

**FINANCIAL SCHEDULES**  
**OF**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION**  
**OF SEVENTH-DAY ADVENTISTS REVOLVING FUND**

December 31, 2017 and 2016



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION  
OF SEVENTH-DAY ADVENTISTS REVOLVING FUND**

December 31, 2017 and 2016

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201 NE Park Plaza Dr.,  
Suite 248  
Vancouver, WA 98684  
Tel 360.718.8369  
Fax 360.718.8828  
[www.gcasconnect.org](http://www.gcasconnect.org)

To the Board of Trustees  
North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund  
Ridgefield, Washington

We have audited the accompanying schedules of North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund (NPUCARF), a department of North Pacific Union Conference Association of Seventh-day Adventists (Association), which comprise the schedules of assets, liabilities, and net assets as of December 31, 2017 and 2016, and the related schedules of changes in net assets and cash flows for the years then ended, and the related notes to the schedules.

#### **Management's Responsibility for the Financial Schedules**

Management is responsible for the preparation and fair presentation of these schedules in accordance with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of schedules that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the schedules based on our audits. We conducted our audits in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, 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 schedules 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 schedules.

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, as internal auditors of the General Conference of Seventh-day Adventists, the schedules referred to above present fairly, in all material respects, the assets, liabilities, and net assets of North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund, a department of North Pacific Union Conference Association of Seventh-day Adventists, as of December 31, 2017 and 2016, and the changes in net assets and the cash flows of this department for the years then ended in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination.

## **Emphasis of Matter**

We draw attention to Note 6 to the schedules, which describes the basis of special presentation. The accompanying schedules were prepared to present only the accounts and activity of the NPUCARF, which is a department of the Association. Our opinion is not modified with respect to this matter.

## **Other Matter**

Our report is intended solely for the information and use of the officers of the Association and NPUCARF, their financial audit review committee, their governing committee, and the officers and their designees of higher denominational organizations. This report is not intended to be and should not be used by anyone other than these specified parties.

*General Conference Auditing Service*

July 16, 2018



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Schedule of Financial Position**  
**December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
	<b>Total</b>	<b>Total</b>
<b>ASSETS</b>		
<u>Current assets</u>		
Cash and cash equivalents (Note 2)	\$ 3,731,442	3,204,898
Investments (Note 3)	27,456,348	25,403,247
Accrued interest receivable	98,932	89,003
Notes receivable (Note 4)	27,395,191	30,604,256
Total current assets	<u>58,681,913</u>	<u>59,301,404</u>
Total assets	<u>\$ 58,681,913</u>	<u>59,301,404</u>
 <b>LIABILITIES</b>		
<u>Current liabilities</u>		
Accounts payable	\$ 831	567
Notes payable (Note 5)	39,576,612	41,303,666
Total current liabilities	<u>39,577,443</u>	<u>41,304,233</u>
Total liabilities	<u>39,577,443</u>	<u>41,304,233</u>
 <b>NET ASSETS</b>		
Unrestricted: allocated for revolving fund	6,998,946	6,630,584
Unrestricted: allocated for sinking fund	12,105,524	11,366,587
Total net assets	<u>19,104,470</u>	<u>17,997,171</u>
Total liabilities & net assets	<u>\$ 58,681,913</u>	<u>59,301,404</u>

See accompanying notes.



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS  
REVOLVING FUND**

**Schedule of Changes in Net Assets  
For the years ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
	<b>Total</b>	<b>Total</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<u>Unrestricted revenues and gains</u>		
Interest and dividend income	\$ 2,033,541	2,151,607
Realized capital gains (losses) (Note 3)	8,598	2,118
Unrealized capital gains (losses) (Note 3)	(12,497)	(79,128)
Other income	7,232	6,868
Total unrestricted revenues and gains	<u>2,036,874</u>	<u>2,081,465</u>
 <u>Expenses and losses</u>		
<u>Program services functions</u>		
Interest expense	893,639	934,439
Other expense	35,937	40,024
Total program service functions	<u>929,576</u>	<u>974,463</u>
Total expenses and losses	<u>929,576</u>	<u>974,463</u>
 Net increase (decrease) from operations	<u>1,107,299</u>	<u>1,107,002</u>
 Increase (decrease) in net assets	1,107,299	1,107,002
 Net assets, beginning of year	<u>17,997,171</u>	<u>16,890,169</u>
 Net assets, end of year	<u>\$ 19,104,470</u>	<u>17,997,171</u>

See accompanying notes.



