REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

ATHERTON BAPTIST HOMES

December 31, 2018 and 2017

MOSSADAMS

Table of Contents

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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matters

As discussed in Note 2 to the financial statements, as of and for the year ended December 31, 2018, Atherton Baptist Homes adopted Accounting Standards Update (ASU) 2016-15, *Presenting Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs to programmatic and other support information, and direction for consistency about information provided on investment return. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and the disclosures related to net assets. The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, on January 1, 2018, Atherton Baptist Homes adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. The adoption of the standard resulted in the write-off of unamortized deferred marketing costs and additional footnote disclosures and has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, on January 1, 2018, Atherton Baptist Homes adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including requiring equity investments (other than those under the equity method) to be measured at each reporting at fair value through the performance indicator, with an exception allowed for equity investments that do not have readily determinable fair value, thereby eliminating the other-than trading equity security designation. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Irvine, California
April 23, 2019

ASSETS

	December 31, 2018	December 31, 2017
CURRENT ASSETS		
Cash and cash equivalents	$ 4,985,776	$ 3,574,083
Short term investments	5,786,902	3,680,785
Accounts receivable, less allowance for doubtful accounts of $150,000 in 2018 and $130,000 in 2017	363,819	547,649
Assets limited as to use, required for current liabilities	1,466,000	1,454,000
Prepaid expenses and other current assets	1,130,773	1,237,711
Insurance recoveries receivable	302,040	130,373
Total current assets	14,035,310	10,624,601
NONCURRENT ASSETS		
Assets limited as to use, net of current portion	5,284,651	6,652,212
Property and equipment, net	36,695,471	37,709,765
Investments	155,375	171,248
Other assets	224,854	544,354
Total assets	$ 56,395,661	$ 55,702,180

LIABILITIES AND NET DEFICIT

	December 31, 2018	December 31, 2017
CURRENT LIABILITIES		
Accrued interest	$ 616,241	$ 628,616
Accounts payable	530,502	504,864
Accrued liabilities	1,194,793	1,263,461
Deposits on entrance fees	754,520	553,690
Current portion of long-term debt	882,000	868,192
Workers' compensation liability	387,040	154,652
Total current liabilities	4,365,096	3,973,475
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	29,817,507	30,709,058
Deferred revenue from entrance fees	14,602,379	14,404,439
Repayable entrance fees liability	15,812,283	15,574,793
Pension liability	2,461,868	2,683,951
Gift annuities payable	794,057	925,171
Liabilities under charitable remainder trusts and pooled income funds	49,629	58,390
Total liabilities	67,902,819	68,329,277
NET DEFICIT		
Without donor restriction	(11,806,436)	(12,874,732)
With donor restriction	299,278	247,635
Total net deficit	(11,507,158)	(12,627,097)
Total liabilities and net deficit	$ 56,395,661	$ 55,702,180

Atherton Baptist Homes
Statements of Operations

	Years Ended December 31, 2018	2017
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTION		
REVENUES		
Residential services, including amortization of entrance fees of $2,634,979 in 2018 and $2,222,240 in 2017	$ 11,380,500	$ 10,596,231
Nursing center revenue	10,241,498	9,429,550
Investment income, net of fees	336,687	302,394
Gifts	730,736	91,723
Other income	165,312	149,279
Net assets released from restrictions, used for operations	54,000	37,902
Total revenues	22,908,733	20,607,079
OPERATING EXPENSES		
Salaries and benefits	7,794,569	7,310,526
Purchased goods and services	9,312,539	8,754,390
Interest	1,226,915	1,253,634
Provision for doubtful accounts	44,303	69,573
Loss on fixed asset disposal	43,427	83,730
Total operating expenses before depreciation	18,421,753	17,471,853
OPERATING INCOME BEFORE DEPRECIATION	4,486,980	3,135,226
Depreciation	2,605,265	2,463,530
Total operating income	1,881,715	671,696
Nonoperating (expense) income		
Change in unrealized (losses) gains on equity securities	(761,376)	233,466
EXCESS OF REVENUE OVER EXPENSES	$ 1,120,339	$ 905,162

See accompanying notes.

