# SOUTHEASTERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

## YEARS ENDED DECEMBER 31, 2017 AND 2016

# SOUTHEASTERN CALIFORNIA CONFERENCE
# OF SEVENTH-DAY ADVENTISTS AND SUBSIDIARIES
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**December 31, 2017 AND 2016**

SingerLewak
Accountants & Consultants

## INDEPENDENT AUDITOR'S REPORT

Executive Committee
Southeastern California Conference of
Seventh-day Adventists and Subsidiaries

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Southeastern California Conference of Seventh-day Adventists and its subsidiaries (the "Conference") which comprise the consolidated statements of financial position as of December 31, 2017 and 2016 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern California Conference of Seventh-day Adventists and its subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Singer Lewak LLP

June 27, 2018

# SOUTHEASTERN CALIFORNIA CONFERENCE
# OF SEVENTH-DAY ADVENTISTS AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**December 31, 2017 and 2016**

### ASSETS

| | 2017 | 2016 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 3,643,536 | $ 4,199,762 |
| Investments | 71,852,633 | 64,864,148 |
| Accounts receivable, current portion, net | 13,020,443 | 12,656,898 |
| Notes and loans receivable, current portion, net | 11,026,176 | 9,523,660 |
| Other current assets | 1,127,958 | 1,099,238 |
| Total current assets | 100,670,746 | 92,343,706 |
| **Plant assets, net** | 224,543,664 | 221,762,821 |
| **Noncurrent assets** | | |
| Accounts receivable, noncurrent portion | 1,138,671 | 1,104,828 |
| Advances to churches | 265,000 | 265,000 |
| California Annuity Reserve | 1,984,374 | 1,967,370 |
| Investments in real estate | 14,391,002 | 14,455,731 |
| Notes and loans receivable, noncurrent portion | 81,530,570 | 84,400,731 |
| Assets held in trust | 19,610,623 | 17,385,957 |
| Total noncurrent assets | 118,920,240 | 119,579,617 |
| **Total assets** | **$ 444,134,650** | **$ 433,686,144** |

(Continued)

The accompanying notes are an integral part of these financial statements.

# SOUTHEASTERN CALIFORNIA CONFERENCE
# OF SEVENTH-DAY ADVENTISTS AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**December 31, 2017 and 2016**

### LIABILITIES

| | 2017 | 2016 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 3,401,607 | $ 3,328,910 |
| Accrued wages and benefits | 6,328,200 | 5,764,077 |
| Deferred revenue | 1,452,078 | 1,461,601 |
| Line of credit | 5,035,287 | 2,268,820 |
| Notes payable, current portion | 4,885,529 | 6,534,807 |
| Other current liabilities | 376,827 | 478,792 |
| Total current liabilities | 21,479,528 | 19,837,007 |
| **Noncurrent liabilities** | | |
| Notes payable, noncurrent portion | 47,885,825 | 49,919,690 |
| Bond payable | 32,330,000 | 32,330,000 |
| Present value of annuity liability | 1,188,611 | 1,393,337 |
| Liabilities held in trust | 17,515,300 | 15,341,490 |
| Other noncurrent liabilities | 703,497 | 1,017,567 |
| Total noncurrent liabilities | 99,623,233 | 100,002,084 |
| Total liabilities | 121,102,761 | 119,839,091 |

(Continued)

The accompanying notes are an integral part of these financial statements.

### NET ASSETS

| | 2017 | 2016 |
|---|---|---|
| **Net assets** | | |
| Unrestricted | | |
| Undesignated | 251,005,778 | 246,722,501 |
| Board-designated | 67,721,337 | 62,631,745 |
| Total unrestricted | 318,727,115 | 309,354,246 |
| Temporarily restricted | 4,242,442 | 4,430,475 |
| Permanently restricted | 62,332 | 62,332 |
| Total net assets | 323,031,889 | 313,847,053 |
| **Total liabilities and net assets** | **$ 444,134,650** | **$ 433,686,144** |

(Concluded)

## CONSOLIDATED STATEMENTS OF ACTIVITIES

**Years Ended December 31, 2017 and 2016**

| **Unrestricted net assets** | 2017 | 2016 |
|---|---|---|
| **Revenues, gains, and support** | | |
| Gross tithe income | $ 52,804,472 | $ 52,980,423 |
| Tithe percentages passed on | (13,327,661) | (13,637,461) |
| Net tithe income | 39,476,811 | 39,342,962 |
| Payroll, benefits, and other expense reimbursement | 38,277,006 | 37,589,666 |
| Auxiliary income | 2,798,396 | 2,657,021 |
| Tuition | 1,354,068 | 1,668,180 |
| Subsidies | 624,172 | 938,714 |
| Offerings and donations | 177,274 | 284,425 |
| Matured trusts, wills, and bequests | 139,387 | 251,885 |
| Other | 973,058 | 854,286 |
| Revenues, gains, and support before reclassifications | 83,820,172 | 83,587,139 |
| Released from restrictions | 5,971,093 | 4,875,779 |
| Revenues, gains, and support after reclassifications | 89,791,265 | 88,462,918 |
| **Expenses** | | |
| **Program services** | | |
| Church ministries | 54,009,500 | 53,680,372 |
| Education | 41,698,387 | 41,779,773 |
| Outreach ministries | 4,041,844 | 4,272,963 |
| Auxiliary services | 1,424,609 | 1,163,153 |
| Total program services | 101,174,340 | 100,896,261 |
| **Supporting services** | | |
| General and administrative | 8,192,503 | 7,384,131 |
| Total expenses | 109,366,843 | 108,280,392 |
| Change in net assets before nonoperating activity | (19,575,578) | (19,817,474) |

(Continued)

| **Nonoperating activity** | 2017 | 2016 |
|---|---|---|
| Donated plant assets and investment in real estate | $ 13,023,038 | $ 7,466,524 |
| Rental income | 12,281,474 | 11,577,119 |
| Investment income | 9,457,254 | 6,110,030 |
| Other gains | 423,612 | 560,311 |
| Rental properties expense | (4,587,901) | (4,762,569) |
| Interest expense | (1,489,173) | (1,479,981) |
| Bond costs | (154,850) | (155,023) |
| Net gain (loss) on disposal of plant and other assets | (5,007) | 4,148,298 |
| Increase from nonoperating activity | 28,948,447 | 23,464,709 |
| **Increase in unrestricted net assets** | 9,372,869 | 3,647,235 |
| **Temporarily restricted net assets** | | |
| Subsidies | 4,030,388 | 3,550,181 |
| Offerings and donations | 883,489 | 882,982 |
| Matured trusts, wills, and bequests | 860,647 | 1,009,708 |
| Investment income | 5,836 | 10,178 |
| Other | 2,700 | 11,000 |
| Total temporarily restricted income | 5,783,060 | 5,464,049 |
| Released from restrictions | (5,971,093) | (4,875,779) |
| Increase (decrease) in temporarily restricted net assets | (188,033) | 588,270 |
| **Change in net assets** | 9,184,836 | 4,235,505 |
| **Net assets, beginning of year** | 313,847,053 | 309,611,548 |
| **Net assets, end of year** | **$ 323,031,889** | **$ 313,847,053** |

(Concluded)

