

BEFORE THE
NORTH CAROLINA UTILITIES COMMISSION

Docket No. W-1274, Sub 7

In the Matter of)
Application of Lake Junaluska Assembly,)
Incorporated for a Certificate of Public)
Convenience and Necessity and for)
Approval of Rates)

Exhibits A-E to Application of Lake Junaluska Assembly, Incorporated

Exhibit A



State of North Carolina
Department of Environmental Quality
Division of Water Resources 75,629.00
Public Water Supply Section
1634 Mail Service Center, Raleigh, NC
Telephone (919) 707-9100

| | | | |
|---|----------------|--------------|--------------------------|
| PWS ID: NC0144107 | HAYWOOD County | SYSTEM NAME: | LAKE JUNALUSKA ASSEMBLY |
| OWNER ID: 75629 | | RESPONSIBLE | |
| OWNER: SOUTHEASTERN JURISDICTIONAL_144107 | | PERSON: | CARLISLE, JACK |
| PO BOX 67 | | | PO BOX 339 |
| ADMIN COUNCIL OF METHODIST CH | | | LAKE JUNALUSKA, NC 28745 |
| LAKE JUNALUSKA, NC 28745 | | | |

2018 PERMIT TO OPERATE A COMMUNITY PUBLIC WATER SYSTEM

POPULATION SERVED: 2,118

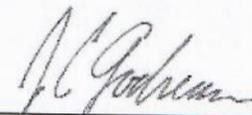
The above named Community or Non-Transient Non-Community Public Water Supply System is granted a permit to operate this facility for the calendar year 2018. The permit expires at midnight on December 31, 2018.

The permit signifies that the annual fee has been paid in full and that a completed annual operating permit application has been submitted.

All permitted community and non transient non-community water systems shall comply with 15A NCAC 18C, which are the Rules Governing Public Water Systems. Rule .02102(f) requires that the supplier of water who holds a current operating permit shall inform the Department of any changes of address or transfer of ownership within 30 days of the changes.

Payment of the 2019 operating permit fee is due by November 2018. Administrative Penalties will be assessed for payments not received by December 31, 2018. Renewal notices will be sent in September 2018.

Sincerely,



Jessica Godreau, P.E., BCEE, Chief

cc: WILLIAM CONNER, P.E., Regional Engineer

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Exhibit B

STATE OF NORTH CAROLINA
ENVIRONMENTAL MANAGEMENT COMMISSION
DEPARTMENT OF ENVIRONMENTAL QUALITY
SYSTEM-WIDE COLLECTION SYSTEM PERMIT

In accordance with the provisions of Article 21 of Chapter 143, General Statutes of North Carolina as amended, and other applicable Laws, Rules, and Regulations, permission is hereby granted to the

Lake Junaluska Assembly

WQCS00184

FOR THE

operation and maintenance of a wastewater collection system consisting of, at the time of permit issuance, approximately 18 miles of gravity sewer, approximately 250 feet of force main, 1 simplex pump station without permanent pump reliability that serve more than one building, and all associated piping, valves, and appurtenances required to make a complete and operational wastewater collection system to serve the Lake Junaluska Assembly and any deemed permitted satellite communities pursuant to the application received May 31, 2018, and in conformity with the documents referenced therein and other supporting data subsequently filed and approved by the Department of Environmental Quality and considered a part of this permit.

This permit shall be effective from June 12, 2018 until May 31, 2026, and shall be subject to the following specified conditions and limitations:

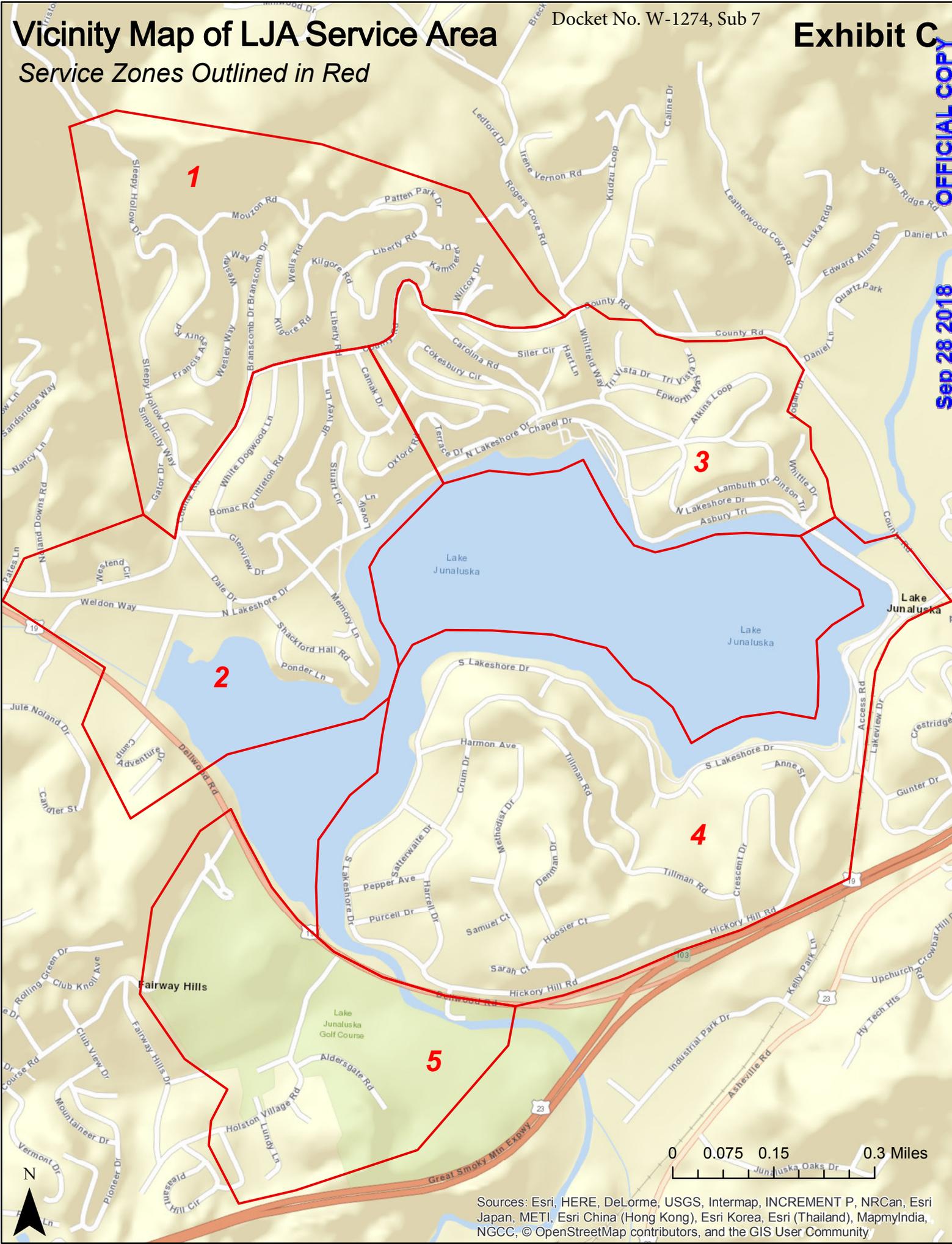
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Vicinity Map of LJA Service Area