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Schedule of Cash Flows**  
**For the years ended December 31, 2017 and 2016**

	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 1,107,299	1,107,002
<u>Adjustments to reconcile net income to net cash provided</u> <u>by operating activities</u>		
Realized (gain) loss on sale of investments	(8,598)	(2,118)
Unrealized (gain) loss in value of investments	12,497	79,128
(Increase) decrease accounts receivable	(9,929)	(15,640)
Increase (decrease) accounts payable	264	(175,994)
Net cash provided (used) from operating activities	<u>1,101,533</u>	<u>992,378</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity of investments	2,978,385	6,029,570
Purchase of investments	(5,035,385)	(8,693,892)
New notes receivable issued	(2,893,925)	(3,346,072)
Payments received on notes receivable	6,102,990	5,521,473
Net cash provided (used) from investing activities	<u>1,152,065</u>	<u>(488,921)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	951,299	1,173,264
Proceeds from depositors	(2,678,353)	(3,204,760)
Net cash provided (used) from financing activities	<u>(1,727,054)</u>	<u>(2,031,496)</u>
Increase (decrease) cash and cash equivalents	526,544	(1,528,039)
Cash and cash equivalents, beginning	3,204,898	4,732,937
Cash and cash equivalents, ending	\$ <u>3,731,442</u>	<u>3,204,898</u>
<u>Supplemental cash flow data</u>		
Cash paid during the year for interest	\$ <u>893,639</u>	<u>934,439</u>

See accompanying notes.





**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS  
REVOLVING FUND  
Notes to the Schedules  
For the years ended December 31, 2017 and 2016**

**Note 1 - Organizational description and summary of significant accounting policies**

Organization description

The North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund (NPUCARF) is operated by the North Pacific Union Conference Association of Seventh-day Adventists (Association) for the purpose of providing loans for building and other capital improvement activities to organizations affiliated with the Seventh-day Adventist Church (Church) located within the territory served by the North Pacific Union Conference of Seventh-day Adventists (Union), an unincorporated body affiliated with the Church.

The NPUCARF was established in 1978 and notes were issued to church members and church entities investing in the NPUCARF through December 31, 1988. From January 1, 1989, interest-bearing account certificates were issued to investors. Funds invested in the account certificates can be withdrawn 90 days after demand. The funds are loaned to churches, schools, and conferences in the Union. The NPUCARF is registered in the state of Oregon and is exempt from registration in the states of Alaska, Idaho, Montana, and Washington. A sinking fund is provided in accordance with the Working Policy of the General Conference of Seventh-day Adventists, North American Division.

The NPUCARF is a religious not-for-profit organization, and is exempt from federal, state and local income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, and corresponding sections of applicable state and local codes; except for taxes on unrelated business income as described in sections 511-514 in the Internal Revenue Code.

Summary of significant accounting policies

(a) The significant accounting policies of the NPUCARF are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial schedules. The financial schedules of the NPUCARF have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the NPUCARF has evaluated events that occurred subsequent to the financial schedule date, up to July 16, 2018, which is the date the financial schedules were available to be issued.

(b) The preparation of the financial schedules in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial schedules and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and cash equivalents: cash equivalents are highly-liquid assets of the operating funds, which are readily convertible to cash and have a maturity date of less than three months from date of acquisition. Cash and investments of funds other than operating are not classified as cash and cash equivalents. The increase or decrease in nonoperating cash and investments is reported in the schedule of cash flows as proceeds or purchases of investments.

(d) Fair value of financial instruments: following are the major methods and assumptions used to estimate fair values:

Short-term financial instruments are valued at their carrying amounts included in the schedule of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This applies to cash, cash equivalents, accounts receivable, and certain current liabilities.

Investment securities are valued at quoted market prices or other reasonably obtainable market value estimates at the reporting date for those or similar securities. The difference between aggregate market value and historical cost for each type of security is recorded in a valuation account. The change in this account during each period is recognized as a gain or loss.





