



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

SPECIAL-PURPOSE SCHEDULES  
DECEMBER 31, 2018 and 2017

## TABLE OF CONTENTS

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Special-Purpose Schedules Opinion	1 - 2
Special-Purpose Schedules of Financial Position	3
Special-Purpose Schedules of Changes in Net Assets	4
Special-Purpose Schedules of Cash Flows	5
Notes to the Special-Purpose Schedules	6-10



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, 2018 and 2017, 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, 2018 and 2017, 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 7 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 2, 2019

**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Special-Purpose Schedules of Financial Position**  
**December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
	<b>Total</b>	<b>Total</b>
<b>ASSETS</b>		
<u>Current assets</u>		
Cash and cash equivalents (Note 2)	\$ 4,780,470	3,731,442
Investments (Note 3)	27,521,701	27,456,348
Accrued interest receivable	94,922	98,932
Notes receivable (Note 4)	24,847,257	27,395,191
Total current assets	<u>57,244,350</u>	<u>58,681,913</u>
Total assets	<u>\$ 57,244,350</u>	<u>58,681,913</u>
<b>LIABILITIES</b>		
<u>Current liabilities</u>		
Accounts payable	\$ 573	831
Notes payable (Note 5)	37,679,097	39,576,612
Total current liabilities	<u>37,679,670</u>	<u>39,577,443</u>
Total liabilities	<u>37,679,670</u>	<u>39,577,443</u>
<b>NET ASSETS</b>		
Unrestricted: allocated for revolving fund (Note 6)	7,508,277	6,998,946
Unrestricted: allocated for sinking fund (Note 6)	<u>12,056,403</u>	<u>12,105,524</u>
Total net assets without donor restrictions	<u>19,564,680</u>	<u>19,104,470</u>
Total net assets	<u>19,564,680</u>	<u>19,104,470</u>
Total liabilities & net assets	<u>\$ 57,244,350</u>	<u>58,681,913</u>

See accompanying notes.

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

**Special-Purpose Schedules of Changes in Net Assets  
For the years ended December 31, 2018 and 2017**

	<b>2018 Total</b>	<b>2017 Total</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<u>Revenues and support without donor restrictions</u>		
Interest and dividend income	\$ 1,987,388	2,033,541
Realized capital gains (losses) (Note 3)	14,431	8,598
Unrealized capital gains (losses) (Note 3)	(658,535)	(12,497)
Other income	7,945	7,232
Total revenues and support without donor restrictions	<u>1,351,229</u>	<u>2,036,874</u>
 <u>Expenses and losses</u>		
<u>Program services functions</u>		
Interest expense	855,426	893,639
Other expense	35,593	35,936
Total program service functions	<u>891,019</u>	<u>929,575</u>
Total expenses and losses	<u>891,019</u>	<u>929,575</u>
 Net increase (decrease) from operations	<u>460,210</u>	<u>1,107,299</u>
 Increase (decrease) net assets without donor restrictions	<u>460,210</u>	<u>1,107,299</u>
 Increase (decrease) in net assets	460,210	1,107,299
 Net assets, beginning of year	<u>19,104,470</u>	<u>17,997,171</u>
 Net assets, end of year	<u><u>\$ 19,564,680</u></u>	<u><u>19,104,470</u></u>

See accompanying notes.