Service Zones Outlined in Red

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Sources: Esri, HERE, DeLorme, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), MapmyIndia, NGCC, © OpenStreetMap contributors, and the GIS User Community

Exhibit D

DETAIL MAPS OF THE LJA PUBLIC WORKS WATER & SEWER SYSTEM

UPDATED AUGUST 1, 2018

LJA PUBLIC WORKS- WATER & SEWER SYSTEM MAP

Service Zone 1

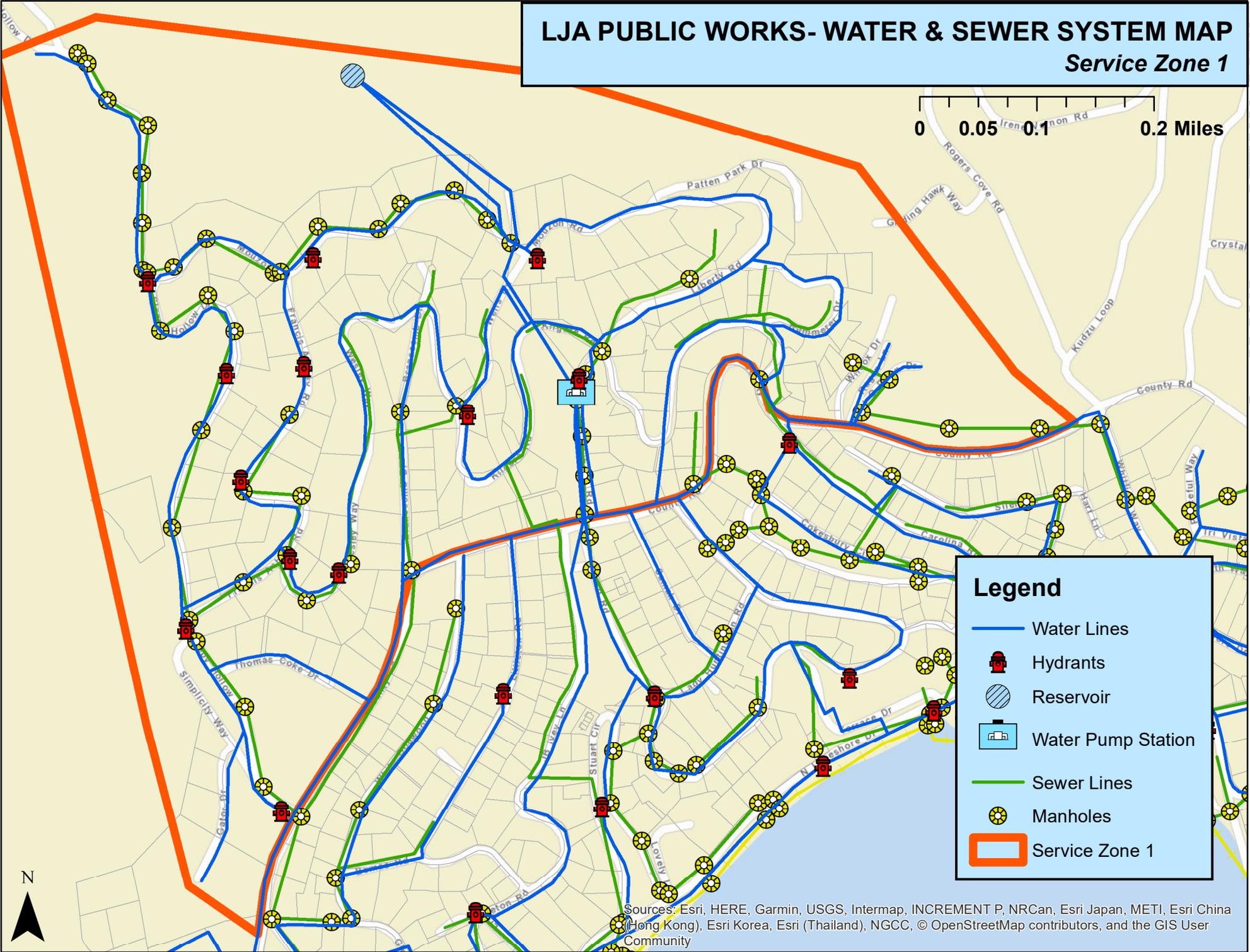
0 0.05 0.1 0.2 Miles

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Legend

- Water Lines
- Hydrants
- Reservoir
- Water Pump Station
- Sewer Lines
- Manholes
- Service Zone 1

