

**FINANCIAL STATEMENTS**  
**OF**  
**NORTH PACIFIC UNION CONFERENCE**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION**  
**OF SEVENTH-DAY ADVENTISTS**

December 31, 2016 and 2015



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

December 31, 2016 and 2015

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To the Executive Committee  
North Pacific Union Conference of Seventh-day Adventists, and  
The Board of Trustees  
North Pacific Union Conference Association of Seventh-day Adventists  
Ridgefield, Washington

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We have audited the accompanying combined financial statements of North Pacific Union Conference of Seventh-day Adventists and North Pacific Union Conference Association of Seventh-day Adventists, which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of changes in net assets and statements of cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these combined financial statements 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these combined financial statements 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 combined financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, as internal auditors of the General Conference of Seventh-day Adventists, the combined financial statements referred to above present fairly, in all material respects, the financial position of North Pacific Union Conference of Seventh-day Adventists and North Pacific Union Conference Association of Seventh-day Adventists as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination.

*General Conference Auditing Service*

June 13, 2017

**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Combined Statement of Financial Position; page 1 of 2**  
**December 31, 2016 and 2015**

	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
<b>ASSETS</b>		
<u>Current assets</u>		
Cash and cash equivalents (Note 2)	\$ 2,977,316	2,953,277
Cash held for agency funds (Note 2)	244,213	228,954
Investments (Note 3)	3,206,793	2,942,165
Accounts receivable, net (Note 5)	6,783,279	6,258,423
Notes receivable (Note 6)	34,000	35,054
Inventories and prepaid expense	101,651	115,792
Total current assets	<u>13,347,252</u>	<u>12,533,665</u>
 <u>Plant assets, net (Note 7)</u>	 <u>6,476,901</u>	 <u>6,661,996</u>
 <u>Other assets</u>		
Notes receivable (Note 6)	756,500	826,133
Real estate and miscellaneous	9,584	9,584
Deposits and intangibles	11,989	-
For other than operating funds:		
Cash and investments (Note 3)	49,674,884	48,149,187
Accounts receivable (Note 5)	148,443	116,430
Notes receivable (Note 6)	29,475,190	33,268,343
Land held for sale	-	140,000
Real estate held for unconditional trusts	3,320,001	4,236,589
Total other assets	<u>83,396,591</u>	<u>86,746,266</u>
Total assets	<u>\$ 103,220,744</u>	<u>105,941,927</u>

See accompanying notes.





**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Combined Statement of Financial Position; page 2 of 2**  
**December 31, 2016 and 2015**

	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
<b>LIABILITIES</b>		
<u>Current liabilities</u>		
Accounts payable (Note 8)	\$ 5,777,388	5,335,104
Agency accounts	244,213	228,954
Total current liabilities	<u>6,021,601</u>	<u>5,564,058</u>
<u>Other liabilities</u>		
For other than operating funds:		
Accounts payable (Note 8)	138,027	274,565
Notes payable (Note 9)	38,573,626	42,175,863
Present value income distributions to primary beneficiaries (Note 18)	8,656,486	8,295,777
Remainder interest for residual trust beneficiaries (Note 20)	10,332,534	10,974,120
Annuities held for others (Note 16)	1,392,769	1,375,664
Present value, annuity liability (Note 18)	4,331,730	4,535,200
Total other liabilities	<u>63,425,172</u>	<u>67,631,189</u>
Total liabilities	<u>69,446,773</u>	<u>73,195,247</u>
<u>Net assets</u>		
Unrestricted: unallocated	4,458,337	4,372,321
Unrestricted: allocated	19,068,261	17,968,660
Unrestricted: net invested in plant	5,076,725	5,149,956
Total unrestricted	<u>28,603,323</u>	<u>27,490,937</u>
Temporarily restricted (Note 10)	5,130,648	5,215,743
Permanently restricted (Note 11)	40,000	40,000
Total net assets	<u>33,773,971</u>	<u>32,746,680</u>
Total liabilities and net assets	<u>\$ 103,220,744</u>	<u>105,941,927</u>

See accompanying notes.



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Combined Statement of Changes in Net Assets; page 1 of 2**  
**For the Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
	<b>Total</b>	<b>Total</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<u>Unrestricted revenues and support</u>		
Gross tithe income	\$ 8,737,556	8,741,521
Tithe percentages passed on	(849,625)	(852,096)
Net tithe income	7,887,931	7,889,425
Tithe exchanged with General Conference	(1,208,700)	(1,208,700)
Non-tithe funds from General Conference	1,208,700	1,208,700
Revolving Fund, net earnings (Note 14)	1,034,643	1,100,879
Matured trusts and wills	216,896	1,049
Annuity fund (Note 15)	(644)	(26,813)
Unrestricted appropriations received	197,650	190,000
Investment earnings (Note 23)	76,048	63,436
Departmental fees and sales	866,034	955,114
Rental income	-	400
Other income	198,583	195,794
Total unrestricted revenues and gains	10,477,141	10,369,284
Net assets released from restrictions (Note 10)	7,688,563	7,573,308
Total unrestricted revenues, gains and other support	18,165,704	17,942,592
<u>Expenses and losses</u>		
<u>Program services functions</u>		
Church ministries	3,228,745	2,784,739
Educational	7,143,496	6,986,457
Special services	1,092,060	1,044,958
Other	820,234	911,122
Total program services functions	12,284,535	11,727,276
<u>Supporting services functions</u>		
Administration - office resources	1,165,021	1,110,695
Conventions and meetings	387,677	362,400
Trust services	160,216	181,107
Other departments and services	1,457,795	1,632,230
Rental and miscellaneous	296,127	66,005
Retirement contribution to DB plan	1,322,553	1,289,937
Distributions and expenses of unconditional trusts (Note 19)	3,006,773	2,350,060
Total supporting services functions	7,796,162	6,992,434
Total expenses and losses	20,080,697	18,719,710
Net increase (decrease) from operations	(1,914,993)	(777,118)

See accompanying notes.



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Combined Statement of Changes in Net Assets; page 2 of 2**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Net increase (decrease) from operations	<u>(1,914,993)</u>	<u>(777,118)</u>
<u>Nonoperating activity</u>		
Nonoperating expense (Note 13)	19,611	3,754
Net gain (loss) sales of assets (Note 13)	(793)	156,136
Released from restrictions (Note 10)	<u>3,008,561</u>	<u>1,368,803</u>
Total nonoperating activity increase (decrease)	<u>3,027,379</u>	<u>1,528,693</u>
Increase (decrease) unrestricted net assets	<u>1,112,386</u>	<u>751,575</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<u>Restricted income</u>		
Subsidies	7,574,994	7,312,873
Offerings	3,169	2,532
Donations	281,328	999,736
Annuity fund (Note 15)	(5,534)	(8,245)
Unconditional trust agreements (Note 19)	<u>2,758,072</u>	<u>2,072,470</u>
Total restricted income received (Note 10)	10,612,029	10,379,366
Net assets released from restricted - operating (Note 10)	(7,688,563)	(7,573,308)
Net assets released from restricted - non operating (Note 10)	<u>(3,008,561)</u>	<u>(1,368,803)</u>
Increase (decrease) temporarily restricted net assets	<u>(85,095)</u>	<u>1,437,255</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
Increase (decrease) permanently restricted net assets	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>1,027,291</u>	<u>2,188,830</u>
Net assets, beginning	<u>32,746,680</u>	<u>30,557,850</u>
Net assets, ending	<u>\$ 33,773,971</u>	<u>32,746,680</u>

See accompanying notes.





**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Combined Statement of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 1,027,291	2,188,830
<u>Adjustments to reconcile net income to net cash provided</u> <u>by operating activities</u>		
Depreciation and amortization	230,015	239,208
Gain on sale of plant assets	793	(155,811)
Realized (gain) loss on sale of investments	(148,456)	(917,197)
Unrealized (gain) loss in value of investments	(226,356)	1,360,661
Increase (decrease) present value liability of gift annuities	(146,906)	(276,480)
Increase (decrease) present value of income distributions	360,710	690,361
Increase (decrease) remainder interest to residual beneficiaries	(641,586)	331,943
(Increase) decrease - cash held for agency funds	(15,259)	(53,479)
(Increase) decrease - accounts receivable	(540,128)	(30,793)
(Increase) decrease - inventories and prepaid	(2,600)	(24,256)
(Increase) decrease - deposits and intangibles	(11,989)	7,482
(Increase) decrease - real estate and miscellaneous	1,056,588	(2,505,000)
Increase (decrease) - accounts payable	266,288	252,157
Increase (decrease) - annuities held for others	-	(101,055)
Increase (decrease) - agency accounts	15,259	53,479
Net cash provided (used) by operating	<u>1,223,664</u>	<u>1,060,050</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity of investments	11,142,782	11,393,228
Purchase of investments	(12,730,162)	(10,594,072)
Proceeds from sale of plant assets and real estate	-	900,000
Purchases of plant assets	(45,713)	(30,107)
New notes receivable issued	(3,346,072)	(5,667,775)
Payments received on notes receivable	5,841,036	7,796,427
Net cash provided (used) by investing	<u>861,871</u>	<u>3,797,701</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	1,143,264	1,006,114
Proceeds from new loans	-	30,000
Proceeds from depositors	(3,204,760)	(4,692,213)
Net cash provided (used) by financing	<u>(2,061,496)</u>	<u>(3,656,099)</u>
Net increase (decrease) cash and cash equivalents	24,039	1,201,652
Cash and cash equivalents, beginning of year	2,953,277	1,751,625
Cash and cash equivalents, end of year	<u>\$ 2,977,316</u>	<u>2,953,277</u>
<u>Supplemental cash flow data</u>		
Cash paid for interest	<u>\$ 934,439</u>	<u>987,202</u>

See accompanying notes.



