REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

# ATHERTON BAPTIST HOMES

December 31, 2017 and 2016

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# Report of Independent Auditors

The Board of Trustees
Atherton Baptist Homes

## Report on the Financial Statements

We have audited the accompanying financial statements of Atherton Baptist Homes, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of operations, changes in net deficit, and 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 entity'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 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 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 Atherton Baptist Homes as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
April 20, 2018

## ASSETS

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 3,574,083 | $ 3,824,629 |
| Short term investments | 3,680,785 | 2,020,114 |
| Accounts receivable, less allowance for doubtful accounts of $130,000 in 2017 and $100,000 in 2016 | 547,649 | 768,274 |
| Assets limited as to use, required for current liabilities | 1,454,000 | 329,500 |
| Prepaid expenses and other current assets | 1,237,711 | 1,035,227 |
| Insurance recoveries receivable | 130,373 | 308,416 |
| Total current assets | 10,624,601 | 8,286,160 |
| Noncurrent assets | | |
| Assets limited as to use, net of current portion | 6,652,212 | 6,717,257 |
| Property and equipment, net | 37,709,765 | 38,103,728 |
| Deferred costs, net | 1,139,434 | 1,343,512 |
| Investments | 171,248 | 172,913 |
| Other assets | 544,354 | 455,354 |
| Total assets | $ 56,841,614 | $ 55,078,924 |

## LIABILITIES AND NET DEFICIT

| | 2017 | 2016 |
|---|---|---|
| Current liabilities | | |
| Accrued interest | $ 628,616 | $ 199,473 |
| Accounts payable | 504,864 | 514,757 |
| Accrued liabilities | 1,263,461 | 1,052,346 |
| Deposits on entrance fees | 553,690 | 748,990 |
| Current portion of long-term debt | 868,192 | 172,500 |
| Workers' compensation liability | 154,652 | 384,045 |
| Total current liabilities | 3,973,475 | 3,072,111 |
| Noncurrent liabilities | | |
| Long-term debt, net of current portion | 30,709,058 | 31,589,691 |
| Deferred revenue from entrance fees | 14,404,439 | 13,637,073 |
| Repayable entrance fees liability | 15,574,793 | 15,322,193 |
| Pension liability | 2,683,951 | 2,779,306 |
| Gift annuities payable | 925,171 | 1,006,453 |
| Liabilities under charitable remainder trusts and pooled income funds | 58,390 | 66,588 |
| Total liabilities | 68,329,277 | 67,473,415 |
| Net deficit | | |
| Unrestricted | (11,735,298) | (12,901,006) |
| Temporarily restricted | 247,635 | 506,515 |
| Total net deficit | (11,487,663) | (12,394,491) |
| Total liabilities and net deficit | $ 56,841,614 | $ 55,078,924 |

## Atherton Baptist Homes
### Statements of Operations

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| Revenues, gains, and other support | | |
| Residential services, including amortization of entrance fees of $2,222,240 in 2017 and $2,478,563 in 2016 | $ 10,596,231 | $ 10,395,854 |
| Nursing center revenue | 9,429,550 | 9,553,010 |
| Investment income | 405,394 | 396,453 |
| Gifts | 91,723 | 264,900 |
| Other income | 149,279 | 118,209 |
| Net assets released from restrictions, used for operations | 37,902 | - |
| Total revenues | 20,710,079 | 20,728,426 |
| Operating expenses | | |
| Salaries and benefits | 7,310,526 | 7,038,589 |
| Purchased goods and services | 8,857,390 | 8,528,180 |
| Interest | 1,253,634 | 2,060,659 |
| Provision for doubtful accounts | 69,573 | 123,663 |
| Other expenses | 83,730 | 27,009 |
| Total operating expenses before depreciation and amortization | 17,574,853 | 17,778,100 |
| Operating income before depreciation and amortization | 3,135,226 | 2,950,326 |
| Depreciation | 2,463,530 | 2,481,885 |
| Amortization | 204,078 | 204,078 |
| Total depreciation and amortization | 2,667,608 | 2,685,963 |
| Operating income | $ 467,618 | $ 264,363 |



See accompanying notes.

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Change in unrestricted net deficit | | |
| Operating income | $ 467,618 | $ 264,363 |
| Loss on early extinguishment of debt | - | (6,516,083) |
| Unrealized gains on investments, net | 233,466 | 321,915 |
| Net assets released from restrictions used for purchase of property and equipment | 417,738 | 11,000 |
| Change in minimum pension liability | 46,886 | 176,497 |
| Change in unrestricted net deficit | 1,165,708 | (5,742,308) |
| Temporarily restricted net assets | | |
| Investment income | 6,153 | 7,092 |
| Unrealized gains on investments, net | 7,941 | 3,920 |
| Change in value associated with obligations under charitable remainder trusts and pooled income funds | 182,666 | 249,272 |
| Net assets released from restrictions used for operations | (37,902) | - |
| Net assets released from restrictions used for purchase of property and equipment | (417,738) | (11,000) |
| Change in temporarily restricted net assets | (258,880) | 249,284 |
| Change in net deficit | 906,828 | (5,493,024) |
| Net deficit, beginning of year | (12,394,491) | (6,901,467) |
| Net deficit, end of year | $ (11,487,663) | $ (12,394,491) |

See accompanying notes.