Sources: Esri, HERE, Garmin, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), NGCC, © OpenStreetMap contributors, and the GIS User Community



LJA PUBLIC WORKS- WATER & SEWER SYSTEM MAP

Service Zone 2



Legend

- Water Lines
- Water Main Meter
- Hydrants
- Sewer Lines
- High Priority Sewer Line
- Manholes
- Waynesville Sewer Line
- Waynesville Manholes
- Service Zone 2

Sources: Esri, HERE, Garmin, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), NGCC, © OpenStreetMap contributors, and the GIS User Community

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LJA PUBLIC WORKS- WATER & SEWER SYSTEM MAP

Service Zone 3



Legend

- Water Lines
- Hydrants
- Sewer Lines
- High Priority Sewer Line
- Manholes
- Sewer Lift Station
- Service Zone 3



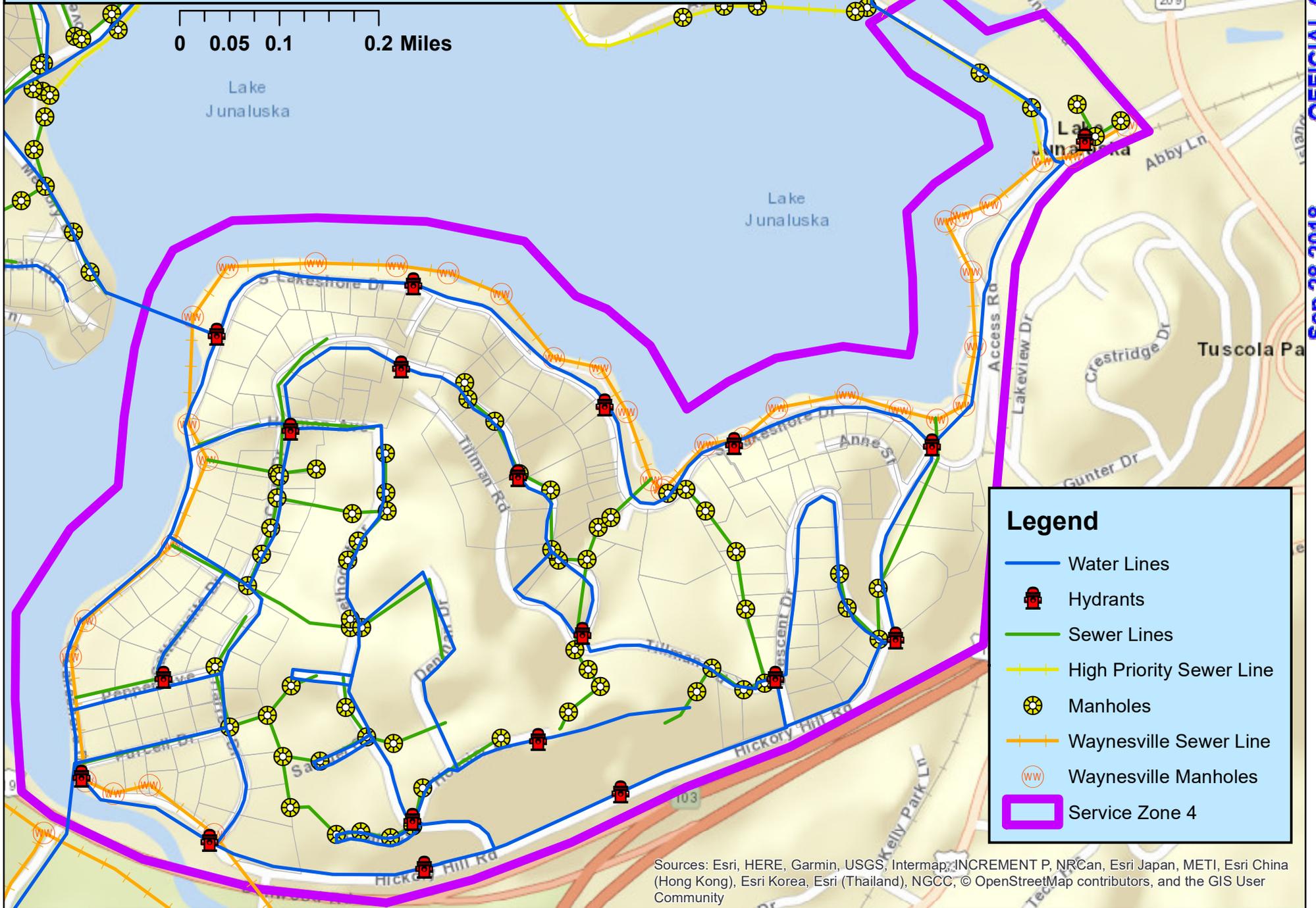
Sources: Esri, HERE, Garmin, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), NGCC, © OpenStreetMap contributors, and the GIS User Community

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LJA PUBLIC WORKS- WATER & SEWER SYSTEM MAP