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

**Special-Purpose Schedules of Cash Flows  
For the years ended December 31, 2018 and 2017**

	<u>2018 Total</u>	<u>2017 Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 460,210	1,107,299
<u>Adjustments to reconcile net income to net cash provided by operating activities</u>		
Realized (gain) loss on sale of investments	(14,431)	(8,598)
Unrealized (gain) loss in value of investments	658,535	12,497
(Increase) decrease accounts receivable	4,010	(9,929)
Increase (decrease) accounts payable	(258)	264
Net cash provided (used) from operating activities	<u>1,108,066</u>	<u>1,101,533</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity of investments	5,085,817	2,978,385
Purchase of investments	(5,795,274)	(5,035,385)
New notes receivable issued	(2,736,637)	(2,893,925)
Payments received on notes receivable	5,284,571	6,102,990
Net cash provided (used) from investing activities	<u>1,838,477</u>	<u>1,152,065</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	868,255	951,299
Proceeds from depositors	(2,765,770)	(2,678,353)
Net cash provided (used) from financing activities	<u>(1,897,515)</u>	<u>(1,727,054)</u>
Increase (decrease) cash and cash equivalents	1,049,028	526,544
Cash and cash equivalents, beginning	<u>3,731,442</u>	<u>3,204,898</u>
Cash and cash equivalents, ending	<u>\$ 4,780,470</u>	<u>3,731,442</u>
<u>Supplemental cash flow data</u>		
Cash paid during the year for interest	<u>\$ 855,426</u>	<u>893,639</u>

See accompanying notes.

**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS  
REVOLVING FUND  
Notes to the Special-Purpose Schedules  
For the years ended December 31, 2018 and 2017**

**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 2, 2019, 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 Special-Purpose Schedules**  
**For the years ended December 31, 2018 and 2017**

**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 Special-Purpose Schedules  
For the years ended December 31, 2018 and 2017**

**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**

	<b>2018</b>	<b>2017</b>
	<u><b>Total</b></u>	<u><b>Total</b></u>
Checking accounts	\$ 4,283,634	3,524,620
Money market accounts	496,836	206,822
Total cash and cash equivalents	<u>\$ 4,780,470</u>	<u>3,731,442</u>

**Note 3 - Investments**

	<b>2018</b>			<b>2017</b>		
<u>Carrying amount and fair value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Decline)</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Decline)</u>
<u>Investments held for operating</u>						
Time deposits (longer than 3 months)	\$ 19,116,000	18,724,485	(391,515)	19,221,000	19,094,033	(126,967)
U.S. government bonds	2,596,679	2,554,656	(42,023)	1,101,899	1,067,629	(34,270)
Debt securities	6,160,909	5,289,093	(871,816)	6,826,848	6,259,684	(567,164)
Mutual funds	81,221	34,408	(46,813)	81,221	38,632	(42,589)
Equity securities	981,320	919,059	(62,261)	981,320	996,370	15,050
Totals for operating	<u>\$ 28,936,129</u>	<u>27,521,701</u>	<u>(1,414,428)</u>	<u>28,212,288</u>	<u>27,456,348</u>	<u>(755,940)</u>

The carrying amount is stated at fair value.

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

**Notes to the Special-Purpose Schedules  
For the years ended December 31, 2018 and 2017**

**Note 3 - Investments (continued)**

**Composition of investment return**

	2018 Total	2017 Total
Investment income (interest and dividends)	\$ 688,889	595,166
Realized gain (loss) on sale of investments	14,431	8,598
Unrealized gain (loss) on sale of investments	(658,535)	(12,497)
Net gain (loss) on investments for which carrying value is fair value *	(644,104)	(3,899)
Total investment return	\$ 44,785	591,267

\* 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.

	2018			2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Time deposits (longer than 3 months) \$	-	18,724,485	-	-	19,094,033	-
U.S. government bonds	2,554,656	-	-	1,067,629	-	-
Debt securities	5,289,093	-	-	6,259,684	-	-
Mutual funds	34,408	-	-	38,632	-	-
Equity securities	919,059	-	-	996,370	-	-
Totals	\$ 8,797,216	18,724,485	-	8,362,315	19,094,033	-

**Note 4 - Notes and loans receivable**

	2018		
	Current	Long-term	Total
North Pacific Union Conference, 5%, due 90 days from demand	\$ 644,549	-	644,549
Constituent Conferences, 5%, due 90 days from demand	702,874	-	702,874
All other entities, 5%, due 90 days from demand	23,499,834	-	23,499,834
Total notes and loans receivable	\$ 24,847,257	-	24,847,257

	2017		
	Current	Long-term	Total
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

**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**REVOLVING FUND**  
**Notes to the Special-Purpose Schedules**  
**For the years ended December 31, 2018 and 2017**

