

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

December 31, 2017 and 2016



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

December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 27, 2018

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, 2017 and 2016

	2017	2016
	Total	Total
ASSETS		
<u>Current assets</u>		
Cash and cash equivalents (Note 2)	\$ 3,881,171	2,977,316
Cash held for agency funds (Note 2)	227,368	244,213
Investments (Note 3)	3,247,274	3,206,793
Accounts receivable, net (Note 5)	7,032,195	6,783,279
Notes receivable (Note 6)	34,000	34,000
Inventories and prepaid expense	82,773	101,651
Total current assets	<u>14,504,781</u>	<u>13,347,252</u>
 <u>Plant assets, net (Note 7)</u>	 <u>6,326,915</u>	 <u>6,476,901</u>
 <u>Other assets</u>		
Notes receivable (Note 6)	722,500	756,500
Real estate and miscellaneous	9,584	9,584
Deposits and intangibles	-	11,989
For other than operating funds:		
Cash and investments (Note 3)	52,851,363	49,674,884
Accounts receivable (Note 5)	149,454	148,443
Notes receivable (Note 6)	27,869,553	29,475,190
Real estate held for unconditional trusts	3,873,001	3,320,001
Total other assets	<u>85,475,455</u>	<u>83,396,591</u>
Total assets	<u>\$ 106,307,151</u>	<u>103,220,744</u>

See accompanying notes.



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NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS
Combined Statement of Financial Position; page 2 of 2
December 31, 2017 and 2016

	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
LIABILITIES		
<u>Current liabilities</u>		
Accounts payable (Note 8)	\$ 6,368,462	5,626,874
Agency accounts	227,368	244,213
Total current liabilities	<u>6,595,830</u>	<u>5,871,087</u>
<u>Other liabilities</u>		
Accrued retirement allowances	158,052	150,514
For other than operating funds:		
Accounts payable (Note 8)	1,177	138,027
Notes payable (Note 9)	38,358,612	38,573,626
Present value income distributions to primary beneficiaries (Note 18)	9,896,652	8,656,486
Remainder interest for residual trust beneficiaries (Note 20)	9,859,940	10,332,534
Annuities held for others (Note 16)	2,398,283	1,392,769
Present value, annuity liability (Note 18)	3,627,115	4,331,730
Total other liabilities	<u>64,299,831</u>	<u>63,575,686</u>
Total liabilities	<u>70,895,661</u>	<u>69,446,773</u>
<u>Net assets</u>		
Unrestricted: unallocated	4,317,778	4,458,337
Unrestricted: allocated	21,235,801	19,068,261
Unrestricted: net invested in plant	5,044,339	5,076,725
Total unrestricted	<u>30,597,918</u>	<u>28,603,323</u>
Temporarily restricted (Note 10)	4,773,572	5,130,648
Permanently restricted (Note 11)	40,000	40,000
Total net assets	<u>35,411,490</u>	<u>33,773,971</u>
Total liabilities and net assets	<u>\$ 106,307,151</u>	<u>103,220,744</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, 2017 and 2016

	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS		
<u>Unrestricted revenues and support</u>		
Gross tithe income	\$ 8,862,780	8,737,556
Tithe percentages passed on	(868,682)	(849,625)
Net tithe income	7,994,098	7,887,931
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)	1,060,287	1,054,254
Matured trusts and wills	34,613	216,896
Annuity fund (Note 15)	35,772	(644)
Unrestricted appropriations received	190,000	197,650
Investment earnings (Note 22)	94,926	76,048
Departmental fees and sales	739,260	866,034
Other income	296,789	198,583
Total unrestricted revenues and gains	10,445,745	10,496,752
Net assets released from restrictions (Note 10)	8,144,387	7,688,563
Total unrestricted revenues, gains and other support	18,590,132	18,185,315
<u>Expenses and losses</u>		
<u>Program services functions</u>		
Church ministries	2,752,282	3,228,745
Educational	7,392,023	7,143,495
Special services	1,126,487	1,092,061
Other	801,703	820,234
Total program services functions	12,072,495	12,284,535
<u>Supporting services functions</u>		
Administration - office resources	1,158,010	1,165,021
Conventions and meetings	312,988	387,677
Trust services	199,277	160,216
Other departments and services	1,532,374	1,457,795
Rental and miscellaneous	145,572	296,127
Retirement contribution to DB plan	1,307,100	1,322,553
Distributions and expenses of unconditional trusts (Note 19)	2,724,649	3,006,773
Total supporting services functions	7,379,970	7,796,162
Total expenses and losses	19,452,465	20,080,697
Net increase (decrease) from operations	(862,333)	(1,895,382)

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, 2017 and 2016

	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Net increase (decrease) from operations	<u>(862,333)</u>	<u>(1,895,382)</u>
<u>Nonoperating activity</u>		
Net gain (loss) sales of assets (Note 13)	(721)	(793)
Released from restrictions (Note 10)	<u>2,857,649</u>	<u>3,008,561</u>
Total nonoperating activity increase (decrease)	<u>2,856,928</u>	<u>3,007,768</u>
Increase (decrease) unrestricted net assets	<u>1,994,595</u>	<u>1,112,386</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
<u>Restricted income</u>		
Subsidies	7,691,425	7,574,994
Offerings	3,806	3,169
Donations	379,031	281,328
Annuity fund (Note 15)	16,628	(5,534)
Unconditional trust agreements (Note 19)	<u>2,554,070</u>	<u>2,758,072</u>
Total restricted income received (Note 10)	<u>10,644,960</u>	<u>10,612,029</u>
Net assets released from restricted - operating (Note 10)	(8,144,387)	(7,688,563)
Net assets released from restricted - non operating (Note 10)	<u>(2,857,649)</u>	<u>(3,008,561)</u>
Increase (decrease) temporarily restricted net assets	<u>(357,076)</u>	<u>(85,095)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Increase (decrease) permanently restricted net assets	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>1,637,519</u>	<u>1,027,291</u>
Net assets, beginning	<u>33,773,971</u>	<u>32,746,680</u>
Net assets, ending	<u>\$ 35,411,490</u>	<u>33,773,971</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, 2017 and 2016