## Atherton Baptist Homes
### Statements of Cash Flows

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities | | |
| Cash received from residents and third-party payors | $ 14,798,962 | $ 14,825,506 |
| Cash received from noncontracted residents | 2,833,597 | 2,739,577 |
| Cash received from deferred entrance fees | 2,733,500 | 3,147,550 |
| Cash received from entrance fees from re-occupancy | 1,243,000 | 2,798,000 |
| Contributions received | 91,723 | 329,150 |
| Dividend and interest income received | 405,394 | 396,453 |
| Other receipts | 300,351 | 337,116 |
| Processing fees | 800 | 10,200 |
| Cash received for services to nonresidents | 19,130 | 16,264 |
| Cash paid to employees, suppliers, and others | (16,190,126) | (15,696,737) |
| Interest paid | (834,022) | (2,876,070) |
| Repayments of repayable entrance fees from re-occupancy | (733,500) | (2,513,313) |
| Cash paid for fundraising costs | (91,247) | (77,304) |
| Net cash provided by operating activities | 4,577,562 | 3,436,392 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (2,153,522) | (1,873,119) |
| Proceeds from sale of property and equipment | 225 | 6,200 |
| Purchases of investments, assets held by bond indenture trustee and assets limited by Board as to use | (9,969,504) | (41,578,513) |
| Proceeds from sale of investments, assets held by bond indenture trustee and assets limited by Board as to use | 7,690,382 | 44,091,998 |
| Decrease in liabilities under charitable remainder trusts, pooled income funds, and gift annuities | (89,480) | (102,035) |
| Net cash (used in) provided by investing activities | (4,521,899) | 544,531 |
| Cash flows from financing activities | | |
| Proceeds from issuance of 2016 refunding bonds | - | 33,848,001 |
| Cost of issuance of bond refinancing | (3,000) | (2,235,324) |
| Cost of debt prepayment of 2010 revenue bonds | - | (33,892,113) |
| Principal payments on long-term debt | (130,000) | (380,000) |
| Principal payments on capital lease obligation | (42,415) | (40,549) |
| Refunds of entrance fees and deposits | (130,794) | (379,180) |
| Net cash used in financing activities | (306,209) | (3,079,165) |
| Net change in cash and cash equivalents | (250,546) | 901,758 |
| Cash and cash equivalents, beginning of year | 3,824,629 | 2,922,871 |
| Cash and cash equivalents, end of year | $ 3,574,083 | $ 3,824,629 |



See accompanying notes.

| | Years Ended December 31, 2017 | 2016 |
|---|---|---|
| Reconciliation of change in net deficit to net cash provided by operating activities | | |
| Change in net deficit | $ 906,828 | $ (5,493,024) |
| Adjustments to reconcile change in net deficit to net cash provided by operating activities: | | |
| Depreciation | 2,463,530 | 2,481,885 |
| Amortization of deferred financing costs | 97,343 | 87,436 |
| Amortization of bond premium | (106,869) | (17,812) |
| Amortization of deferred marketing costs | 204,078 | 204,078 |
| Write-off deferred financing costs | - | 853,971 |
| Loss on bond defeasance | - | 5,662,112 |
| Change in minimum pension liability | (46,886) | (176,497) |
| Provision for doubtful accounts | 69,571 | 123,663 |
| Loss on disposal of property and equipment | 83,730 | 27,009 |
| Amortization of entrance fees | (2,222,240) | (2,478,563) |
| Unrealized gains on investments, net | (241,407) | (325,835) |
| Realized gains on investments, net | (197,930) | (174,854) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 151,052 | (121,246) |
| Contribution receivable | - | 64,250 |
| Prepaid expenses and other current assets | (202,484) | (114,936) |
| Entrance fee receivable | (89,000) | (122,050) |
| Accounts payable | (9,893) | (5,516) |
| Accrued liabilities | 588,908 | (893,636) |
| Deposits on entrance fees | (195,300) | 331,100 |
| Deferred revenue from entrance fees | 2,453,500 | 3,326,200 |
| Entrance fees from re-occupancy | 1,653,000 | 2,798,000 |
| Repayments of repayable entrance fees from re-occupancy | (733,500) | (2,569,905) |
| Pension liability | (48,469) | (29,438) |
| Net cash provided by operating activities | $ 4,577,562 | $ 3,436,392 |
| Supplemental cash flow Information: | | |
| Noncash investing and financing activities: | | |
| Equipment financed through capital lease obligations | $ - | $ 153,408 |

## Note 1 – Nature of Organization

**Organization and business activity** – Atherton Baptist Homes ("Atherton") is a not-for-profit corporation, established in 1914 and licensed by the State of California, Department of Social Services as a continuing care retirement community. Atherton's principal mission is sponsoring a Christian retirement community fostered and supported by the American Baptist Churches, its original sponsoring body, Transformation Ministries, its successor body, and other friends, offering a full range of living options and services to ministers, missionaries and their spouses, and to the lay community. Atherton offers four levels of care, namely, 217 residential living units consisting of one, two, and three bedroom cottages or apartments; 32 congregate assisted living units consisting of one and two rooms; a 4-bed memory support care facility; and a 99-bed skilled nursing facility on an approximately 15-acre campus located in Alhambra, California.

Although Atherton receives no financial assistance directly from the American Baptist Churches, the original sponsoring body, it does receive support from nearly 200 churches from that denomination and its successor body and other friends, which is used to subsidize the difference between the amount paid by residents and the actual cost of operating its facilities. In recognition of support from individual Baptist Churches over the years, ministers and missionaries who have served such churches are given financial assistance upon demonstrated need and as funds are available.