**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Notes to the Schedules**  
**For the years ended December 31, 2017 and 2016**

**Note 1 - Organizational description and summary of significant accounting policies (continued)**

Notes and loans receivable are valued at the amortized amount receivable as of the reporting date. Allowance has been made for notes and loans which are not expected to be collected. The net total approximates the discounted value of future cash flows expected to be received. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent substantiation, management has not attempted to estimate the fair value of notes and loans receivable from related or affiliated entities. Such notes and loans, by intent and practice, are expected to be held to maturity and are valued at face value.

Notes and loans payable are valued at the amortized amount payable as of the reporting date. The net total approximates the discounted value of the future cash flows expected to be paid. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent substantiation, management has not attempted to estimate the fair value of notes and loans payable to related or affiliated entities. Such notes and loans, by intent and practice, are expected to be held to maturity and are valued at face value. Further, because a reasonable estimate of fair value could not be made without incurring excessive costs, management has not attempted to estimate the fair value of any loans payable to creditors that are not related or affiliated entities.

(e) Current assets and liabilities: assets and liabilities are classified as current or long-term, depending on their characteristics. This excludes from current assets, cash and claims to cash that are restricted as to withdrawal or use for other than current operations, committee allocated, or held as agent for others. This excludes from current liabilities the long-term portion of all debt and amounts held as fiscal agent for others. Thus, working capital (current assets less current liabilities) for the NPUCARF reflects working capital of only the operating funds.

(f) Notes and loans receivable: the notes receivable to local Seventh-day Adventist churches and schools are co-signed by the local conference for all notes issued to entities within their local conference territory. Notes to other Seventh-day Adventist institutions may be secured by a recorded first lien on the property. The notes are variable rate, currently earning 5.0%. The rate is subject to change based upon the actions voted by the Association's Board of Trustees.

(g) Investment Income: ordinary income from investments, loans, and the like is accounted for in the fund owning the assets.

(h) Affiliated organizations: in carrying out its gospel mission, the NPUCARF operates through several organizations with which it is affiliated by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these other organizations are not consolidated with the NPUCARF's financial schedules. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are generally settled on a monthly basis. Other financial transactions involving loans are detailed in Notes 4 and 5 below. These other organizations are:

General Conference of Seventh-day Adventists (GC) and General Conference of Seventh-day Adventists, North American Division (NAD) - the GC is the world headquarters of the Seventh-day Adventist denomination and as such determines the operating and accounting policies to be followed by church institutions. The NAD is an administrative entity of the GC which supervises denominational activities in North America.

North Pacific Union Conference (Union) - the Union is an unincorporated entity which is the regional headquarters for the Seventh-day Adventist denomination in the states of Alaska, Idaho, Montana, Oregon, and Washington. The NPUCARF operates out of space provided to it free by the Association. The work of the NPUCARF is done through the management and accounting support services provided by the Union. The officers and directors of the NPUCARF are not otherwise compensated by the NPUCARF for their services. In general, each is an employee of, and is compensated by the Union.



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Notes to the Schedules**  
**For the years ended December 31, 2017 and 2016**

**Note 1 - Organizational description and summary of significant accounting policies (continued)**

Constituent Conferences and Associations - the NPUCARF oversees loans for building and other capital improvement activities in the states of Alaska, Idaho, Montana, Oregon, and Washington. Activities in each region are administered by unincorporated Conferences and incorporated Associations. The President of each Conference is a member of the Union Executive Committee. The Union officers are invitees of each Conference's Executive Committee. These constituent Conferences and Associations are:

Alaska Conference and Corporation of Seventh-day Adventists  
Idaho Conference of Seventh-day Adventists, Inc.  
Montana Conference of Seventh-day Adventists, Inc.  
Oregon Conference and Western Oregon Conference Association of Seventh-day Adventists  
Upper Columbia Conference and Corporation of Seventh-day Adventists  
Washington Conference and Western Washington Corporation of Seventh-day Adventists

Walla Walla University (WWU) - WWU is a separately incorporated organization operated by its own board and formed by the Union to provide Seventh-day Adventist higher learning opportunities. The President of each Conference is a member of WWU's Board of Trustees and the President of the Union is the Chairman of the Board. Operating and capital appropriations are made to WWU by each Conference through the Union.