Service Zone 4

0 0.05 0.1 0.2 Miles



Legend

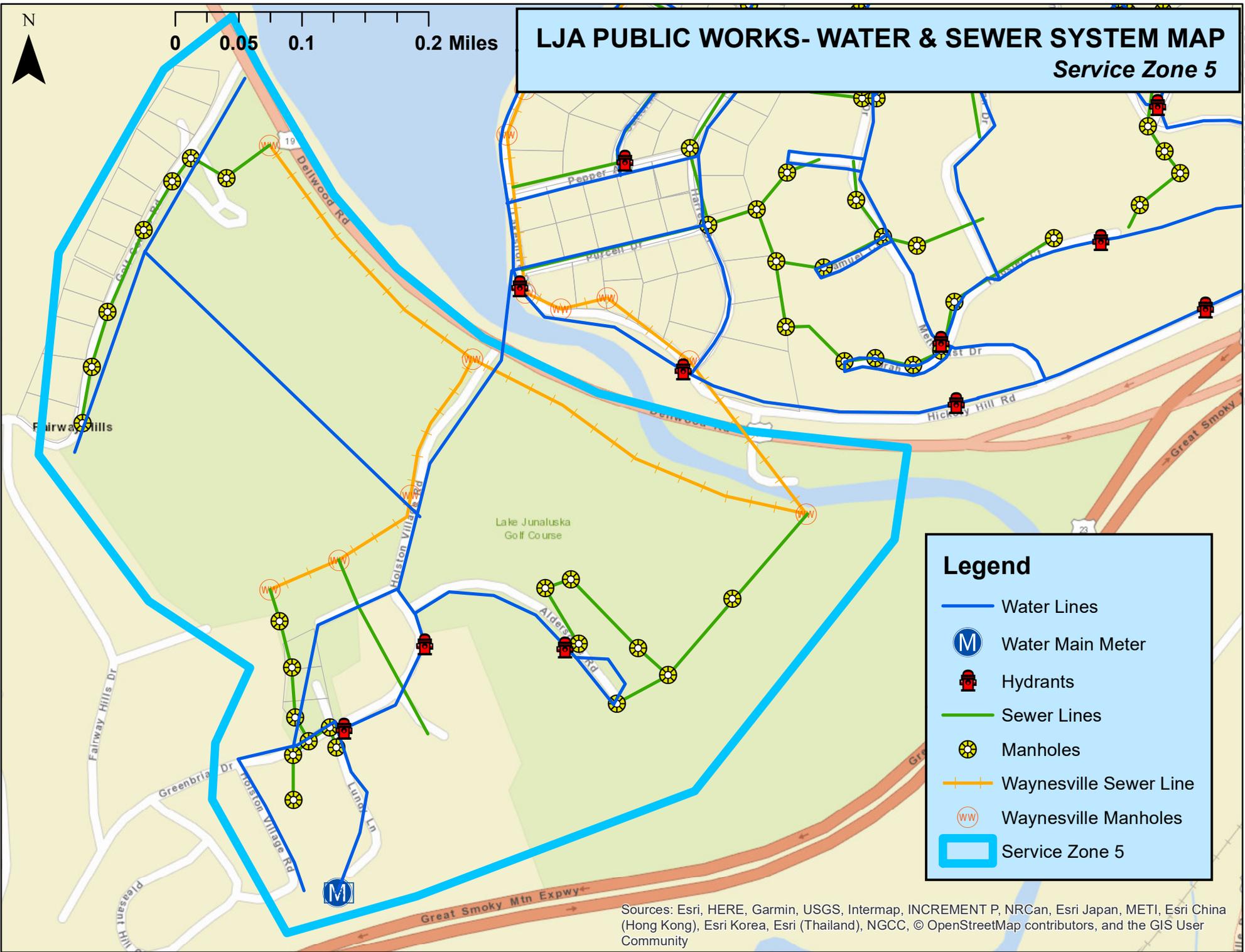
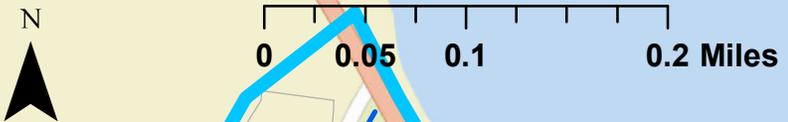
- Water Lines
- Hydrants
- Sewer Lines
- High Priority Sewer Line
- Manholes
- Waynesville Sewer Line
- Waynesville Manholes
- Service Zone 4

Sources: Esri, HERE, Garmin, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), NGCC, © OpenStreetMap contributors, and the GIS User Community

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LJA PUBLIC WORKS- WATER & SEWER SYSTEM MAP

Service Zone 5



Legend

- Water Lines
- Water Main Meter
- Hydrants
- Sewer Lines
- Manholes
- Waynesville Sewer Line
- Waynesville Manholes
- Service Zone 5

Sources: Esri, HERE, Garmin, USGS, Intermap, INCREMENT P, NRCan, Esri Japan, METI, Esri China (Hong Kong), Esri Korea, Esri (Thailand), NGCC, © OpenStreetMap contributors, and the GIS User Community

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Exhibit E

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Sep 28 2018

Lake Junaluska Assembly, Incorporated

**Financial Statements with
Summarized Financial Information**

Years Ended December 31, 2017 and 2016

Table of Contents

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Independent Auditors' Report

Audit Committee of
Lake Junaluska Assembly, Incorporated
Lake Junaluska, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Lake Junaluska Assembly, Incorporated ("Lake Junaluska"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Junaluska Assembly, Incorporated as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lake Junaluska's 2016 financial statements, and our report dated August 4, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

Asheville, North Carolina
July 5, 2018

Lake Junaluska Assembly, Incorporated**Statement of Financial Position****December 31, 2017****with Summarized Financial Information for the Year Ended December 31, 2016**

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,186,913 | \$ 1,107,590 |
| Investments | 5,343,470 | 4,756,966 |
| Accounts receivables: | | |
| Trade (net of allowances) | 526,871 | 560,736 |
| Pledges (net of allowances) | 413,305 | 381,565 |
| Real estate installment sales | - | 43,522 |
| Inventories | 155,910 | 155,385 |
| Property, buildings, and equipment, net | 17,932,112 | 18,037,715 |
| Other assets | 29,720 | 15,519 |
| | <u>26,588,301</u> | <u>25,058,998</u> |
| Total assets | <u>\$ 26,588,301</u> | <u>\$ 25,058,998</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 473,119 | \$ 376,344 |
| Advance lodging deposits | 353,947 | 330,084 |
| Accrued expenses | 276,159 | 274,026 |
| Custodial funds | 1,736,402 | 1,492,163 |
| Notes payable | 2,034,970 | 2,260,374 |
| | <u>4,874,597</u> | <u>4,732,991</u> |
| Total liabilities | <u>4,874,597</u> | <u>4,732,991</u> |
| Net assets: | | |
| Unrestricted | 17,461,700 | 17,222,641 |
| Temporarily restricted | 2,137,032 | 1,286,924 |
| Permanently restricted | 2,114,972 | 1,816,442 |
| | <u>21,713,704</u> | <u>20,326,007</u> |
| Total net assets | <u>21,713,704</u> | <u>20,326,007</u> |
| | <u>\$ 26,588,301</u> | <u>\$ 25,058,998</u> |
| Total liabilities and net assets | <u>\$ 26,588,301</u> | <u>\$ 25,058,998</u> |

See accompanying notes.