## Note 2 – Summary of Significant Accounting Policies

**Basis of accounting** – Atherton accounts for its financial transactions using the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the accounting period in which revenues are earned regardless of when cash is received and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

**Basis of presentation** – Atherton's financial statement presentation follows the recommendations prescribed in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Financial Statements of Not-for-Profit Entities*. Under ASC Topic 958, Atherton is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and cash equivalents** – Atherton considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**Accounts receivable** – Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for doubtful accounts, and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Workers' compensation** – In accordance with Accounting Standards Update (ASU) No. 2010–24, *Presentation of Insurance Claims and Related Insurance Recoveries*, Atherton recognizes in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries.

**Investments** – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Investment income (including realized gains and losses on investments, interest, and dividends) is included in operating income unless the income (loss) is restricted by donor or law.

**Other-than-temporary impairments of investments** – Atherton determines whether a decline in the fair value of investments below the cost basis is other-than temporary based on objective evidence as well as subjective factors including knowledge of recent events and assumptions regarding future events. If the decline in fair value is judged to be other-than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in operating loss.

**Property and equipment** – Property and equipment are stated on the basis of cost, less accumulated depreciation. Donated assets are recorded at estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method with lives of 5 to 50 years. Atherton capitalizes all expenditures for property and equipment in excess of $1,000.

**Construction in progress** – Construction in progress consists of costs incurred on construction projects that have not been completed. Depreciation begins when related assets are placed in service or became available to be placed in service.

**Accounting for the impairment of long-lived assets and long-lived assets to be disposed of** – Atherton reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. Atherton considers assets to be impaired, and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. Atherton has determined that no long-lived assets were impaired at December 31, 2017 and 2016.

**Deferred costs** – Costs of acquiring initial continuing care contracts, which represent certain advertising and marketing costs incurred with acquiring initial continuing care contracts related to the construction and completion of The Courtyard at Atherton, are amortized on a straight-line basis over the average expected remaining lives of the residents under the contract.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Deferred financing costs** – Costs incurred in obtaining long-term financing are amortized over the respective terms of the related obligations using the interest method. Deferred financing costs are classified as a component of long-term debt. Amortization expense is included as a component of interest expense.

**Obligation to provide future services** – Annually, Atherton calculates the present value (using a 4.0% and 3.0% discount rate at December 31, 2017 and 2016, respectively) of the estimated net cost of future services to be provided to current continuing care residents, and, to the extent this amount exceeds the sum of deposits on entrance fees, a liability would be recorded for the obligation to provide future services with a corresponding charge included in the statements of operations. The change in the obligation during a year would be reported as a current year change in obligation to provide future services in the statements of operations. No such liability was necessary at December 31, 2017 or 2016.

The California Health and Safety Code requires continuing care contract providers to establish and maintain statutory and refund reserves to assure financial resources will be available to fulfill contractual obligations to residents. A reserve fund escrow account is not required of Atherton. The California Health and Safety Code Section 1790 mandates a statutory reserve and a liquid asset requirement. The mandates were met for the years ended December 31, 2017 and 2016.

**Net assets (deficit)** – Atherton's net assets (deficit) comprise the following:

**Unrestricted net assets** – Unrestricted net assets (deficits) represent the portion of expendable net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These net assets are available for support of the ordinary operations and administration of Atherton.

**Temporarily restricted net assets** – Temporarily restricted net assets are those whose use by Atherton has been limited by donors to a specific time or purpose. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. When a donor restriction expires, that is, when a stipulated time restriction and/or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of changes in net deficits released from restrictions. Donor-restricted contributions where restrictions are met within the same year as received, are reflected as unrestricted contributions in the statements of operations.

**Permanently restricted net assets** – Permanently restricted net assets are those whose use by Atherton has been restricted by the donor in perpetuity. As of December 31, 2017 and 2016, Atherton did not have any permanently restricted net assets.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Deferred giving programs** – Atherton has various arrangements with donors under the following terms:

*Gift annuities*: As consideration for certain irrevocable gifts made to Atherton for benevolent purposes, Atherton enters into agreements to make fixed annual payments to the donors or their beneficiaries for life. A liability is established for the present value of future payments, discounted at 6.50%, under the terms of the outstanding annuity contracts, with the difference recorded as unrestricted gifts. Gift annuity assets in excess of the liabilities are available to Atherton for use without approval of the California Department of Insurance. However, the Board of Trustees (the "Board") has limited the use of the excess assets until the gift matures (the death of the beneficiary).

*Charitable remainder trusts*: Atherton is the beneficiary of several revocable charitable remainder trust agreements. Revocable trusts may be revoked by the respective trustors at any time and, therefore, the obligations are carried at an amount equal to the fair value of the assets. Income earned on assets held under revocable trusts is recognized as adjustments to the assets and obligations. Contributions are recognized as temporarily restricted support when the agreements become irrevocable. Upon the death of the trustor, the remaining assets are transferred to unrestricted net assets.

*Pooled income funds*: Various donors have entered into irrevocable gift agreements whereby income earned on the funds is distributed to donor-designated beneficiaries. Under such agreements, contributions are recognized as temporarily restricted support based on the fair value of the assets contributed less the present value of the payments expected to be made to the beneficiaries. The pooled income fund obligations are reflected as liabilities discounted at 6.00%. Upon termination of the irrevocable gift agreements, the remaining assets are transferred to unrestricted net assets.