	Years Ended December 31, 2018	2017
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTION		
Excess of revenue over expenses	$ 1,120,339	$ 905,162
Net assets released from restrictions used for purchase of property and equipment	13,000	417,738
Change in minimum pension liability	(65,043)	46,886
Change in net deficit without donor restriction	1,068,296	1,369,786
CHANGE IN NET ASSETS WITH DONOR RESTRICTION		
Investment income	10,042	6,153
Unrealized (losses) gains on investments, net	(15,323)	7,941
Change in value associated with obligations under charitable remainder trusts and pooled income funds	123,924	182,666
Net assets released from restrictions used for operations	(54,000)	(37,902)
Net assets released from restrictions used for purchase of property and equipment	(13,000)	(417,738)
Change in net assets with donor restriction	51,643	(258,880)
CHANGE IN NET DEFICIT	1,119,939	1,110,906
NET DEFICIT, beginning of year, as previously reported	(12,627,097)	(12,394,491)
Cumulative effect of change in accounting principle	-	(1,343,512)
NET DEFICIT, beginning of year, as adjusted	(12,627,097)	(13,738,003)
NET DEFICIT, end of year	$ (11,507,158)	$ (12,627,097)

Atherton Baptist Homes
Statements of Cash Flows

	Years Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	$ 16,064,713	$ 14,798,962
Cash received from noncontracted residents	2,761,882	2,833,597
Cash received from deferred entrance fees	2,458,650	2,733,500
Cash received from entrance fees from re-occupancy	1,841,000	1,243,000
Contributions received	730,738	91,723
Dividend and interest income received	336,687	405,394
Other receipts	329,243	300,351
Processing fees	1,497	800
Cash received for services to nonresidents	19,400	19,130
Cash paid to employees, suppliers, and others	(16,506,034)	(16,190,126)
Interest paid	(1,248,841)	(834,022)
Repayments of repayable entrance fees from re-occupancy	(852,810)	(733,500)
Cash paid for fundraising costs	(90,457)	(91,247)
Net cash provided by operating activities	5,845,668	4,577,562
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,634,663)	(2,153,522)
Proceeds from sale of property and equipment	265	225
Purchases of investments, assets held by bond indenture trustee and assets limited by Board as to use	(11,529,784)	(9,969,504)
Proceeds from sale of investments, assets held by bond indenture trustee and assets limited by Board as to use	10,164,208	7,690,382
Decrease in liabilities under charitable remainder trusts, pooled income funds, and gift annuities	(139,875)	(89,480)
Net cash used in investing activities	(3,139,849)	(4,521,899)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cost of issuance of bond refinancing	-	(3,000)
Principal payments on long-term debt	(825,000)	(130,000)
Principal payments on capital lease obligation	(43,195)	(42,415)
Refunds of entrance fees and deposits	(425,931)	(130,794)
Net cash used in financing activities	(1,294,126)	(306,209)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,411,693	(250,546)
CASH AND CASH EQUIVALENTS, beginning of year	3,574,083	3,824,629
CASH AND CASH EQUIVALENTS, end of year	$ 4,985,776	$ 3,574,083

See accompanying notes.

	Years Ended December 31, 2018	2017
Reconciliation of change in net deficit to net cash provided by operating activities		
Change in net deficit	$ 1,119,939	$ 1,110,906
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation	2,605,265	2,463,530
Amortization of deferred financing costs	97,322	97,343
Amortization of bond premium	(106,870)	(106,869)
Change in minimum pension liability	65,043	(46,886)
Provision for doubtful accounts	44,303	69,571
Loss on disposal of property and equipment	43,427	83,730
Amortization of entrance fees	(2,634,979)	(2,222,240)
Unrealized losses (gains) on investments, net	776,699	(241,407)
Realized gains on investments, net	(145,806)	(197,930)
Changes in operating assets and liabilities:		
Accounts receivable	139,527	151,052
Prepaid expenses and other current assets	106,938	(202,484)
Entrance fee receivable	319,500	(89,000)
Accounts payable	25,638	(9,893)
Accrued liabilities	(20,322)	588,908
Deposits on entrance fees	200,830	(195,300)
Deferred revenue from entrance fees	2,508,150	2,453,500
Entrance fees from re-occupancy	1,841,000	1,653,000
Repayments of repayable entrance fees from re-occupancy	(852,810)	(733,500)
Pension liability	(287,126)	(48,469)
Net cash provided by operating activities	$ 5,845,668	$ 4,577,562

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, also known as a life plan community. Atherton's principal mission is to be a senior community rooted in Christian values, enriching lives and honoring all. 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.