# SOUTHEASTERN CALIFORNIA CONFERENCE
# OF SEVENTH-DAY ADVENTISTS AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
### Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 9,184,836 | $ 4,235,505 |
| Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 9,847,488 | 9,838,560 |
| Provision for doubtful accounts | 61,000 | 8,921 |
| Donated plant assets and investments in real estate | (13,023,038) | (7,466,524) |
| Impairment of investments in real estate | 94,611 | - |
| Unrealized gain on swap contracts | (423,612) | (560,442) |
| Net (gain) loss on disposal of plant assets and other assets | 5,007 | (4,174,049) |
| Unrealized gain on investments | (4,909,700) | (2,342,562) |
| Realized gain on sale of investments | (1,357,603) | (678,490) |
| Unrealized (gain) loss on assets held in trust | 2,100,616 | (742,762) |
| Unrealized gain on gift annuities | (204,726) | (58,864) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (458,388) | (753,603) |
| Other current assets | (28,720) | 35,166 |
| Accounts payable | 72,697 | (248,981) |
| Accrued wages and benefits | 564,123 | 216,064 |
| Deferred revenue | (9,523) | (5,481) |
| Other current liabilities | (101,965) | 41,578 |
| Other noncurrent liabilities | (35,110) | (156,998) |
| Net cash provided by (used in) operating activities | 1,377,993 | (2,812,962) |
| **Cash flows from investing activities** | | |
| Proceeds from sale of investments | 4,160,262 | 3,456,132 |
| Purchases of investments | (5,050,545) | (5,239,172) |
| Proceeds from disposal of plant assets | 1,277,269 | 5,076,526 |
| Purchase of plant assets | (111,855) | (230,470) |
| Proceeds from sale of investments in real estate | - | 87,476 |
| Purchase of investments in real estate | (281,944) | (37,630) |
| Advances on notes and loans receivable | (3,049,099) | (3,772,875) |
| Payments received on notes and loans receivable | 1,742,133 | 1,741,972 |
| Net cash provided by (used in) investing activities | (1,313,779) | 1,081,959 |

(Continued)

The accompanying notes are an integral part of these financial statements.

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from line of credit | $ 3,250,000 | $ 554,995 |
| Payments on line of credit | (200,000) | - |
| Proceeds from notes payable | - | 1,403,500 |
| Principal payments on notes payable | (1,292,065) | (1,217,261) |
| Proceeds from gift annuities | 1,832,172 | 2,757,963 |
| Purchases of investments for gift annuities | (4,210,547) | (2,244,507) |
| Net cash provided by (used in) financing activities | (620,440) | 1,254,690 |
| Net decrease in cash and cash equivalents | (556,226) | (476,313) |
| **Cash and cash equivalents** | | |
| Balance, beginning of year | 4,199,762 | 4,676,075 |
| Balance, end of year | **$ 3,643,536** | **$ 4,199,762** |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid during the year for interest | $ 1,489,173 | $ 1,479,981 |
| Cash paid during the year for taxes | $ - | $ 260,849 |
| **Noncash transactions - related party** | | |
| Note receivable reduced by guarantee of related party notes payable | $ (1,745,470) | $ (1,962,105) |
| Notes receivable reduced through related party payment on lines of credit | $ (283,533) | $ (3,043,570) |
| Notes receivable reduced by related party notes payable | $ (645,608) | $ (276,276) |

(Concluded)

## NOTE 1 – REPORTING ENTITY

The Southeastern California Conference of Seventh-day Adventists and subsidiaries (the "Conference") was formed by Seventh-day Adventist Church congregations within Imperial, Orange, Riverside, San Bernardino and San Diego Counties in 1915. Each congregation elects its own board of directors in addition to a calculated number of delegates to represent the congregation in governing the Conference. The Conference's primary purpose is the expansion of God's Kingdom through the preaching, teaching, publishing, and living of the everlasting gospel throughout the cross-cultural communities of its territory.

The Conference supports the operation of all congregations and schools in its territory. The Conference holds title to all denominational property in its territory and performs certain fiduciary duties. As part of the mission of the Conference, 22 schools providing education in a religious school environment are operated for grades ranging from preschool through grade twelve. In addition to each school being governed by its own board, the schools are monitored by the board of education whose members are approved and authorized by the executive committee of the Conference. The board of education develops policy and creates rules and regulations to which the schools must adhere. These consolidated financial statements include the operations of only one school, Calexico Mission School, because the Conference has majority voting rights over Calexico Mission School board as well as operational and financial control.

Besides the Calexico Mission School, which has been consolidated by the Conference due to common control, the Conference is affiliated with 21 other schools and academies (the "institutions") throughout Imperial, Orange, Riverside, San Bernardino, and San Diego counties. The institutions are supported and governed by the Seventh-day Adventist churches appointed by the Conference. However, the Conference provides all of the facilities, employs all the school administration and faculty, and sets the curriculum for each institution. As a result, the Conference has control and financial interest in the institutions but has no ownership in the institutions and no majority voting rights over their governance. Under Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") No. 951-810, the Conference has the option, but not the requirement to consolidate the institutions. The Conference has elected not to consolidate the institutions as of December 31, 2017 or 2016. The schools have a June 30 fiscal year-end; as such, there is a timing difference between the school financial data provided in note 17, and the Conference's consolidated financial statements.

The Conference is a member organization of Pacific Union Conference of Seventh-day Adventists; see Affiliated Conferences.

The Conference formed SECC-ECF, LLC on October 17, 2007 as a nonprofit limited liability company. The sole purpose of SECC-ECF, LLC is to provide funding for the educational facilities of the Conference. The sole member is the Conference, and no other members may be admitted.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting
The Conference prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### Consolidation
The accompanying consolidated financial statements include the accounts of the Conference, Calexico Mission School, and SECC-ECF, LLC, all of which are under common control. All significant intercompany transactions and balances have been eliminated in consolidation.

### Net Asset Classification
Under U.S. GAAP, funds that have similar characteristics are combined on the financial statements into three net asset categories: unrestricted, temporarily restricted, or permanently restricted.

*Unrestricted net assets* include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Conference without limitation.

*Temporarily restricted net assets* include those resources whose use is restricted by donor-imposed criteria that either expires with the passage of time or by actions of the Conference.

*Permanently restricted net assets* include those resources in which donor-imposed stipulations require that the resources be maintained permanently but permit the Conference to use part or all of the income derived from the donor assets for either specified or unspecified purposes.

### Cash and Cash Equivalents
The Conference considers all highly liquid investments with an initial maturity date of three months or less to be cash equivalents.

The Conference maintains its cash and cash equivalents with high credit, quality financial institutions which may at times exceed the federally insured limits. The Conference has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Concentration of Credit and Market Risk

The Conference maintains accounts with several stock brokerage firms of which 78% were held by one broker, and 21% and 22% by PUC, at December 31, 2017 and 2016, respectively, subjecting the Conference to various risks, such as interest rate, market and credit. The accounts contain cash and securities. Balances held by the broker are insured up to $500,000 (with a limit of $100,000 for cash). Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is possible that changes in risk in the near term would affect investment balances and the amounts reported in the financial statements.

Investments

The following summarizes the major methods and assumptions used in estimating fair values of financial instruments:

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

*Investments* include marketable securities, 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 account during each period is recognized as an unrealized gain or loss.

As a practical expedient, fair value for *investments in Pacific Union Income Fund* is measured using the net asset value of the shares in the fund as provided by the trust. In 2016, the Conference elected early adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)*, which states that an investment for which fair value is measured using net asset value per share (or its equivalent) as a practical expedient should not be categorized within the fair value hierarchy. The investment may be redeemed at any time without advance notice.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments

The Conference has entered into derivative financial instruments in the form of interest rate swaps to manage its exposure to interest rate risk. Further details of the interest rate swaps are disclosed at Note 11 to the consolidated financial statements. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value at each statement of financial position date. The resulting gain or loss is recognized in the consolidated statements of activities immediately unless the derivative is designated as a hedging instrument. The Conference has not designated its interest rate swaps as hedge instruments. A derivative with a positive fair value is recognized as a financial asset and a derivative with a negative fair value is recognized as a financial liability. At December 31, 2017 and 2016, the interest rate swaps were negative and are included in other noncurrent liabilities in the statements of financial position. If the maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months, the derivative is considered to be noncurrent for financial statement presentation.

Gift Annuities

Gift annuities are recorded using the actuarial method. Under this method, assets are recorded at fair value at the date of the gift. The corresponding credit is to annuities payable for the present value of the future annuity payments based upon acceptable life expectancy tables. Investment income and gains are credited, and the contractual periodic payments to the annuitant and investment losses are charged to the annuities payable liability. The actuarial present value of annuities payable is recalculated periodically based upon revised life expectancies and interest assumptions.