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS  
NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS  
Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015**

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

Organization description

The North Pacific Union Conference of Seventh-day Adventists (Conference) and North Pacific Union Conference Association of Seventh-day Adventists (Association) (Organizations) are administrative entities within the General Conference of Seventh-day Adventists, North American Division (NAD). As such, the Organizations supervise the operation of all denominational activities within the states of Alaska, Idaho, Montana, Oregon, and Washington. Most of their dealings are with the constituent conferences and the NAD. The Association holds title to all of the Organizations' assets, and performs certain fiduciary duties.

The Organizations' primary purpose is to spread the gospel of Jesus Christ throughout their territory. They accomplish this by supervising the activities of constituent conferences (regional headquarters). The Organizations receive most of their revenue from contributions from the constituent conferences and the NAD.

The Organizations are religious not-for-profit organizations, and are 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 of the Internal Revenue Code. Washington State sales tax is applied for all purchases, as required by not-for-profit organizations in Washington State.

Summary of significant accounting policies

(a) Basis of accounting: The significant accounting policies of the Organizations 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 statements. The financial statements of the Organizations have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organizations have evaluated events that occurred subsequent to the financial statement date, up to June 13, 2017, which is the date the financial statements were available to be issued.

(b) Use of estimates: The preparation of financial statements 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Restricted resources: The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organizations report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organizations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(d) Plant assets and depreciation: Uses of operating funds for plant acquisitions and debt service payments are accounted for as committee approved transfers to plant funds. Such transfers include depreciation funding as well as additional movements of operating Funds. Restricted proceeds from sale of plant assets and restricted income from plant fund investments are recorded as restricted support. Both principal and interest payments made to retire plant fund indebtedness are recorded in the plant fund. Plant assets are recorded at cost when purchased or at fair market value at date of gift. Plant assets that cost less than \$1,000 are not capitalized, but are charged to expense. Depreciation of land improvements, buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense is recorded in the net invested in plant fund and reported by various program and supporting services in the Statement of Changes in Net Assets. The following ranges of estimates of useful lives are assigned to capital assets: Buildings: 40 years; Land Improvements: 10 years; Equipment: 3 to 20 years.

(e) Cash and equivalents: Cash equivalents are highly-liquid assets of the operating funds, which are readily convertible to cash and have a maturity date of three months or less 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 statement of cash flows as proceeds or purchases of investments.

(f) 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 statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, cash equivalents, accounts receivable, and certain other liabilities.



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**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. An allowance has been recorded based on an estimate of amounts which are not expected to be collected. The local conference shall make payments on loans over 60 days past due. Because these loans, by intent and practice, are expected to be held to maturity, the carrying amount 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 concluded that the amortized face value of loans receivable from related or affiliated entities approximates fair value.

Notes and loans payable are valued at the amortized amount payable as of the reporting date. Because these loans, by intent and practice, are expected to be amortized to maturity, the carrying amount 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 concluded that the amortized face of loans payable to related or affiliated entities approximates their fair 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.

Investments are valued at quoted market price or other reasonably obtainable market value estimate 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 valuation account is recognized as a gain or loss.

Real estate and other assets recorded in the Unconditional Trust Fund are valued at fair market value on the date they are transferred into trust.

(g) Inventory is stated at the lower of cost or fair market value, under the first-in, first-out method.

(h) 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 to use for other than current operations, or are committed allocated for the acquisition or construction of plant assets or for the liquidation of plant fund debt. This excludes from current liabilities the long-term portion of all debt, and plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets. Working capital (current assets less current liabilities) for the Organizations usually reflects working capital of only the operating funds since usually no assets or liabilities of the plant fund are classified as current.

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

(j) Split-interest agreements: The Association acts as a trustee or is partial beneficiary in various kinds of trusts, annuities, and/or other split-interest agreements for which it acts as trustee or administrator. Other organizations are partial beneficiaries of some of these agreements. For those agreements that are irrevocable, assets are recorded by the Association at fair market value at the date of the gift or acceptance of the agreement. For agreements that designate other beneficiaries, liabilities are recorded for the present value of amounts due income beneficiaries and other remainder beneficiaries. Conservative discount rates are used to compute such present value amounts. Standard actuarial tables and conservative interest rates are used to compute liabilities due to annuitants. The Association's remainder interest is classified as temporarily restricted net assets until maturity of each agreement.

(k) Affiliated entities: The Organizations operate through several organizations with which they are affiliated by reason of membership on the respective governing boards of officers and other staff members of the Organizations. The financial statements of these other organizations are not combined with the Organizations' because they do not meet the criteria for consolidation. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis. Other financial transactions involving appropriations, loans, and other long-term financing, are detailed in Notes 5, 8, 16, 20, 24, and 25 below. The specific organizations referred to above are:

The General Conference of Seventh-day Adventists (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.

The Organizations oversee denominational activities in the states of Alaska, Idaho, Montana, Oregon, and Washington. Activities in each region are administered by unincorporated and incorporated Conferences and Associations. The President of each Conference is a member of the Organizations' Executive Committee. The Organizations' officers are invitees of each Conference's Executive Committee.

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



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

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

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

(l) Fund accounting: To ensure observance of limitations and restrictions on resources available to the Organizations, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined into groups, and totals presented for the Organizations as a whole. The funds and fund groups are described in further detail below.

**Operating funds:** These consist of unrestricted and restricted resources available for current operations. This fund group reflects the combined operating activity of the Conference operating fund and the Association operating fund.

**Plant funds:** These consist of the unexpended plant and net invested in plant funds. The unexpended plant fund represents resources which were donor restricted or conference committee allocated for plant acquisitions. Since operating funds allocated by the conference committee can be returned to the operating funds by action of the committee, they are included in the unrestricted section of net assets, and appear as associated net assets. This balance includes the unused portion of funded depreciation, additional funds transferred for plant acquisitions, proceeds from sale of plant assets, and unrestricted plant fund investment earnings. The net invested in plant fund represents plant assets acquired, respective accumulated depreciation, and any respective debt.

**Annuity fund:** This represents funds subject to conditions of charitable gift annuity agreements. Assets are used to produce income to fund the life income payments to the annuitants. If the annuity is funded with real estate, annuity payments required under the agreements are guaranteed by the local institution which will receive the funds upon maturity. Such funds may only be used to meet regular annuity payments.

**Revolving Fund.** The North Pacific Union Conference Association Revolving Fund was established in February 1978. Notes were issued to church members and church entities investing in the fund 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 North Pacific Union Conference (NPUC). The fund is registered in the State of Oregon and is authorized in the states of Alaska, Idaho, Montana, and Washington. A Sinking Fund is provided in accordance with General Conference policy.