Lake Junaluska Assembly, Incorporated
Statement of Activities
Year Ended December 31, 2017
with Summarized Financial Information for the Year Ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2017</u> | <u>2016</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|-------------------|
| Revenues, gains and other support: | | | | | |
| Contributions from SEJUMC | \$ - | \$ - | \$ - | \$ - | \$ 500,000 |
| Contributions and bequests | 878,879 | 1,519,019 | 113,587 | 2,511,485 | 763,113 |
| Investment return, net of fees | 58,976 | 461 | 11,666 | 71,103 | 108,435 |
| Realized gains (losses) | | | | | |
| on investments | 39,031 | 3,223 | 81,518 | 123,772 | (30,440) |
| Unrealized gains | | | | | |
| on investments | 75,701 | 6,256 | 154,016 | 235,973 | 183,787 |
| Lodging | 4,098,582 | - | - | 4,098,582 | 3,813,649 |
| Food service | 1,907,873 | - | - | 1,907,873 | 1,880,776 |
| Service | 422,064 | - | - | 422,064 | 374,903 |
| Assembly public works | 1,800,369 | - | - | 1,800,369 | 1,810,221 |
| Ministry program | 303,204 | 16,415 | - | 319,619 | 304,388 |
| Golf course | 356,174 | - | - | 356,174 | 391,038 |
| Events and packages | 185,667 | - | - | 185,667 | 199,892 |
| Auxiliary and miscellaneous | 613,134 | 3,826 | - | 616,960 | 587,695 |
| Associates | - | 52,152 | - | 52,152 | 44,892 |
| In-kind rental income | 73,646 | - | - | 73,646 | 81,098 |
| Net assets released from restrictions | 813,501 | (751,244) | (62,257) | - | - |
| | <u>11,626,801</u> | <u>850,108</u> | <u>298,530</u> | <u>12,775,439</u> | <u>11,013,447</u> |
| Total revenues, gains and other support | | | | | |

See accompanying notes.

Lake Junaluska Assembly, Incorporated
Statement of Activities
Year Ended December 31, 2017
with Summarized Financial Information for the Year Ended December 31, 2016

(Continued)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>2017</u> | <u>2016</u> |
|-----------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|----------------------|
| Expenses: | | | | | |
| Administration | \$ 1,430,564 | \$ - | \$ - | \$ 1,430,564 | \$ 1,349,609 |
| Development | 355,083 | - | - | 355,083 | 395,793 |
| Conference center | 5,529,464 | - | - | 5,529,464 | 5,461,846 |
| Building and grounds | 1,238,592 | - | - | 1,238,592 | 1,446,259 |
| Auxiliary and miscellaneous | 728,218 | - | - | 728,218 | 635,803 |
| Ministry program | 445,073 | - | - | 445,073 | 352,131 |
| Assembly public works | 1,376,964 | - | - | 1,376,964 | 1,436,264 |
| Designated expenses | 283,784 | - | - | 283,784 | 289,773 |
| | <u>11,387,742</u> | <u>-</u> | <u>-</u> | <u>11,387,742</u> | <u>11,367,478</u> |
| Total expenses | | | | | |
| Increase (decrease) in net assets | 239,059 | 850,108 | 298,530 | 1,387,697 | (354,031) |
| Net assets, beginning of year | <u>17,222,641</u> | <u>1,286,924</u> | <u>1,816,442</u> | <u>20,326,007</u> | <u>20,680,038</u> |
| Net assets, end of year | <u>\$ 17,461,700</u> | <u>\$ 2,137,032</u> | <u>\$ 2,114,972</u> | <u>\$ 21,713,704</u> | <u>\$ 20,326,007</u> |

See accompanying notes.

Lake Junaluska Assembly, Incorporated
Statement of Cash Flows
Year Ended December 31, 2017
with Summarized Financial Information for the Year Ended December 31, 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,387,697 | \$ (354,031) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,298,910 | 1,434,043 |
| Realized and unrealized gains on investments | (359,745) | (153,347) |
| Loss on sale and disposal of property | 1,399 | 207,584 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 33,865 | 164,618 |
| Pledges receivable | (31,740) | 69,331 |
| Real estate installment notes | 43,522 | 49,450 |
| Inventories | (525) | (5,829) |
| Other assets | (14,201) | 20,067 |
| Accounts payable | (5,921) | 280,017 |
| Advance lodging deposits | 23,863 | (46,280) |
| Accrued expenses | 2,133 | (35,934) |
| Net cash provided by operations | <u>2,379,257</u> | <u>1,629,689</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | (1,252,620) | (1,472,286) |
| Acquisition of investments | 1,270,100 | 1,401,683 |
| Expenditures for asset additions | (1,092,010) | (850,114) |
| Proceeds from asset disposals | - | 113,070 |
| Net cash used by investing activities | <u>(1,074,530)</u> | <u>(807,647)</u> |
| Cash flows from financing activities: | | |
| Payments on notes payable | <u>(225,404)</u> | <u>(707,350)</u> |
| Net increase in cash and cash equivalents | 1,079,323 | 114,692 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>1,107,590</u> | <u>992,898</u> |
| End of year | <u>\$ 2,186,913</u> | <u>\$ 1,107,590</u> |
| Supplemental schedule of cash flow information: | | |
| Non-cash items: | | |
| Property, buildings, and equipment in accounts payable | <u>\$ 125,376</u> | <u>\$ 22,680</u> |
| Cash payment for interest expense | <u>\$ 102,644</u> | <u>\$ 115,850</u> |

See accompanying notes.