Upon maturity of an annuity, the remaining net assets are generally distributed to current operating funds. The Conference administers numerous gift annuities for residents of California. California Insurance Code Sections 11520–11524 require that these assets be held in a legally and physically segregated reserve, which is reflected in the consolidated financial statements as California Annuity Reserve. California statutes allow investments in high grade government and corporate bonds, publicly traded securities on major exchanges, and insured mortgages. The Conference is in compliance with these statutes.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Split-interest Agreements

The Conference is at least a 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 unconditional and irrevocable, assets are recorded by the Conference at fair value at the date of gift or acceptance of agreement. For agreements that designate other beneficiaries, liabilities are recorded for the present value of amounts due to others. Conservative discount rates are used to compute the present value of such liabilities. Standard actuarial tables and conservative interest rates are used to compute liabilities due to annuitants. The Conference's remainder interest is classified as temporarily restricted (see Notes 9, 13, and 14). For those agreements that are revocable, assets are recorded at fair value at date of acceptance or agreement, except for investments and real property which are adjusted to their fair value annually.

Affiliated Organizations

The Conference operates through several organizations with which it is affiliated, by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these organizations are not combined or consolidated with the Conference. Interorganizational transactions carried on in the ordinary course of business are handled through current accounts receivable and payable and are settled on a monthly basis. Other financial transactions involve appropriations, loans, and other long-term financing. Related party transactions are summarized in Note 17.

These other organizations are as follows:

General Conference of Seventh-day Adventists ("GC")

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.

North American Division of the General Conference of Seventh-day Adventists ("NAD")

NAD is the organization responsible for church activities in North America. NAD determines policies for institutions within North America in accordance with GC policies.

Pacific Union Conference of Seventh-day Adventists ("PUC") and Pacific Union Association of Seventh-day Adventists (PUA)

PUC is the organization responsible for church activities in the states of Arizona, California, Hawaii, Nevada, and Utah. PUA determines policies for institutions within the above states in accordance with NAD policies.

La Sierra University ("LSU")

The president of the Conference is a member of the board of trustees of LSU.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts, Notes, Loans, and Other Receivables
Accounts, notes, loans, and other receivables (included in other current assets in the consolidated statements of financial position) are reported at their net realizable value, less an allowance for uncollectible accounts and notes receivable. The Conference uses the allowance method for the write-off of bad debts. The Conference considers such factors as historical trends for collections and knowledge of financial stability of debtors to establish the allowance for doubtful accounts. Receivables are written off when management determines that the amount will not be collectible.

Plant Assets
Property, plant, and equipment are recorded at cost when purchased or fair value at date of donation for items in excess of $3,000 which also have a useful life in excess of one year, except as noted below. Capitalized costs include labor, materials, and indirect charges for such items as engineering, supervision, and transportation. The Conference follows the policy of capitalizing interest as a component of property and equipment constructed for its own use. Depreciation expense is calculated using the straight–line method over the estimated useful lives of the assets. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets, ranging from three to 75 years.

Donated capital improvements are capitalized when they exceed $20,000. Major remodels that do not add square footage are not recognized as a donated asset until the project is completed. Construction of new facilities and capital improvements that add square footage are recorded as construction-in-progress annually as the project progresses.

The Conference holds legal title to the real properties used by the Conference, congregations, schools, and academies. The book value of these properties is included in these consolidated financial statements.

Long-lived Assets
U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or asset group may no longer be appropriate. The Conference assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. The Conference recognized a $94,611 impairment of real estate held for investment during the year ended December 31, 2017. There were no impairment losses recognized in the year ended December 31, 2016.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition
The Conference recognizes tithes and offerings when received by each congregation. Rental income is recognized as earned.

Expiration of Donor-Imposed Restrictions
The Conference reports 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 restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Conference reports contributions 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 revenues in temporarily restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Conference reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income Tax
The Conference is a religious not-for-profit organization and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Conference's tax exempt purpose is subject to taxation as unrelated business income, for which the Conference files income tax returns in the United States of America federal jurisdiction and the State of California jurisdiction.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the consolidated financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Reclassification
Certain reclassifications have been made to the 2016 financial data to conform to the 2017 presentation with no impact on net assets.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currently Issued Accounting Standards
In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-05 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Conference is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Conference is in the process of evaluating the impact of this new guidance.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. ASU 2014-09 will be effective for the Conference for fiscal years beginning after December 15, 2018. The Conference has not yet selected a transition method and is currently evaluating the effect that the standard will have on its consolidated financial statements.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received an Contributions Made*, which clarifies and improves guidance for (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update should be applied on a modified prospective basis, but retrospective application is permitted. ASU 2018-08 will be effective for the Conference for annual periods beginning after December 15, 2018. Early adoption is permitted. The Conference is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

## NOTE 3 - INVESTMENTS

Investments held at fair value or net asset value as a practical expedient as of December 31, 2017 and 2016, consisted of the following:

| | Fair Value | |
|---|---|---|
| | 2017 | 2016 |
| Cash and cash equivalents | $ 123,331 | $ 166,098 |
| Mutual funds | 15,117 | 15,192 |
| Corporate bonds | 173,523 | 217,208 |
| Fixed income mutual funds | 723,278 | 657,493 |
| Equity securities | 949,125 | 911,379 |
| **Total California Annuity Reserve** | 1,984,374 | 1,967,370 |
| Equity mutual funds | 7,860,716 | 7,008,887 |
| Fixed income mutual funds | 25,017,956 | 23,791,101 |
| Equity securities | 11,540,957 | 10,307,382 |
| International equity mutual funds | 11,290,037 | 9,126,896 |
| International equities | 371,693 | 327,170 |
| Pacific Union Income Fund | 15,771,274 | 14,302,712 |
| **Investments** | 71,852,633 | 64,864,148 |
| **Total** | **$ 73,837,007** | **$ 66,831,518** |

## NOTE 3 – INVESTMENTS (Continued)

Investment income, as shown on the consolidated statement of activities, consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Interest and dividend income | $ 3,485,432 | $ 3,478,585 |
| Net change in unrealized gain | 4,909,700 | 2,342,562 |
| Realized gains on sales and maturities of securities, net | 1,357,603 | 678,490 |
| Investment fees | (202,534) | (216,295) |
| Change in value of split interest agreements | 873,121 | 1,689,712 |
| Distributions under split interest agreements | (960,232) | (1,852,846) |
| | 9,463,090 | 6,120,208 |
| Unrealized gain on interest rate swap included in other gains | 423,612 | 560,311 |
| | **$ 9,886,702** | **$ 6,680,519** |

## NOTE 4 – FAIR VALUE MEASUREMENTS

As defined by U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Conference uses the market approach. Based on this approach, the Conference utilizes certain assumptions about the risk or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated or generally unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Conference is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values.

As a basis for considering such assumptions, U.S. GAAP establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace

Level 3 – Unobservable inputs that are supported by little or no market activity

## NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, which is the Conference's policy. For the fiscal year ended December 31, 2017, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Mutual funds, fixed income and international equities mutual funds
Valued at the net asset value (NAV) of shares held by the Conference at year-end as reported on the active market on which they are traded.

Equity securities, international equities, and corporate bonds
Valued at the closing price reported in the active market on which the individual securities are traded.

Interest rate swaps
Determined by the Conference's lending institution and represents the fair value of the future net payments forecasted under the interest rate swap agreements. The valuation model incorporates various inputs, including interest rates and credit risk assumptions.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Conference believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, the Conference measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value.

**NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)**

The following table summarizes the Conference's financial assets by the fair value hierarchy levels as of December 31, 2017.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Investments** | | | | |
| Equity mutual funds | $ 7,875,833 | $ - | $ - | $ 7,875,833 |
| Fixed income mutual funds | 25,741,234 | - | - | 25,741,234 |
| Equity securities | 12,490,082 | - | - | 12,490,082 |
| Corporate bonds | 173,523 | - | - | 173,523 |
| International equity mutual funds | 11,290,037 | - | - | 11,290,037 |
| International equities | 371,693 | - | - | 371,693 |
| Total | **$ 57,942,402** | **$ -** | **$ -** | 57,942,402 |
| Cash equivalents | | | | 123,331 |
| Pacific Union Income Fund | | | | 15,771,274 (1) |
| **Total investments and California Annuity Reserve per statement of financial position** | | | | **$ 73,837,007** |
| **Financial liabilities** | | | | |
| Interest rate swaps (included in other noncurrent liabilities) | - | 413,132 | - | 413,132 |
| **Total liabilities** | **$ -** | **$ 413,132** | **$ -** | **$ 413,132** |

**NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)**

The following table summarizes the Conference's financial assets by the fair value hierarchy levels as of December 31, 2016.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Investments** | | | | |
| Equity mutual funds | $ 7,024,079 | $ - | $ - | $ 7,024,079 |
| Fixed income mutual funds | 24,448,594 | - | - | 24,448,594 |
| Equity securities | 11,218,761 | - | - | 11,218,761 |
| Corporate bonds | 217,208 | - | - | 217,208 |
| International equity mutual funds | 9,126,896 | - | - | 9,126,896 |
| International equities | 327,170 | - | - | 327,170 |
| Total | **$ 52,362,708** | **$ -** | **$ -** | 52,362,708 |
| Cash equivalents | | | | 166,098 |
| Pacific Union Income Fund | | | | 14,302,712 [(1)] |
| **Total investments and California Annuity Reserve per statement of financial position** | | | | **$ 66,831,518** |
| **Financial liabilities** | | | | |
| Interest rate swaps (included in other noncurrent liabilities) | - | 836,744 | - | 836,744 |
| **Total liabilities** | **$ -** | **$ 836,744** | **$ -** | **$ 836,744** |

[(1)] In accordance with FASB ASC Subtopic 820-10, the investments in Pacific Union Income Fund that are measured at fair value equivalent practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

## NOTE 4 – FAIR VALUE MEASUREMENTS (Continued)

The primary uses of fair value measures in the Conference's consolidated financial statements are the following:

- Initial measurement of noncash gifts, including gifts of investment assets and real property,
- Recurring measurement of short-term investments as disclosed in Note 3, and
- Recurring measurement of derivative instruments as disclosed in Note 11.

## NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Congregation tithe and offering | $ 10,777,641 | $ 10,181,346 |
| Congregations other reimbursements | 2,958,611 | 2,942,795 |
| Schools and academies | 225,944 | 143,778 |
| Student accounts | 7,410 | 40,915 |
| Other | 618,948 | 821,332 |
| | 14,588,554 | 14,130,166 |
| Less allowance for doubtful accounts | (429,440) | (368,440) |
| | **$ 14,159,114** | **$ 13,761,726** |

Accounts receivable are presented in the consolidated statements of financial position as follows at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Accounts receivable, current portion, net | $ 13,020,443 | $ 12,656,898 |
| Accounts receivable, noncurrent portion | 1,138,671 | 1,104,828 |
| | **$ 14,159,114** | **$ 13,761,726** |

Discounting of the noncurrent portion of accounts receivable would have an insignificant impact on the consolidated financial statements, and is not recorded.

## NOTE 6 – NOTES AND LOANS RECEIVABLE

The Conference finances activities on behalf of its affiliated organizations. Notes and loans receivable are recorded at their net realizable value, and earned interest is recorded at rates from zero to 7 percent for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, notes and loans receivable consisted of:

| | 2017 | 2016 |
|---|---|---|
| Affiliate promissory notes with offsetting lines of credit (Note 10) | $ 4,435,287 | $ 2,068,820 |
| Affiliate promissory notes with offsetting notes payable (Note 11) | 41,285,183 | 43,676,261 |
| Affiliate promissory notes related to bonds payable (Note 11) | 27,596,227 | 28,419,636 |
| Other affiliated promissory notes | 16,491,949 | 16,790,910 |
| Third party promissory note | 2,748,100 | 2,968,764 |
| | 92,556,746 | 93,924,391 |
| Less current portion | (11,026,176) | (9,523,660) |
| | $ 81,530,570 | $ 84,400,731 |

Notes and loans receivable are from the following:

| | 2017 | 2016 |
|---|---|---|
| Congregations | $ 59,650,869 | $ 59,162,402 |
| Schools and academies | 30,157,777 | 31,793,225 |
| Third parties | 2,748,100 | 2,968,764 |
| | $ 92,556,746 | $ 93,924,391 |

Discounting of the noncurrent portion of notes and loans receivable would have an insignificant impact on the consolidated financial statements, and is not recorded.

## NOTE 7 – PLANT ASSETS

Plant assets at December 31, 2017 and 2016, include property, plant, and equipment held and used by the Conference. The Conference also holds title to real estate for the use of certain affiliated organizations, including congregations, schools, and academies. All property donated, including construction-in-progress, by affiliated organizations is recorded at fair value on the date of donation or the date placed in service. Revenue recorded for donated plant assets from affiliated organizations for the years ended December 31, 2017 and 2016 was $13,023,038 and $7,185,274, respectively, which included $250,782 and $103,708 in donated services and $112,419 and $126,606, respectively, in capitalized interest.

**NOTE 7 – PLANT ASSETS (Continued)**

Plant assets consisted of the following for the year ended December 31, 2017:

| | Conference and Subsidiaries | Congregations | Elementary Schools | Academies | Total |
|---|---|---|---|---|---|
| Construction in progress | $ 882,594 | $ 13,325,248 | $ - | $ - | $ 14,207,842 |
| Land | 656,641 | 31,141,208 | 1,464,822 | 5,731,231 | 38,993,902 |
| Land improvements | 3,642,578 | 17,270,219 | 3,120,058 | 9,595,880 | 33,628,735 |
| Buildings and improvements | 15,472,647 | 179,361,468 | 6,674,690 | 64,631,207 | 266,140,012 |
| Equipment | 3,818,900 | - | - | - | 3,818,900 |
| | 24,473,360 | 241,098,143 | 11,259,570 | 79,958,318 | 356,789,391 |
| Less accumulated depreciation | (14,358,352) | (85,480,519) | (4,520,830) | (27,886,026) | (132,245,727) |
| Total | **$ 10,115,008** | **$ 155,617,624** | **$ 6,738,740** | **$52,072,292** | **$224,543,664** |

Plant assets consisted of the following for the year ended December 31, 2016:

| | Conference and Subsidiaries | Congregations | Elementary Schools | Academies | Total |
|---|---|---|---|---|---|
| Construction in progress | $ 806,594 | $ 9,037,404 | $ - | $ - | $ 9,843,998 |
| Land | 656,641 | 31,546,047 | 1,464,822 | 5,731,231 | 39,398,741 |
| Land improvements | 3,642,578 | 17,216,250 | 3,120,058 | 9,035,917 | 33,014,803 |
| Buildings and improvements | 15,472,647 | 172,499,539 | 6,674,690 | 64,366,200 | 259,013,076 |
| Equipment | 3,800,978 | - | - | - | 3,800,978 |
| | 24,379,438 | 230,299,240 | 11,259,570 | 79,133,348 | 345,071,596 |
| Less accumulated depreciation | (13,762,529) | (79,307,006) | (4,192,911) | (26,046,329) | (123,308,775) |
| Total | **$ 10,616,909** | **$ 150,992,234** | **$ 7,066,659** | **$53,087,019** | **$221,762,821** |

**NOTE 7 – PLANT ASSETS (Continued)**

Depreciation expense for the years ended December 31, 2017 and 2016 was $9,216,426 and $9,215,548, respectively; which is included in the consolidated statements of activities as follows:

| | 2017 | 2016 |
|---|---|---|
| Church ministries | $ 6,332,774 | $ 6,336,873 |
| Education | 2,291,831 | 2,254,071 |
| Auxiliary services | 591,821 | 624,604 |
| | **$ 9,216,426** | **$ 9,215,548** |

The use of property, plant, and equipment constructed by academies that were financed with the proceeds of Colorado Education and Cultural Facilities Authority-Series 2009 tax-exempt bonds are legally restricted to prohibit the use of the property primarily for religious worship or sectarian instruction. At December 31, 2017 and 2016, management believes that the Conference was in compliance with the legal requirement.