**Unconditional trust fund.** An accounting entity for irrevocable trusts where assets are held in a trustee capacity.

**Note 2 – Cash and cash equivalents**

	2016 Total	2015 Total
Imprest cash	\$ 310	310
Checking accounts	3,117,169	2,883,816
General Conference money fund	12,329	12,245
Money market funds	91,721	285,860
Less: cash held for agency	(244,213)	(228,954)
Total cash and cash equivalents	<u>\$ 2,977,316</u>	<u>2,953,277</u>

**Note 3 – Investments**

	2016		Unrealized Appreciation (Decline)
	Cost	Market	
<u>Investments held for operating</u>			
Certificates of deposit	\$ 1,028,000	1,041,410	13,410
Corporate bonds and notes	1,900,514	1,872,491	(28,023)
Preferred stock	291,210	292,892	1,682
Total operating investments at market value	<u>\$ 3,219,724</u>	<u>3,206,793</u>	<u>(12,931)</u>



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**Note 3 – Investments (continued)**

	2015		
	Cost	Market	Unrealized Appreciation (Decline)
<u>Investments held for operating</u>			
Certificates of deposit	\$ 979,000	981,166	2,166
US Treasury bills and notes	12,160	12,160	-
Corporate bonds and notes	1,655,334	1,646,440	(8,894)
Preferred stock	291,210	302,399	11,189
Total operating investments at market value	<u>\$ 2,937,704</u>	<u>2,942,165</u>	<u>4,461</u>

	2016		
	Cost	Market	Unrealized Appreciation (Decline)
<u>Investments held for other than operating</u>			
Checking accounts	\$ 3,255,740	3,255,740	-
Money market funds	1,278,682	1,278,682	-
Certificates of deposit	17,435,000	17,433,031	(1,969)
Corporate bonds and notes	8,677,578	7,814,087	(863,511)
Municipal bonds	103,300	110,235	6,935
US Government loan securities	502,514	666,674	164,160
Bond mutual fund	9,316,197	9,087,948	(228,249)
Equity mutual fund	7,503,290	8,480,310	977,020
Mutual funds	148,310	86,649	(61,661)
Common stock	77,335	70,499	(6,836)
Preferred stock	1,276,228	1,391,049	114,821
Total other than operating investments at market value	<u>\$ 49,574,174</u>	<u>49,674,884</u>	<u>100,710</u>

	2015		
	Cost	Market	Unrealized Appreciation (Decline)
<u>Investments held for other than operating</u>			
Checking accounts	\$ 2,153,288	2,153,288	-
Money market funds	3,187,069	3,187,069	-
Certificates of deposit	15,599,493	15,468,246	(131,247)
Corporate bonds and notes	7,972,246	7,515,515	(456,731)
Municipal bonds	103,498	112,185	8,687
US Government loan securities	427,658	428,941	1,283
Bond mutual fund	9,578,891	9,428,221	(150,670)
Equity mutual fund	7,567,475	8,167,556	600,081
Mutual funds	148,310	74,117	(74,193)
Common stock	77,335	56,840	(20,495)
Preferred stock	1,484,343	1,557,209	72,866
Total other than operating investments at market value	<u>\$ 48,299,606</u>	<u>48,149,187</u>	<u>(150,419)</u>

The market value of investments changes with economic conditions.

**Note 4 – Fair value measurement**

The Organizations are subject to accounting provisions that require disclosure about the information used to determine fair values for assets and liabilities that are subject to fair value accounting either on a recurring or non-recurring basis. This information is separated into three "levels" of input as follows:

Level 1: Observable quoted market prices 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 the best information available to the entity.



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**Note 4 – Fair value measurement (continued)**

	Level 1	Level 2	Level 3	Total
<b>2016</b>				
Assets recorded at fair value				
Certificates of deposit	\$ -	18,474,441	-	18,474,441
Debt securities	19,551,415	-	-	19,551,415
Equity securities	10,321,399	-	-	10,321,399
Total assets recorded at fair value	<u>\$ 29,872,814</u>	<u>18,474,441</u>	<u>-</u>	<u>48,347,255</u>

<b>2015</b>				
Assets recorded at fair value				
Certificates of deposit	\$ -	16,449,412	-	16,449,412
Debt securities	19,143,462	-	-	19,143,462
Equity securities	10,158,121	-	-	10,158,121
Total assets recorded at fair value	<u>\$ 29,301,583</u>	<u>16,449,412</u>	<u>-</u>	<u>45,750,995</u>

**Note 5 – Accounts receivable**

	2016 Total	2015 Total
<u>Accounts receivable held for operating</u>		
Accrued interest	\$ 2,864	2,290
GC/NAD	38,002	947
Local conference	6,567,986	6,089,915
Miscellaneous	235,041	220,747
Total accounts receivable	6,843,893	6,313,899
Less: allowance for uncollectable accounts	(60,614)	(55,478)
Net accounts receivable	<u>\$ 6,783,279</u>	<u>6,258,423</u>

	2016 Total	2015 Total
<u>Accounts receivable held for other than operating</u>		
Accrued interest	\$ 148,443	116,430
Total other than operating accounts receivable	<u>\$ 148,443</u>	<u>116,430</u>

**Note 6 – Notes receivable- all funds**

	2016	
	Current	Long-term
<u>Notes receivable held for operating</u>		
Secured loan receivable, from the sale of real property 1/2 interest, 7% interest	\$ 34,000	756,500
Total operating funds notes receivable	<u>\$ 34,000</u>	<u>756,500</u>

	2015	
	Current	Long-term
<u>Notes receivable held for operating</u>		
Secured loan receivable, from the sale of real property 1/2 interest, 7% interest	\$ 35,054	826,133
Total operating funds notes receivable	<u>\$ 35,054</u>	<u>826,133</u>

	2016	
	Current	Long-term
<u>Notes receivable held for other than operating</u>		
Unsecured pooled mortgage loans receivable, interest only 8.00% to 9.00% interest, balloon payments due 2018 to 2023	\$ -	718,671
Secured mortgage loans receivable, \$400 to \$8,528 per month 3.00% to 10.00% interest, balloon payments due 2004 to 2018*	26,399	1,038,079
Revolving Fund loans to conferences, churches, and schools, 5.00% interest, due 90 days from demand	27,692,041	-
Total other than operating notes receivable	<u>\$ 27,718,440</u>	<u>1,756,750</u>



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**Note 6 – Notes receivable- all funds (continued)**

	2015		
	Current	Long-term	Total
<u>Notes receivable held for other than operating</u>			
Unsecured pooled mortgage loans receivable, interest only, 8.00% to 9.00% interest, balloon payments due 2018 to 2019	\$ -	718,671	718,671
Secured mortgage loans receivable 3.00% to 10.00% interest, balloon payments due 2004 to 2018*	24,558	1,257,497	1,282,055
Revolving Fund loans to conferences, churches, and schools 5.00% interest, due 90 days from demand	31,267,617	-	31,267,617
Total other than operating notes receivable	\$ 31,292,175	1,976,168	33,268,343

\* The Organizations' total investment in secured mortgage loans receivable past due 90 days or more and still accruing interest for the years ended December 31, 2016 and 2015, totaled \$0 and \$89,559, respectively.

**Note 7 – Plant assets**

	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
<u>Balances 2016</u>				
Land	\$ 1,503,343	-	1,503,343	-
Land improvements	187,508	182,311	5,197	18,751
Buildings	6,466,110	1,618,501	4,847,609	163,827
Equipment	1,290,538	1,169,786	120,752	47,437
Total plant assets	\$ 9,447,499	2,970,598	6,476,901	230,015

<u>Balances 2015</u>				
Land	\$ 1,503,343	-	1,503,343	-
Land improvements	187,508	183,560	23,948	18,751
Buildings	6,466,110	1,454,674	5,011,436	163,827
Equipment	1,253,101	1,129,832	123,269	56,630
Total plant assets	\$ 9,410,062	2,748,066	6,661,996	239,208

	Cost 2015	Additions	Deletions	Cost 2016
<u>Changes in cost 2016</u>				
Land	\$ 1,503,343	-	-	1,503,343
Land improvements	187,508	-	-	187,508
Buildings	6,466,110	-	-	6,466,110
Equipment	1,253,101	45,713	8,276	1,290,538
Total plant assets	\$ 9,410,062	45,713	8,276	9,447,499

	Accumulated Depreciation 2015	Additions	Deletions	Accumulated Depreciation 2016
<u>Changes in accumulated depreciation 2016</u>				
Land improvements	\$ 183,560	18,751	-	182,311
Buildings	1,454,674	163,827	-	1,618,501
Equipment	1,129,832	47,437	7,483	1,169,786
Total depreciation	\$ 2,748,066	230,015	7,483	2,970,598

	Cost 2014	Additions	Deletions	Cost 2015
<u>Changes in cost 2015</u>				
Land	\$ 1,503,343	-	-	1,503,343
Land improvements	187,508	-	-	187,508
Buildings	6,466,110	-	-	6,466,110
Equipment	1,235,121	30,108	12,128	1,253,101
Total plant assets	\$ 9,392,082	30,108	12,128	9,410,062





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**Note 7 – Plant assets (continued)**

	Accumulated Depreciation 2014	Additions	Deletions	Accumulated Depreciation 2015
<u>Changes in accumulated depreciation 2015</u>				
Land improvements	\$ 144,809	18,751	-	163,560
Buildings	1,290,847	163,827	-	1,454,674
Equipment	1,085,330	56,630	12,128	1,129,832
Total depreciation	<u>\$ 2,520,986</u>	<u>239,208</u>	<u>12,128</u>	<u>2,748,066</u>

**Note 8 – Accounts payable**

	2016 Total	2015 Total
<u>Accounts payable held for operating</u>		
Accrued audit fees	\$ 125,900	149,609
Accrued medical	18,746	23,366
Accrued retirement	150,514	138,235
Accrued wages and payroll tax	169,441	170,171
Commercial accounts	18,145	23,324
General Conference remittance and other	5,053,168	4,689,381
Local conferences	109,758	15,665
Miscellaneous	4,989	39,902
North American Division	94,461	51,372
Pacific Press Publishing Association	32,266	34,079
Total operating accounts payable	<u>\$ 5,777,388</u>	<u>5,335,104</u>
<u>Accounts payable held for other than operating</u>		
Miscellaneous	\$ 138,027	274,565
Total other than operating accounts payable	<u>\$ 138,027</u>	<u>274,565</u>