	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,637,519	1,027,291
<u>Adjustments to reconcile net income to net cash provided</u> <u>by operating activities</u>		
Depreciation and amortization	217,227	230,015
Gain on sale of plant assets	721	793
Realized (gain) loss on sale of investments	(778,981)	(148,456)
Unrealized (gain) loss in value of investments	(889,845)	(226,356)
Increase (decrease) present value liability of gift annuities	163,784	(146,906)
Increase (decrease) present value of income distributions	1,240,165	360,710
Increase (decrease) remainder interest to residual beneficiaries	(472,594)	(641,586)
(Increase) decrease - cash held for agency funds	16,845	(15,259)
(Increase) decrease - accounts receivable	(248,917)	(508,115)
(Increase) decrease - inventories and prepaid	20,633	(2,600)
(Increase) decrease - deposits and intangibles	11,989	(11,989)
(Increase) decrease - real estate and miscellaneous	(553,000)	1,056,588
Increase (decrease) - accounts payable	741,587	390,547
Increase (decrease) - accrued retirement allowances	7,538	12,279
Increase (decrease) - agency accounts	(16,845)	15,259
Net cash provided (used) by operating	<u>1,097,826</u>	<u>1,392,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of investments	21,186,226	11,142,782
Purchase of investments	(22,432,828)	(12,730,162)
(Increase) decrease accounts receivable, other than operating	(304,294)	(32,013)
Increase (decrease) accounts payable, other than operating	264	(136,538)
Purchases of plant assets	(67,962)	(45,713)
New notes receivable issued	(2,893,925)	(3,346,072)
Payments received on notes receivable	6,045,602	5,841,036
Net cash provided (used) by investing	<u>1,533,083</u>	<u>693,320</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	951,299	1,143,264
Proceeds from depositors	(2,678,353)	(3,204,760)
Net cash provided (used) by financing	<u>(1,727,054)</u>	<u>(2,061,496)</u>
Net increase (decrease) cash and cash equivalents	903,855	24,039
Cash and cash equivalents, beginning of year	2,977,316	2,953,277
Cash and cash equivalents, end of year	<u>\$ 3,881,171</u>	<u>2,977,316</u>
<u>Supplemental cash flow data</u>		
Cash paid for interest	<u>\$ 893,639</u>	<u>934,439</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, 2017 and 2016

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 27, 2018, 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, 2017 and 2016

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

Notes and loans receivable are valued at the amortized amount receivable as of the reporting date. 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 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



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Notes to Financial Statements
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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.

Endowment fund: Represent funds that are subject to restrictions of gift instruments requiring that the principal be held in perpetuity, be invested, and only the income from such investments be used. The principal of true endowments is reported as Permanently Restricted Net Assets. Committee-directed quasi-endowments are reported as Allocated Unrestricted Net Assets.

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

Note 2 – Cash and cash equivalents

	2017 Total	2016 Total
Imprest cash	\$ 310	310
Checking accounts	3,961,599	3,117,169
General Conference money fund	12,461	12,329
Money market funds	134,169	91,721
Less: cash held for agency	(227,368)	(244,213)
Total cash and cash equivalents	<u>\$ 3,881,171</u>	<u>2,977,316</u>

Note 3 – Investments

	2017	
	Cost	Market
<u>Investments held for operating</u>		
Certificates of deposit	\$ 1,211,000	1,210,201
Corporate bonds and notes	1,772,955	1,751,143
Preferred stock	276,259	285,930
Total operating investments at market value	<u>\$ 3,260,214</u>	<u>3,247,274</u>
		Unrealized Appreciation (Decline)
		(799)
		(21,812)
		9,671
		<u>(12,940)</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, 2017 and 2016

Note 3 – Investments (continued)

	2016		
	Cost	Market	Unrealized Appreciation (Decline)
<u>Investments held for operating</u>			
Certificates of deposit	\$ 1,051,000	1,041,410	(9,590)
Corporate bonds and notes	1,877,514	1,872,491	(5,023)
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>

	2017		
	Cost	Market	Unrealized Appreciation (Decline)
<u>Investments held for other than operating</u>			
Petty cash	\$ 101	101	-
Checking accounts	5,467,056	5,467,056	-
Money market funds	708,445	708,445	-
Certificates of deposit	19,221,000	19,094,032	(126,968)
Corporate bonds and notes	8,225,704	7,604,573	(621,131)
Municipal bonds	103,089	108,553	5,464
US Government loan securities	1,101,899	1,067,629	(34,270)
Bond mutual fund	9,180,334	9,762,287	581,953
Equity mutual fund	6,416,169	7,445,501	1,029,332
Mutual funds	148,310	88,298	(60,012)
Common stock	77,335	80,469	3,134
Preferred stock	1,202,431	1,424,419	221,988
Total other than operating investments at market value	<u>\$ 51,851,873</u>	<u>52,851,363</u>	<u>999,490</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>

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
2017				
Assets recorded at fair value				
Certificates of deposit	\$ -	20,304,233	-	20,304,233
Debt securities	20,294,185	-	-	20,294,185
Equity securities	9,324,617	-	-	9,324,617
Total assets recorded at fair value	<u>\$ 29,618,802</u>	<u>20,304,233</u>	<u>-</u>	<u>49,923,035</u>
2016				
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>