**Concentration of credit risk** – Atherton maintains its cash balances in several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $250,000 per financial institution, with the exception of balances at Christian Community Credit Union, which are insured by American Private Insurance up to $250,000. From time to time, cash balances may exceed these insured limits. Atherton has not experienced any losses in such accounts.

Financial instruments, which potentially subject Atherton to concentration of credit risk, consist primarily of investments and receivables. Investments are managed by professional investment managers within the guidelines established by the Board, which, as a matter of policy, limit the amounts that may be invested in any one issuer. Concentration of credit risk with respect to receivables is limited due to the number of payors comprising Atherton's customer base. As of December 31, 2017 and 2016, Atherton had no significant concentration of credit risk.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Donated services** – No amounts have been reflected in the financial statements for donated services. Atherton generally pays for services requiring specific expertise. However, many individuals volunteer their time, and perform a variety of tasks that assist Atherton with specific assistance programs.

**Nursing center revenue** – Nursing center revenue is reported on the accrual basis in the period in which services are provided, net of third-party contractual allowances for Medicare, Medicaid, and other programs. Contractual allowances include differences between established billing rates and amounts estimated by management as reimbursable under various cost reimbursement formulas and contracts in effect.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due to, or payable by Atherton until cost reports are audited or otherwise reviewed and settled upon by the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of nursing center revenue in the current year. In the opinion of management, adequate provision has been made for adjustments, if any, which might result from subsequent review.

Atherton is reimbursed for services provided to patients under certain programs administered by governmental agencies. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Atherton believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Entrance and monthly maintenance fees** – Generally, in return for care to be provided by Atherton, residents pay an initial entrance fee and an ongoing monthly maintenance fee. These initial entrance fees will vary in amount and type depending on where the resident resides.

*Repayable Contracts:* Residents that live in Atherton’s courtyard community (“Courtyard”) pay an entrance fee that is either 90%, 80%, or 50% repayable to residents. The repayable entrance fees are recorded as a repayable entrance fee liability in the statements of financial position. At December 31, 2017 and 2016, repayable entrance fee liability totaled approximately $15,575,000 and $15,322,000, respectively.

**Note 2 – Summary of Significant Accounting Policies (continued)**

Atherton also offers a repayable contract for Courtyard residents whereby residents pay an entrance fee ranging from $378,000 for a one-bedroom unit to between $403,000 and $546,000 for a two-bedroom unit and an ongoing monthly maintenance fee. There is an additional entrance fee of $20,000 for occupancy of a second person. The entrance fee is refundable if the resident should leave Atherton as follows:

1. During the first ninety days, the entrance fee paid by the resident is refunded in full.
2. If the resident's tenancy terminates subsequent to the first ninety days, Atherton offers the following re-occupancy benefit refunds to the resident (or their estate) once the unit has been re-occupied:
    a. Re-occupancy benefits equal to 50% of the paid entrance fees.
    b. Re-occupancy benefits equal to 70% of the paid entrance fees.
    c. Re-occupancy benefits equal to 90% of the paid entrance fees.

*Declining Refundable Contracts:* Residents that live in Atherton's independent living units, excluding the Courtyard, pay a one-time entrance fee that is 100% non-refundable.

The refundable portion of entrance fees paid by contracted residents are recorded as deferred revenue from entrance fees in the statements of financial position and are amortized over the estimated life of the resident. Under the re-occupancy benefit contract agreements, Atherton amortizes the non-repayable portion of the paid entrance fee over the resident's expected life. The net deferred revenue from entrance fees for residents under the declining refundable contracts amounted to approximately $14,404,000 and $13,637,000 at December 31, 2017 and 2016, respectively.

Residents pay for the right to occupy Atherton's units and for access to its services, but do not obtain title to any of its real estate. Monthly maintenance fees are reported on the accrual basis in the period in which services are provided.

**Advertising costs** – Advertising costs (not associated with acquiring initial continuing-care contracts) are charged to operations when incurred. Total advertising expense for the years ended December 31, 2017 and 2016 were approximately $29,000 and $37,000, respectively, and are included in purchased goods and services in the accompanying statements of operations.

**Performance indicator** – Operating income is the performance indicator. Changes in unrestricted net deficit, which are excluded from operating income, include loss on early extinguishment of debt, unrealized gains and losses on other-than-trading securities, restricted contributions expended during the year for capital, and changes in the minimum pension liability.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Income taxes** – Atherton is organized as a non-profit corporation under the general non-profit corporation laws of the State of California, and is exempt from federal income taxation under Internal Revenue Code section 501(c)(3). Non-profit organizations are generally not liable for taxes on income; therefore, no provision is made for such taxes in the financial statements.

Atherton considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Atherton evaluates its uncertain tax positions using the provisions with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These standards require management to perform an evaluation of all tax positions taken, or expected to be taken in the course of preparing the Atherton's tax returns. Management believes the tax positions taken more likely than not will be sustained under examination by the applicable tax authorities. Examples of tax positions include tax-exempt status of Atherton, and various positions related to the potential sources of unrelated business taxable income. Since tax matters are subject to some degree of uncertainty, there can be no assurance that Atherton's tax returns will not be challenged by the taxing authorities, and that Atherton will not be subject to tax, penalties, and interest as a result of such challenge. Generally, Atherton's tax returns remain open for three years for federal income tax examination and four years for state income tax examination.

**Use of estimates** – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Fair value measurements** – FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* prescribes fair value measurements and disclosures for financial and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements. FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

The carrying amounts reported in the statements of financial position for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, other assets and accrued liabilities approximate fair value. The fair values of assets limited as to use and investments are disclosed in Note 4. The fair values of long-term debt are disclosed in Note 11.