**Note 5 - Notes and loans payable**

	<b>2018</b>		
	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
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	6,960,925	-	6,960,925
All other entities, 2.25%, due 90 days from demand	29,500,172	-	29,500,172
Total notes and loans payable	<u>\$ 37,679,097</u>	<u>-</u>	<u>37,679,097</u>

	<b>2017</b>		
	<b>Current</b>	<b>Long-term</b>	<b>Total</b>
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>

**Note 6- Allocated net assets**

	<b>Balance 2017</b>	<b>Allocation Made</b>	<b>Allocation Released</b>	<b>Balance 2018</b>
Revolving fund	\$ 6,998,946	1,797,277	1,287,946	7,508,277
Sinking fund	12,105,524	375,643	424,764	12,056,403
Total allocated net assets	<u>\$ 19,104,470</u>	<u>2,172,920</u>	<u>1,712,710</u>	<u>19,564,680</u>

Net assets without donor restrictions: The Board of Trustees of the North Pacific Union Conference Association has several standing policies that affect the presentation of committee designations on net assets. Management maintains reserves for the revolving fund. Additionally, a sinking fund is provided in accordance with the Working Policy of the General Conference of Seventh-day Adventists, North American Division.

**Note 7 - 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 8 - Commitments**

As of December 31, 2018, 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 \$378,325. 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.



Mark.Remboldt

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# REPORT TO GOVERNANCE 2018

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



## TABLE OF CONTENTS

---

<b>Executive Summary</b>	1
<b>Analysis of Performance and Position</b>	
Financial Summary	2
Financial Trends	3
Financial Ratios	4
<b>Key Findings and Analysis</b>	
Audit Opinion	5
Policy Compliance Report	6
Deficiencies in Internal Control	7
<b>Audit Adjustments and Unadjusted Differences</b>	8
<b>Emerging Issues</b>	9
<b>The Audit Process</b>	10
<b>About Your Auditors</b>	11
<b>Required Communications with Governance</b>	12





# EXECUTIVE SUMMARY

1

## SCOPE

- We conducted an audit of the special-purpose financial schedules of North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund, a department of North Pacific Union Conference Association of Seventh-day Adventists, in order to express an opinion for the year ended December 31, 2018.
- Our audit was conducted in accordance with United States of America auditing standards adopted by the Seventh-day Adventist denomination.
- Those standards require us to plan and perform the audit to obtain reasonable assurance whether the special-purpose financial schedules are free from material misstatement.

## MATERIALITY

- Materiality is the size of a misstatement or omission that could be expected to influence the decisions of the financial statements' users.
- Our audit was conducted based on a materiality which was calculated using the benchmark of a combination of total assets and total revenue after considering qualitative and quantitative factors. Materiality benchmarks were selected to represent the measure most relevant to users of the financial statements.

