REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

ATHERTON BAPTIST HOMES

December 31, 2019 and 2018

MOSSADAMS

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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, 2019 and 2018, 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, 2019 and 2018, 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, on January 1, 2018, Atherton Baptist Homes adopted Accounting Standards Codification Topic 842, *Leases*, using the full retrospective approach. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Irvine, California
April 23, 2020

ASSETS

	December 31, 2019	December 31, 2018
CURRENT ASSETS		
Cash and cash equivalents	$ 5,272,259	$ 4,985,776
Short term investments	6,366,387	5,786,902
Accounts receivable	426,469	363,819
Assets limited as to use, required for current liabilities	1,478,500	1,466,000
Prepaid expenses and other current assets	986,305	1,130,773
Insurance recoveries receivable	339,197	302,040
Total current assets	14,869,117	14,035,310
NONCURRENT ASSETS		
Assets limited as to use, net of current portion	6,889,647	5,284,651
Property and equipment, net	36,299,923	36,633,063
Right of use asset	111,944	62,408
Investments	129,463	155,375
Other assets	73,554	224,854
Total assets	$ 58,373,648	$ 56,395,661

LIABILITIES AND NET DEFICIT

	2019	2018
CURRENT LIABILITIES		
Accrued interest	$ 603,491	$ 616,241
Accounts payable	683,006	530,502
Accrued liabilities	1,141,578	1,194,793
Deposits on entrance fees	991,885	754,520
Current portion of long-term debt	875,000	882,000
Workers' compensation liability	365,773	387,040
Current portion of lease liability	50,039	-
Total current liabilities	4,710,772	4,365,096
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	28,899,432	29,751,983
Deferred revenue from entrance fees	14,503,991	14,602,379
Repayable entrance fees liability	15,929,648	15,812,283
Pension liability	2,298,847	2,461,868
Gift annuities payable	1,193,767	794,057
Lease liability, net of current portion	64,113	65,524
Liabilities under charitable remainder trusts and pooled income funds	37,183	49,629
Total liabilities	67,637,753	67,902,819
NET ASSETS (DEFICIT)		
Without donor restrictions	(9,539,701)	(11,806,436)
With donor restrictions	275,596	299,278
Total net deficit	(9,264,105)	(11,507,158)
Total liabilities and net deficit	$ 58,373,648	$ 56,395,661

Atherton Baptist Homes
Statements of Operations

	Years Ended December 31, 2019	2018
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS:		
REVENUES		
Residential services, including amortization of entrance fees of $2,381,363 in 2019 and $2,634,979 in 2018	$ 11,227,776	$ 11,380,500
Nursing center revenue	10,654,702	10,241,498
Investment income, net of fees	565,508	336,687
Gifts	373,006	730,736
Other income	174,918	165,312
Net assets released from restrictions, used for operations	121,529	54,000
Total revenues	23,117,439	22,908,733
OPERATING EXPENSES		
Salaries and benefits	8,149,718	7,794,569
Purchased goods and services	9,987,335	9,312,539
Interest	1,201,643	1,226,915
Provision for doubtful accounts	81,688	44,303
Loss on fixed asset disposal	75,149	43,427
Total operating expenses before depreciation	19,495,533	18,421,753
OPERATING INCOME BEFORE DEPRECIATION	3,621,906	4,486,980
Depreciation and amortization	2,542,593	2,605,265
Total operating income	1,079,313	1,881,715
Nonoperating (expense) income		
Change in unrealized gains (losses) on equity securities	1,176,107	(761,376)
EXCESS OF REVENUE OVER EXPENSES	$ 2,255,420	$ 1,120,339

See accompanying notes.