(i) Fund accounting: to ensure observance of limitations and restrictions placed on the use of resources available to the NPUCARF, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial schedules, the revolving and sinking funds have been combined into groups, and totals are presented for the NPUCARF as a whole. The sinking fund is a reserve fund established to protect the assets of the revolving fund and is financed by transfers from revolving fund net income. The sinking fund assets are invested in securities that give a maximum return while maintaining liquidity.

(j) Concentrations of risk: cash, which exceeded the federally insured limits from time to time during the year, is deposited with high-credit quality financial institutions. The NPUCARF's assets include \$27,395,191 of notes and loans receivable from Seventh-day Adventist affiliated organizations within its territory. These loans represent 47% of the NPUCARF's total assets. Management's estimate of the collectability of these loans could be subject to economic conditions that could cause loss of income among church members and entities, and could also be subject to change if any significant number of individuals cease to be active members of these church entities.

(k) Changes in presentation: certain amounts in the prior year's financial schedules have been reclassified to conform with the current year's presentation.

**Note 2 - Cash and Cash Equivalents**

	2017	2016
	<u>Total</u>	<u>Total</u>
Checking accounts	\$ 3,524,620	2,214,312
Money market accounts	206,822	990,586
Total cash and cash equivalents	<u>\$ 3,731,442</u>	<u>3,204,898</u>

**Note 3 - Investments**

	2017			2016		
	Cost	Fair Value	Unrealized Appreciation (Decline)	Cost	Fair Value	Unrealized Appreciation (Decline)
<u>Carrying amount and fair value</u>						
<u>Investments held for operating</u>						
Time deposits (longer than 3 months)	\$ 19,221,000	19,094,033	(126,967)	17,435,000	17,433,031	(1,969)
U.S. government bonds	1,101,899	1,067,629	(34,270)	502,514	666,674	164,160
Debt securities	6,826,848	6,259,684	(567,164)	7,158,609	6,372,510	(786,099)
Mutual funds	81,221	38,632	(42,589)	81,221	40,832	(40,389)
Equity securities	981,320	996,370	15,050	981,320	890,200	(91,120)
Totals for operating	<u>\$ 28,212,288</u>	<u>27,456,348</u>	<u>(755,940)</u>	<u>26,158,664</u>	<u>25,403,247</u>	<u>(755,417)</u>

The carrying amount is stated at fair value.



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Notes to the Schedules**  
**For the years ended December 31, 2017 and 2016**

**Note 3 - Investments (continued)**

**Composition of investment return**

	<b>2017</b>	<b>2016</b>
	<b>Total</b>	<b>Total</b>
Investment income (interest and dividends)	\$ 595,166	567,867
Realized gain (loss) on sale of investments	8,598	2,118
Unrealized gain (loss) on sale of investments	(12,497)	(79,128)
Net gain (loss) on investments for which carrying value is fair value *	(3,899)	(77,010)
Total investment return	\$ 591,267	490,857

\* NPUCARF did not have any gain or loss on investments for which carrying value is not fair value.

NPUCARF is subject to accounting principles that require disclosure about the information used to determine fair values of assets and liabilities on either a recurring or non-recurring basis. This information is separated into three "levels" of inputs, as follows:

Level 1: observable quoted market price in active markets for identical assets or liabilities.

Level 2: direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities.

Level 3: unobservable inputs and assumptions based on judgment and the best information available to the entity.

NPUCARF used the following inputs to determine fair values of assets valued on a recurring basis.