Atherton operates primarily under the “continuing care” concept in which residents enter into a residential contract that generally provides for a specified entrance fee, with certain options for refunds, and for monthly service fees throughout the residents’ tenancy. Generally, payment of these fees entitles residents to the use and privileges of Atherton for life. Residents are also entitled to certain health care services provided in the Atherton assisted living and skilled nursing facility. The residency agreement does not entitle the residents to an ownership interest in Atherton.

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 presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Presenting Financial Statements for Not-for-Profit Entities*. Atherton has implemented ASU 2016-14 as of December 31, 2018 and has adjusted the presentation in these financial statements accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 14), and inclusion of information provided about functional expenses (Note 15). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction – Represent unrestricted resources available to support Atherton’s operations and temporarily restricted resources that have become available for use by Atherton in accordance with the intention of the donor.

Note 2 – Summary of Significant Accounting Policies (continued)

Net Assets with Donor Restriction – Represent contributions that are limited in use by Atherton in accordance with donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

In accordance with ASU 2016-14, net assets at December 2017 have been reclassified as follows:

	Without Donor Restriction	With Donor Restriction
Unrestricted	$ (12,874,732)	$ -
Temporarily restricted	-	247,635
Permanently restricted	-	-
	$ (12,874,732)	$ 247,635

Cash and cash equivalents – Atherton considers all highly liquid instruments, with a maturity of three months or less at the time of purchase, to be cash equivalents.

Accounts receivable – Accounts receivable represent amounts due from residents for deposits, monthly service fees and health service fees. An allowance for doubtful accounts is based upon an analysis of the collectability of outstanding amounts. Accounts deemed uncollectible are charged against the allowance. Subsequent recoveries of bad debts are credited to the allowance. As of December 31, 2018 and 2017, all accounts were deemed collectible. Accounts receivable balances over 90-days at December 31, 2018 and 2017, were approximately $50,000 and $69,000, respectively.

Workers' compensation – ASU 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.

Note 2 – Summary of Significant Accounting Policies (continued)

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including requiring equity investments (other than those under the equity method) to be measured at each reporting at fair value through the performance indicator, with an exception allowed for equity investments that do not have readily determinable fair value, thereby eliminating the other-than trading equity security designation. This update was effective for Atherton beginning January 1, 2018. As a result, unrealized losses of approximately $761,000 and unrealized gains of $233,000 for the years ending December 31, 2018 and 2017, respectively, are presented within excess of revenues over expenses.

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, 2018 and 2017.

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, were previously capitalized and amortized on a straight-line basis over the average expected remaining lives of the residents under the contract. Upon adoption of Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2017, such costs are required to be expensed as incurred. Atherton recognized a cumulative effect of change in accounting principle of approximately $1,344,000 on January 1, 2017, which represents the unamortized deferred marketing costs at December 31, 2016.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Repayable and deferred entrance fees – Generally, in return for care to be provided by Atherton, residents pay an initial entrance fee. The 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 repayable entrance fee liability in the statements of financial position. At December 31, 2018 and 2017, repayable entrance fee liability totaled approximately $15,812,000 and $15,575,000, respectively.

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: Resident's that live in Atherton's independent living units, excluding the Courtyard, pay a one-time entrance fee that is 100% non-refundable. 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 to refund the paid entrance fees minus two and one-twelfth percent for each month or partial month from the date the resident signed the Agreement until the date the resident made the unit available to Atherton.
3. There shall be no refund after forty-eight months from the date the resident signed the Agreement.

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 remaining life expectancy of the resident. Resident life expectancy is reevaluated annually.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

Obligation to provide future services – Annually, Atherton calculates the present value (using a 5% and 4.0% discount rate at December 31, 2018 and 2017, 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, 2018 or 2017.