At December 31, 2017 and 2016, assets restricted for this purpose were included in the following balances:

| | |
|---|---|
| Land | $ 4,821,280 |
| Land improvements | 2,343,367 |
| Buildings and improvements | 23,872,182 |
| | **$ 31,036,829** |

## NOTE 8 – INVESTMENTS IN REAL ESTATE

At December 31, investments in real estate were comprised of the following components:

| | 2017 | 2016 |
|---|---|---|
| Rental properties | | |
| Land | $ 6,856,335 | $ 6,723,684 |
| Land improvements | 877,407 | 621,738 |
| Buildings | 17,142,729 | 16,894,337 |
| Building improvements | 493,777 | 493,777 |
| Equipment | 189,768 | 162,721 |
| | 25,560,016 | 24,896,257 |
| Land held for sale or long-term appreciation | | |
| Vacant land | 927,637 | 1,025,062 |
| Cemetery plots | 1,790 | 1,790 |
| | 26,489,443 | 25,923,109 |
| Accumulated depreciation | (12,098,441) | (11,467,378) |
| | **$ 14,391,002** | **$ 14,455,731** |

Depreciation expense for investments in real estate for the years ended December 31, 2017 and 2016 was $631,062 and $623,012, respectively, and is included in rental properties expense.

## NOTE 9 – ASSETS HELD IN TRUST

At December 31, 2017, assets held in trust consisted of the following:

| | Revocable Trusts | Irrevocable Trusts | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 1,248,139 | $ 2,108,000 | $ 3,356,139 |
| Investments | 1,294,193 | 2,850,709 | 4,144,902 |
| Real property | 10,040,870 | 2,068,712 | 12,109,582 |
| | **$ 12,583,202** | **$ 7,027,421** | **$ 19,610,623** |

## NOTE 9 – ASSETS HELD IN TRUST (Continued)

At December 31, 2016, assets held in trust consisted of the following:

| | Revocable Trusts | Irrevocable Trusts | Total |
|---|---|---|---|
| Cash and cash equivalents | $ 1,230,255 | $ 523,966 | $ 1,754,221 |
| Investments | 2,643,079 | 3,003,146 | 5,646,225 |
| Real property | 8,770,070 | 1,109,832 | 9,879,902 |
| PUC trusts | - | 105,609 | 105,609 |
| | **$ 12,643,404** | **$ 4,742,553** | **$ 17,385,957** |

The PUC trusts are administered by Western Adventist Foundation and are charitable remainder trusts.

At December 31, 2017 and 2016, net income related to irrevocable trusts consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Fair market value of irrevocable trusts donated | $ 3,793,292 | $ 1,723,801 |
| Less portion due to others | (2,815,518) | (863,910) |
| Revenue from irrevocable trusts donated | 977,774 | 859,891 |
| Change in present value | 874,006 | 1,690,615 |
| Net income related to irrevocable trusts | **$ 1,851,780** | **$ 2,550,506** |

This information is reflected in the consolidated financial statements in totals for matured trusts, wills and bequests, and investment income.

## NOTE 10 – LINE OF CREDIT

The Conference maintains a $6,000,000 line of credit with Bank of America of which $1,000,000 is available for working capital and $5,000,000 is available for the acquisition or renovation of facilities. The line of credit is unsecured; on December 31, 2017 the line of credit matured, and in January 2018 it was increased by $2,500,000 and extended through December 31, 2019. The Conference pays interest monthly at the ICE (formerly BBA) LIBOR Daily Floating Rate plus 1.25 percent which was 2.81 and 2.02 percent at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the outstanding balance was $5,035,287 and $2,268,820 respectively.

The line of credit with Bank of America contains covenants pertaining to total debt to net asset balance and liquidity. Specifically, the Conference is required to maintain a total debt to net asset balance not to exceed 1.10:1.00. The Conference is also required to submit audited financial statements within 180 days of the end of each year. Management of the Conference believes they are in compliance with these covenants at December 31, 2017 and 2016.

## NOTE 11 – NOTES AND BONDS PAYABLE

In addition to debt acquired for Conference operations, the Conference also obtains or guarantees debt on behalf of affiliated congregations, schools, and academies.

At December 31, 2017 and 2016, notes payable consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Notes payable in the name of the Conference | | |
| Citizens Business Bank; due November 15, 2019; payable in monthly installments of $10,358 including interest at 4.250% ; balloon payment at maturity; unsecured. | $ 226,171 | $ 338,236 |
| SDA Layman's - Yucaipa Samoan SDA Church; due June 1, 2020; payable in monthly installments of $1,582 including interest at 5%; balloon payment due at maturity; unsecured. (2) (3) (4) | 123,246 | 125,369 |
| Paradise Valley Federal Credit Union - Paradise Valley Spanish SDA Church; due December 1, 2020; payable in monthly installments of $9,000 including interest at 6% ; balloon payment due at maturity; secured by real property with net book value on December 31, 2017 and 2016 of $1,667,568 and $1,715,929, respectively. (2) (4) | 920,974 | 1,081,746 |

**NOTE 11 – NOTES AND BONDS PAYABLE (Continued)**

| | 2017 | 2016 |
|---|---|---|
| Bank of America; due December 31, 2020; variable monthly interest rate of LIBOR rate plus 1.53% per annum, which was 2.90% and 2.30% at December 31, 2017 and 2016, respectively; balloon payment due at maturity; secured by real property with net book value of $40,989,126 and $41,486,305 on December 31, 2017 and 2016, respectively; includes ten assignments of rent on December 31, 2017 and 2016 for additional security. | 11,260,000 | 12,440,000 |
| Commonwealth Business Bank – Orange Central Korean SDA Church; due August 5, 2021; payable in monthly installments of $11,759 including variable interest at 4.325% at December 31, 2017 and 2016; balloon payment due at maturity; secured by real property with net book value on December 31, 2017 and 2016 of $3,596,734 and $3,709,389, respectively. (2) | 2,062,662 | 2,112,139 |
| Bank of America – Redlands SDA Church; due September 1, 2021 payable in monthly installments of $17,980, plus interest at 2.48%; secured by real property with net book value of $7,258,831 and $7,663,994 on December 31, 2017 and 2016, respectively; and is subject to the same covenants under the Bank of America letter of credit and reimbursement agreement. (2) | 3,854,386 | 3,971,629 |
| Paradise Valley Federal Credit Union - Blythe Spanish/English SDA Church; due December 1, 2021; payable in monthly installments of $4,700 including interest at 6%; balloon payment due at maturity; secured by real property with net book value on December 31, 2017 and 2016 of $916,542 and $942,638, respectively. (2) (4) | 458,280 | 487,127 |
| First Northern Bank – Paradise Valley SDA Church; due January 1, 2025; payable in monthly installments of $2,128 including interest at 5.149%; secured by equipment with net book value of $291,172 and $304,457 on December 31, 2017 and 2016, respectively. (2) (4) | 254,035 | 281,523 |