Atherton Baptist Homes
Statements of Changes in Net Deficit

	Years Ended December 31, 2019	2018
CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS		
Excess of revenue over expenses	$ 2,255,420	$ 1,120,339
Net assets released from restrictions used for purchase of property and equipment	122,858	13,000
Change in minimum pension liability	(111,543)	(65,043)
Change in net deficit without donor restrictions	2,266,735	1,068,296
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Investment income	17,997	10,042
Unrealized gains (losses) on investments, net	16,253	(15,323)
Change in value associated with obligations under charitable remainder trusts and pooled income funds	186,455	123,924
Net assets released from restrictions used for operations	(121,529)	(54,000)
Net assets released from restrictions used for purchase of property and equipment	(122,858)	(13,000)
Change in net assets with donor restrictions	(23,682)	51,643
CHANGE IN NET DEFICIT	2,243,053	1,119,939
NET DEFICIT, beginning of year	(11,507,158)	(12,627,097)
NET DEFICIT, end of year	$ (9,264,105)	$ (11,507,158)

Atherton Baptist Homes
Statements of Cash Flows

	Years Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	$ 17,016,222	$ 16,064,713
Cash received from noncontracted residents	2,607,201	2,761,882
Cash received from deferred entrance fees	1,885,550	2,458,650
Cash received from entrance fees from re-occupancy	2,393,000	1,841,000
Contributions received	373,006	730,738
Dividend and interest income received	565,508	336,687
Other receipts	346,079	329,243
Processing fees	800	1,497
Cash received for services to nonresidents	21,209	19,400
Cash paid to employees, suppliers, and others	(18,373,454)	(16,506,034)
Interest paid	(1,223,944)	(1,248,841)
Repayments of repayable entrance fees from re-occupancy	(1,572,335)	(852,810)
Cash paid for fundraising costs	(82,029)	(90,457)
Net cash provided by operating activities	3,956,813	5,845,668
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,247,000)	(1,634,663)
Proceeds from sale of property and equipment	1,511	265
Purchases of investments, assets held by bond indenture trustee and assets limited by Board as to use	(14,200,837)	(11,529,784)
Proceeds from sale of investments, assets held by bond indenture trustee and assets limited by Board as to use	13,535,129	10,164,208
Decrease in liabilities under charitable remainder trusts, pooled income funds, and gift annuities	387,264	(139,875)
Net cash used in investing activities	(2,523,933)	(3,139,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(850,000)	(825,000)
Principal payments on finance leases	(40,022)	(43,195)
Refunds of entrance fees and deposits	(256,375)	(425,931)
Net cash used in financing activities	(1,146,397)	(1,294,126)
NET CHANGE IN CASH AND CASH EQUIVALENTS	286,483	1,411,693
CASH AND CASH EQUIVALENTS, beginning of year	4,985,776	3,574,083
CASH AND CASH EQUIVALENTS, end of year	$ 5,272,259	$ 4,985,776
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Finance leases	$ 88,650	$ -

See accompanying notes.

	Years Ended December 31, 2019	2018
Reconciliation of change in net deficit to net cash provided by operating activities		
Change in net deficit	$ 2,243,053	$ 1,119,939
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Depreciation and amortization	2,542,593	2,605,265
Amortization of deferred financing costs	97,319	97,322
Amortization of bond premium	(106,870)	(106,870)
Change in minimum pension liability	111,543	65,043
Provision for doubtful accounts	81,688	44,303
Loss on fixed asset disposal	75,149	43,427
Amortization of entrance fees	(2,381,363)	(2,634,979)
Unrealized (gains) losses on investments, net	(1,192,360)	776,699
Realized gains on investments, net	(313,000)	(145,806)
Changes in operating assets and liabilities:		
Accounts receivable	(144,338)	139,527
Prepaid expenses and other current assets	144,468	106,938
Entrance fee receivable	151,300	319,500
Accounts payable	152,504	25,638
Accrued liabilities	(124,389)	(20,322)
Deposits on entrance fees	237,365	200,830
Deferred revenue from entrance fees	1,836,050	2,508,150
Entrance fees from re-occupancy	2,393,000	1,841,000
Repayments of repayable entrance fees from re-occupancy	(1,572,335)	(852,810)
Pension liability	(274,564)	(287,126)
Net cash provided by operating activities	$ 3,956,813	$ 5,845,668

See accompanying notes.

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 is also licensed by the State of California Department of Public Health to operate and maintain its skilled nursing facility. 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 individual 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 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*. Under ASU 2016-14, 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 restrictions – 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 restrictions – 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.

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.

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.

Atherton recognized unrealized gains and losses on equity investments (other than those under the equity method) at fair value through the performance indicator. Equity investments that do not have readily determinable fair value are excluded from the performance indicator.