**Note 9 – Notes payable**

	2016	
	Current	Long-term
<u>Notes payable held for other than operating</u>		
Revolving Fund account certificates and demand		
notes payable to church members and conference organizations, 2.25% interest	38,573,626	-
Total other than operating notes payable	<u>\$ 38,573,626</u>	<u>38,573,626</u>
	2015	
	Current	Long-term
<u>Notes payable held for other than operating</u>		
Donor advised fund payable	\$ -	30,000
Revolving Fund account certificates and demand		
notes payable to church members and conference organizations, 2.25% interest	42,145,863	-
Total other than operating notes payable	<u>\$ 42,145,863</u>	<u>30,000</u>

Principal payments due on notes payable are as follows:

2017	\$ 38,573,626
Total	<u>\$ 38,573,626</u>



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**Note 10 – Temporarily restricted net assets**

	Balance 2015	Restricted Income	Restrictions Released	Balance 2016
<b>Conference operating funds</b>				
Adventist Health System	\$ 34,210	19,600	13,000	40,810
College and university operating	-	2,841,939	2,602,874	239,065
Church Planting	-	36,046	36,046	-
Desire of Ages project	39,257	-	39,257	-
Disaster response	5,593	8,000	5,393	8,200
Evangelists - Morgan	-	83,160	83,160	-
Evangelists - McMahon	-	78,420	78,420	-
General evangelism	680,277	1,481,549	1,519,944	641,882
Global mission	-	3,169	-	3,169
"Give them the keys" initiative	-	55,000	-	55,000
Hispanic capital	-	21,538	21,538	-
In-house operations	-	2,000	2,000	-
K-12 operations	-	2,138,916	1,960,673	178,243
Miscellaneous operating appropriation	-	273,624	273,624	-
Native American evangelism	-	12,081	12,081	-
Northwest Mission Inst.	-	59,472	59,472	-
Regional capital	77,067	-	6,089	70,978
Regional special assistance	174,527	206,892	246,102	135,317
Religious Liberty Association NW	4,270	12,698	16,968	-
Small conference assistance	132,003	393,197	384,814	140,386
Temperance	-	340	53	287
Trade show books	49,680	-	29,373	20,307
Women's ministries	-	10,334	10,334	-
<b>Total Conference operating funds</b>	<b>1,196,884</b>	<b>7,737,955</b>	<b>7,401,195</b>	<b>1,533,644</b>
<b>Association operating funds</b>				
Agreement per NAD	73,581	-	5,603	67,978
Donor advised funds	834,911	121,536	281,765	674,682
Education	58,568	-	-	58,568
Evangelism	727,458	-	-	727,458
<b>Total Association operating funds</b>	<b>1,694,518</b>	<b>121,536</b>	<b>287,368</b>	<b>1,528,686</b>
<b>Total operating funds</b>	<b>2,891,402</b>	<b>7,859,491</b>	<b>7,688,563</b>	<b>3,062,330</b>
<b>Annuity funds</b>				
Education	(4,004)	(1,319)	-	(5,323)
Global mission	(6,172)	(4,215)	-	(10,387)
<b>Total annuity funds</b>	<b>(10,176)</b>	<b>(5,534)</b>	<b>-</b>	<b>(15,710)</b>
<b>Unconditional trust fund</b>				
Unconditional trusts	2,334,517	2,758,072	3,008,561	2,084,028
<b>Total other than operating funds</b>	<b>2,324,341</b>	<b>2,752,538</b>	<b>3,008,561</b>	<b>2,086,318</b>
<b>Total temporarily restricted net assets</b>	<b>\$ 5,215,743</b>	<b>10,612,029</b>	<b>10,697,124</b>	<b>5,130,648</b>

**Note 11 – Permanently restricted net assets**

	Balance 2015	Restricted Income	Restrictions Released	Balance 2016
Nelson evangelism endowment	\$ 40,000	-	-	40,000
<b>Total permanently restricted net assets</b>	<b>\$ 40,000</b>	<b>-</b>	<b>-</b>	<b>40,000</b>

**Note 12 – Endowments**

Administration has interpreted the Washington Prudent Management of Institutional Funds Act (WPMIFA) to require the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds (absent explicit donor stipulations to the contrary).

As a result of this interpretation, the Organizations classify as permanently restricted net assets:

- (a) The original value of gifts donated as permanent endowments,
- (b) The original value of subsequent gifts to the permanent endowment,
- (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the endowment.

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**Note 12 – Endowments (continued)**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organizations in a manner consistent with the standard prescribed by WPMIFA.

In accordance with WPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowments.

- (1) The duration and preservation of the endowment
- (2) The purposes of the Organizations and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organizations
- (7) The investment policies of the Organizations

Endowment investment policies - return objectives, risk parameters, and strategies

The Organizations have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted endowments that the Organizations must hold in perpetuity or for a donor-specified period, as well as committee-designated (quasi) endowments.

Under this policy, the endowment assets are invested in a manner that is intended to preserve capital with minimal risk. The Organizations have placed endowment assets in revolving fund deposits with an annual return of 2.25%.

Endowment spending policies and relation to investment objectives

The Organizations have adopted an endowment spending policy that directs them to appropriate for distribution each year all earnings, which equate to 2.25% of the endowment's value.

In establishing this policy, the Organizations considered the long-term expected return on their endowments. Accordingly, over the long term, the Organizations expect the current spending policy to allow their endowments to maintain their balance.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
<u>2016 Endowment net asset composition</u>				
Donor-restricted endowments	\$ -	-	40,000	40,000
Total endowments	\$ -	-	40,000	40,000
<u>2016 Changes in endowment net assets</u>				
Net assets, beginning of year	\$ -	-	40,000	40,000
<u>Investment return</u>				
Investment income	-	-	-	-
Total investment return	-	-	-	-
Appropriation of assets for expenditure	-	-	-	-
Transfers out to Alaska Conference	-	-	-	-
Endowment net assets, end of year	\$ -	-	40,000	40,000
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
<u>2015 Endowment net asset composition</u>				
Donor-restricted endowments	\$ -	-	40,000	40,000
Total endowments	\$ -	-	40,000	40,000
<u>2015 Changes in endowment net assets</u>				
Net assets, beginning of year	\$ -	-	40,000	40,000
<u>Investment return:</u>				
Investment income	-	-	-	-
Total investment return	-	-	-	-
Appropriation of assets for expenditure	-	-	-	-
Transfers out	-	-	-	-
Endowment net assets, end of year	\$ -	-	40,000	40,000

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**Note 12 – Endowments (continued)**

Composition of endowment net assets

Permanently restricted net assets

Portion of perpetual endowments required to be retained permanently, either by explicit donor stipulation or by WPMIFA

Total Endowment assets classified as permanently restricted net assets

	<b>2016 Total</b>	<b>2015 Total</b>
	\$ 40,000	40,000
	\$ 40,000	40,000

**Note 13 – Unrestricted nonoperating activity**

Other

Nonoperating expense

	<b>2016 Total</b>	<b>2015 Total</b>
	\$ 19,811	3,754
	\$ 19,811	3,754

Proceeds from sale of plant assets

Net value of plant assets sold

	\$ -	900,000
	(793)	(743,864)

Net gain (loss) on sale of assets

	\$ (793)	156,136
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Unexpended plant resources spent

Purchases added to net invested in plant

Net transfers between funds

	\$ (45,713)	(30,108)
	45,713	30,108
	\$ -	-

**Note 14 – Revolving fund net earnings**

Investment earnings (Note 23)

Interest expense

Other expense

Total revolving fund net earnings

	<b>2016 Total</b>	<b>2015 Total</b>
	\$ 2,009,106	2,117,080
	(934,439)	(986,300)
	(40,024)	(29,901)
	\$ 1,034,643	1,100,879

**Note 15 – Annuity fund net earnings**

Unrestricted activity

Investment earnings (Note 23)

Miscellaneous income

Present value adjustment

Total unrestricted revenues, gains & other support

	<b>2016 Total</b>	<b>2015 Total</b>
	\$ 23,282	1,074
	215	1,248
	13,772	10,775
	37,269	13,097

Expenses and losses

Payments to annuitants

Matured distributions

General expenses

Total expenses and losses

Increase (decrease) allocated unrestricted net assets

	35,736	35,696
	-	845
	2,177	3,389
	37,913	39,910
	\$ (644)	(26,813)

Restricted activity

Investment earnings (Note 23)

Present value adjustment

Increase (decrease) in temporarily restricted net assets

	\$ 2,581	371
	(8,115)	(8,616)
	\$ (5,534)	(8,245)