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, 2018 and 2017.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2018 and 2017, Atherton had no significant concentration of credit risk.

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.

Revenue recognition – On January 1, 2018, Atherton adopted ASC 606 applying the full retrospective method. All periods presented have been adjusted and are reported in accordance with ASC 606. The adoption of ASC 606 did not have a material impact on the measurement nor on the recognition of revenue.

Residential services revenue – Residential services revenue is reported at the amount that reflects the consideration to which Atherton expects to be entitled to in exchange for the services provided. Under Atherton’s resident services agreement, Atherton provides senior living services to residents for a stated monthly fee. Atherton recognizes revenue for senior living services under the residential services agreement for independent living and assisted living in accordance with the provision of ASC 840, *Leases* (“ASC 840”).

Nursing center revenue – Nursing center revenue is reported at the amount that reflects the consideration to which Atherton expects to be entitled to in exchange for providing care. These amounts are due from patients, net of third-party contractual allowances for Medicare, Medicaid, and other programs. Generally, Atherton bills patients and third-party payors at the beginning of each month and send a final bill or reconciliation at the time of discharge. Revenue is recognized in the month in which the performance obligations are satisfied.

Revenue for health service performance obligations satisfied over time is recognized based on actual charges incurred. Atherton believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents in our skilled nursing facility. Atherton measures the performance obligation from admission into the skilled nursing facility to point when it is no longer required to provide health care services to that resident, which is generally at the time of discharge.

Atherton determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party. Atherton determines its estimates of contractual adjustments based on contractual agreements and historical experience.

Note 2 – Summary of Significant Accounting Policies (continued)

Agreements with third-party payors provide the payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare – Certain health care services are paid at prospectively determined rates per discharge based on clinical, diagnostic or other factors. Certain services are paid based on a cost-reimbursement methodologies subject to certain limits. Physical services are paid based upon established fee schedules.

Secondary Insurance – Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare, are complex and subject to varying interpretation. As a result of investigations by government agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Atherton's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Atherton.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Atherton estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments determined on a resident by resident basis. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to health services revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as a bad debt expense. Bad debt expense for the years ended December 31, 2018 and 2017, was not significant.

Note 2 – Summary of Significant Accounting Policies (continued)

The following table shows nursing center revenue by line of service:

	December 31, 2018	December 31, 2017
Nursing center revenue		
Medicare	$ 1,205,158	$ 1,359,361
Hospice	221,522	171,907
HMO	332,751	344,770
Medi-Cal	1,715,133	1,537,574
Share of costs	608,093	670,771
Private	6,158,841	5,345,167
	$ 10,241,498	$ 9,429,550

Amortization of entrance fees – Residents under the declining refundable contract, excluding courtyard residents, pay an entrance fee that is 100% non-refundable. The non-refundable portion of entrance fees paid by residents are recorded as deferred revenue from entrance fees in the statements of financial position. The basic residency agreement creates a performance obligation to be satisfied over the resident's remaining life at Atherton. Atherton recognizes the revenue associated with the entrance fee using a straight-line method over the actuarially determined estimated life of each resident. Resident life expectancies are reevaluated annually and any changes in the revenue as a result of the revaluation will be recognized in the period noted. As of December 31, 2018 and 2017, Atherton had approximately $14,602,000 and $14,404,000 in deferred entrance fee revenue to be recognized as the performance obligations are satisfied. See Note 8 for changes in the deferred entrance fee revenue for the years ended December 31, 2018 and 2017. The performance obligation is satisfied upon termination of the residency agreement.

Advertising costs – Advertising costs are charged to operations when incurred. Total advertising expense for the years ended December 31, 2018 and 2017 were approximately $44,000 and $29,000, respectively, and are included in purchased goods and services in the accompanying statements of operations.

Performance indicator – Excess of revenue over expenses is the performance indicator. Changes in unrestricted net deficit, which are excluded from excess of revenue over expenses, include unrealized gains and losses on other-than-trading securities (except for unrealized gains and losses on equity securities), restricted contributions expended during the year for capital, changes in the minimum pension liability, and cumulative effect of change in accounting principle.