Note 5 – Accounts receivable

	2017 Total	2016 Total
<u>Accounts receivable held for operating</u>		
Accrued interest	\$ 2,354	2,864
GC/NAD	943	38,002
Local conference	6,965,004	6,567,986
Miscellaneous	80,206	235,041
Total accounts receivable	7,048,507	6,843,893
Less: allowance for uncollectable accounts	(16,312)	(60,614)
Net accounts receivable	<u>\$ 7,032,195</u>	<u>6,783,279</u>
	2017 Total	2016 Total
<u>Accounts receivable held for other than operating</u>		
Accrued interest	\$ 149,454	148,443
Total other than operating accounts receivable	<u>\$ 149,454</u>	<u>148,443</u>

Note 6 – Notes receivable- all funds

	2017 Current	2017 Long-term	Total
<u>Notes receivable held for operating</u>			
Secured loan receivable, from the sale of real property 1/2 interest, 7% interest	\$ 34,000	722,500	756,500
Total operating funds notes receivable	<u>\$ 34,000</u>	<u>722,500</u>	<u>756,500</u>

	2016 Current	2016 Long-term	Total
<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	790,500
Total operating funds notes receivable	<u>\$ 34,000</u>	<u>756,500</u>	<u>790,500</u>

	2017 Current	2017 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 2023	\$ 192,000	526,671	718,671
Secured mortgage loans receivable, \$400 to \$8,528 per month 3.00% to 10.00% interest, balloon payments due 2019	1,032,949	5,317	1,038,266
Revolving Fund loans to conferences, churches, and schools, 5.00% interest, due 90 days from demand	26,112,616	-	26,112,616
Total other than operating notes receivable	<u>\$ 27,337,565</u>	<u>531,988</u>	<u>27,869,553</u>



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Note 6 – Notes receivable- all funds (continued)

	2016		
	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 2019	26,399	1,038,079	1,064,478
Revolving Fund loans to conferences, churches, and schools 5.00% interest, due 90 days from demand	27,692,041	-	27,692,041
Total other than operating notes receivable	\$ 27,718,440	1,756,750	29,475,190

Note 7 – Plant assets

	Total Cost	Accumulated Depreciation	Net Value	Depreciation Expense
<u>Balances 2017</u>				
Land	\$ 1,503,343	-	1,503,343	-
Land improvements	187,508	187,508	-	5,197
Buildings	6,466,110	1,782,328	4,683,782	163,827
Equipment	1,356,098	1,216,308	139,790	48,203
Total plant assets	\$ 9,513,059	3,186,144	6,326,915	217,227

<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

	Cost 2016	Additions	Deletions	Cost 2017
<u>Changes in cost 2017</u>				
Land	\$ 1,503,343	-	-	1,503,343
Land improvements	187,508	-	-	187,508
Buildings	6,466,110	-	-	6,466,110
Equipment	1,290,538	67,962	2,402	1,356,098
Total plant assets	\$ 9,447,499	67,962	2,402	9,513,059

	Accumulated Depreciation 2016	Additions	Deletions	Accumulated Depreciation 2017
<u>Changes in accumulated depreciation 2017</u>				
Land improvements	\$ 182,311	5,197	-	187,508
Buildings	1,618,501	163,827	-	1,782,328
Equipment	1,169,786	48,203	1,681	1,216,308
Total depreciation	\$ 2,970,598	217,227	1,681	3,186,144

	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



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Note 7 – Plant assets (continued)

	Accumulated Depreciation 2015	Additions	Deletions	Accumulated Depreciation 2016
<u>Changes in accumulated depreciation 2016</u>				
Land improvements	\$ 163,560	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	<u>\$ 2,748,066</u>	<u>230,015</u>	<u>7,483</u>	<u>2,970,598</u>

Note 8 – Accounts payable

	2017 Total	2016 Total
<u>Accounts payable held for operating</u>		
Accrued audit fees	\$ 69,142	125,900
Accrued medical	16,901	18,746
Accrued wages and payroll tax	140,008	169,441
Commercial accounts	18,033	18,145
Estate distribution	500,014	-
General Conference remittance and other	5,304,379	5,053,168
Local conferences	162,006	109,758
Miscellaneous	17,092	4,989
North American Division	103,895	94,461
Pacific Press Publishing Association	31,835	32,266
Walla Walla University	5,157	-
Total operating accounts payable	<u>\$ 6,368,462</u>	<u>5,626,874</u>
<u>Accounts payable held for other than operating</u>		
Miscellaneous	\$ 1,177	138,027
Total other than operating accounts payable	<u>\$ 1,177</u>	<u>138,027</u>

Note 9 – Notes payable

	2017	
	Current	Long-term
<u>Notes payable held for other than operating</u>		
Revolving Fund account certificates and demand	38,358,612	-
notes payable to church members and conference organizations, 2.25% interest	38,358,612	-
Total other than operating notes payable	<u>\$ 38,358,612</u>	<u>38,358,612</u>
	2016	
	Current	Long-term
<u>Notes payable held for other than operating</u>		
Revolving Fund account certificates and demand	38,573,626	-
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>

Principal payments due on notes payable are as follows:

2018	\$ 38,358,612
Total	<u>\$ 38,358,612</u>



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Note 10 – Temporarily restricted net assets