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**Note 16 – Annuities held for others**

Activity for annuities held for others is as follows

Unrestricted revenues and gains

	2016 Total	2015 Total
Investment earnings (Note 23)	\$ 358,659	44,184
Gift annuities	350,000	705,344
Present value adjustment	209,377	149,933
Total unrestricted revenues & gains	<u>918,036</u>	<u>899,461</u>

Expenses and losses

Annuity payments	652,817	671,338
<u>Matured annuity distribution</u>		
Montana Conference	5,303	-
Oregon Conference	77,227	46,268
Upper Columbia Conference	46,663	229,223
Washington Conference	26,071	54,616
Other	959	47,062
Other expense	91,891	127,434
Total expenses and losses	<u>900,931</u>	<u>1,175,941</u>
Increase (decrease) annuities held for others	17,105	(276,480)
Beginning annuities held for others	1,375,664	1,652,144
Ending annuities held for others	<u>\$ 1,392,769</u>	<u>1,375,664</u>

Annuities held for others

Alaska Conference	\$ (142)	(52)
Idaho Conference	(4,776)	(955)
Montana Conference	(12,098)	(12,662)
Oregon Conference	773,045	809,360
Upper Columbia Conference	195,518	233,806
Washington Conference	247,958	104,510
Walla Walla University	79,006	82,210
Miscellaneous	114,256	159,447
Total annuities held for others	<u>\$ 1,392,769</u>	<u>1,375,664</u>

**Note 17 – State reserve requirements for charitable gift annuities**

State of Washington

The State of Washington reserves are calculated by an independent actuary as required by RCW 48.38.020 of the Washington Insurance Code. The reserve for annuities issued to Washington residents at December 31, 2016 and 2015, was \$2,337,171 and \$2,412,662, respectively, as compared to the Organizations' reserves, as of the same date of \$4,331,730 and \$4,535,200, respectively.

**Note 18 – Present value liability**

Annuity fund

The annuity liability reflects the present value of the obligation due the annuitants. It is based on an assumed interest rate of 5.25% and the annuitants' life expectancy, which may vary from actual.

	2016 Total	2015 Total
Present value liability - current portion	\$ 801,553	841,562
Present value liability - long-term portion	3,530,177	3,693,638
Total present value liability	<u>\$ 4,331,730</u>	<u>4,535,200</u>

Unconditional trust fund

The income distributions to primary beneficiaries liability reflects the present value of the obligation due the income beneficiaries. It is based on an assumed interest rate of 5.25% to 6.00% and the annuitants' life expectancy, which may vary from actual.



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**Note 18 – Present value liability (continued)**

	2016	2015
	<u>Total</u>	<u>Total</u>
Present value liability - current portion	\$ 1,298,456	1,338,350
Present value liability - long-term portion	7,358,030	6,957,427
Total present value liability	<u>\$ 8,656,486</u>	<u>8,295,777</u>

**Note 19 – Unconditional trusts' increase (decrease)**

As of December 31, 2016 and 2015, respectively, the Organizations served as trustee for 86 and 69 irrevocable trusts which have been included in the financial statements, in accordance with the accounting standards. The activity for the Irrevocable Trusts is as follows:

	2016	2015
	<u>Total</u>	<u>Total</u>
<u>Restricted revenues and gains</u>		
Irrevocable trust agreement additions	\$ 175,547	1,026,854
Investment earnings (Note 23)	1,738,205	23,312
Other income	(196,312)	-
Total restricted revenue and gains	<u>1,717,440</u>	<u>1,050,166</u>
<u>Changes to restricted revenues and gains</u>		
Change in present value of income distributions to primary beneficiaries	(360,709)	690,361
Change in remainder interest to residual beneficiaries	1,401,341	331,943
Total changes to restricted revenues and gains	<u>1,040,632</u>	<u>1,022,304</u>
Net restricted revenues and gains	<u>2,758,072</u>	<u>2,072,470</u>
<u>Expenses and losses</u>		
Distributions to primary beneficiaries	652,919	757,291
Distributions to residual beneficiaries	1,435,888	1,474,047
Other expenses	917,986	118,722
Total unrestricted expenses and losses	<u>3,006,773</u>	<u>2,350,060</u>
Net unconditional trusts' increase (decrease)	<u>\$ (248,701)</u>	<u>(277,590)</u>

**Note 20 – Remainder interest for residual beneficiaries**

	2016	2015
	<u>Total</u>	<u>Total</u>
<u>Unconditional trusts</u>		
Idaho Conference of SDA	\$ 624,989	736,501
Montana Conference of SDA	277,728	315,809
Oregon Conference and Western Oregon Conference Association of SDA	1,907,613	2,049,122
Upper Columbia Conference and Corporation of SDA	275,827	297,803
Washington Conference and Western Washington Corporation of SDA	71,605	77,003
Walla Walla University	1,739,870	1,720,307
Other Seventh-day Adventist entities	999,928	1,259,504
Other private/public charities	978,986	1,081,498
Individuals	170,144	165,112
Conditional trusts	3,285,834	3,291,461
Total remainder interest for residual beneficiaries	<u>\$ 10,332,534</u>	<u>10,974,120</u>

**Note 21 – Contingent liability - beneficiary distribution deficiencies**

The only required payments from unitrusts are net income. At December 31, 2016 and 2015, there were 19 and 20 charitable remainder unitrusts, respectively, that received less than the targeted income distributions to the primary beneficiaries as set forth in the trust agreements. These deficiencies are payable to the primary beneficiary to the extent that future investment income exceeds the targeted income level. When the trust matures, any remaining deficiency in income distributions is eliminated and the trust's assets are distributable to the remainder beneficiary. Deficiencies in income distributions was \$2,688,237 and \$2,553,294 at December 31, 2016 and 2015, respectively. Any net income deficiency would

**Note 22 – Revocable trust agreements**

As of December 31, 2016 and 2015, the Organizations served as trustee of 10 and 10 revocable trusts, respectively. In accordance with accounting principles generally accepted by the Seventh-day Adventist denomination, these revocable trusts are not included in the financial statements. Generally, the Organizations are a remainder beneficiary of a portion of the trust assets.

The Organizations may be a beneficiary of wills or trusts administered by other trustees, of which the Organizations are not aware.



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**Note 23 – Investment earnings**

	<b>2016</b>	<b>2015</b>
	<b>Total</b>	<b>Total</b>
<u>Conference operating</u>		
Interest income	\$ 55,003	49,778
Unrealized capital gains (losses)	(17,925)	(23,539)
Total Conference operating	<u>37,078</u>	<u>26,239</u>
<u>Association operating</u>		
Interest income	38,446	35,024
Realized capital gains (losses)	(10)	-
Unrealized capital gains (losses)	544	2,173
Total Association operating	<u>38,980</u>	<u>37,197</u>
Total operating investment earnings	<u>\$ 76,058</u>	<u>63,436</u>
<u>Revolving fund</u>		
Interest income	\$ 2,086,116	2,130,256
Realized capital gains (losses)	2,118	4,941
Unrealized capital gains (losses)	(79,128)	(18,117)
Total revolving fund (Note 14)	<u>\$ 2,009,106</u>	<u>2,117,080</u>
<u>Annuity fund</u>		
<u>Annuity fund net earnings</u>		
<u>Unrestricted activity</u>		
Interest income	\$ 18,594	3,636
Realized capital gains (losses)	1,161	7,034
Unrealized capital gains (losses)	3,527	(9,596)
Total unrestricted activity (Note 15)	<u>23,282</u>	<u>1,074</u>
<u>Restricted activity</u>		
Investment income	1,130	1,280
Realized capital gains (losses)	381	2,437
Unrealized capital gains (losses)	1,070	(3,326)
Total restricted activity (Note 15)	<u>2,581</u>	<u>371</u>
Total annuity fund net earnings	<u>25,863</u>	<u>1,445</u>
<u>Annuities held for others</u>		
Interest income	157,121	149,750
Realized capital gains (losses)	52,957	289,692
Unrealized capital gains (losses)	148,581	(395,258)
Total annuities held for others (Note 16)	<u>358,659</u>	<u>44,184</u>
Total annuity fund	<u>\$ 384,522</u>	<u>45,629</u>
<u>Unconditional trust fund</u>		
Interest income	\$ 914,067	922,491
Realized capital gains (losses)	156,770	617,261
Unrealized capital gains (losses)	667,368	(52,857)
Total unconditional trust fund (Note 19)	<u>\$ 1,738,205</u>	<u>1,486,895</u>

**Note 24 – Related party transactions**

	<b>2016</b>	<b>2015</b>
	<b>Total</b>	<b>Total</b>
<u>Appropriations received from</u>		
GC/NAD	\$ 5,577,660	5,513,642
Alaska Conference	71,911	61,343
Idaho Conference	190,898	170,220
Montana Conference	140,316	116,731
Oregon Conference	1,327,900	1,199,075
Upper Columbia Conference	1,238,539	1,131,331
Washington Conference	874,427	729,015
Miscellaneous organizations	84,802	10,499
Total appropriations received	<u>\$ 9,506,453</u>	<u>8,931,856</u>