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 as of December 31, 2019 and 2018.

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.

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. As of December 31, 2019 and 2018, repayable entrance fee liability totaled approximately $15,930,000 and $15,812,000, respectively. The 90% repayable contract type was discontinued in 2016.

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:

   - Re-occupancy benefits equal to 50% of the paid entrance fees.
   - Re-occupancy benefits equal to 80% of the paid entrance fees.
   - 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 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Obligation to provide future services – Annually, Atherton calculates the present value (using a 5% discount rate as of December 31, 2019 and 2018, 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 as of December 31, 2019 or 2018.

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, 2019 and 2018.

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 4%, 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 4.00%. Upon termination of the irrevocable gift agreements, the remaining assets are transferred to unrestricted net assets.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2019 and 2018, 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 – Atherton's revenue streams are as follows:

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 Accounting Standards Codification 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 the point when it is no longer required to provide health care services to that resident, which is generally at the time of discharge.

Note 2 – Summary of Significant Accounting Policies (continued)

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

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 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, 2019 and 2018, was not significant.

Note 2 – Summary of Significant Accounting Policies (continued)

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

	December 31, 2019	December 31, 2018
Nursing center revenue		
Medicare	$ 1,501,070	$ 1,205,158
Hospice	189,990	221,522
HMO	488,723	332,751
Medi-Cal	1,578,542	1,715,133
Share of costs	476,241	608,093
Private	6,420,136	6,158,841
	$ 10,654,702	$ 10,241,498

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 is 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, 2019 and 2018, Atherton had approximately $14,504,000 and $14,602,000, respectively, 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, 2019 and 2018. 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, 2019 and 2018, amounted to approximately $40,000 and $44,000, 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 restricted contributions expended during the year for capital and changes in the minimum pension liability.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

Recent accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2016-02 is effective for Atherton for the fiscal year ended December 31, 2019. Atherton adopted the new lease standard as of January 1, 2019, and the adoption did not have a material impact on the financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues, including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption is effective for Atherton for the fiscal year ending December 31, 2019. Atherton adopted this standard as of January 1, 2019, and the adoption did not have a material impact on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*: *Restricted Cash*, which requires the statement of cash flows to explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption is effective for Atherton for the fiscal year ending December 31, 2019. Atherton adopted ASU 2016-18 for the fiscal year ended December 31, 2019, and the adoption did not have an impact on the financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715)*, to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The update requires an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented in the statement of operations separately from the service cost component and outside a subtotal of income from operations, if one is presented. This update also allows only the service cost component to be eligible for capitalization. This update is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those annual periods. For all other entities, the update is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted. The adoption is effective for Atherton for the fiscal year ending December 31, 2019. Atherton adopted this standard for the year ended December 31, 2019. Since the pension plan is a frozen plan, the adoption of this standard did not have an impact on the financial statements of Atherton.

Note 2 – Summary of Significant Accounting Policies (continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),* to clarify and improve the scope and the accounting guidance for contributions received and made. The amendments should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 968, *Not-for-Profit Entities,* or as exchange (reciprocal) transactions subject to other guidance, and also in determining whether a contribution is conditional. The adoption is effective for Atherton for the fiscal year ending December 31, 2019. Atherton adopted this standard as of January 1, 2019, and the adoption did not have a material impact 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. The adoption is effective for Atherton for the fiscal year ending December 31, 2020. Management is currently evaluating the impact of ASU 2018-13 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 generally accepted accounting principles that is most important to users of financial statements through the removal, clarification, and addition of disclosure requirements. The adoption is effective for Atherton for the fiscal year ending December 31, 2022. Management is currently evaluating the impact of ASU 2018-14 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.