**Going concern** – In connection with the preparation of the financial statements for the year ended December 31, 2017, Atherton conducted an evaluation as to whether there were conditions and events, considered in the aggregate, which raised substantial doubt as to Atherton’s ability to continue as a going concern within one year after the date the financial statements were issued.

**Note 2 – Summary of Significant Accounting Policies (continued)**

**New accounting guidance** – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. As compared to existing guidance on revenue recognition, ASU No. 2014-09 will significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The largely principles-based guidance in ASU No. 2014-09 will provide a framework for addressing revenue recognition issues comprehensively for entities that apply U.S. GAAP in addition to those entities that apply International Financial Reporting Standards. The guidance in ASU No. 2014-09 also improves U.S. GAAP by reducing the number of requirements to which an entity must consider in recognizing revenue, as well as requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The effective date of ASU No. 2014-09 was deferred by ASU No. 2015-14, *Deferral of the Effective Date,* to annual periods beginning after December 15, 2017 (fiscal year ending December 31, 2018 for Atherton). Atherton is currently evaluating the impact of the provisions of ASU No. 2014-09 on its financial statements.

In August 2016, the FASB issued ASU No. 2016-04, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. The amendments in this update are effective for fiscal years beginning after December 15, 2017 and interim periods beginning after December 15, 2018, with application to interim financial statements permitted but not required in the initial year of application. Management is currently evaluating the impact of the provisions of ASU No. 2016-04 on its financial statements.

In the normal course of business, Atherton evaluates all new accounting pronouncements to determine the potential impact they may have on its financial statements. Based upon this evaluation, Atherton does not expect any of the remaining recently issued accounting pronouncements, which have not already been adopted by Atherton, to have a material impact on its financial statements.

**Subsequent events** – Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are issued. Atherton recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. Atherton has evaluated subsequent events through April 20, 2018, which is the date the financial statements were issued, and concluded that there were no additional events or transactions that need to be disclosed.

### Note 3 – Assets Limited as to Use

Assets limited as to use are comprised of the following:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Assets limited by Board as to use | $ | 5,481,454 | $ | 5,263,845 |
| Assets held by trustee under bond indenture | | 2,510,778 | | 1,382,617 |
| Restricted by donor for capital projects | | 113,980 | | 400,295 |
| | $ | 8,106,212 | $ | 7,046,757 |

Assets limited by Board as to use consisted of board-designated funds, including unrestricted gifts received by Atherton. Although such funds are not legally restricted as to use, it is the Board's current intention that these assets would remain intact and that only the interest earned on these assets would be available to subsidize operations. Atherton's Board has designated these assets for this purpose, however such designation can be changed at any time.

As part of the bond indentures (Note 11), several restricted funds were established and are maintained by the Trustee. These funds consist of cash and cash equivalents and fixed income securities. The balance in each fund is as follows:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Debt Service Reserve Fund | $ | 1,046,585 | $ | 1,042,561 |
| Interest Fund | | 633,325 | | 200,775 |
| Principal Fund | | 825,000 | | 130,000 |
| Cost of Issuance Fund | | - | | 9,281 |
| Revenue Fund | | 5,868 | | - |
| | | 2,510,778 | | 1,382,617 |
| Less: current portion | | 1,454,000 | | 329,500 |
| | $ | 1,056,778 | $ | 1,053,117 |

Per the bond indenture, Atherton also maintains an Operating Reserve Fund for its own discretion. The Operating Reserve Fund, which totals approximately $2,711,000 and $2,556,000 as of December 31, 2017 and 2016, respectively, is included in the accompanying statements of financial position under assets limited by Board as to use.

**Note 4 – Investments**

Investments are classified in the accompanying statements of financial position as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Investments - general fund | $ 3,680,785 | $ 2,020,114 |
| Assets held by bond indenture trustee | 2,510,778 | 1,382,617 |
| Assets limited by Board as to use | 5,481,454 | 5,263,845 |
| Assets restricted by donor for capital expenditures | 113,980 | 400,295 |
| Other investments (held under charitable remainder trusts and pooled income funds) | 171,248 | 172,913 |
| | $ 11,958,245 | $ 9,239,784 |

Assets received under gift annuities are included in assets limited by Board as to use and total approximately $2,379,000 and $2,326,000 at December 31, 2017 and 2016, respectively.

The following table discloses the composition of investment return:

| | Years Ended December 31, 2017 | Years Ended December 31, 2016 |
|---|---|---|
| Unrestricted net assets: | | |
| Interest and dividend income | $ 207,443 | $ 222,954 |
| Realized gains, net | 197,951 | 173,499 |
| Unrealized gains, net | 233,466 | 321,915 |
| | $ 638,860 | $ 718,368 |
| Temporarily restricted net assets: | | |
| Interest and dividend income | $ 6,174 | $ 4,685 |
| Realized (losses) gains, net | (21) | 2,407 |
| Unrealized gains, net | 7,941 | 3,920 |
| | $ 14,094 | $ 11,012 |

Atherton paid approximately $103,000 and $95,000 in investment consulting fees during the years ended December 31, 2017 and 2016, respectively, which is included in purchased goods and services expense on the statements of operations.