**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**Note 24 – Related party transactions (continued)**

	<b>2016</b>	<b>2015</b>
	<b>Total</b>	<b>Total</b>
<u>Appropriations made to</u>		
Alaska Conference	\$ 657,757	634,790
Idaho Conference	524,627	515,898
Montana Conference	745,764	732,141
Oregon Conference	1,397,740	1,331,178
Upper Columbia Conference	1,132,399	1,051,884
Washington Conference	1,022,636	881,652
Miscellaneous organizations	209,438	255,789
Walla Walla University	4,090,969	3,945,611
Total appropriations made	<u>\$ 9,781,330</u>	<u>9,328,943</u>

**Note 25 – Donated services**

The NAD subsidizes the cost of auditing services within the NPUC territory. This subsidy was \$531,454 and \$467,781, for the years ended December 31, 2016 and 2015, respectively. The NPUC portion of this subsidy was \$28,912 and \$40,086 for the years ended December 31, 2016 and 2015, respectively. The NPUC pays the remainder of the cost of audits within its territory. This cost was \$214,043 and \$385,160 for the years ended December 31, 2016 and 2015, respectively. The NPUC has voted to bill local conferences for a portion of the audit costs. Local conferences were billed \$231,383 and \$223,983 for the years ended December 31, 2016 and 2015, respectively.

**Note 26 – Pension and other post-retirement benefits**

Defined benefit plans

The Organizations participate in the following non-contributory, defined benefit plans:

1. The defined benefit pension plan is known as the Seventh-day Adventist Retirement Plan of the North American Division (NADRP). This plan, which covers substantially all employees of the Organizations, is administered by the NAD, in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multiple-employer" plan of a church-related agency. This plan provides primarily monthly pension benefits based on years of service and other factors.

The NAD Committee voted to freeze accrual of service credit in NADRP effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. Certain employees will continue to be eligible for future benefits under this plan. The Organizations continue to make contributions to this plan, at rates determined annually by the plan.

2. The defined benefit health care plan is known as the General Conference of Seventh-day Adventist North American Division Retiree Auxiliary Healthcare Assistance and Death Benefit Plan (RAHAP). This plan, which covers substantially all employees of the Organizations, is administered by NAD in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multiple-employer" plan of a church-related agency. This plan provides primarily health-care benefits which supplement Medicare benefits. The extent of these benefits is based on years of service and the beneficiary's monthly contribution.

Accounting standards define these plans as "multiemployer" plans. As such, it is not required, nor is it possible, to determine the actuarial value of accumulated benefits or plan net assets for employees of the Organizations apart from other plan participants.

Information about the required contributions to these plans, the actuarial obligation for future benefits, and the funded status of these plans, are presented in the tables below. Because the following information is not publicly available, it is required to be disclosed on the basis of information received from each plan:

	<b>NADRP</b>	<b>RAHAP</b>	<b>TOTAL</b>
<u>Required contributions from the Organizations:</u>			
For the year ended December 31, 2016	\$ 1,015,328	283,092	1,278,420
For the year ended December 31, 2015	1,018,488	263,143	1,281,631
<u>Total contributions received from all employers:</u>			
For the plan year ended December 31, 2016	105,681,437	38,553,586	
For the plan year ended December 31, 2015	104,592,497	37,631,162	
<u>Whether the Organizations' contributions were more than or less than 5% of the total</u>			
For the plan year ended December 31, 2016	less than	less than	
For the plan year ended December 31, 2015	less than	less than	
<u>Plan net assets available for benefits:</u>			
For the plan year ended December 31, 2016	\$ 221,751,327	60,247,027	
For the plan year ended December 31, 2015	213,701,856	61,394,641	



**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**Note 26 – Pension and other post-retirement benefits (continued)**

<u>Actuarial obligation and funded status</u>	<u>NADRP</u>	<u>RAHAP</u>
Date of plan year-end for latest actuarial information	12/31/2015	12/31/2012
Actuarial liability for future benefits	\$ 1,583,585,186	1,013,326,701
Value of net assets available for benefits	\$ 213,701,656	62,771,811
Plan funded status as of date of last actuarial data	Less than 65%	Less than 65%

**Risks and other information**

The risks of participating in multiemployer plans are different from single-employer plans, in the following aspects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Organizations choose to stop participating in a multiemployer plan, the Organizations may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Other information about risks and contingencies related to these plans are as follows:

- Information about the plans is not publicly available, so no "certified zone status" has been determined.
- The Organizations' required contributions are not the subject of any collective bargaining agreement.
- No funding improvement plans or rehabilitation plans had been implemented or were pending.
- The Organizations have not paid any "surcharge" to either of the plans.
- No minimum contribution for future periods has been determined or required of the Organizations.

**Defined contribution plan**

Effective January 1, 2000, the Organizations participate in a defined contribution retirement plan known as "The Adventist Retirement Plan." This plan, which covers substantially all employees of the Organizations, is administered by NAD in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a multiple-employer plan of a church-related agency. The Organizations contributed \$175,583 and \$170,640 to the plan for the years ended December 31, 2016 and 2015, respectively, based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for each employee is provided under an agreement between NAD Corporation and Great-West Life & Annuity Insurance Company.

**Note 27 – Concentration of risk**

The Organizations receive most of their revenue in the form of contributions from Seventh-day Adventist members, and contributions from the local constituent conferences. The amount of contributions is subject to changes in economic conditions that could cause loss of income to church members and local constituent conferences. The amount of contributions could also be subject to decrease if any significant number of individuals cease to be active members.

Cash, which exceeded the federally insured limits at certain times during the year and at year end, is deposited with high-credit-quality financial institutions.

**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**Note 28 – Working capital and liquidity**

	<b>2016 Operating Funds</b>	<b>2015 Operating Funds</b>
<u>Working capital</u>		
Total current assets	\$ 13,347,252	12,533,665
Less: total current liabilities	<u>6,021,601</u>	<u>5,564,058</u>
Total working capital	<u>7,325,651</u>	<u>6,969,607</u>
Recommended working capital	<u>7,707,142</u>	<u>7,416,043</u>
Working capital excess (deficit)	\$ <u>(381,491)</u>	<u>(446,436)</u>
Percent of recommendation	<u>95%</u>	<u>94%</u>
Current ratio	<u>2.22 to 1</u>	<u>2.25 to 1</u>
<u>Liquid assets</u>		
Cash	\$ 2,977,316	2,953,277
Cash held for agency	244,213	228,954
Investments	3,206,793	2,942,165
Accounts receivable - conference remittances	6,567,986	6,089,915
Accounts receivable - GC and NAD	<u>38,002</u>	<u>947</u>
Total liquid assets	<u>13,034,310</u>	<u>12,215,258</u>
<u>Less commitments</u>		
Current liabilities	6,021,601	5,564,058
Temporarily restricted net assets - operating	<u>3,062,330</u>	<u>2,891,402</u>
Total commitments	<u>9,083,931</u>	<u>8,455,460</u>
Liquid assets surplus (deficit)	\$ <u>3,950,379</u>	<u>3,759,798</u>
Percent liquid assets to commitments	<u>143%</u>	<u>144%</u>
<u>Calculation of recommended working capital</u>		
50% of Conference unrestricted income	\$ 4,593,639	4,500,532
20% of Association unrestricted income	51,173	24,109
Temporarily restricted net assets - operating	<u>3,062,330</u>	<u>2,891,402</u>
Total recommended working capital	<u>\$ 7,707,142</u>	<u>7,416,043</u>





To the Executive Committee  
North Pacific Union Conference of Seventh-day Adventists, and  
The Board of Trustees  
North Pacific Union Conference Association of Seventh-day Adventists  
Ridgefield, Washington

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Our audits of the financial statements of North Pacific Union Conference of Seventh-day Adventists and North Pacific Union Conference Association of Seventh-day Adventists, which comprise the combined statements of financial position as of December 31, 2016 and 2015, were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This other financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, as internal auditors of the General Conference of Seventh-day Adventists, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*General Conference Auditing Service*

June 13, 2017

**NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS**  
**NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS**  
**Supplemental Statement of Financial Position**  
**December 31, 2016**