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 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.

Going concern – On at least an annual basis, management evaluates whether there is substantial doubt about the Atherton’s ability to continue as a going concern within one year after the date the financial statements are available for issuance, and discloses it appropriately in the financial statements, if necessary.

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting guidance – In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230),* which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This update is effective for Atherton for fiscal year ending December 31, 2019, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU 2016-18 on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among entities by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. This update is effective for Atherton for fiscal year ending December 31, 2020, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),* to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles that is most important to users of financial statements through the removal, modification, and addition of disclosure requirements. This update is effective for Atherton for fiscal year ending December 31, 2020. Management is currently evaluating the impact of the provisions of this update on the financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Disclosure Framework – Changes to the Disclosure Framework for Defined Benefit Plans (Topic 715-20),* to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of financial statements through the removal, clarification, and addition of disclosure requirements. This update is effective for Atherton for fiscal year ending December 31, 2021, with early adoption permitted. Management is currently evaluating the impact of the provisions of this update on the 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 23, 2019, 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, 2018	December 31, 2017
Assets limited by Board as to use	$ 4,038,066	$ 5,481,454
Assets held by trustee under bond indenture	2,545,342	2,510,778
Restricted by donor for capital projects	167,243	113,980
	$ 6,750,651	$ 8,106,212

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, 2018	December 31, 2017
Debt Service Reserve Fund	$ 1,052,597	$ 1,046,585
Interest Fund	636,876	633,325
Principal Fund	850,000	825,000
Revenue Fund	5,869	5,868
	2,545,342	2,510,778
Less: current portion	1,466,000	1,454,000
	$ 1,079,342	$ 1,056,778

Atherton also maintains an Operating Reserve Fund for its own discretion. The Operating Reserve Fund, which totals approximately $2,479,000 and $2,711,000 as of December 31, 2018 and 2017, 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, 2018	December 31, 2017
Investments – general fund	$ 5,786,902	$ 3,680,785
Assets held by bond indenture trustee	2,545,342	2,510,778
Assets limited by Board as to use	4,038,066	5,481,454
Assets restricted by donor for capital expenditures	167,243	113,980
Other investments (held under charitable remainder trusts and pooled income funds)	155,375	171,248
	$ 12,692,928	$ 11,958,245

Assets received under gift annuities are included in assets limited by Board as to use and total approximately $1,224,000 and $2,379,000 at December 31, 2018 and 2017, respectively.

The following table discloses the composition of investment return:

	Years Ended December 31, 2018	Years Ended December 31, 2017
Without donor restriction:		
Interest and dividend income	$ 302,030	$ 207,442
Realized gains	141,371	197,952
Unrealized (losses) gains	(761,376)	233,466
With donor restriction:		
Interest and dividend income	5,607	6,174
Realized gains	4,435	(21)
Unrealized (losses) gains	(15,323)	7,941
External investment expense	(106,714)	(103,000)
	$ (429,970)	$ 549,954

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, 2018:

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. equities	$ 3,610,536	$ -	$ -	$ 3,610,536
Certificates of deposit	-	3,039,905	-	3,039,905
Money market funds	3,984,247	-	-	3,984,247
Exchange traded funds	2,037,878	-	-	2,037,878
Government bonds	-	20,362	-	20,362
Total assets	$ 9,632,661	$ 3,060,267	$ -	$ 12,692,928
Liabilities:				
Liabilities included in accrued liabilities				
Obligations under gift annuity payable	$ -	$ -	$ 794,057	$ 794,057
Obligations under charitable remainder trusts and pooled income funds	-	-	49,629	49,629
Total liabilities	$ -	$ -	$ 843,686	$ 843,686

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, 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

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 years ended December 31:

	2018		
	Obligations under Gift Annuity Payable	Obligations under Charitable Remainder Trusts and Pooled Income Funds	Total
Balance, beginning of year	$ 925,171	$ 58,390	$ 983,561
Additions	249,514	-	249,514
Sales	(330,116)	-	(330,116)
Amortization for the year	(50,512)	-	(50,512)
Change in value	-	(8,761)	(8,761)
Balance, end of year	$ 794,057	$ 49,629	$ 843,686

Note 5 – Fair Value Measurements (continued)

	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

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, 2018 and 2017.