Notes to Financial Statements

1. Nature of Organization

Lake Junaluska Assembly, Inc. ("Lake Junaluska") is an agency of the Southeastern Jurisdiction ("SEJ") of The United Methodist Church. The mission of Lake Junaluska is to be a place of Christian hospitality where lives are transformed through renewal of soul, mind, and body.

Lake Junaluska has approximately 800 private residences on the grounds that are a part of an unincorporated residential community. Lake Junaluska provides services to these residences including water and sewer services. The related revenue is recorded within Assembly Public Works revenue in the accompanying statement of activities.

Lake Junaluska serves a diverse clientele of religious and secular visitors, and is a popular destination for group retreats and leisure travel. In addition to guest rooms and meeting space, Lake Junaluska offers retail shopping, outdoor recreation, musical and performance events, golfing, and other activities and amenities to our guests.

2. Significant Accounting Policies

Financial statement presentation

Lake Junaluska 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 Lake Junaluska 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 include donor restricted principal funds. Donor 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 statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities based on net asset class.

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. Lake Junaluska 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 Lake Junaluska's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Inventories

Inventories are stated at the lower of cost or market on a first in, first out basis. Inventory consists of food items and linen items used in lodging and restaurant operations, certain religious tapes and books available for sale, and supplies needed for maintenance and repair of buildings and equipment.

Property and equipment

Property and equipment are 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, Lake Junaluska reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Lake Junaluska reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment purchases 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 Lake Junaluska, 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 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 financial statements for donated services. Lake Junaluska generally pays for services requiring specific expertise; however, many individuals volunteer their time and perform a variety of tasks that assist Lake Junaluska with specific assistance programs, campaign solicitations, and various committee assignments.

Vacation, holiday and sick leave policy

The vacation policy of Lake Junaluska provides for earning vacation at the end of the pay period following completed years of service as follows: 1 year, 40 hours; 2-4 years, 80 hours; 5-9 years, 120 hours; 10+ years, 160 hours. For the year ended December 31, 2017, employees are allowed to accumulate and carry to the next year a maximum of 10 days or 80 hours. All accrued vacation time must be used or forfeited. Ten paid holidays are available to all full-time employees and part time employees with at least two consecutive years work history and with a minimum of 1,000 hours in each of those two years. All holiday time is to be taken within 30 days of the date the holiday occurs.

Lake Junaluska Assembly, Incorporated
Notes to Financial Statements

Lake Junaluska's sick leave policy allows employees to earn sick leave at the rate of six days per year and accumulate up to a maximum of thirty days. Sick leave is not eligible for pay out, therefore, Lake Junaluska has no obligation for the accumulated sick leave until it is actually taken. Therefore, no accrual for sick leave has been made.

Cash and cash equivalents

For purposes of the Statement of Cash Flows, Lake Junaluska 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. Lake Junaluska has not experienced any losses on such accounts and management does not believe Lake Junaluska is exposed to any significant credit risk on cash and cash equivalents.

Income taxes

Lake Junaluska 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 financial statements.

Lake Junaluska'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, 2017 and 2016, and accordingly, no liability has been accrued.

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 July 5, 2018, the date the financial statements were available to be issued.

3. Investments and Fair Value Measurement

Investments consisted of the following at December 31:

| | Fair Market Value | |
|------------------------------|--------------------------|---------------------|
| | 2017 | 2016 |
| Marketable equity securities | \$ 1,047,244 | \$ 1,195,562 |
| Mutual equity funds | 2,312,678 | 1,836,595 |
| Real estate trust | 37,778 | 28,202 |
| Real asset funds | 339,530 | 338,511 |
| Mutual bond funds | 201,029 | 197,072 |
| Government bonds | 394,658 | 399,538 |
| Corporate bonds | 590,862 | 601,392 |
| | \$ 4,923,779 | \$ 4,596,872 |

Lake Junaluska Assembly, Incorporated
Notes to Financial Statements

At December 31, 2017 and 2016, Lake Junaluska had \$419,691 and \$160,094 of cash and cash equivalents included in investments.

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 Lake Junaluska 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 Lake Junaluska's own data.)

There were no changes during the years ended December 31, 2017 and 2016 to Lake Junaluska's valuation techniques used to measure asset fair values on a recurring basis.

The following table represents Lake Junaluska's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016:

| | December 31, 2017 | | |
|------------------------------|--------------------------|---------------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Marketable equity securities | \$ 1,047,244 | \$ - | \$ - |
| Mutual equity funds | 2,312,678 | - | - |
| Real asset funds | 339,530 | - | - |
| Mutual bond funds | 201,029 | - | - |
| Real estate trust | 37,778 | - | - |
| Government bonds | - | 394,658 | - |
| Corporate bonds | - | 590,862 | - |
| | <u>\$ 3,938,259</u> | <u>\$ 985,520</u> | <u>\$ -</u> |
| | | | |
| | December 31, 2016 | | |
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Marketable equity securities | \$ 1,195,562 | \$ - | \$ - |
| Mutual equity funds | 1,836,595 | - | - |
| Real asset funds | 338,511 | - | - |
| Mutual bond funds | 197,072 | - | - |
| Real estate trust | 28,202 | - | - |
| Government bonds | - | 399,538 | - |
| Corporate bonds | - | 601,392 | - |
| | <u>\$ 3,595,942</u> | <u>\$ 1,000,930</u> | <u>\$ -</u> |

4. Endowments

As of December 31, 2017, Lake Junaluska's endowment consists of approximately 50 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

The North Carolina Uniform Prudent Management of Institutional Funds Act ("NCUPMIFA") 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, Lake Junaluska 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, Lake Junaluska 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 Lake Junaluska.
7. The needs of Lake Junaluska 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 Lake Junaluska.