Note 3 – Assets Limited as to Use

Assets limited as to use are comprised of the following:

	December 31, 2019	December 31, 2018
Assets limited by Board as to use	$ 5,675,860	$ 4,038,066
Assets held by trustee under bond indenture	2,541,627	2,545,342
Restricted by donor for capital projects	150,660	167,243
	$ 8,368,147	$ 6,750,651

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, 2019	December 31, 2018
Debt Service Reserve Fund	$ 1,059,888	$ 1,052,597
Interest Fund	603,491	636,876
Principal Fund	875,000	850,000
Revenue Fund	3,248	5,869
	2,541,627	2,545,342
Less: current portion	1,478,500	1,466,000
	$ 1,063,127	$ 1,079,342

Atherton also maintains an Operating Reserve Fund for its own discretion. The Operating Reserve Fund, which totals approximately $2,926,000 and $2,479,000 as of December 31, 2019 and 2018, 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, 2019	December 31, 2018
Short term investments	$ 6,366,387	$ 5,786,902
Assets held by bond indenture trustee	2,541,627	2,545,342
Assets limited by Board as to use	5,675,860	4,038,066
Assets restricted by donor for capital expenditures	150,660	167,243
Other investments (held under charitable remainder trusts and pooled income funds)	129,463	155,375
	$ 14,863,997	$ 12,692,928

Assets received under gift annuities are included in assets limited by Board as to use and total approximately $2,330,000 and $1,224,000 as of December 31, 2019 and 2018, respectively.

The following table discloses the composition of investment return:

	Years Ended December 31, 2019	Years Ended December 31, 2018
Without donor restriction:		
Interest and dividend income	$ 379,070	$ 302,030
Realized gains	300,033	141,371
Unrealized gains (losses)	1,176,107	(761,376)
With donor restriction:		
Interest and dividend income	5,030	5,607
Realized gains	12,967	4,435
Unrealized gains (losses)	16,253	(15,323)
External investment expense	(113,595)	(106,714)
	$ 1,775,865	$ (429,970)

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 as of December 31, 2019:

	Fair Value Measurements as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. equities	$ 6,025,884	$ -	$ -	$ 6,025,884
Certificates of deposit	-	2,835,974	-	2,835,974
Money market funds	3,210,391	-	-	3,210,391
Exchange traded funds	2,771,748	-	-	2,771,748
Municipal bonds	-	20,000	-	20,000
Total assets	$ 12,008,023	$ 2,855,974	$ -	$ 14,863,997
Liabilities:				
Liabilities included in accrued liabilities				
Obligations under gift annuity payable	$ -	$ -	$ 1,193,767	$ 1,193,767
Obligations under charitable remainder trusts and pooled income funds	-	-	37,183	37,183
Total liabilities	$ -	$ -	$ 1,230,950	$ 1,230,950

Note 5 – Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, assets and liabilities at fair value as of 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
Municipal 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

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:

	2019		
	Obligations under Gift Annuity Payable	Obligations under Charitable Remainder Trusts and Pooled Income Funds	Total
BALANCE, beginning of year	$ 794,057	$ 49,629	$ 843,686
Additions	360,257	-	360,257
Sales	(37,543)	-	(37,543)
Amortization for the year	(38,894)	-	(38,894)
Change in value	115,890	(12,446)	103,444
BALANCE, end of year	$ 1,193,767	$ 37,183	$ 1,230,950

	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)

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 as of December 31, 2019 and 2018.

Note 5 – Fair Value Measurements (continued)

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 $587,000 and $657,000 as of December 31, 2019 and 2018, 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, 2019	December 31, 2018
Buildings and improvements	$ 62,028,196	$ 60,990,332
Major movable and fixed equipment	11,993,294	11,107,421
	74,021,490	72,097,753
Less accumulated depreciation	41,597,607	39,592,897
Total depreciable assets	32,423,883	32,504,856
Land	3,343,093	3,350,093
Construction in progress	532,947	778,114
	$ 36,299,923	$ 36,633,063

Depreciation expense for the years ended December 31, 2019 and 2018, amounted to approximately $2,543,000 and $2,605,000, 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, 2019	December 31, 2018
BALANCE, beginning of year	$ 14,602,379	$ 14,404,439
New fees received	2,539,350	3,258,850
Entrance fees refunded	(256,375)	(425,931)
Amortization of entrance fees	(2,381,363)	(2,634,979)
BALANCE, end of year	$ 14,503,991	$ 14,602,379

Note 8 – Deferred Revenue from Entrance Fees and Repayable Entrance Fees Liability (continued)

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

	December 31,	
	2019	2018
BALANCE, beginning of year	$ 15,812,283	$ 15,574,793
New fees received	1,689,700	1,040,800
Entrance fees refunded	(1,572,335)	(803,310)
BALANCE, end of year	$ 15,929,648	$ 15,812,283

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, 2019.