	<b>2017</b>			<b>2016</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Time deposits (longer than 3 months) \$	-	19,094,033	-	-	17,433,031	-
U.S. government bonds	1,067,629	-	-	666,674	-	-
Debt securities	6,259,684	-	-	6,372,510	-	-
Mutual funds	38,632	-	-	40,832	-	-
Equity securities	996,370	-	-	890,200	-	-
Totals	\$ 8,362,315	19,094,033	-	7,970,216	17,433,031	-

**Note 4 - Notes and loans receivable**

	<b>2017</b>		
	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
North Pacific Union Conference, 5%, due 90 days from demand	\$ 1,282,576	-	1,282,576
Constituent Conferences, 5%, due 90 days from demand	744,916	-	744,916
All other entities, 5%, due 90 days from demand	25,367,699	-	25,367,699
Total notes and loans receivable	\$ 27,395,191	-	27,395,191

	<b>2016</b>		
	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
North Pacific Union Conference, 5%, due 90 days from demand	\$ 1,400,176	-	1,400,176
Constituent Conferences, 5%, due 90 days from demand	784,902	-	784,902
All other entities, 5%, due 90 days from demand	28,419,178	-	28,419,178
Total notes and loans receivable	\$ 30,604,256	-	30,604,256



**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Notes to the Schedules**  
**For the years ended December 31, 2017 and 2016**

**Note 5 - Notes and loans payable**

	2017		
	Current	Long-term	Total
North Pacific Union Conference and Association, 2.25%, due 90 days from demand	\$ 1,218,000	-	1,218,000
Constituent Conferences and Associations, 2.25%, due 90 days from demand	6,921,725	-	6,921,725
All other entities, 2.25%, due 90 days from demand	31,436,887	-	31,436,887
Total notes and loans payable	<u>\$ 39,576,612</u>	<u>-</u>	<u>39,576,612</u>

	2016		
	Current	Long-term	Total
North Pacific Union Conference and Association, 2.25%, due 90 days from demand	\$ 1,218,000	-	1,218,000
Constituent Conferences and Associations, 2.25%, due 90 days from demand	6,851,825	-	6,851,825
All other entities, 2.25%, due 90 days from demand	33,233,841	-	33,233,841
Total notes and loans payable	<u>\$ 41,303,666</u>	<u>-</u>	<u>41,303,666</u>

**Note 6 - Basis of special presentation**

The accompanying schedules include only the accounts and activity of NPUCARF, which is a department of North Pacific Union Conference Association of Seventh-day Adventists (Association). Compliance with FASB Accounting Standards Codification 958-210-45 would require the whole organization to be included in general use financial statements. The Association believes this special presentation is useful to analyze this department apart from the rest of the entity.

**Note 7 - Commitments**

As of December 31, 2017, the Association's Board had approved loans to Seventh-day Adventist affiliated churches, schools, and other organizations for which cash withdrawals had not yet been made. The total amount of these commitments was approximately \$554,100. The total commitment amount does not necessarily represent future cash requirements, since the borrower's cash draws under the terms of the loan at a specific time may not total the full amount agreed to be loaned by the Association. Other circumstances could arise prior to funding a draw on the loans, resulting in the Board changing its approval for, or the terms of, these loans. The terms, conditions, and interest rates for these loans are comparable to those given to existing borrowers.



# **POLICY COMPLIANCE REPORT**



201 NE Park Plaza Dr.,  
Suite 248  
Vancouver, WA 98684  
Tel 360.718.8369  
Fax 360.718.8828  
[www.gcasconnect.org](http://www.gcasconnect.org)

## POLICY COMPLIANCE REPORT

To the Board of Trustees  
North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund  
Ridgefield, Washington

We have audited, in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination, the schedules of North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund (NPUCARF), which comprise the schedule of financial position as of December 31, 2017, and the related schedule of changes in net assets and schedule of cash flows for the year then ended, and the related notes to the financial schedules. We have issued our report thereon dated July 16, 2018. Our special report includes an Emphasis of Matter paragraph about the special-purpose nature of the schedules and an Other Matter paragraph about the intended restriction on the use of our report to certain specified parties.

In connection with our audit, as internal auditors of the General Conference of Seventh-day Adventists, nothing came to our attention that caused us to believe that NPUCARF failed to comply with the Working Policy of the General Conference of Seventh-day Adventists, North American Division insofar as it relates to those policies designated as "core" policies. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Our report is intended solely for the information and use of the officers of the Association and NPUCARF, their financial audit review committee, their governing committee, delegates to its constituency meetings, and the officers and their designees of higher denominational organizations. This report is not intended to be and should not be used by anyone other than these specified parties.