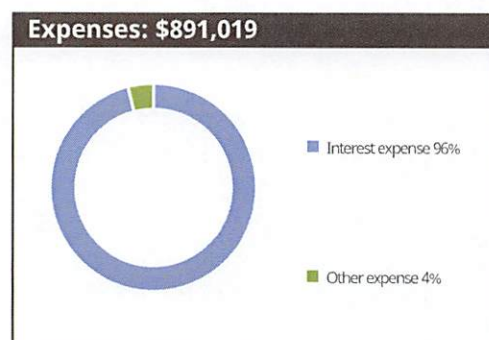
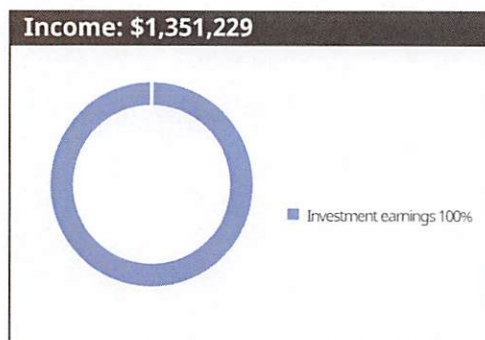
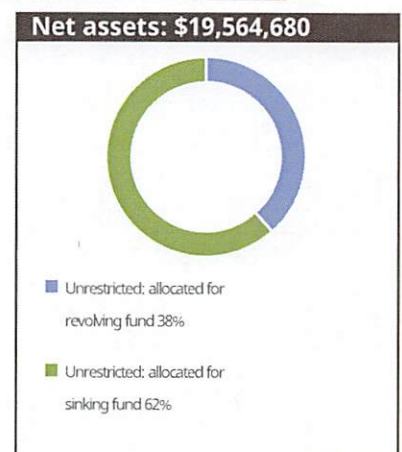
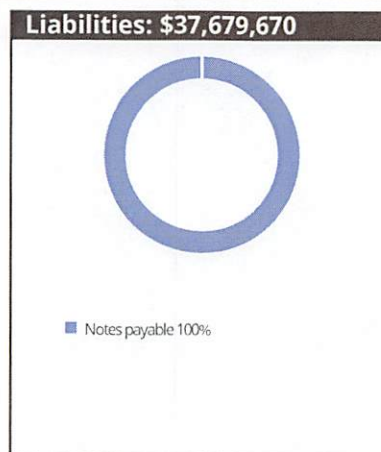
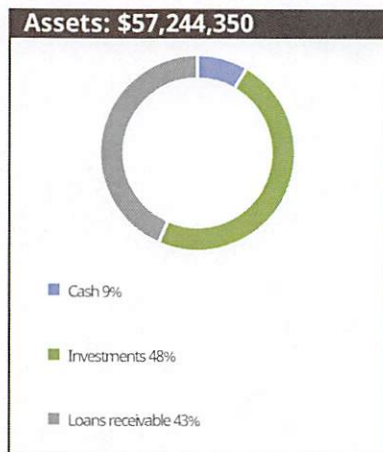
## RESULTS

Opinion	Unmodified
Policy Compliance Report	Standard
Internal control deficiencies	Not present
Significant audit adjustments	Not present



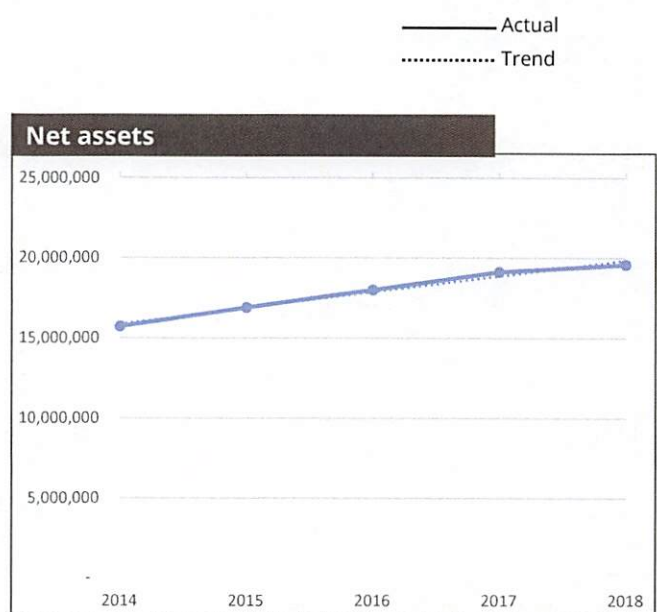
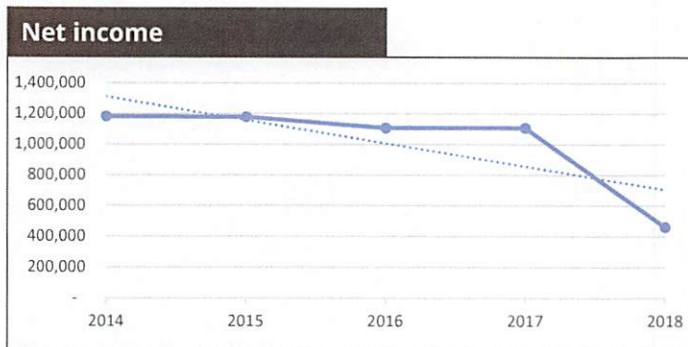
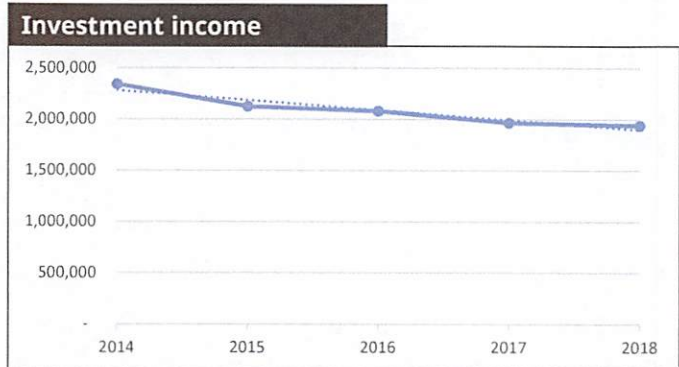
## FINANCIAL SUMMARY