	Balance 2016	Restricted Income	Restricted Transfers	Restrictions Released	Balance 2017
<u>Conference operating funds</u>					
Adventist Health System	\$ 40,810	-	-	3,000	37,810
ASI-Pacific NW Chapter	-	29,714	-	12,253	17,461
College and university operating	239,065	2,929,827	-	3,168,892	-
Creation ministries	-	28,304	-	23,526	4,778
Disaster response	8,200	18,000	-	5,462	20,738
Evangelists - Morgan	-	79,157	-	79,157	-
Evangelists - McMahon	-	77,317	-	77,317	-
General evangelism	641,882	1,531,677	-	1,361,551	812,008
Global mission	3,169	3,806	-	5,451	1,524
"Give them the keys" initiative	55,000	-	-	50,000	5,000
Higher education capital funding	-	1	-	1	-
Hispanic capital	-	20,181	-	5,000	15,181
In-house operations	-	2,000	-	2,000	-
K-12 operations	178,243	2,203,533	-	2,381,776	-
Miscellaneous operating appropriation	-	273,540	-	273,540	-
Native American evangelism	-	7,844	-	7,844	-
Northwest Mission Inst.	-	30,370	-	30,370	-
Presidential	-	-	-	-	-
Regional capital	70,978	-	-	4,830	66,148
Regional ministries	-	700	-	-	700
Regional special assistance	135,317	206,899	-	212,930	129,286
Religious Liberty Association NW	-	11,378	-	3,355	8,023
Religious Liberty book project	-	50,000	-	16,461	33,539
Small conference assistance	140,386	408,996	-	395,137	154,245
Temperance	287	36	-	12	311
Trade show books	20,307	-	-	-	20,307
Women's ministries	-	12,808	-	12,808	-
Youth activities	-	6,000	-	6,000	-
Total Conference operating funds	1,533,644	7,932,088	-	8,138,673	1,327,059
<u>Association operating funds</u>					
Agreement per NAD	67,978	-	-	5,714	62,264
Donor advised funds	674,682	-	(674,682)	-	-
Education	297,365	13,947	-	-	311,312
Evangelism	488,661	3,500	-	-	492,161
Global mission	-	16,882	-	-	16,882
Total Association operating funds	1,528,686	34,329	(674,682)	5,714	882,619
Total operating funds	3,062,330	7,966,417	(674,682)	8,144,387	2,209,678
<u>Endowment funds</u>					
Donor advised funds	-	107,845	674,682	133,000	649,527
Total endowment funds	-	107,845	674,682	133,000	649,527
<u>Annuity funds</u>					
Education	(5,323)	5,670	-	-	347
Global mission	(10,387)	10,958	-	-	571
Total annuity funds	(15,710)	16,628	-	-	918
<u>Unconditional trust funds</u>					
Unconditional trusts	2,084,028	2,554,070	-	2,724,649	1,913,449
Total other than operating funds	2,068,318	2,678,543	674,682	2,857,649	2,563,894
Total temporarily restricted net assets	\$ 5,130,648	10,644,960	-	11,002,036	4,773,572

Note 11 – Permanently restricted net assets

	Balance 2016	Restricted Income	Restrictions Released	Balance 2017
Nelson evangelism endowment	\$ 40,000	-	-	40,000
Total permanently restricted net assets	\$ 40,000	-	-	40,000



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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.

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 2017
<u>2017 Endowment net asset composition</u>				
Donor-restricted endowments	\$ -	649,527	40,000	689,527
Total endowments	\$ -	649,527	40,000	689,527
<u>2017 Changes in endowment net assets</u>				
Net assets, beginning of year	\$ -	674,682	40,000	714,682
Contributions	-	107,845	-	107,845
Appropriation of assets for expenditure	-	(133,000)	-	(133,000)
Endowment net assets, end of year	\$ -	649,527	40,000	689,527



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Note 12 – Endowments (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
<u>2016 Endowment net asset composition</u>				
Donor-restricted endowments	\$ -	674,682	40,000	714,682
Total endowments	\$ -	674,682	40,000	714,682
<u>2016 Changes in endowment net assets</u>				
Net assets, beginning of year	\$ -	834,911	40,000	874,911
Contributions	-	121,536	-	121,536
Appropriation of assets for expenditure	-	(281,765)	-	(281,765)
Endowment net assets, end of year	\$ -	674,682	40,000	714,682

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

	<u>2017 Total</u>	<u>2016 Total</u>
\$	40,000	714,682
\$	40,000	714,682

Note 13 – Unrestricted nonoperating activity

	<u>2017 Total</u>	<u>2016 Total</u>
Net value of plant assets sold	\$ (721)	(793)
Net gain (loss) on sale of assets	\$ (721)	(793)
Unexpended plant resources spent	\$ (67,962)	(45,713)
Purchases added to net invested in plant	67,962	45,713
Net transfers between funds	\$ -	-

Note 14 – Revolving fund net earnings

	<u>2017 Total</u>	<u>2016 Total</u>
Investment earnings (Note 22)	\$ 1,970,251	2,009,106
Interest expense	(874,029)	(914,828)
Other expense	(35,935)	(40,024)
Total revolving fund net earnings	\$ 1,060,287	1,054,254

Note 15 – Annuity fund net earnings

	<u>2017 Total</u>	<u>2016 Total</u>
<u>Unrestricted activity</u>		
Investment earnings (Note 22)	\$ 17,470	23,282
Miscellaneous income	2,153	215
Present value adjustment	69,822	13,772
Total unrestricted revenues, gains & other support	89,445	37,269
<u>Expenses and losses</u>		
Payments to annuitants	22,141	35,736
Matured distributions	30,829	-
General expenses	703	2,177
Total expenses and losses	53,673	37,913
Increase (decrease) allocated unrestricted net assets	\$ 35,772	(644)
<u>Restricted activity</u>		
Investment earnings (Note 22)	\$ 1,255	2,581
Present value adjustment	71,060	(8,115)
Net assets released from temporary restrictions	(55,687)	-
Increase (decrease) in temporarily restricted net assets	\$ 16,628	(5,534)