	<b>NPUC</b>	<b>NPUC</b>	<b>Eliminating Entries</b>	<b>Consolidated</b>
<b>ASSETS</b>				
<u><b>Current assets</b></u>				
Cash and cash equivalents (Note 2)	\$ 743,394	2,233,922	-	2,977,316
Cash held for agency funds (Note 2)	-	244,213	-	244,213
Investments (Note 3)	1,232,463	1,974,330	-	3,206,793
Accounts receivable, net (Note 5)	2,864	6,780,415	-	6,783,279
Notes receivable (Note 6)	34,000	-	-	34,000
Inventories and prepaid expense	-	101,651	-	101,651
Total current assets	<u>2,012,721</u>	<u>11,334,531</u>	<u>-</u>	<u>13,347,252</u>
<u>Plant assets, net (Note 7)</u>	<u>6,476,901</u>	<u>-</u>	<u>-</u>	<u>6,476,901</u>
<u><b>Other assets</b></u>				
Notes receivable (Note 6)	756,500	-	-	756,500
Real estate and miscellaneous	9,584	-	-	9,584
Deposits and intangibles	-	11,989	-	11,989
For other than operating funds:				
Cash and investments (Note 3)	49,674,884	-	-	49,674,884
Accounts receivable (Note 5)	148,443	-	-	148,443
Notes receivable (Note 6)	32,387,406	-	(2,912,216)	29,475,190
Land held for sale	-	-	-	-
Real estate held for unconditional trusts	3,320,001	-	-	3,320,001
Inter-fund receivables	638,000	580,000	(1,218,000)	-
Total other assets	<u>86,934,818</u>	<u>591,989</u>	<u>(4,130,216)</u>	<u>83,396,591</u>
Total assets	<u>\$ 95,424,440</u>	<u>11,926,520</u>	<u>(4,130,216)</u>	<u>103,220,744</u>
<b>LIABILITIES</b>				
<u><b>Current liabilities</b></u>				
Accounts payable (Note 8)	\$ 40	5,777,348	-	5,777,388
Agency accounts	-	244,213	-	244,213
Total current liabilities	<u>40</u>	<u>6,021,561</u>	<u>-</u>	<u>6,021,601</u>
<u><b>Other liabilities</b></u>				
For other than operating funds:				
Accounts payable (Note 8)	138,027	-	-	138,027
Notes payable (Note 9)	42,703,842	-	(4,130,216)	38,573,626
Present value income distributions to primary beneficiaries (Note 18)	8,656,486	-	-	8,656,486
Remainder interest for residual trust beneficiaries (Note 20)	10,332,534	-	-	10,332,534
Annuities held for others (Note 16)	1,392,769	-	-	1,392,769
Present value, annuity liability (Note 18)	4,331,730	-	-	4,331,730
Total other liabilities	<u>67,555,388</u>	<u>-</u>	<u>(4,130,216)</u>	<u>63,425,172</u>
Total liabilities	<u>67,555,428</u>	<u>6,021,561</u>	<u>(4,130,216)</u>	<u>69,446,773</u>
<u><b>Net assets</b></u>				
Unrestricted: unallocated	1,808,132	2,641,017	-	4,449,149
Unrestricted: allocated	17,347,151	1,730,298	-	19,077,449
Unrestricted: net invested in plant	5,076,725	-	-	5,076,725
Total unrestricted	24,232,008	4,371,315	-	28,603,323
Temporarily restricted (Note 10)	3,597,004	1,533,644	-	5,130,648
Permanently restricted (Note 11)	40,000	-	-	40,000
Total net assets	<u>27,869,012</u>	<u>5,904,959</u>	<u>-</u>	<u>33,773,971</u>
Total liabilities and net assets	<u>\$ 95,424,440</u>	<u>11,926,520</u>	<u>(4,130,216)</u>	<u>103,220,744</u>



# **POLICY COMPLIANCE REPORT**



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## POLICY COMPLIANCE REPORT

To the Executive Committee  
North Pacific Union Conference of Seventh-day Adventists and  
The Board of Trustees  
North Pacific Union Conference Association of Seventh-day Adventists  
Ridgefield, Washington

We have audited, in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination, the combined financial statements of North Pacific Union Conference of Seventh-day Adventists and North Pacific Union Conference Association of Seventh-day Adventists (Organizations), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related combined statements of changes in net assets and statements of cash flows for the years then ended, and the related notes to the financial statements. We have issued our report thereon dated June 13, 2017.

In connection with our audits, as internal auditors of the General Conference of Seventh-day Adventists nothing came to our attention that caused us to believe that Organizations 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 audits were not directed primarily toward obtaining knowledge of such noncompliance.

Our report is intended solely for the information and use of the officers of the Organizations, their financial audit review committee, their governing committees, 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*  
June 13, 2017



# **AUDIT COMMUNICATION LETTER**



July 5, 2017

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

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**Audit communication letter for the audit of the combined financial statements for the year ended December 31, 2016**

**INTERNAL CONTROL DEFICIENCIES**

In planning and performing our audit of the combined financial statements of North Pacific Union Conference of Seventh-day Adventists (Conference) and North Pacific Union Conference Association of Seventh-day Adventists (Association) (collectively, Organizations), as of and for the year ended December 31, 2016, in accordance with United States of America auditing standards generally accepted by the Seventh-day Adventist denomination, we considered the Organizations' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organizations' 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 financial statements 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.

**OTHER FINANCIAL MATTERS**

The following matter is not a significant deficiency in internal control, but is included here for your consideration.

To the Financial Audit Review Committee  
North Pacific Union Conference of Seventh-day Adventists and  
North Pacific Union Conference Association of Seventh-day Adventists  
July 5, 2017, page 2

### **Information related to review of trust operations**

The Association serves as trustee of various revocable and irrevocable trust agreements and as administrator of various charitable gift annuities. The scope of our audit included tests and analyses of the asset, liability, and net asset account balances related to trust and annuity agreements for which the Association has control of the assets. The scope of our audit did not include a review of the trustee's or administrator's fiduciary administration of these trust or annuity agreements, and accordingly, this report does not address such fiduciary responsibilities.

The Association maintains a number of wills and powers of attorney in its files. Some of those documents may provide for the Association to serve as personal representative and attorney-in-fact. The scope of our audit did not include a review of the Association's fiduciary administration of these wills and other estate planning documents, and accordingly, this report does not address such fiduciary responsibilities.

We have, however, performed a review of the trustee's and administrator's fiduciary administration of the trusts and annuities it administers for the three years ended December 31, 2014. We performed a review of the wills and other estate planning documents for which the Association has fiduciary responsibility for the three years ended December 31, 2014. In connection with those reviews, we issued a separate report dated December 10, 2015.

The Association's planned giving and trust services function received a three-year accreditation from the North American Division Trust Services Certification and Accreditation Committee. Accordingly, we plan to perform our next review of the Association's planned giving and trust services function during 2018.

### **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 June 13, 2017. Our report discloses instances of noncompliance that came to our attention during the course of our audit.

#### **Insurance coverage**

North American Division Working Policy (NADWP) 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 Organizations' insurance coverage was not in harmony with the working policies regarding insurance.

#### **Other matters related to core policies**

The following policy-related matter is mentioned here for your consideration. It is not included in our separate report because it consists of a core policy recommendation rather than a requirement.



To the Financial Audit Review Committee  
North Pacific Union Conference of Seventh-day Adventists and  
North Pacific Union Conference Association of Seventh-day Adventists  
July 5, 2017, page 3

NADWP S 24 10 recommends that each denominational organization maintain a specified minimum amount of working capital. At December 31, 2016, the Organizations' working capital was \$381,491 less than the recommended amount. Stated another way, at December 31, 2016, the Organizations' working capital was 95% of the recommended amount.

## **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 March 17, 2017, our responsibility is to express an opinion on the financial statements 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 financial statements 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 Organizations are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2016. We did not note any transactions the Organizations 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 statements 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 statements and because of the possibility that future events affecting them may differ significantly from those expected.

Collectability of accounts receivable - It is management's responsibility to make estimates about the collectability of accounts receivable, based on past collection experience and current expectations according to the nature of the accounts. We evaluated the factors used by management to develop the allowance for uncollectable accounts to determine whether it is reasonable in relation to the financial statements taken as a whole.

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 statements taken as a whole.

Depreciation expense - It is management's responsibility to make estimates about depreciation expense, based on the estimated useful lives of property, plant, and equipment assets. We evaluated the factors used by management to develop useful lives and depreciation expense to determine whether they are reasonable in relation to the financial statements taken as a whole.

Fair value of assets held in trust - It is management's responsibility to make estimates about the value of assets held in trust, based on the fair value of the underlying assets. For cash and investments, fair value is determined in consultation with financial institutions and investment brokers and managers. For loans receivable, management estimates the net realizable value based on terms and collection history. We evaluated the factors used by management to develop these estimates to determine whether they are reasonable in relation to the financial statements 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 statements taken as a whole.

Present value of liabilities for split-interest agreements, including annuity agreements - It is management's responsibility to make estimates about the net present value of the liabilities to beneficiaries of split-interest agreements the Association administers, such as charitable gift annuities, irrevocable charitable remainder trust agreements, etc. Management estimates those liabilities based on life expectancy tables obtained from the Internal Revenue Service, applied to the age or ages of donor(s). We evaluated the factors used by management to develop these estimates to determine whether they are reasonable in relation to the financial statements taken as a whole.