2



## FINANCIAL TRENDS

3



### Key financial events

→ In 2018, net income was down due to unrealized investment losses

## FINANCIAL RATIOS

4

			2018	2017	2016
<b>Debt percentage</b>	<i>Lower ratio indicates more capacity to meet commitments</i>	$\frac{\text{Operating liabilities}}{\text{Operating net assets}}$	193%	207%	230%
<b>Net asset percentage</b>	<i>Higher percentage indicates greater proportion of assets available for operations</i>	$\frac{\text{Net assets}}{\text{Total assets}}$	34%	33%	30%

## AUDIT OPINION

5

### RESULTS

Unmodified opinion

### DEFINITION

The auditor concludes that the overall financial schedules are fairly presented.

### OTHER INFORMATION

Emphasis of matter *Special-purpose nature of the financial schedules*

Other matter *Use restricted to specified users*

*Please refer to the auditor's opinion attached to the audited financial schedules for more detail.*



## POLICY COMPLIANCE

6

July 02, 2019

To the Board of Trustees

North Pacific Union Conference Association of Seventh-day Adventists Revolving Fund, a department of  
North Pacific Union Conference Association of Seventh-day Adventists

We have audited, in accordance with United States of America auditing standards adopted by the Seventh-day Adventist denomination, the special-purpose financial 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, which comprise the special-purpose schedule of financial position as of December 31, 2018, and the special-purpose schedule of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have issued our special report thereon dated July 02, 2019. Our special report includes an Emphasis of Matter paragraph about the Special-purpose nature of the financial schedules and an Other Matter paragraph about the use restricted to specified users.

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 the 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.

*General Conference Auditing Service*

### 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

### FINDINGS

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.

## MATERIAL WEAKNESSES IN INTERNAL CONTROLS | 7

The purpose of the audit was to express an opinion on the financial schedules and included consideration of internal control over financial reporting to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control, therefore we do not express an opinion on the effectiveness of internal control.

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

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

No material weaknesses were noted

## AUDIT ADJUSTMENTS AND UNADJUSTED DIFFERENCES | 8

DESCRIPTION	ASSETS	LIABILITIES	BEGINNING NET ASSETS	REVENUE	EXPENSE	NET INCOME
<p><i>Significant audit adjustments accepted by management:</i></p> <p>We did not propose any significant audit adjustments for 2018</p>						
<p><i>Unadjusted differences considered by management to be immaterial:</i></p> <p>There were no misstatements aggregated by us during the audit which were not corrected</p>						



## EMERGING ISSUES

9

### Revenue Recognition

- In May 2014, the FASB established a single, comprehensive framework for revenue recognition to be applied consistently across all types of transactions, and industries. This framework will improve comparability of financial statements. The core principle of the framework is that an entity should recognize revenue when the transfer of goods or services to the customer occurs, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date was deferred for most not-for-profit organizations to fiscal years beginning on or after December 15, 2018, so that additional clarification could be provided and organizations will have time to implement this standard.