Spending policy and how the investment objectives relate to spending policy

Lake Junaluska has a policy of appropriating for distribution each year up to 4% 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, Lake Junaluska considered the long-term expected return on its endowment as discussed below.

Return objectives and risk parameters

Lake Junaluska 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.

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Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, Lake Junaluska 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). Lake Junaluska targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

A summary of endowment asset activity for the year ended December 31, 2017 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 | \$ 1,361,597 | \$ 84,764 | \$ 1,816,442 | \$ 3,262,803 |
| Investment return, net of fees | 6,331 | 461 | 11,666 | 18,458 |
| Net appreciation (realized and unrealized) | 114,732 | 9,479 | 235,534 | 359,745 |
| Contributions/additions | 94,408 | - | 113,587 | 145,738 |
| Appropriation of endowment assets for expenditure | <u>(173,426)</u> | <u>(6,250)</u> | <u>(62,257)</u> | <u>(241,933)</u> |
| Endowment net assets end of year | <u>\$ 1,403,642</u> | <u>\$ 88,454</u> | <u>\$ 2,114,972</u> | <u>\$ 3,607,068</u> |

A summary of endowment asset activity for the year ended December 31, 2016 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 | \$ 1,431,398 | \$ 90,616 | \$ 1,746,661 | \$ 3,268,675 |
| Investment return, net of fees | 9,148 | 728 | 16,702 | 26,578 |
| Net depreciation (realized and unrealized) | 57,636 | (330) | 19,011 | 76,317 |
| Contributions/additions | 113,751 | - | 111,097 | 224,848 |
| Appropriation of endowment assets for expenditure | <u>(250,336)</u> | <u>(6,250)</u> | <u>(77,029)</u> | <u>(333,615)</u> |
| Endowment net assets end of year | <u>\$ 1,361,597</u> | <u>\$ 84,764</u> | <u>\$ 1,816,442</u> | <u>\$ 3,262,803</u> |

Lake Junaluska determined the allocation of investment earnings related to the permanently restricted portion of Lake Junaluska's investments was approximately \$284,000 in 2017 and \$224,000 in 2016. As noted in the spending policy above, Lake Junaluska has a policy of appropriating for distribution each year up to 4% for 2017 and 2016 of its endowment fund's average fair value. The amount allocated for appropriation of endowment assets was approximately \$62,000 in 2017 and \$77,000 in 2016. In addition, investment earnings were used for a development administrative fee of .75% of the 12 quarter rolling average fund balance of the endowments that amounted to approximately \$36,000 in 2017 and \$15,000 in 2016.

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5. Receivables

Lake Junaluska has trade receivables arising from certain Assembly public works fees charged to property owners and lodging and food service operations. These receivables are reported net of an allowance for uncollectible accounts in the amount of approximately \$59,000 as of December 31, 2017 and 2016.

Pledges receivable are scheduled to be received as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Less than one year | \$ 264,609 | \$ 207,697 |
| One to five years | <u>179,383</u> | <u>201,700</u> |
| | 443,992 | 409,397 |
| Less allowance for uncollectible accounts | (22,200) | (20,470) |
| Less discount to net present value (with a 3% rate at December 31, 2017 and 2016) | <u>(8,487)</u> | <u>(7,362)</u> |
| Pledges receivable, net | <u>\$ 413,305</u> | <u>\$ 381,565</u> |

6. Inventories

Inventories consisted of the following at December 31:

| | <u>2017</u> | <u>2016</u> |
|-----------------------|-------------------|-------------------|
| Food services | \$ 34,033 | \$ 17,054 |
| Media services | 14,961 | 27,415 |
| Buildings and grounds | 5,497 | 5,902 |
| Retail services | 80,477 | 86,683 |
| Golf course | 14,470 | 11,765 |
| Assembly Public Works | <u>6,472</u> | <u>6,566</u> |
| | <u>\$ 155,910</u> | <u>\$ 155,385</u> |

7. Property, Buildings and Equipment

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

| | <u>2017</u> | <u>2016</u> |
|--------------------------|----------------------|----------------------|
| Land | \$ 1,128,106 | \$ 1,128,106 |
| Land developed for sale | 469,227 | 469,227 |
| Land improvements | 7,957,225 | 7,596,110 |
| Buildings | 37,392,043 | 37,099,357 |
| Equipment | 9,090,057 | 8,970,040 |
| Vehicles | 524,621 | 524,621 |
| Construction in progress | <u>479,946</u> | <u>96,744</u> |
| | 57,041,225 | 55,884,205 |
| Accumulated depreciation | <u>(39,109,113)</u> | <u>(37,846,490)</u> |
| | <u>\$ 17,932,112</u> | <u>\$ 18,037,715</u> |

8. Accrued Expenses

Accrued expenses consisted of the following at December 31:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-------------------|-------------------|
| Salaries payable | \$ 222,775 | \$ 213,497 |
| Annuities payable | 48,473 | 55,835 |
| Other accrued expenses | <u>4,911</u> | <u>4,694</u> |
| | <u>\$ 276,159</u> | <u>\$ 274,026</u> |

9. Line of Credit

Lake Junaluska has a line of credit of \$1 million, scheduled to expire January 2019. The interest is payable monthly and is computed at prime rate less 0.6%. There were no outstanding advances at December 31, 2017 and 2016.