**NOTE 11 – NOTES AND BONDS PAYABLE (Continued)**

| | 2017 | 2016 |
|---|---|---|
| Citizens Business Bank – Redlands SDA Church; due April 21, 2025; payable in monthly installments of $27,976 including interest at 3.75%; balloon payment due at maturity; secured by real property with net book value of $7,258,831 and $7,663,994 on December 31, 2017 and 2016, respectively; includes three assignments of rents on December 31, 2017 and 2016. (2) | 5,693,020 | 5,820,107 |
| Paradise Valley Federal Credit Union – Murrieta Springs SDA Church; due December 1, 2027; payable in monthly installments of $10,575 through June 1, 2020 including interest at 6.875%; balloon payment due at maturity; secured by real property with net book value on December 31, 2017 and 2016 of $6,155,839 and $6,335,211, respectively; includes one assignment of rents on December 31, 2017 and 2016 as additional security. (2) (4) | 919,127 | 978,227 |
| Citizens Business Bank – High Desert Bilingual SDA Church; due June 18, 2029; payable in monthly installments of $9,776 including interest at 5.25%; secured by real property with net book value on December 31, 2017 and 2016 of $1,268,215 and $1,348,767, respectively. (2) | 995,458 | 1,060,572 |
| La Loma Federal Credit Union - Yucaipa Samoan SDA Church; due February 1, 2035; payable in monthly installments of $2,369 including interest at 5.375%; secured by real property with net book value on December 31, 2017 and 2016 of $636,300 and $666,400, respectively. (2) (4) | 318,469 | 326,825 |
| | 27,085,828 | 29,023,500 |

**NOTE 11 – NOTES AND BONDS PAYABLE (Continued)**

| | 2017 | 2016 |
|---|---|---|
| Notes payable guaranteed by the Conference | | |
| Pacific Union Conference Church and School Fund Loans guaranteed by Conference; maturity dates vary; variable interest rate at 4%; secured by real property with net book value on December 31, 2017 and 2016 of $26,257,620 and $27,634,070, respectively; includes twelve assignments of rents on December 31, 2017, and eleven assignments of rents on December 31, 2016, as additional security. (2) (3) | 7,508,462 | 6,109,128 |
| Pacific Union Conference Income Fund Loans; maturity dates vary; variable interest rate at 4.75% at December 31, 2017 and 2016; secured by real property with net book value on December 31, 2017 and 2016 of $81,400,959 and $81,117,056, respectively; includes 22 assignments of rents on December 31, 2017, and 21 assignments of rents on December 31, 2016, for additional security. (2) (3) | 18,177,064 | 21,321,869 |
| | 52,771,354 | 56,454,497 |
| Less current portion | (4,885,529) | (6,534,807) |
| | **$ 47,885,825** | **$ 49,919,690** |

At December 31, bonds payable consisted of the following:

| | | |
|---|---|---|
| California Municipal Finance Authority – tax exempt revenue bonds Series 2013; variable monthly interest rate of two-thirds of LIBOR rate plus 1.19% per annum, which was 2.11% and 1.61% at December 31, 2017 and 2016, respectively; annual principal payments beginning June 1, 2025 and maturing June 1, 2038; secured by real property with net book value of $40,989,126 and $41,486,305 on December 31, 2017 and 2016, respectively; includes ten assignments of rents on December 31, 2017 and 2016 for additional security. | **$ 32,330,000** | **$ 32,330,000** |

**NOTE 11 – NOTES AND BONDS PAYABLE (Continued)**

Future maturities of long-term debt and related party obligations at December 31, 2017 were as follows:

| December 31, | With Related Note Receivable | Other Notes Payable | Bond Issue | Total |
|---|---|---|---|---|
| 2018 | $ 4,768,685 | $ 116,884 | $ - | $ 4,885,569 |
| 2019 | 6,057,947 | 109,287 | - | 6,167,234 |
| 2020 | 8,304,355 | - | - | 8,304,355 |
| 2021 | 9,891,691 | - | - | 9,891,691 |
| 2022 | 5,725,558 | - | - | 5,725,558 |
| Thereafter | 17,796,947 | - | 32,330,000 | 50,126,947 |
| | **$ 52,545,183** | **$ 226,171** | **$ 32,330,000** | **$ 85,101,354** |

Loan agreements with Bank of America as of December 31, 2017 and 2016, contain covenants pertaining to debt balances and liquidity. Specifically, the Conference is required to maintain a debt service coverage ratio of not less than 1.10 to 1.00 and net unrestricted liquid assets of not less than 80% of total debt. The Conference is also required to submit audited financial statements within 180 days of the end of each year. At December 31, 2017 and 2016, management of the Conference believes they were in compliance with these covenants.

Interest Rate Swaps

As a means to achieve a greater level of interest rate stability in connection with the Series 2008 taxable and tax-exempt revenue bonds, the Conference entered into two interest rate swaps in February 2009 (2009-1 Swap and 2009-2 Swap), a third in March 2009 (2009-3 Swap), and a fourth in July 2010 (2010-1), all of which effectively change the interest rate on the bonds to synthetic fixed rates. On December 31, 2013, the Conference refinanced the taxable bonds to a note payable and reissued tax-exempt revenue bonds, and all interest rate swaps attached to the new debt by amendment. In February 2014, one of the two interest rate swaps entered into in February 2009 matured. Another swap matured in April 2016.

The interest rate swaps are, among other things, subject to credit, basis, and termination risk. The credit and termination risks have been mitigated with collateral posting requirements by the counterparty in the event of a ratings downgrade below a specified threshold. The swaps are subject to basis risk should the relationship between the variable rates applicable to the swaps converge with that of the bonds which would change the synthetic interest rate on the bonds. The swap policy adopted by the Conference requires determination of the fair termination values of its swaps at least annually. The calculation of the fair termination value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that were received, if any. Fair valuations of termination values are realized only if the swaps were to be terminated at the valuation date, and only the Conference retains the right to optionally terminate the transactions.

## NOTE 11 – NOTES AND BONDS PAYABLE (Continued)

Interest Rate Swaps (Continued)
As of December 31, 2017 and 2016, the net negative fair values for the swaps were estimated to be $413,132 and $836,744, respectively, which would approximate the amount the Conference would have paid to Bank of America as a termination payment if the swaps had been terminated at December 31, 2017 and 2016, respectively, and are a result of the change in interest rate levels and certain interest rate relationships. The net fair values of the swaps are recorded as a part of other noncurrent liabilities in the consolidated statements of financial position at December 31, 2017 and 2016. The change in fair values from inception of the swaps through December 31, 2017 and 2016 was $423,612 and $560,311, respectively, and is recorded as part of other gain (loss) in the consolidated statements of activities for the years ended December 31, 2017 and 2016.

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2017 are as follows:

| Associated debt issue | 2008 Taxable Revenue Bonds | 2008 Non-Taxable Revenue Bonds | Total |
|---|---|---|---|
| Counterparty | Bank of America | Bank of America | |
| Notional amount | $ 11,260,000 | $ 6,800,000 | $18,060,000 |
| Effective date | 02/10/2009 | 07/16/2010 | |
| Fixed rate to be paid | 3.2490% | 2.8243% | |
| Variable rate to be received | One-month LIBOR | SIFMA | |
| Fair value | $ (233,452) | $ (179,680) | $ (413,132) |
| Swap termination date | 02/01/2019 | 07/01/2020 | |
| Counter-party credit rating | Aa3/A+/AA- | Aa3/A+/AA- | |

## NOTE 11 – NOTES AND BONDS PAYABLE (Continued)

Interest Rate Swaps (Continued)

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2016 are as follows:

| Associated debt issue | 2008 Taxable Revenue Bonds | 2008 Non-Taxable Revenue Bonds | Total |
|---|---|---|---|
| Counterparty | Bank of America | Bank of America | |
| Notional amount | $ 12,440,000 | $ 6,800,000 | $ 19,240,000 |
| Effective date | 02/10/2009 | 07/16/2010 | |
| Fixed rate to be paid | 3.2490% | 2.8243% | |
| Variable rate to be received | One-month LIBOR | SIFMA | |
| Fair value | $ (478,107) | $ (358,637) | $ (836,744) |
| Swap termination date | 02/01/2019 | 07/01/2020 | |
| Counter-party credit rating | A+/A1/A+ | A+/A1/A+ | |

On June 26, 2008 the Conference issued $52,580,000 in adjustable rate demand revenue bonds through its limited liability company, SECC-ECF, LLC. The bonds were issued in two series: taxable and tax-exempt. The taxable bond issue totaled $20,250,000 and was refinanced as a note payable on December 31, 2013; proceeds were used to finance and refinance the costs of the acquisition, construction, renovation, installation, and equipping of certain church and/or educational facilities and to pay costs incurred in connection with the issuance of bonds. The tax-exempt bonds were reissued December 31, 2013 with substantially the same terms. The tax-exempt bond issue totaled $32,330,000 and will mature June 1, 2038, and the majority proceeds were used to finance and refinance the costs of certain cultural facilities and K-12 educational facilities and to pay costs incurred in connection with the issuance of bonds. The bonds are subject to conversion to a term interest rate.