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Note 16 – Annuities held for others

Activity for annuities held for others is as follows

Unrestricted revenues and gains

Investment earnings (Note 22)

Gift annuities

Present value adjustment

Total unrestricted revenues & gains

	2017 Total	2016 Total
\$	756,060	358,659
	300,000	350,000
	891,521	209,377
	<u>1,947,581</u>	<u>918,036</u>

Expenses and losses

Annuity payments

Matured annuity distribution

Montana Conference

Oregon Conference

Upper Columbia Conference

Washington Conference

Other

Other expense

Total expenses and losses

Increase (decrease) annuities held for others

Beginning annuities held for others

Ending annuities held for others

	606,013	652,817
	-	5,303
	25,677	77,227
	224,302	46,663
	-	26,071
	55,676	959
	30,399	91,891
	<u>942,067</u>	<u>900,931</u>
	<u>1,005,514</u>	<u>17,105</u>
	<u>1,392,769</u>	<u>1,375,664</u>
\$	<u>2,398,283</u>	<u>1,392,769</u>

Annuities held for others

Alaska Conference

Idaho Conference

Montana Conference

Oregon Conference

Upper Columbia Conference

Washington Conference

Walla Walla University

Miscellaneous

Total annuities held for others

\$	(141)	(142)
	(6,860)	(4,776)
	24,715	(12,096)
	1,193,186	773,045
	360,393	195,518
	451,767	247,958
	105,155	79,006
	270,068	114,256
\$	<u>2,398,283</u>	<u>1,392,769</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, 2017 and 2016, was \$1,831,329 and \$2,337,171, respectively, as compared to the Organizations' reserves, as of the same date of \$3,627,115 and \$4,331,730, 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.

	2017 Total	2016 Total
\$	755,561	801,553
	2,871,554	3,530,177
\$	<u>3,627,115</u>	<u>4,331,730</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)

	2017	2016
	Total	Total
Present value liability - current portion	\$ 1,380,002	1,298,456
Present value liability - long-term portion	8,516,650	7,358,030
Total present value liability	<u>\$ 9,896,652</u>	<u>8,656,486</u>

Note 19 – Unconditional trusts' increase (decrease)

As of December 31, 2017 and 2016, respectively, the Organizations served as trustee for 75 and 86 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:

	2017	2016
	Total	Total
<u>Restricted revenues and gains</u>		
Irrevocable trust agreement additions	\$ 666,146	175,547
Investment earnings (Note 22)	2,216,736	1,738,205
Other income	438,759	(196,312)
Total restricted revenue and gains	<u>3,321,641</u>	<u>1,717,440</u>
<u>Changes to restricted revenues and gains</u>		
Change in present value of income distributions to primary beneficiaries	(1,240,165)	(360,709)
Change in remainder interest to residual beneficiaries	472,594	1,401,341
Total changes to restricted revenues and gains	<u>(767,571)</u>	<u>1,040,632</u>
Net restricted revenues and gains	<u>2,554,070</u>	<u>2,758,072</u>
<u>Expenses and losses</u>		
Distributions to primary beneficiaries	623,293	652,919
Distributions to residual beneficiaries	1,668,544	1,435,888
Other expenses	432,812	917,966
Total unrestricted expenses and losses	<u>2,724,649</u>	<u>3,006,773</u>
Net unconditional trusts' increase (decrease)	<u>\$ (170,579)</u>	<u>(248,701)</u>

Note 20 – Remainder interest for residual beneficiaries

	2017	2016
	Total	Total
<u>Unconditional trusts</u>		
Idaho Conference of SDA	\$ 696,645	624,989
Montana Conference of SDA	300,527	277,728
Oregon Conference and Western Oregon Conference Association of SDA	1,420,781	1,907,613
Upper Columbia Conference and Corporation of SDA	275,829	275,827
Washington Conference and Western Washington Corporation of SDA	73,351	71,605
Walla Walla University	1,903,779	1,739,870
Other Seventh-day Adventist entities	1,038,888	999,928
Other private/public charities	1,013,881	978,996
Individuals	201,179	170,144
Conditional trusts	2,935,080	3,285,834
Total remainder interest for residual beneficiaries	<u>\$ 9,859,940</u>	<u>10,332,534</u>



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NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 21 – Revocable trust agreements

As of December 31, 2017 and 2016, the Organizations served as trustee of 7 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.

Note 22 – Investment earnings

	2017 Total	2016 Total
<u>Conference operating</u>		
Interest income	\$ 54,148	55,003
Unrealized capital gains (losses)	2,432	(17,925)
Total Conference operating	<u>56,580</u>	<u>37,078</u>
<u>Association operating</u>		
Interest income	38,439	38,436
Realized capital gains (losses)	(700)	(10)
Unrealized capital gains (losses)	607	544
Total Association operating	<u>38,346</u>	<u>38,970</u>
Total operating investment earnings	<u>\$ 94,926</u>	<u>76,048</u>
<u>Revolving fund</u>		
Interest income	\$ 1,966,917	2,079,247
Other income	7,233	6,869
Realized capital gains (losses)	8,598	2,118
Unrealized capital gains (losses)	(12,497)	(79,128)
Total revolving fund (Note 14)	<u>\$ 1,970,251</u>	<u>2,009,106</u>
<u>Annuity fund</u>		
<u>Annuity fund net earnings</u>		
<u>Unrestricted activity</u>		
Interest income	\$ 10,469	18,594
Realized capital gains (losses)	7,767	1,161
Unrealized capital gains (losses)	(766)	3,527
Total unrestricted activity (Note 15)	<u>17,470</u>	<u>23,282</u>
<u>Restricted activity</u>		
Investment income	527	1,130
Realized capital gains (losses)	391	381
Unrealized capital gains (losses)	337	1,070
Total restricted activity (Note 15)	<u>1,255</u>	<u>2,581</u>
Total annuity fund net earnings	<u>18,725</u>	<u>25,863</u>
<u>Annuities held for others</u>		
Interest income	130,571	157,121
Realized capital gains (losses)	336,142	52,957
Unrealized capital gains (losses)	289,347	148,581
Total annuities held for others (Note 16)	<u>756,060</u>	<u>358,659</u>
Total annuity fund	<u>\$ 774,785</u>	<u>384,522</u>
<u>Unconditional trust fund</u>		
<u>Restricted activity</u>		
Interest income	\$ 1,011,819	914,067
Realized capital gains (losses)	453,288	156,770
Unrealized capital gains (losses)	751,629	667,368
Total unconditional trust fund (Note 19)	<u>\$ 2,216,736</u>	<u>1,738,205</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, 2017 and 2016