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10. Notes Payable

Notes payable consisted of the following at December 31:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Note payable to bank due in monthly installments of \$2,897, including interest at 5% per annum, matured in March 2017. | \$ - | \$ 8,618 |
| Note payable to bank requiring monthly principal payments of \$9,732 plus accrued interest at 3.69% per annum. Note matures in January 2020 and is collateralized by equipment. | 243,303 | 360,089 |
| Note payable to bank, requiring monthly principal payments of \$8,333 plus accrued interest at 4.09% per annum. Note matures in August 2019 and is collateralized by real estate. | <u>1,791,667</u> | <u>1,891,667</u> |
| Total notes payable | 2,034,970 | 2,260,374 |
| Current maturities | <u>(216,784)</u> | <u>(225,402)</u> |
| Notes payable, excluding current maturities | <u>\$ 1,818,186</u> | <u>\$ 2,034,972</u> |

Maturities of long-term debt at December 31, 2017 are as follows:

| | |
|------|---------------------|
| 2018 | \$ 216,784 |
| 2019 | 1,808,451 |
| 2020 | <u>9,735</u> |
| | <u>\$ 2,034,970</u> |

11. Operating Leases

Lake Junaluska has entered into several non-cancelable operating lease agreements. The future minimum lease payments as of December 31, 2017 are approximately as follows:

| | |
|------------|-------------------|
| 2018 | \$ 107,000 |
| 2019 | 85,000 |
| 2020 | 19,000 |
| 2021 | 7,000 |
| 2022 | 7,000 |
| Thereafter | <u>6,000</u> |
| | <u>\$ 231,000</u> |

Total lease expense for the years ending December 31, 2017 and 2016 was approximately \$109,000 and \$73,000, respectively.

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Lake Junaluska is also the lessor of building space to a tenant under a noncancelable operating lease that began January 1, 2016 and expires June 30, 2021. The following is a schedule by years of future minimum payments under the lease at December 31, 2017:

| | | |
|------|----|----------------|
| 2018 | \$ | 46,819 |
| 2019 | | 47,754 |
| 2020 | | 48,709 |
| 2021 | | <u>24,842</u> |
| | \$ | <u>168,124</u> |

12. Commitments and Contingencies

In September 2017, Lake Junaluska signed an agreement to purchase furniture, fixtures, and equipment of approximately \$918,000. As of December 31, 2017, approximately \$73,000 of the furniture, fixtures, and equipment had been received and paid.

13. Related Party Transactions

Lake Junaluska received contributions for debt reduction totaling \$500,000 from the Southeastern Jurisdiction of the United Methodist Church ("SEJUMC") during the year ended December 31, 2016, which was the last year of pledged gifts from SEJUMC.

14. Retirement Plans

Lake Junaluska participates in various retirement plans covering different classes of employees.

Lake Junaluska provides eligible full-time clergy benefits in the United Methodist Personal Investment Plan (UMPIP), a defined contribution pension plan. For the years ended December 31, 2017 and 2016, Lake Junaluska contributed \$11,790 and \$7,160, respectively, or 7% of eligible compensation, including housing allowances of ordained staff.

Another plan, the Comprehensive Protection Plan, provides death and disability benefits, and surviving spousal and children's benefits in the event a clergy participant in the UMPIP Plan deceases prior to retirement. Lake Junaluska contributes 3% of eligible employee compensation. Eligible employees include clergy provided their compensation is at least 60% of applicable conference average compensation. Lake Junaluska contributed \$5,056 and \$3,075 to this plan in 2017 and 2016, respectively.

For eligible full-time Lay employees who have completed 1,000 hours of work in the prior calendar year, Lake Junaluska contributes 7% of employee compensation to UMPIP, a defined contribution pension. Lake Junaluska contributions amounted to \$191,047 and \$187,162 in 2017 and 2016, respectively. Employees are required to contribute 3% of compensation to the plan; higher contributions are allowed under certain circumstances.

Lake Junaluska also participates in a *Tax-Deferred Compensation Plan* under section 403(b) of the Internal Revenue Code. Voluntary employee contributions of up to \$18,000 for 2017 and 2016 were allowed. All employees are eligible for participation on the first day of the month following employment.

Lake Junaluska does not provide any post-employment benefits other than the retirement benefits described above. Full-time employees covered by Lake Junaluska's health insurance plan for at least three months prior to retirement or termination are entitled to continue health insurance coverage with Lake Junaluska for up to eighteen months following retirement or termination at their own expense.

15. Advertising Costs

Lake Junaluska maintains an internal department in charge of all advertising. Lake Junaluska 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 years ended December 31, 2017 and 2016 was approximately \$35,000 and \$49,000, respectively.

16. Unrelated Business Income Taxes

Unrelated business income tax relating to golf course operations, retail stores and real estate referral activities resulted in income tax expense for years ended December 31, 2017 and 2016.

Lake Junaluska files an income tax return for its unrelated business income. Lake Junaluska regularly reviews and evaluates its tax positions taken in previously filed returns and in its financial statements, with regard to issues affecting its tax-exempt status, unrelated business income, and related matters. Lake Junaluska believes that in the event of an examination by taxation authorities, its position in regard to these matters would prevail. Therefore, Lake Junaluska has concluded no additional provision for tax benefits or liabilities is required to be recognized.

17. Real Estate Activities

Lake Junaluska has developed property and holds it for sale to private homeowners. All development costs are capitalized as incurred. As of December 31, 2017 and 2016, land held for sale was \$469,227 and is included in property and equipment in the Statement of Financial Position. All proceeds from this activity are board-designated and are to be utilized for capital assets at Lake Junaluska with expected useful lives of greater than seven years. Revenue is recognized when all sales proceeds are received or a note receivable is accepted.

18. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Buildings and grounds | \$ 1,078,573 | \$ 577,679 |
| Assembly Public Works | 235,787 | 279,731 |
| Group-organized directed funds | 588,889 | 159,918 |
| Ministry and program | 233,783 | 129,466 |
| Endowment holding | <u>-</u> | <u>140,150</u> |
| | <u>\$ 2,137,032</u> | <u>\$ 1,286,924</u> |

19. Subsequent Events

In January 2018, Lake Junaluska took out a \$1.8 million construction loan and signed a \$2 million construction agreement to renovate one of Lake Junaluska's hotels. The construction loan has an interest rate of 4.15% and matures in February of 2023.