(2) The note was incurred on behalf of and is offset by a note receivable from a congregation, school or academy within the Conference.

(3) Related party. See Note 17.

(4) The note reflects the Conference and the congregation, school, or academy as parties to the note.

## NOTE 12 – LIABILITIES TO DEPOSITORS

At December 31, 2017 and 2016, liabilities to depositors consisted of $127,034 and $121,544, respectively, in investments held on behalf of affiliated congregations, included in other noncurrent liabilities in the statements of financial position.

## NOTE 13 – LIABILITIES HELD IN TRUST

At December 31, liabilities held in trust consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Liabilities to remainder beneficiaries | $ 3,863,620 | $ 1,499,748 |
| Present value of payments to income beneficiaries | 1,068,478 | 1,198,338 |
| Liabilities under irrevocable trusts | 4,932,098 | 2,698,086 |
| Liabilities under revocable trusts | 12,583,202 | 12,643,404 |
| | **$ 17,515,300** | **$ 15,341,490** |

## NOTE 14 – NET ASSETS

At December 31, unrestricted, board-designated net assets included the following:

| | 2017 | 2016 |
|---|---|---|
| Board designated endowment | $ 65,611,469 | $ 60,544,186 |
| Property insurance reserves | 2,109,868 | 2,087,559 |
| | **$ 67,721,337** | **$ 62,631,745** |

At December 31, temporarily restricted net assets were available for the following purposes:

| | 2017 | 2016 |
|---|---|---|
| Irrevocable trusts | $ 2,264,555 | $ 2,265,206 |
| Church ministries | 1,587,955 | 1,731,791 |
| Outreach ministries | 157,425 | 211,552 |
| General services | 118,705 | 101,008 |
| Education | 110,174 | 117,795 |
| Auxiliary services | 3,628 | 3,123 |
| | **$ 4,242,442** | **$ 4,430,475** |

**NOTE 14 – NET ASSETS (Continued)**

Net assets related to irrevocable trusts are restricted for both time and/or various purposes, according to individual trust terms and maturities.

At December 31, permanently restricted net assets consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| Junior Camp | $ 10,000 | $ 10,000 |
| San Marcos Seventh-day Adventist Church | 52,332 | 52,332 |
| | **$ 62,332** | **$ 62,332** |

**NOTE 15 – EMPLOYEE BENEFIT PLANS**

Defined Benefit Plan

The Conference participates in a noncontributory, defined benefit retirement plan known as the Seventh-day Adventist Retirement Plan for North America (the “Defined Benefit Plan”). The Defined Benefit Plan is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland and is exempt from the Employee Retirement Income Security Act of 1974 as a plan of a church-related agency. The Conference contributed $4,798,734 and $4,091,542 to the Defined Benefit Plan for the years ended December 31, 2017 and 2016, respectively, for general retirement benefits.

The Defined Benefit Plan is defined by FASB as a multi-employer plan. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Conference apart from other plan participants.

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 Conference chooses to stop participating in a multiemployer plan, the Conference may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

**NOTE 15 – EMPLOYEE BENEFIT PLANS (Continued)**

Defined Benefit Plan (Continued)
Because the following information is not publicly available, it is required to be disclosed on the basis of information received from each plan. Contributions from the Conference were less than five percent of the total contributions ($110,896,656 and $105,722,342) received by the plan for plan years ending December 31, 2017 and 2016, respectively.

| | |
|---|---|
| Date of plan year-end for latest actuarial information | December 31, 2016 |
| Actuarial liability for future benefits | $1,549,579,512 |
| Value of net assets available for benefits | $221,751,327 |
| Plan funded status as of last actuarial data | Less than 65 percent |

Other information about risks and contingencies related to the plan is as follows:

- Information about the plans is not publicly available, so no “certified zone status” has been determined.
- The Conference’s 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 Conference has not paid any “surcharge” to either of the plans.
- No minimum contribution for future periods has been determined or required of the Conference.

In January 2000, the Defined Benefit Plan was left as an option for those close to retirement who wanted to remain on this plan. At this time, a new defined contribution plan was put in place for all new employees and non-vested employees.

The Conference also participates in the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division (the “Healthcare Plan”) on behalf of retired employees participating in the Defined Benefit Plan. 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. The Conference contributed $1,584,135 and $1,589,413 for the years ended December 31, 2017 and 2016, to this plan, which was less than five percent of the total contributions ($40,410,473 and $38,553,659, respectively) received by the plan for the years then ended.

| | |
|---|---|
| Date of plan year-end for latest actuarial information | December 31, 2016 |
| Actuarial liability for future benefits | $504,418,761 |
| Value of net assets available for benefits | $60,247,027 |
| Plan funded status as of last actuarial data | Less than 65 percent |

## NOTE 15 – EMPLOYEE BENEFIT PLANS (Continued)

Defined Contribution Plan

Effective January 1, 2000, the Conference participates in a defined contribution retirement plan known as "The Adventist Retirement Plan" (the "Defined Contribution Plan"). The Defined Contribution Plan, which covers substantially all employees of the Conference, is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland and is exempt from the Employee Retirement Income Security Act of 1974 as a plan of a church-related agency. Employer contributions are made directly to the employee's retirement account managed by Great-West Life and Annuity Insurance ("Great-West"). In addition to this benefit, employees are also able to contribute to their account maximum amounts allowed by current tax laws and the Conference will match according to maximum amounts approved on the Adventist retirement policy and tax laws. This new plan is intended to replace the older one incrementally and is available to all NAD employees participating in the Defined Benefit Plan. The Conference contributed $2,201,338 and $2,113,940 under the basic requirements and $1,117,521 and $1,054,641 as employer matching to the Defined Contribution Plan for the years ended December 31, 2017 and 2016, respectively.

## NOTE 16 – SELF-INSURANCE

The Conference is self-insured for dental, vision, and wellness programs in the plan years ended June 30, 2017 and 2016. The Conference expended $310,021 and $318,290 during the years ended December 31, 2017 and 2016, respectively.

The Conference participates in a Worker's Compensation Self-Insurance Pool (the "Plan") that is coordinated by the PUC. PUC is considered to be a "fully participating member" of the Plan and is not required to arrange for a security deposit or surety bond. The Plan calculates an annual assessment which is billed to each organization for their prorated portion of the assessment. The amount of the annual contributions to the Plan, including contributions for affiliated organizations, are calculated based on prior year's claims, and totaled $642,694 and $690,857 for the years ended December 31, 2017 and 2016, respectively.

In 2017 and 2016, the Conference used a combination of insurance and self-insurance mechanisms to provide for potential liabilities for employee healthcare benefits. Liabilities associated with the risks that are retained by the Conference are not discounted and are estimated, in part, by considering historical claims. The estimated accrual for these liabilities could be affected if future occurrences and claims differ from these assumptions and historical trends. For the year ended December 31, 2017 and 2016, the self-insurance liability for estimated benefits incurred but not reported, which is specific to employee healthcare benefits, was $164,527 and $136,753, respectively, and is included in accrued wages and benefits in the consolidated statements of financial position.