Note 23 – Related party transactions

	2017	2016
	Total	Total
<u>Appropriations received from</u>		
GC/NAD	\$ 4,521,653	5,577,660
Alaska Conference	67,164	71,911
Idaho Conference	205,780	190,898
Montana Conference	154,944	140,316
Oregon Conference	1,413,415	1,327,900
Upper Columbia Conference	1,245,755	1,238,539
Washington Conference	818,164	874,427
Miscellaneous organizations	47,768	84,802
Total appropriations received	<u>\$ 8,474,643</u>	<u>9,508,453</u>
	2017	2016
	Total	Total
<u>Appropriations made to</u>		
Alaska Conference	\$ 630,343	657,757
Idaho Conference	515,804	524,827
Montana Conference	729,556	745,764
Oregon Conference	1,430,824	1,397,740
Upper Columbia Conference	1,070,902	1,132,399
Washington Conference	972,171	1,022,636
Miscellaneous organizations	198,658	209,438
Walla Walla University	4,193,330	4,090,969
Total appropriations made	<u>\$ 9,741,588</u>	<u>9,781,330</u>

Note 24 – Donated services

The NAD subsidizes the cost of auditing services within the NPUC territory. This subsidy was \$568,330 and \$531,535, for the years ended December 31, 2017 and 2016, respectively. The NPUC portion of this subsidy was \$38,236 and \$28,912 for the years ended December 31, 2017 and 2016, respectively. The NPUC pays the remainder of the cost of audits within its territory. This cost was \$199,725 and \$214,043 for the years ended December 31, 2017 and 2016, respectively. The NPUC has voted to bill local conferences for a portion of the audit costs. Local conferences were billed \$220,957 and \$231,383 for the years ended December 31, 2017 and 2016, respectively.

Note 25 – 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 Columbia, 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 Columbia, 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:



NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS
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Note 25 – Pension and other post-retirement benefits (continued)

<u>Required contributions from the Organizations:</u>		<u>NADRP</u>	<u>RAHAP</u>	<u>TOTAL</u>
For the year ended December 31, 2017	\$	1,020,585	266,552	1,287,137
For the year ended December 31, 2016		1,015,328	263,092	1,278,420
<u>Total contributions received from all employers:</u>				
For the plan year ended December 31, 2017		110,851,633	40,409,332	
For the plan year ended December 31, 2016		105,681,437	38,553,586	
<u>Whether the Organizations' contributions were more than or less than 5% of the total</u>				
For the plan year ended December 31, 2017		less than	less than	
For the plan year ended December 31, 2016		less than	less than	
<u>Plan net assets available for benefits:</u>				
For the plan year ended December 31, 2017	\$	244,084,852	76,021,105	
For the plan year ended December 31, 2016		221,751,327	60,247,027	
<u>Actuarial obligation and funded status</u>		<u>NADRP</u>	<u>RAHAP</u>	
Date of plan year-end for latest actuarial information		12/31/2016	12/31/2016	
Actuarial liability for future benefits	\$	1,549,579,512	504,418,761	
Value of net assets available for benefits	\$	221,751,327	60,247,027	
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 Columbia, 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 \$169,040 and \$175,583 to the plan for the years ended December 31, 2017 and 2016, 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 26 – 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, 2017 and 2016

Note 27 – Working capital and liquidity

	2017 Operating Funds	2016 Operating Funds
<u>Working capital</u>		
Total current assets	\$ 14,504,781	13,347,252
Less: total current liabilities	6,595,830	5,871,087
Total working capital	7,908,951	7,476,165
Recommended working capital	6,959,841	7,721,170
Working capital excess (deficit)	\$ 949,110	(245,005)
Percent of recommendation	114%	97%
Current ratio	2.2 to 1	2.27 to 1
<u>Liquid assets</u>		
Cash	\$ 3,881,171	2,977,316
Cash held for agency	227,368	244,213
Investments	3,247,274	3,206,793
Accounts receivable - conference remittances	6,965,004	6,567,986
Accounts receivable - GC and NAD	943	38,002
Total liquid assets	14,321,760	13,034,310
<u>Less commitments</u>		
Current liabilities	6,595,830	5,871,087
Temporarily restricted net assets - operating	2,209,678	3,062,330
Total commitments	8,805,508	8,933,417
Liquid assets surplus (deficit)	\$ 5,516,252	4,100,893
Percent liquid assets to commitments	163%	146%
<u>Calculation of recommended working capital</u>		
50% of Conference unrestricted income	\$ 4,584,442	4,500,532
20% of Association unrestricted income	7,669	7,794
Long term payables	158,052	150,514
Temporarily restricted net assets - operating	2,209,678	3,062,330
Total recommended working capital	\$ 6,959,841	7,721,170