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, 2019 and 2018, 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 5.25% as of December 31, 2019. No amounts were outstanding as of December 31, 2019 or 2018.

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,	
	2019	2018
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.	$ 29,585,000	$ 30,435,000
Less: current maturities	875,000	882,000
Less: unamortized deferred financing costs	1,930,148	2,027,467
Plus: unamortized bond premium	2,119,580	2,226,450
	$ 28,899,432	$ 29,751,983

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
2020	$ 875,000
2021	910,000
2022	945,000
2023	995,000
2024	1,045,000
Thereafter	24,815,000
Totals	$ 29,585,000

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, 2019 and 2018, totaled approximately $480,000 and $460,000, 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, 2019	December 31, 2018
Benefit obligation as of December 31	$ 4,288,593	$ 3,853,805
Benefit payments	171,542	167,651
Fair value of plan assets as of December 31	1,989,746	1,391,937
Net unfunded status of plan	2,298,847	2,461,868

Note 12 – Pension Plans (continued)

Amounts recognized in the statements of financial position consist of:

	December 31,	
	2019	2018
Pension liability	$ 2,298,847	$ 2,461,868

Amounts recognized in the statements of changes in net deficit:

	Years Ended December 31,	
	2019	2018
Actuarial losses	$ 1,512,448	$ 1,401,009

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,	
	2019	2018
Project benefit obligation	$ 4,288,593	$ 3,853,805
Accumulated benefit obligation	4,288,593	3,853,805
Fair value of plan assets	1,989,746	1,391,937

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

	Years Ended December 31,	
	2019	2018
Net periodic pension cost	$ 225,540	$ 212,874

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, 2019, the minimum pension liability was decreased by approximately $163,000, bringing the total unfunded pension liability to approximately $2,299,000 as of December 31, 2019. 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 as of December 31, 2018.

The actuarial loss that will be amortized from unrestricted net deficit into net periodic pension cost over the next fiscal year is approximately $226,000.

Note 12 – Pension Plans (continued)

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

	Years Ended December 31, 2019	2018
Discount rate	3.50%	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, 2019	2018
Discount rate	3.50%	4.50%
Expected return on plan assets	6.50%	6.50%
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%

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 to the plan for the years ended December 31, 2019 and 2018. Atherton expects to contribute approximately $270,000 to its pension plan during the year ending December 31, 2020. The balance of the general fund assets totaled approximately $1,990,000 and $1,392,000 as of December 31, 2019 and 2018, respectively.

Note 12 – Pension Plans (continued)

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 as of December 31 (the measurement date), by asset category, are as follows:

	Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash	$ 487,756	$ -	$ -	$ 487,756
Equity securities	1,373,138	-	-	1,373,138
Fixed income securities	112,363	-	-	112,363
Total plan assets	1,973,257	-	-	1,973,257
Net of prepayment and payable	16,489	-	-	16,489
Net plan assets	$ 1,989,746	$ -	$ -	$ 1,989,746

	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

As of December 31, 2019, expected future benefit payments were as follows:

Years ending December 31,	
2020	$ 204,655
2021	216,246
2022	226,112
2023	245,861
2024	261,090
Thereafter	1,355,190
	$ 2,509,154

Note 13 – Net Assets with Donor Restrictions

Net assets are restricted by donors for the following purposes:

	December 31, 2019	December 31, 2018
Pooled income fund	$ 92,280	$ 105,641
Capital projects	60,000	165,743
Dining	90,560	-
Employee Christmas fund	32,656	26,394
Technology	100	-
Grounds and maintenance	-	1,500
	$ 275,596	$ 299,278

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, 2019, comprise the following:

Cash and cash equivalents	$ 5,272,259
Accounts receivable	426,469
Investments	6,366,387
	$ 12,065,115

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.

In addition to the financial assets available for general expenditure included in the table above, assets limited by Board as to use of approximately $5,676,000 as of December 31, 2019, 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, 2019 and 2018.