### Accounting for Leases

- The FASB issued ASU 2016-02, Leases, in February 2016. This new accounting standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to the lease, the lessee and the lessor. This new standard is effective for most not-for-profit organizations for fiscal years beginning on or after December 15, 2019. Under the pre-existing standard, a majority of leases have not been reported on a lessee's balance sheet. This new standard requires a lessee to recognize assets and liabilities for the rights and obligations created by leases, thereby causing most leases to be reported on a lessee's balance sheet in the future.



## THE AUDIT PROCESS

10



### Agree

Develop and agree on written terms of engagement with the client

### Obtain

Obtain information about client's accounting and financial reporting system

### Assess

Assess the risk of material misstatement, whether due to error or fraud

### Perform

Design and perform audit procedures based on assessed risk of material misstatement

### Conclude

Analyze results, draw conclusions, and form an opinion about the financial statement

### Report

Prepare and issue audit opinion and other communications to prescribed recipients

## ABOUT YOUR AUDITORS

11

GCAS provides assurance and related services to organizations of the Seventh-day Adventist church. With approximately 275 professionals, operating from 45 regional offices, we make delivering excellence our signature every day.

**We serve God by delivering excellent audit services to the Seventh-day Adventist Church**

The auditor responsible for the 2018 audit is:



Melissa Reynolds  
Regional Manager

[ReynoldsM@gcasconnect.org](mailto:ReynoldsM@gcasconnect.org)

Melissa Reynolds, MSA, CPA, CGMA serves GCAS as the Regional Manager for the North Pacific Office. Melissa joined GCAS in 2010. She is a Certified Public Accountant licensed in the State of California, and is a Chartered Global Management Accountant. She is a member in good standing of the California Society of Certified Public Accountants and the American Institute of Certified Public Accountants.



**VISIT US AT GCASCONNECT.ORG**

## REQUIRED COMMUNICATIONS WITH GOVERNANCE

12-1

### MATTERS TO BE COMMUNICATED

### AUDITOR'S RESPONSE

#### 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 financial schedules

No new accounting policies were adopted and the application of existing policies was not changed during 2018, except for the adoption of Accounting Standard Update 2016-14, which changed the required financial schedules presentation and disclosures for not-for-profit entities. 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.

#### Restriction on distribution and use of report

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

REQUIRED COMMUNICATIONS WITH GOVERNANCE

12-2

MATTERS TO BE COMMUNICATED	AUDITOR'S RESPONSE
<b>Management judgment and accounting estimates</b>	
Fair value of investments - It is management's responsibility to make estimates about the fair value of investments, based on observable and unobservable market indicators, including quoted market prices and other information provided by investment managers and other market participants.	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.
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.



## Seventh-day Adventist Church

NORTH PACIFIC UNION CONFERENCE

5709 N 20TH ST • RIDGEFIELD WA 98642

PHONE: 360.857.7000

NPUC.ORG

July 2, 2019

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 Union Conference Association Revolving Fund as of December 31, 2018 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 Association 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 2, 2019 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 North Pacific Union Conference Executive Committee 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 Association 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 Association Revolving Fund for the years ended December 31, 2018 and 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 Association Revolving Fund for the years ended December 31, 2018 and 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.

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

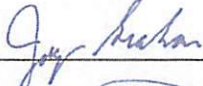

- The **management portfolio** includes all reports and letters resulting from the audit.

- The **North Pacific Union Conference Executive Committee 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 Audit Review Committee is scheduled for August 21, 2019

The next meeting of our **North Pacific Union Conference Executive Committee** is scheduled for August 21, 2019.

We plan to respond to the Audit Communication Letter: ☐ Yes ☒ No

Signed: <u></u>	Title: <u>ASSR TREASURER</u>	Date: <u>7/2/19</u>
Signed: <u></u>	Title: <u>CFO/Treasurer</u>	Date: <u>7/2/2019</u>