### Note 5 – Fair Value Measurements

In accordance with FASB ASC Topic 820, Atherton classifies its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

**Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, assets and liabilities at fair value at December 31, 2017:

| | Fair Value Measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| U.S. equities | $ 4,388,299 | $ - | $ - | $ 4,388,299 |
| Certificates of deposit | - | 2,006,364 | - | 2,006,364 |
| Money market funds | 3,348,082 | - | - | 3,348,082 |
| Exchange traded funds | 2,215,500 | - | - | 2,215,500 |
| Total assets | $ 9,951,881 | $ 2,006,364 | $ - | $ 11,958,245 |
| Liabilities: | | | | |
| Liabilities included in accrued liabilities | | | | |
| Obligations under gift annuity payable | $ - | $ - | $ 925,171 | $ 925,171 |
| Obligations under charitable remainder trusts and pooled income funds | - | - | 58,390 | 58,390 |
| Total liabilities | $ - | $ - | $ 983,561 | $ 983,561 |

**Note 5 – Fair Value Measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, assets and liabilities at fair value at December 31, 2016:

| | Fair Value Measurements as of December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| U.S. equities | $ 4,169,044 | $ - | $ - | $ 4,169,044 |
| Certificates of deposit | - | 484,156 | - | 484,156 |
| Corporate bonds | - | - | - | - |
| Money market funds | 2,591,346 | - | - | 2,591,346 |
| Exchange traded funds | 1,995,238 | - | - | 1,995,238 |
| Total assets | $ 8,755,628 | $ 484,156 | $ - | $ 9,239,784 |
| Liabilities: | | | | |
| Liabilities included in accrued liabilities | | | | |
| Obligations under gift annuity payable | $ - | $ - | $ 1,006,453 | $ 1,006,453 |
| Obligations under charitable remainder trusts and pooled income funds | - | - | 66,588 | 66,588 |
| Total liabilities | $ - | $ - | $ 1,073,041 | $ 1,073,041 |

The following table is a rollforward of the amounts for financial instruments classified within Level 3 of the fair value hierarchy in the accompanying balance sheets as of and for the year ended December 31, 2017:

| | Obligations under gift annuity payable | Obligations under charitable remainder trusts and pooled income funds | Total |
|---|---|---|---|
| Balance, beginning of year | $ 1,006,453 | $ 66,588 | $ 1,073,041 |
| Additions | - | - | - |
| Sales | (26,393) | - | (26,393) |
| Amortization for the year | (54,889) | - | (54,889) |
| Change in value | - | (8,198) | (8,198) |
| Balance, end of year | $ 925,171 | $ 58,390 | $ 983,561 |

### Note 5 – Fair Value Measurements (continued)

The following table is a rollforward of the amounts for financial instruments classified within Level 3 of the fair value hierarchy in the accompanying balance sheets as of and for the year ended December 31, 2016:

| | Obligations under gift annuity payable | Obligations under charitable remainder trusts and pooled income funds | Total |
|---|---|---|---|
| Balance, beginning of year | $ 1,098,297 | $ 76,779 | $ 1,175,076 |
| Additions | 17,946 | - | 17,946 |
| Sales | (44,689) | - | (44,689) |
| Amortization for the year | (65,101) | - | (65,101) |
| Change in value | - | (10,191) | (10,191) |
| Balance, end of year | $ 1,006,453 | $ 66,588 | $ 1,073,041 |

The following is a description of the valuation methodologies used for investments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of other investments pursuant to the valuation hierarchy:

*U.S. equities, certificate of deposits, money market funds, and exchange-traded funds*: valued at fair value by reference to quoted market prices in active markets for identical assets or liabilities (unadjusted) and other relevant generated market transactions that Atherton has the ability to access at the measurement date.

*Charitable remainder trusts, charitable gift annuities and pooled income funds*: fair value is estimated using present value techniques. The net present value is determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and the appropriate federal interest rate, and is adjusted annually.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management 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. There have been no changes in the methodologies used at December 31, 2017 and 2016.

As part of the Level 3 securities valuation process, management determines the fair value measurement policies and procedures. These policies and procedures are reassessed periodically to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary, based on the current market conditions and other third party information.

**Note 6 – Assets Held in Trust for Residents**

Residents can deposit personal-use funds into trust accounts maintained by Atherton. These funds are maintained strictly for use by the residents for their personal expenses, including monthly charges for personal and nursing care at agreed-upon rates. If a resident leaves Atherton, the balance remaining in the fund is returned. Assets held in trust for residents, included in prepaid expenses and other current assets, amounted to approximately $797,000 and $613,000 at December 31, 2017 and 2016, respectively. As these funds do not represent assets of Atherton, a corresponding trust account liability is included in accrued liabilities.

**Note 7 – Property and Equipment**

Property and equipment consists of the following:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Buildings and improvements | $ 59,685,604 | $ 57,912,288 |
| Major movable and fixed equipment | 11,156,776 | 10,702,985 |
| | 70,842,380 | 68,615,273 |
| Less accumulated depreciation | 37,419,675 | 35,387,010 |
| Total depreciable assets | 33,422,705 | 33,228,263 |
| Land | 3,350,093 | 3,350,093 |
| Construction in progress | 936,967 | 1,525,372 |
| | $ 37,709,765 | $ 38,103,728 |

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to approximately $2,464,000 and $2,482,000, respectively.

**Note 8 – Deferred Costs, Net**

Deferred costs, net of accumulated amortization, are comprised of the following:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Costs of acquiring initial continuing care contracts | $ 2,443,110 | $ 2,443,110 |
| Less: accumulated amortization | 1,303,676 | 1,099,598 |
| Costs of acquiring initial continuing care contracts, net | $ 1,139,434 | $ 1,343,512 |

### Note 8 – Deferred Costs, Net (continued)

Amortization expense for the years ended December 31, 2017 and 2016 amount to approximately $204,000 each year.