Accrued liability for retirement allowances - It is management's responsibility to make estimates of the liability to active employees for earned benefits payable by the Organizations, which they will be entitled to when they become eligible for retirement. We evaluated the factors used by management to develop these estimates to determine whether they are reasonable in relation to the financial statements taken as a whole.

Accrued liability for health care benefits - It is management's responsibility to make estimates of the liability for health care benefits incurred by active employees prior to the financial statement date but not reported before the financial statements were released. We evaluated the factors used by management to develop these estimates to determine whether they are reasonable in relation to the financial statements 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.



To the Financial Audit Review Committee  
North Pacific Union Conference of Seventh-day Adventists and  
North Pacific Union Conference Association of Seventh-day Adventists  
July 5, 2017, page 5

We did not propose any significant audit adjustments for 2016.

#### **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 statements taken as a whole.

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

#### **Other information in documents containing audited statements**

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

The audited financial statements 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 statements 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 Organizations' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, 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 of Seventh-day Adventists and  
North Pacific Union Conference Association of Seventh-day Adventists  
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## CONCLUSION

This communication is intended solely for the information and use of the officers of the Organizations, their financial audit review committee, their governing committees, 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*

General Conference Auditing Service

cc: General Conference Auditing Service  
Dan Jackson, President, North American Division  
G. Alexander Bryant, Secretary, North American Division  
Tom Evans, Treasurer, North American Division  
John Freedman, President, North Pacific Union Conference  
John Loor Jr., Secretary, North Pacific Union Conference  
Mark Remboldt, Treasurer, North Pacific Union Conference  
North Pacific Union Conference Executive Committee





## **CLIENT REPRESENTATION & RELEASE**



SEVENTH-DAY  
ADVENTIST  
CHURCH

*North Pacific Union Conference  
Northwest Headquarters*

5709 N. 20<sup>th</sup> Street  
Ridgefield, Washington 98642  
Telephone: (360) 857-7000  
Fax: (360) 857-7001  
<http://www.npuc.org>

June 13, 2017

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 and North Pacific Union Conference Association of Seventh-day Adventists as of December 31, 2016 and 2015, and the related statements of changes in net assets and cash flows for the years then ended. Our audits were for 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 North Pacific Union Conference Association of Seventh-day Adventists 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 limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, considering 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 June 13, 2017, 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 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.
- 6. 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.
- 7. 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.
- 8. 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.
- 9. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
- 10. 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.
- 11. 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.
- 12. 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.
- 13. North Pacific Union Conference and North Pacific Union Conference Association of Seventh-day

Adventists 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.

14. 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.

15. 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.

16. 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.

17. We understand your audit included tests of the assets, liabilities, and net assets related to charitable trusts and wills for which we are trustee or representative. We understand your audit did not include a review of our fiduciary administration of those trusts and wills.

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 after 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 and supplemental statement of financial position for North Pacific Union Conference and North Pacific Union Conference Association of Seventh-day Adventists for the year ended December 31, 2016 and 2015. 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 and supplemental statement of financial position for North Pacific Union Conference and North Pacific Union Conference North Pacific Union Conference Association of Seventh-day Adventists for the year ended December 31, 2016 and 2015. 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.

See attached sheet for changes & corrections

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

Signed: John C. Freedman Title: PRESIDENT Date: 6/13/2017

Signed: John R. Loo, Jr. Title: V.P. FOR ADMINISTRATION Date: 6/13/2017

Mark D. Bynaler CFO 6/13/2017

## **Form F49**

1. Financial Summary of: North Pacific Union Conference  
Name of Organization

NPUC  
Code Number Union

For Year Ended: December 31, 2016

Currency Used: U.S. Dollar

**CURRENT ASSETS**

2 Cash	3,221,529	
3 Securities and Investments	3,206,793	
4 Accounts Receivable - Net	6,783,279	
5 Notes and Loans Receivable - Net	34,000	
6 Supplies Inventories and Prepaid Expense	101,651	
A. Total Current Assets		13,347,252

**FIXED ASSETS**

B. Total Fixed Assets - Net		6,476,901
7 Total Other Assets - Operating	778,073	
8 Cash, Bank and Investments Other than Operating	49,674,884	
9 Miscellaneous Assets Other Than Operating	32,943,634	
C. Total Other Assets		83,396,591
D. Total Assets		103,220,744

**CURRENT LIABILITIES**

10 Accounts Payable and Accrued Expense	5,777,388	
11 Notes and Loans Payable		
12 Agency (Trust) Funds	244,213	
13 Deferred Income		
E. Total Current Liabilities		6,021,601

**OTHER LIABILITIES**

14 Other Liabilities - Operating		
15 Miscellaneous Liabilities Other Than Operating	62,024,996	
16 Investment in Plant - Payables	1,400,176	
F. Total Other Liabilities		63,425,172
G. Total Liabilities		69,446,773

**NET WORTH/FUND BALANCES**

17 Unallocated & Allocated Operating Net Worth/Fund Balances	8,103,724	
18 Allocated Capital Net Worth/Fund Bal (Line 17+18=A+7-E-14)		
19 Nonexpendable Fund Balances (Line 8+9-15)	20,593,522	
20 Net Investment in Plant Fund Balance (Line B-16)	5,076,725	
H* Total Net Worth/Fund Balances		33,773,971
I. Total Liabilities and Net Worth/Fund Balances		103,220,744

In order to make the F-50 financial indicators more meaningful, the above figures include duplications of assets and liabilities resulting from inter-fund borrowing not eliminated between operating, plant and other funds as follows: (Lines 21+22=23+24)

	Operating	Plant	Other	Cross Totals
21 Current Assets				-
22 Other Assets			1,400,176	1,400,176
23 Current Liabilities				-
24 Other Liabilities		1,400,176		1,400,176



# SUMMARY OF CHANGES IN NET WORTH/FUND BALANCES

## CHANGES DUE TO OPERATING ACTIVITY:

J	Earned Operating Income (Not Donations & Appropriations)	17,968,054	
K	Operating Expense	20,080,697	
L	Increase (Decr) From Operations (Excluding Donations)	(2,112,643)	
M	Net Operating Donations & Appropriations Rcvd & Retained	197,650	
25	NET INCREASE (DECREASE) FROM OPERATING		(1,914,993)

## CHANGE DUE TO ACTIVITY OTHER THAN OPERATING:

N	Net Increase (Decr) (Excl Net Increase (Decr) From Oper)	2,942,284	
O	Exchange Adjust (Not applicable when local currency use)		
26	NET INCREASE (DECREASE) OTHER THAN OPERATING		2,942,284

## TOTAL CHANGE IN NET WORTH/FUND BALANCES FOR THE YEAR:

27	Net Increase (Decr) in Total Net Worth/Fund Balances this period	1,027,291	
P	Previous total net worth/fund balance as reported on last F-49	32,746,680	
Q*	PRESENT TO DATE TOTAL NET WORTH/FUND BALANCES	33,773,971	

## MISCELLANEOUS INFORMATION

28	Working Capital (Deficit) (Line A - E)	7,325,651	
29	Recommended Working Capital Per Policy	7,707,142	
30	A/R: Higher Organ: 38,002 Church Remit: 6,567,986	6,605,988	
31	Net Assets of Funds Held as Trustee	1,378,351	
*	Line H & Q Must Agree		

## Instruction For Reporting Organizations:

Please use a typewriter in completing this summary. It is to be prepared in Triplicate immediately after completing the statement before the audit. The ORIGINAL is to be kept for the Auditor with the unaudited financial statement. The DUPLICATE copy is to be sent to the Assistant Treasurer of the General Conference of Seventh-day Adventists, 8640 Eastern Avenue, NW, Washington, DC 20012, USA. The TRIPLICATE is for the Reporting Organization's file.

Date: \_\_\_\_\_ Prepared by: \_\_\_\_\_ Position: \_\_\_\_\_ Name: \_\_\_\_\_

Date: \_\_\_\_\_ Approved By: \_\_\_\_\_ Chief Financial Officer's Signature

## Instructions for Auditors:

Please make TWO copies of the F-49. ONE copy of the financial statement including the auditor's report, and ONE copy of the F-49 are to be forwarded to the Director of Archives and Statistics, General Conference of Seventh-day Adventists, 6840 Eastern Avenue, NW, Washington, DC 20012, USA. The second copy of the F-49 is for auditor's file. (Note: If the changes are few and can be made in a clear manner on the original F-49 prepared by the Reporting Organization, simply photocopy the corrected F-49; otherwise it must be retyped.)

Audited by: Donald Lloyd, Jr. For Year Ended: December 31, 2016 Fixed Exchange Rate: \_\_\_\_\_

Date: June 13, 2017 Auditor's Signature: Don Lloyd

Form F-49 (Revised 1984)