Assets limited by donor are available upon completion of specific projects or their intended purposes. Assets released from restrictions and used for operations amounted to approximately $122,000 and $54,000 for the years ended December 31, 2019 and 2018, respectively. Assets released from restrictions and used for capital projects amounted to approximately $123,000 and $13,000 for the years ended December 31, 2019 and 2018, respectively.

Note 14 – Liquidity and Availability (continued)

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, 2019 and 2018.

Note 15 – Functional Expenses

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 are as follows:

	Year Ended December 31, 2019				
	Program Services		Support Services		
	Residential Services	Nursing Center Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 1,965,300	$ 5,007,893	$ 1,010,275	$ 166,250	$ 8,149,718
Purchased goods and services	4,412,757	4,845,056	672,623	56,899	9,987,335
Interest	863,681	337,962	-	-	1,201,643
Depreciation	1,833,858	385,113	323,622	-	2,542,593
Provision for doubtful accounts	32,674	49,014	-	-	81,688
Other expenses	-	-	75,149	-	75,149
	$ 9,108,270	$ 10,625,038	$ 2,081,669	$ 223,149	$ 22,038,126

	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	$ 167,243	$ 7,794,569
Purchased goods and services	4,130,250	4,411,636	694,590	76,063	9,312,539
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	-	-	43,427	-	43,427
	$ 8,768,218	$ 10,130,332	$ 1,885,162	$ 243,306	$ 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.

Note 17 – Leases

Atherton has two finance type leases for certain office equipment expiring through June 2024. Quantitative disclosure related to the Company's finance leases are as follows:

	December 31,	
	2019	2018
Lease expense		
Finance lease expense:		
Amortization of right of use assets	$ 39,114	$ 42,175
Interest on lease liabilities	4,213	3,985
Total	$ 43,327	$ 46,160
Other information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 4,213	$ 3,985
Financing cash flows from financial leases	$ 40,022	$ 43,195
Right of use assets obtained in exchange for lease liabilities		
Finance leases	$ 111,944	$ 62,408
Weighted-average remaining lease term (in years):		
Finance leases	3.47	2.00
Weighted-average discount rate:		
Finance leases	4.50%	4.50%

Note 17 – Leases (continued)

The following consists of the minimum lease liabilities in future fiscal years:

2020	$	52,432
2021		18,112
2022		18,112
2023		18,112
2024		9,056
Total		115,824
Less: present value discount		(1,672)
Lease liability		114,152
Current portion of right of use lease liabilities		50,039
Right of use lease liabilities, net of current portion	$	64,113

Note 18 – Health and Safety Code Section 1790(a)(3) Disclosure

The following disclosure is made pursuant to Section 1790(a)(3) of the California Health and Safety Code: no reserves are being accumulated for identified projects or contingencies.

Note 19 – 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.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus outbreak (“Covid-19”) a public health emergency. Our results of operations could be adversely affected to the extent that Covid-19 or any other pandemic harms the global economy. Although Atherton does not expect the impact on its operations and financial results to be significant, the duration and intensity of the impact of Covid-19 and resulting disruption to Atherton’s operations is uncertain.

Note 19 – Subsequent Events (continued)

Atherton held investments as of December 31, 2019, that have experienced a significant decline in market value in 2020 as financial markets were significantly impacted by the global spread of Covid-19. Towards the end of February 2020, equity markets began one of the sharpest downturns on record. The Federal Reserve quickly implemented widespread monetary policies both reducing interest rates and providing substantial liquidity to ensure functioning of the markets and economy. In March 2020, Congress approved a $2 trillion-dollar stimulus package to aid the unemployed, affected small businesses, and targeted industry sectors. As of the report date, the S&P 500 is down 20% from that of December 31, 2019, which follows a positive return of 31% in 2019. While Atherton has experienced a significant decline in market value in 2020 as compared to December 31, 2019, Atherton's investment portfolio remains more than 10% higher in absolute value than it was at the beginning of 2019.

Investment risk in the portfolio will remain elevated until there is more certainty with respect to the future path of Covid-19. Atherton will continue to monitor the situation closely.

Atherton has evaluated subsequent events through April 23, 2020, which is the date the financial statements were issued, and concluded that there were no additional events or transactions that need to be disclosed.