### Note 9 – Accrued Workers' Compensation Claims

On November 20, 2013, Atherton entered into a guaranteed cost policy insurance program to cover workers' compensation claims. Under the current policy, claims are unlimited on a per claim basis with no deductible. The terms of the policy were renewed on November 20, 2017.

Prior to November 20, 2013, Atherton participated in a self-insured workers' compensation program with two other retirement communities. Under this program, Atherton purchased workers' compensation policies from a commercial insurance carrier, and subsequently reinsured back a portion of their claims costs through a captive insurance company. The arrangement with the other retirement communities allowed for the sharing of the captive expenses, but not the cost of workers' compensation claims unless default occurred with the other retirement communities. Under the program, in the event that the commercial insurance company is called to satisfy any outstanding obligation of the retirement communities, the insurer has the right of indemnification from each retirement community on a joint and several basis. Atherton assumed the cost of its workers' compensation claims up to $350,000 of each claim, plus allocated loss adjustment expense.

Atherton deposited funds in the captive insurance company on an annual basis and recorded this as an insurance premium expense. In addition, Atherton has pledged letters of credit totaling approximately $656,000 as additional funding of this liability. Under an agreement with the captive insurance company, Atherton and the other two members of the captive group receive returns of the excess profits periodically. Returns of the excess profits received in a given calendar year are recognized as a decrease in insurance premium expense. The remaining funds are held by the captive insurance company for future potential liabilities. The captive insurance company annually estimates reserves for unpaid losses. Estimates used for reserves may or may not be sufficiently covered by deposits in any individual year or collectively, and may require additional funding. As of December 31, 2017 and 2016, management believes that the captive insurance company is adequately funded for the workers' compensation claim costs.

### Note 10 – Line of Credit

Atherton has a $500,000 unsecured revolving line of credit that is renewable annually. The line of credit bears interest at 1.5% above the prime rate published in the Wall Street Journal (with a floor rate of 4.0%) per annum. The interest rate was 4.0% as of December 31, 2017. No amounts were outstanding at December 31, 2017 or 2016.

**Note 11 – Long-Term Debt**

In November 2016, Atherton issued $31,390,000 of Series 2016 Insured Revenue Refunding Bonds ("Series 2016 Bonds") at a premium of approximately $2,440,000. Interest is at fixed rates ranging from 2.0% to 5.0% per annum, payable on January 1 and July 1 through 2040.

Long-term debt consists of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Series 2016 Insured Revenue Refunding Bonds with annual principal payments due through 2033, at a stated interest rate of 2.0% to 5.0% per annum. Interest is payable semi-annually on January 1 and July 1. | $ 31,260,000 | $ 31,390,000 |
| Capital lease, secured by equipment, with monthly principal payments due through 2020, at a stated interest rate of 4.50% per annum. Interest is payable monthly on the 10th of each month. | 108,716 | 151,131 |
| | 31,368,716 | 31,541,131 |
| Less: current maturities | 868,192 | 172,500 |
| Less: unamortized deferred financing costs | 2,124,786 | 2,219,129 |
| Plus: unamortized bond premium | 2,333,320 | 2,440,189 |
| | $ 30,709,058 | $ 31,589,691 |

As part of the indenture, Atherton granted to the Trustee the following:

1. First lien on the land and buildings owned by Atherton.
2. Security interest in substantially all assets and gross revenue of Atherton.
3. Assignment of Atherton's right in resident agreements.

Atherton is also required to comply with various restrictive and financial covenants as specified in the Indenture, including a debt service coverage ratio, a current ratio, and a cash on hand requirement.

**Note 11 – Long-Term Debt (continued)**

Principal payments due are as follows:

| Fiscal Year | Principal Payments |
|---|---|
| 2018 | $ 868,192 |
| 2019 | 882,026 |
| 2020 | 908,498 |
| 2021 | 910,000 |
| 2022 | 945,000 |
| Thereafter | 26,855,000 |
| Totals | $ 31,368,716 |

Long-term debt is carried at amortized cost. The fair value of Atherton's long-term debt is estimated to equal its carrying value based on Level 2 inputs, such as the quoted market prices for the same or similar issues or on the current rates offered to Atherton for debt of the same remaining maturities. The following table presents Atherton's estimated fair values of the long-term debt in accordance with FASB ASC Topic 825, *Financial Instruments*:

| | December 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Series 2016 Revenue Refunding Bonds | $ 31,260,000 | $ 31,390,000 | $ 31,390,000 | $ 31,390,000 |

**Note 12 – Pension Plans**

Atherton has two noncontributory employee retirement plans; a defined contribution plan and a defined benefit plan.

The defined contribution plan covered all employees effective January 1, 2004. The Ministers and Missionaries Benefit Board of the American Baptist Churches maintain this plan. Contributions to this plan are based on a percentage of participating employees' salaries. The defined contribution plan expense for the years ended December 31, 2017 and 2016 totaled approximately $461,000 and $411,000, respectively.

The defined benefit plan (the "pension plan") was frozen effective December 31, 2003. However, pension plan funding was to continue until such time that the pension plan was terminated and all obligations were satisfied.