*General Conference Auditing Service*  
July 16, 2018

# **AUDIT COMMUNICATION LETTER**





201 NE Park Plaza Dr.,  
Suite 248  
Vancouver, WA 98684  
Tel 360.718.8369  
Fax 360.718.8828  
[www.gcasconnect.org](http://www.gcasconnect.org)

July 25, 2018

To the Financial Audit Review Committee  
North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund  
Ridgefield, Washington

**Audit communication letter for the audit of the schedules for the year ended December 31, 2017**

**INTERNAL CONTROL DEFICIENCIES**

In planning and performing our audit of the schedules of North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund (NPUCARF), a department of North Pacific Union Conference Association of Seventh-day Adventists (Association), as of and for the year ended December 31, 2017 in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination, we considered the NPUCARF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedules, but not for the purpose of expressing an opinion on the effectiveness of the NPUCARF's internal control. Accordingly, we do not express an opinion on the effectiveness of the NPUCARF's internal control.

A **control deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

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

A **material weakness** is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's schedules will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

**WORKING POLICY COMPLIANCE**

**Policy compliance report**

As a part of our audit we tested compliance with the working policies of the Seventh-day Adventist denomination insofar as they relate to those policies designated as "core" policies, and have issued our separate policy compliance report dated July 16, 2018.

### **Insurance coverage**

North American Division Working Policy S 60 05 (4) requires auditors to inform the governing committee whether the provisions of insurance coverage are in harmony with working policy. In connection with our audit, nothing came to our attention that caused us to believe the NPUCARF's insurance coverage was not in harmony with the working policies regarding insurance.

### **INFORMATION REGARDING SCOPE AND RESULTS OF THE AUDIT**

Auditing standards generally accepted by the Seventh-day Adventist denomination require that we communicate the following matters to those responsible for the oversight of the financial reporting process:

#### **Auditors' responsibility**

As stated in our engagement letter dated November 3, 2017 our responsibility is to express an opinion on the schedules based on our audit. Our audit is to be conducted in accordance with United States of America auditing standards adopted by the Seventh-day Adventist denomination. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the schedules are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute, assurance, and is not designed to include a detailed examination of every transaction, there is a risk that material misstatements may exist and not be detected by us.

#### **Significant accounting policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the NPUCARF are described in Note 1 to the schedules.

No new accounting policies were adopted and the application of existing policies was not changed during 2017. We did not note any transactions the NPUCARF entered into during the year that were both significant and unusual, about which professional standards require us to inform you.

#### **Management judgments and accounting estimates**

Accounting estimates are an integral part of the financial schedules prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial schedules and because of the possibility that future events affecting them may differ significantly from those expected.

Net realizable value of loans receivable - It is management's responsibility to make estimates of the net realizable value of loans receivable, based on terms of the loans, collection history, and knowledge of the financial condition of the debtors, especially debtors that are affiliated denominational entities. We evaluated the factors used by management to develop these estimates to determine whether they are reasonable in relation to the financial schedules taken as a whole.

#### **Significant audit adjustments**

Audit adjustments are proposed corrections arising from the audit that could in our judgment, either individually or in the aggregate, have a significant effect on the financial reporting process, whether recorded or not. This includes adjustments that in our judgment may not have been detected except through the auditing procedures applied.



We did not propose any significant audit adjustments in 2017.

**Uncorrected misstatements**

Auditing standards require us to disclose the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented, which management believes are immaterial, both individually and in the aggregate, to the financial schedules taken as a whole.

There were no misstatements aggregated by us during the audit which were not corrected.

**Other information in documents containing audited schedules**

If management prepared other information to accompany the audited financial schedules, we would identify that other information, and discuss our responsibility regarding such information, any procedures we performed, and the results.

The audited financial schedules are not accompanied by any other information provided by management.

**Disagreements with management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial schedules or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

**Consultation with other accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the NPUCARF's financial schedules or a determination of the type of auditor's opinion that may be expressed on those schedules, professional standards require the consulting accountant to communicate with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

**Difficulties encountered in performing the audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.



To the Financial Audit Review Committee  
North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund  
July 16, 2018, page 4

## CONCLUSION

This communication is intended solely for the information and use of the officers of the Association and NPUCARF, their financial audit review committee, their governing committee, and the officers and their designees of higher denominational organizations. This report is not intended to be and should not be used by anyone other than the specified parties.

