hinton</u> | <u>SEJUM</u> | <u>Consolidation</u> | <u>Total</u> |
| \$ 17,415 | \$ - | \$ - | \$ 163,838 |
| 8,963 | - | - | (82,938) |
| 849 | - | - | 93,992 |
| - | - | - | 176,475 |
| <u>27,227</u> | <u>-</u> | <u>-</u> | <u>351,367</u> |
| 27,227 | - | - | 351,367 |
| 261,542 | - | - | 3,532,527 |
| <u>\$ 288,769</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,883,894</u> |