**Note 12 – Pension Plans (continued)**

The following tables summarize the obligations and funded status of Atherton's pension plan:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Benefit obligation at December 31 | $ 3,859,722 | $ 3,747,591 |
| Benefit payments | 150,213 | 146,820 |
| Fair value of plan assets at December 31 | 1,175,771 | 968,285 |
| Net unfunded status of plan | 2,683,951 | 2,779,306 |

Amounts recognized in the statements of financial position consist of:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Pension liability | $ 2,683,951 | $ 2,779,306 |

Amounts recognized in the statements of changes in unrestricted net assets:

| | Years Ended December 31, 2017 | Years Ended December 31, 2016 |
|---|---|---|
| Actuarial losses | $ 1,335,966 | $ 1,382,852 |

The projected benefit obligation, accumulated obligation, and fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Project benefit obligation | $ 3,859,722 | $ 3,747,591 |
| Accumulated benefit obligation | 3,859,722 | 3,747,591 |
| Fair value of plan assets | 1,175,771 | 968,285 |

The net periodic benefit cost recognized in the statements of changes in net assets is as follows:

| | Years Ended December 31, 2017 | Years Ended December 31, 2016 |
|---|---|---|
| Net periodic pension cost | $ 221,615 | $ 231,193 |

**Note 12 – Pension Plans (continued)**

Atherton has recognized, in the accompanying statements of financial position, the minimum liability of the unfunded accumulated benefit obligation as unfunded pension liability with an offsetting adjustment to unrestricted net assets. For the year ended December 31, 2017, the minimum pension liability was decreased by approximately $95,000, bringing the total unfunded pension liability to approximately $2,684,000 at December 31, 2017. For the year ended December 31, 2016 the minimum pension liability was decreased by approximately $206,000, bringing the total unfunded pension liability to approximately $2,779,000 at December 31, 2016.

The actuarial loss that will be amortized from unrestricted net deficit into net periodic pension cost over the next fiscal year is approximately $128,000.

**Assumptions:**

The weighted-average assumptions used to determine benefit obligations at December 31 were as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate | 4.50% | 4.50% |
| Rate of compensation increase | N/A | N/A |

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Discount rate | 4.50% | 4.50% |
| Expected return on plan assets | 7.00% | 7.00% |
| Rate of compensation increase | N/A | N/A |

The expected return on plan assets was determined based on historical and expected future returns of the various asset classes.

The primary investment objective of Atherton is to preserve and protect the assets of Atherton while earning a rate of return that is appropriate for each fund. After preservation of capital, the objectives of Atherton are (1) the growth of principal and income to offset inflation, and (2) the production of a current income.

**Note 12 – Pension Plans (continued)**

To accomplish Atherton's investment objectives, balanced portfolios of equity (common stocks and convertible securities), fixed income, and short-term reserves are utilized. As a guide to accomplishing these objectives the following maximum and minimum percentage guidelines (percentage of market value) are to be observed as long-term controls:

| Asset Class | Target Allocation (Max/Min) |
|---|---|
| Equity | 90%/10% |
| Fixed income | 90%/10% |
| Short-term reserves | 10%/5% |

**Contributions** – Since January 2006, Atherton has been setting aside an annual amount of $180,000 of general fund assets to fund the pension plan. Atherton expects to contribute approximately $270,000 to its pension plan during the year ending December 31, 2017. The balance of the general fund assets totaled approximately $1,176,000 and $968,000 as of December 31, 2017 and 2016, respectively.

**Measurement date** – The measurement date used to determine pension benefit measures for the plan is December 31.

The fair values of Atherton’s plan assets at December 31 (the measurement date), by asset category, are as follows:

| | Fair Value as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash | $ 146,846 | $ - | $ - | $ 146,846 |
| Equity securities | 888,437 | - | - | 888,437 |
| Fixed income securities | 125,115 | - | - | 125,115 |
| Total plan assets | 1,160,398 | - | - | 1,160,398 |
| Net of prepayment and payable | 15,373 | - | - | 15,373 |
| Net plan assets | $ 1,175,771 | $ - | $ - | $ 1,175,771 |

| | Fair Value as of December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash | $ 98,947 | $ - | $ - | $ 98,947 |
| Equity securities | 712,376 | - | - | 712,376 |
| Fixed income securities | 169,996 | - | - | 169,996 |
| Total plan assets | 981,319 | - | - | 981,319 |
| Net of prepayment and payable | (13,034) | - | - | (13,034) |
| Net plan assets | $ 968,285 | $ - | $ - | $ 968,285 |

### Note 12 – Pension Plans (continued)

As of December 31, 2017, expected future benefit payments were as follows:

| Years ending December 31, | | |
|---|---|---|
| 2018 | $ | 180,932 |
| 2019 | | 197,819 |
| 2020 | | 196,296 |
| 2021 | | 207,977 |
| 2021 | | 217,911 |
| Thereafter | | 1,306,678 |
| | $ | 2,307,613 |

### Note 13 – Functional Expenses

Atherton provides residential and nursing center services to its residents. Expenses related to providing these services for 2017 and 2016 are as follows:

| | Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Residential services | $ 8,394,010 | $ 8,578,026 |
| Nursing center services | 8,404,266 | 8,440,298 |
| General and administrative | 3,216,070 | 3,252,478 |
| Fundraising | 228,115 | 193,261 |
| | $ 20,242,461 | $ 20,464,063 |

### Note 14 – Contingencies

Atherton is subject to many complex federal, state, and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation unknown or unasserted regulatory actions. Government activity, with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient service revenues. Management believes any actions that may result from investigations of non-compliance with laws and regulations will not have a material effect on Atherton's future financial position or results of operations.