*General Conference Auditing Service*

General Conference Auditing Service

cc: President, North American Division  
Secretary, North American Division  
Treasurer, North American Division  
President, North Pacific Union Conference  
Secretary, North Pacific Union Conference  
Treasurer, North Pacific Union Conference  
North Pacific Union Conference Executive Committee



## **SIGNED REPRESENTATION AND RELEASE LETTER**





# North Pacific Union Conference Association

## *of Seventh-day Adventists*

### *Charitable Giving Solutions*

Alaska Idaho Montana Oregon Upper Columbia Washington

July 16, 2018

General Conference Auditing Service  
201 NE Park Plaza Dr., STE 248  
Vancouver, WA 98684

We are providing this letter in connection with your audits of the statements of financial position of North Pacific Conference Revolving Fund as of December 31, 2016 and 2017, and the related statements of changes in net assets and cash flows for the years then ended. Your audits were for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of North Pacific Union Conference Revolving Fund in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination. We confirm that we are responsible for fair presentation in the financial statements of the financial position, changes in net assets, and cash flows in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of July 16, 2018, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination, and include all assets and liabilities under the organization's control.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of the Association Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statement taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We understand that fraud can take either of two forms; the misrepresentation of data in financial reports or the misappropriation of assets.
7. We have no knowledge of any fraud or suspected fraud (either misrepresentation of data or misappropriation of assets) affecting the Organization involving:

- a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud (either misrepresentation of data or misappropriation of assets) affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.
9. Receivables recorded in the financial statements represent valid claims against debtors for charges and transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
10. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
11. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
12. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.
14. North Pacific Union Conference Revolving Fund is an exempt organization under IRS section 501(c)(3). Any activities of which we are aware that would jeopardize the Organization's tax-exempt status have been disclosed to you. All required filings with tax authorities are up-to-date.
15. There are no:
  - a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted by the Seventh-day Adventist denomination.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted by the Seventh-day Adventist denomination.
  - d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
  - e. Instances in which the Organization or its subsidiaries have been named as a potential responsible party by any government environmental regulatory agency.



16. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
17. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
18. Except as outlined below, the financial operations of the Organization were in conformity, in all material respects, with applicable core policies of the Seventh-day Adventist denomination.
19. To the best of our knowledge and belief, no events have occurred subsequent to the date of the financial statements and through the date of this letter that would require adjustment to, or disclosure in, the financial statements, that is not already reflected therein.

**We have examined the audited financial statements and make the following representation by checking one of the boxes below.**

- ☒ We have examined the audited financial statements for North Pacific Union Conference Revolving Fund for the year ended December 31, 2017. They are materially correct. Please provide final copies (in the format noted below) to our administrative officers, the chair of our Audit Committee, and other individuals as required by policy.
- ☐ We have examined the audited financial statements for North Pacific Union Conference Revolving Fund for the year ended December 31, 2017. Please make the corrections or adjustments to the financial statements described below. Please consider the suggested changes to the audit communication letter described below. Then please provide final copies (in the format noted below) to our administrative officers, the chair of our Audit Committee, and other individuals as required by policy.

**Final report release process:** Electronic copies of the audit reports will be provided in two PDF portfolios.

- The **management portfolio** includes all reports and letters resulting from the audit.
- The **Association Board of Trustees portfolio** includes the financial statement and opinion, policy compliance report, audit communication letter, and F-49. Denominational policy requires our CFO to distribute this portfolio to our audit committee and your governing committee.

The next meeting of our Financial Audit Review Committee is scheduled for August 22, 2018.

The next meeting of our Association Board of Trustees is scheduled for August 22, 2018.

**We plan to respond to the Audit Communication Letter:** \_\_\_ Yes    ☒ No

Signed: John C. Freedman

Title: PRESIDENT

Date: July 16, 2018

Signed: Allee J. Currier

Title: Treasurer

Date: July 13, 2018