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 $657,000 and $797,000 at December 31, 2018 and 2017, 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,	
	2018	2017
Buildings and improvements	$ 60,990,332	$ 59,685,604
Major movable and fixed equipment	11,323,522	11,156,776
	72,313,854	70,842,380
Less accumulated depreciation	39,746,590	37,419,675
Total depreciable assets	32,567,264	33,422,705
Land	3,350,093	3,350,093
Construction in progress	778,114	936,967
	$ 36,695,471	$ 37,709,765

Depreciation expense for the years ended December 31, 2018 and 2017 amounted to approximately $2,605,000 and $2,464,000, respectively.

Note 8 – Deferred Revenue from Entrance Fees and Repayable Entrance Fees Liability

A summary of the deferred revenue from entrance fees for the years ended December 31 is as follows:

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 14,404,439	$ 13,637,073
New fees received	3,258,850	3,120,400
Entrance fees refunded	(425,931)	(130,794)
Amortization of entrance fees	(2,634,979)	(2,222,240)
Balance, end of year	$ 14,602,379	$ 14,404,439

A summary of the repayable entrance fees liability for the years ended December 31 is as follows:

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 15,574,793	$ 14,944,193
New fees received	1,040,800	986,100
Entrance fees refunded	(803,310)	(355,500)
Balance, end of year	$ 15,812,283	$ 15,574,793

Based on the past five years, actual refunds have averaged approximately $450,000 per year for the potentially refundable declining period.

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, 2018.

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.

Note 9 – Accrued Workers' Compensation Claims (continued)

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, 2018 and 2017, 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, 2018. No amounts were outstanding at December 31, 2018 or 2017.

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, 2018	December 31, 2017
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.	$ 30,435,000	$ 31,260,000
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.	65,521	108,716
	30,500,521	31,368,716
Less: current maturities	882,000	868,192
Less: unamortized deferred financing costs	2,027,464	2,124,786
Plus: unamortized bond premium	2,226,450	2,333,320
	$ 29,817,507	$ 30,709,058

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
2019	$	882,000
2020		908,498
2021		910,000
2022		945,000
2023		995,000
Thereafter		25,860,023
Totals	$	30,500,521

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, 2018 and 2017 totaled approximately $460,000 and $461,000, 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.

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

	December 31,			
	2018		2017	
Benefit obligation at December 31	$	3,853,805	$	3,859,722
Benefit payments		167,651		150,213
Fair value of plan assets at December 31		1,391,937		1,175,771
Net unfunded status of plan		2,461,868		2,683,951

Note 12 – Pension Plans (continued)

Amounts recognized in the statements of financial position consist of:

	December 31, 2018	December 31, 2017
Pension liability	$ 2,461,868	$ 2,683,951

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

	Years Ended December 31, 2018	Years Ended December 31, 2017
Actuarial losses	$ 1,401,009	$ 1,335,966

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, 2018	December 31, 2017
Project benefit obligation	$ 3,853,805	$ 3,859,722
Accumulated benefit obligation	3,853,805	3,859,722
Fair value of plan assets	1,391,937	1,175,771

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

	Years Ended December 31, 2018	Years Ended December 31, 2017
Net periodic pension cost	$ 212,874	$ 221,615

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, 2018, the minimum pension liability was decreased by approximately $222,000, bringing the total unfunded pension liability to approximately $2,462,000 at December 31, 2018. 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.

The actuarial loss that will be amortized from unrestricted net deficit into net periodic pension cost over the next fiscal year is approximately $213,000.

Note 12 – Pension Plans (continued)

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

	Years Ended December 31, 2018	Years Ended December 31, 2017
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, 2018	Years Ended December 31, 2017
Discount rate	4.50%	4.50%
Expected return on plan assets	6.50%	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.