## NOTE 17 – RELATED PARTY TRANSACTIONS

As described in Note 2, the Conference is associated with various Seventh-day Adventist organizations. At December 31, 2017 and 2016, and the years then ended, the Conference had the following transactions with related parties. The following represents assets and liabilities held with related parties at December 31, 2017 and 2016:

| | 2017 | | | |
|---|---|---|---|---|
| | Congregations | Schools and Academies | PUC | Total |
| Accounts receivable (Note 5) | $ 13,736,252 | $ 225,944 | $ - | $ 13,962,196 |
| Investments (Note 3) | - | - | 15,771,274 | 15,771,274 |
| Other current assets | 57,834 | 72,703 | - | 130,537 |
| Advances to churches | 265,000 | - | - | 265,000 |
| Notes and loans receivable (Note 6) | 59,650,869 | 30,157,777 | - | 89,808,646 |
| Accounts payable | (121,557) | (193,925) | (2,594,796) | (2,910,278) |
| Notes payable (Note 11)[5] | - | - | (25,685,526) | (25,685,526) |
| Accrued wages and benefits (retirement) | - | - | (1,071,392) | (1,071,392) |
| | **$ 73,588,398** | **$ 30,262,499** | **$ (13,580,440)** | **$ 90,270,457** |

| | 2016 | | | |
|---|---|---|---|---|
| | Congregations | Schools and Academies | PUC | Total |
| Accounts receivable (Note 5) | $ 13,124,141 | $ 143,778 | $ - | $ 13,267,919 |
| Investments (Note 3) | - | - | 14,302,712 | 14,302,712 |
| Other current assets | 59,132 | 75,199 | - | 134,331 |
| Advances to churches | 265,000 | - | - | 265,000 |
| Notes and loans receivable (Note 6) | 59,162,402 | 31,793,225 | - | 90,955,627 |
| Accounts payable | (7,664) | (450) | (2,551,096) | (2,559,210) |
| Notes payable (Note 11)[5] | - | - | (27,430,997) | (27,430,997) |
| Accrued wages and benefits (retirement) | - | - | (1,004,070) | (1,004,070) |
| | **$ 72,603,011** | **$ 32,011,752** | **$ (16,683,451)** | **$ 87,931,312** |

[5] See detail of notes payable held by PUC included at Note 11.

## NOTE 17 – RELATED PARTY TRANSACTIONS (Continued)

Reflected in the consolidated statement of activities are the following related party revenues (expenses) for the years ended December 31, 2017 and 2016:

| | 2017 | | | |
|---|---|---|---|---|
| | Congregations | Schools and Academies | PUC | Total |
| Tithe percentage passed on | $ - | $ - | $ (13,327,661) | $ (13,327,661) |
| Subsidies | - | - | 4,495,282 | 4,495,282 |
| Payroll, benefits and other expense reimbursements | 18,071,789 | 20,205,217 | - | 38,277,006 |
| Donated plant assets and investment in real estate | 12,195,132 | 827,906 | - | 13,023,038 |
| Investment income | - | - | 675,006 | 675,006 |
| Payroll and benefits expense | (20,865,446) | (23,328,673) | - | (44,194,119) |
| Appropriations expense | (3,726,515) | (3,802,246) | (2,337,888) | (9,866,649) |
| Rental income appropriations expense | (3,577,369) | (150,323) | - | (3,727,692) |
| | **$ 2,097,591** | **$ (6,248,119)** | **$ (10,495,261)** | **$ (14,645,789)** |

| | 2016 | | | |
|---|---|---|---|---|
| | Congregations | Schools and Academies | PUC | Total |
| Tithe percentage passed on | $ - | $ - | $ (13,637,461) | $ (13,637,461) |
| Subsidies | - | - | 4,241,497 | 4,241,497 |
| Payroll, benefits and other expense reimbursements | 17,792,682 | 19,796,984 | - | 37,589,666 |
| Donated plant assets and investment in real estate | 5,359,224 | 2,107,300 | - | 7,466,524 |
| Investment income | - | - | 576,784 | 576,784 |
| Payroll and benefits expense | (20,357,169) | (22,650,354) | - | (43,007,523) |
| Appropriations expense | (3,747,144) | (4,113,303) | (2,329,941) | (10,190,388) |
| Rental income appropriations expense | (3,665,948) | (120,732) | - | (3,786,680) |
| | **$ (4,618,355)** | **$ (4,980,105)** | **$ (11,149,121)** | **$ (20,747,581)** |

## NOTE 17 – RELATED PARTY TRANSACTIONS (Continued)

Within accounts receivable balance at December 31, 2017 and 2016, there is one congregation that represents more than 10 percent of the total balance and that accounts for more than 10 percent of annual gross tithe revenue. Additionally, there are two academies which each represent more than 10 percent of the total note receivable balance at December 31, 2017 and 2016.

*Tithe percentages passed on* represents the portion of tithe revenue received by the Conference which is allocable to affiliated organizations in accordance with policy. *Subsidies* represent amounts received in support of Conference operations or specific education or evangelism projects. *Payroll, benefits, and other expense reimbursements* represents those costs incurred by the Conference for which the affiliates are responsible for reimbursing the Conference. Under the guidelines of the Seventh-day Adventist denomination, churches, schools, and academies are not to own real property. As such, acquired or constructed plant assets by affiliates are donated to the local conference and are included in *donated plant assets*. In turn, the Conference allows the affiliates to use the property at no cost. *Appropriations* represents amounts paid to affiliates for operations or other support; whereas, *rental income appropriations* represent the amount of rental income for use of Conference-owned property from which the Conference allows the affiliate to collect from third parties and retain. The Conference provides faculty and administration personnel for the schools and academies, as well as ministerial and administrative staff for affiliate churches within its territories. Of the total payroll and related benefit expenses, the affiliate may be responsible for a portion of the associated personnel costs.

Notes payable held by the PUC are as follows:

| | 2017 | 2016 |
|---|---|---|
| Loans received by affiliate schools and academies from PUC, guaranteed with Conference fixed assets[(6)] | | |
| Church and School Fund loans | $ 7,508,462 | $ 6,109,128 |
| Income Fund loans | 18,177,064 | 21,321,869 |
| Total | **$ 25,685,526** | **$ 27,430,997** |

[(6)] The Conference has guaranteed these notes until repaid by the schools and academies as detailed in Note 11. In the event the schools or academies default on repayment, the Conference would be required to repay the remaining debt balance. In the event the parties default on these loans, the Conference has no recourse; however, the Conference believes the loans will be fully repaid by the related parties.

## NOTE 17 – RELATED PARTY TRANSACTIONS (Continued)

On September 1, 1986, the Conference entered into an agreement with Loma Linda University, a Seventh-day Adventist university, for the Conference to lease land from Loma Linda University for a nominal amount, which is in turn sublet to the Loma Linda University Church, an affiliated congregation, for a nominal value, to be used by the congregation as a children's center. The lease expires on August 31, 2085.

The financial data provided for the affiliate schools and academies which have not been consolidated as explained in Note 1, is as follows:

| | Unaudited, June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Total assets | $ 23,883,821 | $ 25,084,479 |
| Total liabilities | 35,991,327 | 37,890,004 |
| Net assets deficit | **$ (12,107,506)** | **$ (12,805,525)** |
| Total revenue | $ 50,517,948 | $ 49,237,877 |
| Total expenses | 49,820,882 | 49,241,671 |
| Net income (loss) | **$ 697,066** | **$ (3,794)** |

Net deficits are primarily a result of all real property used by the schools being owned and recorded by the Conference, while many schools and academies have recorded the associated debt.

## NOTE 18 – COMMITMENTS AND CONTINGENCIES

As reflected in Note 11, the Conference guarantees certain notes payable of affiliate churches and schools. The Conference's maximum credit risk associated with these notes payable guarantees totaled $25,685,526 and $27,430,997 at December 31, 2017 and 2016, respectively. To date, the affiliate churches have fulfilled their obligations as specified in the agreements. Additionally, various claims and litigation involving the Conference are currently outstanding. However, management of the Conference believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material effect on the Conference's financial position.

## NOTE 19 – SUBSEQUENT EVENTS

In the preparation of these consolidated financial statements, the Conference considered subsequent events through June 27, 2018 which is the date these consolidated financial statements were issued.