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, 2017 and 2016, 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 27, 2018

NORTH PACIFIC UNION CONFERENCE OF SEVENTH-DAY ADVENTISTS
NORTH PACIFIC UNION CONFERENCE ASSOCIATION OF SEVENTH-DAY ADVENTISTS
Supplemental Statement of Financial Position
December 31, 2017

	NPUCA	NPUC	Eliminating Entries	Consolidated
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents (Note 2)	\$ 919,570	2,961,601	-	3,881,171
Cash held for agency funds (Note 2)	-	227,368	-	227,368
Investments (Note 3)	1,240,071	2,007,203	-	3,247,274
Accounts receivable, net (Note 5)	62,140	6,970,055	-	7,032,195
Notes receivable (Note 6)	34,000	-	-	34,000
Inventories and prepaid expense	-	82,773	-	82,773
Total current assets	<u>2,255,781</u>	<u>12,249,000</u>	<u>-</u>	<u>14,504,781</u>
<u>Plant assets, net (Note 7)</u>	<u>6,326,915</u>	<u>-</u>	<u>-</u>	<u>6,326,915</u>
<u>Other assets</u>				
Notes receivable (Note 6)	722,500	-	-	722,500
Real estate and miscellaneous	9,584	-	-	9,584
For other than operating funds:				
Cash and investments (Note 3)	52,851,363	-	-	52,851,363
Accounts receivable (Note 5)	149,454	-	-	149,454
Notes receivable (Note 6)	29,152,129	-	(1,282,576)	27,869,553
Land held for sale	-	-	-	-
Real estate held for unconditional trusts	3,873,001	-	-	3,873,001
Inter-fund receivables	638,000	580,000	(1,218,000)	-
Total other assets	<u>87,396,031</u>	<u>580,000</u>	<u>(2,500,576)</u>	<u>85,475,455</u>
Total assets	<u>\$ 95,978,727</u>	<u>12,829,000</u>	<u>(2,500,576)</u>	<u>106,307,151</u>
LIABILITIES				
<u>Current liabilities</u>				
Accounts payable (Note 8)	\$ 515,586	5,852,876	-	6,368,462
Agency accounts	-	227,368	-	227,368
Total current liabilities	<u>515,586</u>	<u>6,080,244</u>	<u>-</u>	<u>6,595,830</u>
<u>Other liabilities</u>				
Accrued retirement allowances	-	158,052	-	158,052
For other than operating funds:				
Accounts payable (Note 8)	1,177	-	-	1,177
Notes payable (Note 9)	40,859,188	-	(2,500,576)	38,358,612
Present value income distributions to primary beneficiaries (Note 18)	9,896,652	-	-	9,896,652
Remainder interest for residual trust beneficiaries (Note 20)	9,859,940	-	-	9,859,940
Annuities held for others (Note 16)	2,398,283	-	-	2,398,283
Present value, annuity liability (Note 18)	3,627,115	-	-	3,627,115
Total other liabilities	<u>66,642,355</u>	<u>158,052</u>	<u>(2,500,576)</u>	<u>64,299,831</u>
Total liabilities	<u>67,157,941</u>	<u>6,238,296</u>	<u>(2,500,576)</u>	<u>70,895,661</u>
<u>Net assets</u>				
Unrestricted: unallocated	1,844,672	2,473,106	-	4,317,778
Unrestricted: allocated	18,445,261	2,790,540	-	21,235,801
Unrestricted: net invested in plant	5,044,339	-	-	5,044,339
Total unrestricted	<u>25,334,272</u>	<u>5,263,646</u>	<u>-</u>	<u>30,597,918</u>
Temporarily restricted (Note 10)	3,446,514	1,327,058	-	4,773,572
Permanently restricted (Note 11)	40,000	-	-	40,000
Total net assets	<u>28,820,786</u>	<u>6,590,704</u>	<u>-</u>	<u>35,411,490</u>
Total liabilities and net assets	<u>\$ 95,978,727</u>	<u>12,829,000</u>	<u>(2,500,576)</u>	<u>106,307,151</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 statement of financial position as of December 31, 2017, and the related combined statement of changes in net assets and statement of cash flows for the year then ended, and the related notes to the financial statements. We have issued our report thereon dated June 27, 2018.

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

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

General Conference Auditing Service
June 27, 2018

AUDIT COMMUNICATION LETTER



July 2, 2018

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, 2017

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, 2017, 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.

We consider the following deficiency to be a material weakness in internal control.

Pass through donation

An estate distribution was received by the Association, however, the Association was not a trustor and was only passing on the funds to educational entities within its territory. The funds received were recorded as

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 2, 2018, page 2

restricted revenue when they should have been recorded as a liability. We proposed, and management accepted, a significant audit adjustment to correct this matter.

We recommend that the Association review the recording of pass through donations to determine if they should be record as revenue and expense or as agency transactions.

OTHER FINANCIAL MATTERS

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

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 27, 2018.



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 2, 2018, page 3

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.

INFORMATION REGARDING SCOPE AND RESULTS OF THE AUDIT

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

Auditors' responsibility

As stated in our engagement letter dated November 3, 2017, our responsibility is to express an opinion on the 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 2017. 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.



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 2, 2018, page 4

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



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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recorded or not. This includes adjustments that in our judgment may not have been detected except through the auditing procedures applied.

An audit adjustments was proposed, and accepted by management, to correctly record a pass-through donation as a liability instead of revenue. The net effect of this adjustment was to increase total liabilities and decrease total net assets by \$500,014.

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 expanded supplementary information accompanying the audited financial statements is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and is fairly stated in all material respects.