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%

Note 12 – Pension Plans (continued)

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 contributed approximately $500,000 and $270,000 to the plan for the years ended December 31, 2018 and 2017, respectively. Atherton expects to contribute approximately $270,000 to its pension plan during the year ending December 31, 2019. The balance of the general fund assets totaled approximately $1,392,000 and $1,176,000 as of December 31, 2018 and 2017, 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, 2018			
	Level 1	Level 2	Level 3	Total
Cash	$ 308,068	$ -	$ -	$ 308,068
Equity securities	950,922	-	-	950,922
Fixed income securities	90,428	-	-	90,428
Total plan assets	1,349,418	-	-	1,349,418
Net of prepayment and payable	42,519	-	-	42,519
Net plan assets	$ 1,391,937	$ -	$ -	$ 1,391,937

	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

Note 12 – Pension Plans (continued)

As of December 31, 2018, expected future benefit payments were as follows:

Years ending December 31,		
2019	$	201,454
2020		199,818
2021		211,404
2022		221,244
2023		240,990
Thereafter		1,346,490
	$	2,421,400

Note 13 – Net Assets with Donor Restriction

Net assets are restricted by donors for the following purposes:

	December 31, 2018		December 31, 2017	
Pooled income fund	$	105,641	$	112,752
Capital projects		165,743		112,480
Grounds and maintenance		1,500		1,500
Employee Christmas fund		26,394		20,903
	$	299,278	$	247,635

Note 14 – Liquidity and Availability

Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Cash and cash equivalents	$	4,985,776
Accounts receivable		363,819
Investments		5,786,902
	$	11,136,497

Atherton has structured its financial assets and liquidity resources to be available within one year for its operating expenses, obligations, and capital construction costs not financed with debt. Atherton maximizes its earnings potential on liquid assets by investing in short-term instruments such as money market funds and certificates of deposits. Atherton is not exposed to significant credit risk on its cash and cash equivalents.

Note 14 – Liquidity and Availability (continued)

In addition to the financial assets available for general expenditure included in the table above, assets limited by Board as to use of approximately $4,000,000 at December 31, 2018 are available and could be drawn upon Board approval for unexpected liquidity requirement. No funds were drawn due to liquidity needs during the years ended December 31, 2018 and 2017.

Assets limited by donor are available upon completion of specific projects or their intended purposes. Assets released from restrictions and used for operations were $54,000 and $37,902 for the years ended December 31, 2018 and 2017, respectively. Assets released from restrictions and used for capital projects were $13,000 and $417,738 for the years ended December 31, 2018 and 2017, respectively.

Assets limited by Trustee under bond indenture required for current liabilities are drawn upon for semi-annual scheduled principal and interest payment on bond issue series 2016. Atherton has an unsecured $500,000 line of credit which could be drawn upon in the event of a liquidity need. No funds were borrowed during the years ended December 31, 2018 and 2017.

Note 15 – Functional Expenses

Atherton provides general residential and health care services to residents. Expenses related to providing these services are as follows for the years ended December 31:

	2018	2017
Program services		
Residential services	$ 8,768,218	$ 8,394,231
Nursing center services	10,130,332	9,379,086
Support services		
General and administrative	1,885,164	1,916,898
Fundraising	243,304	245,168
	$ 21,027,018	$ 19,935,383

Note 15 – Functional Expenses (continued)

The financial statements report certain expense categories that are attributable to more than one residential, health care or support services function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation, interest and other occupancy costs, are allocated to a function based on a square footage or units of services basis. Expenses related to providing these services for 2018 are as follows:

	Year Ended December 31, 2018				
	Program Services		Support Services		
	Residential Services	Nursing Center Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 1,842,143	$ 4,972,672	$ 812,511	$ 167,247	$ 7,794,573
Purchased goods and services	4,130,250	4,411,636	694,590	76,057	9,312,533
Interest	881,845	345,070	-	-	1,226,915
Depreciation	1,896,259	374,372	334,634	-	2,605,265
Provision for doubtful accounts	17,721	26,582	-	-	44,303
Other expenses	-	-	43,429	-	43,429
	$ 8,768,218	$ 10,130,332	$ 1,885,164	$ 243,304	$ 21,027,018

Note 16 – 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.

MOSSADAMS