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.



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 2, 2018, page 6

Difficulties encountered in performing the audit

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

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, North Pacific Union Conference
Bill McClendon, North Pacific Union Conference
Mark Remboldt, North Pacific Union Conference
North Pacific Union Conference Executive Committee



SIGNED REPRESENTATION AND RELEASE LETTER



SEVENTH-DAY
ADVENTIST
CHURCH

North Pacific Union Conference
Northwest Headquarters

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

June 27, 2018

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

We are providing this letter in connection with your audits of the statements of financial position of North Pacific Union Conference and North Pacific Union Conference Association of Seventh-day Adventists as of December 31, 2017 and 2016, and the related statements of changes in net assets and cash flows for the years then ended. Our audits were for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of North Pacific Union Conference 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 being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of June 27, 2018 the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination, and include all assets and liabilities under the organization's control.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the 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 subsequent to the date of the financial statements and through the date of this letter that would require adjustment to, or disclosure in, the financial statements, that is not already reflected therein.

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

- ☒ We have examined the audited financial statements 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, 2017 and 2016. 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, 2017 and 2016. Please make the corrections or adjustments to the financial statements described below. Please consider the suggested changes to the audit communication letter described below. Then please provide final copies (in the format noted below) to our administrative officers, the chair of our Audit Committee, and other individuals as required by policy.

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

- The **management portfolio** includes all reports and letters resulting from the audit.
- The **committee portfolio** includes the financial statement and opinion, policy compliance report, audit communication letter, with management response, if any, client representation letter, and F-49. Denominational policy requires our CFO to distribute this portfolio to our audit committee and our governing committee.

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

The next meeting of our North Pacific Union Conference Executive Committee is scheduled for August 22, 2018.

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

Signed: John C. Freeman

Title: PRESIDENT

Date: 6/27/2018

Signed: William R. McClell

Title: VP-Admin

Date: 6/26/2018

Signed: Mark Bonfield

Title: CFO

Date: 6/27/2018

FORM F-49

1. Financial Summary of:	North Pacific Union Conference		NPUC
	Name of Organization	Code Number	Union
For Year Ended:	December 31, 2017	Currency Used:	U.S. Dollar
CURRENT ASSETS			
2 Cash		4,108,539	
3 Securities and Investments		3,247,274	
4 Accounts Receivable - Net		7,032,195	
5 Notes and Loans Receivable - Net		34,000	
6 Supplies Inventories and Prepaid Expense		82,773	
A. Total Current Assets			14,504,781
FIXED ASSETS			
B. Total Fixed Assets - Net			6,326,915
7 Total Other Assets - Operating		732,084	
8 Cash, Bank and Investments Other than Operating		52,851,363	
9 Miscellaneous Assets Other Than Operating		31,892,008	
C. Total Other Assets			85,475,455
D. Total Assets			106,307,151
CURRENT LIABILITIES			
10 Accounts Payable and Accrued Expense		6,368,462	
11 Notes and Loans Payable			
12 Agency (Trust) Funds		227,368	
13 Deferred Income			
E. Total Current Liabilities			6,595,830
OTHER LIABILITIES			
14 Other Liabilities - Operating		158,052	
15 Miscellaneous Liabilities Other Than Operating		62,859,203	
16 Investment in Plant - Payables		1,282,576	
F. Total Other Liabilities			64,299,831
G. Total Liabilities			70,895,661
NET WORTH/FUND BALANCES			
17 Unallocated & Allocated Operating Net Worth/Fund Balances		8,482,983	
18 Allocated Capital Net Worth/Fund Bal (Line 17+18=A+7-E-14)			
19 Nonexpendable Fund Balances (Line 8+9-15)		21,884,168	
20 Net Investment in Plant Fund Balance (Line B-16)		5,044,339	
H* Total Net Worth/Fund Balances			35,411,490
I. Total Liabilities and Net Worth/Fund Balances			106,307,151

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			1,282,576	1,282,576
23 Current Liabilities				-
24 Other Liabilities		1,282,576		1,282,576



SUMMARY OF CHANGES IN NET WORTH/FUND BALANCES

CHANGES DUE TO OPERATING ACTIVITY:

J	Earned Operating Income (Not Donations & Appropriations)	18,400,132	
K	Operating Expense	19,452,465	
L	Increase (Decr) From Operations (Excluding Donations)	(1,052,333)	
M	Net Operating Donations & Appropriations Rcvd & Retained	190,000	
	25 NET INCREASE (DECREASE) FROM OPERATING		(862,333)

CHANGE DUE TO ACTIVITY OTHER THAN OPERATING:

N	Net Increase (Decr) (Excl Net Increase (Decr) From Oper)	2,499,852	
O	Exchange Adjust (Not applicable when local currency use)		
	26 NET INCREASE (DECREASE) OTHER THAN OPERATING		2,499,852

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

	27 Net Increase (Decr) in Total Net Worth/Fund Balances this period		1,637,519
P	Previous total net worth/fund balance as reported on last F-49		33,773,971
Q*	PRESENT TO DATE TOTAL NET WORTH/FUND BALANCES		35,411,490

MISCELLANEOUS INFORMATION

28	Working Capital (Deficit) (Line A - E)		7,908,951
29	Recommended Working Capital Per Policy		6,959,841
30	A/R: Higher Organ: 943 Church Remit:	6,965,004	6,965,947
31	Net Assets of Funds Held as Trustee		1,260,170
*	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: Melissa Reynolds For Year Ended: December 31, 2017 Fixed Exchange Rate: _____

Date: June 27, 2018 Auditor's Signature: Melissa Reynolds

Form F-49 (Revised 1984)

