REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

ATHERTON BAPTIST HOMES

December 31, 2021 and 2020

MOSSADAMS

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Report of Independent Auditors

The Board of Trustees
Atherton Baptist Homes

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Atherton Baptist Homes, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of operations and changes in net assets (deficit) without donor restrictions, changes in net assets (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Atherton Baptist Homes as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Atherton Baptist Homes and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Atherton Baptist Home's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Atherton Baptist Home's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Atherton Baptist Home's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Moss Adams LLP

Irvine, California
April 21, 2022

ASSETS

	December 31, 2021		December 31, 2020	
CURRENT ASSETS				
Cash and cash equivalents	$	8,356,722	$	8,761,033
Short term investments		9,299,900		6,856,431
Accounts receivable		825,608		294,482
Assets limited as to use, required for current liabilities		1,512,790		1,495,990
Prepaid expenses and other current assets		545,719		814,667
Insurance recoveries receivable		105,305		263,912
Total current assets		20,646,044		18,486,515
NONCURRENT ASSETS				
Assets limited as to use, net of current portion		11,795,282		7,817,058
Property and equipment, net		35,146,932		35,692,556
Right of use asset		200,088		89,365
Investments		135,602		122,016
Other assets		134,304		429,254
Total assets	$	68,058,252	$	62,636,764

LIABILITIES AND NET ASSETS (DEFICIT)

	December 31, 2021		December 31, 2020	
CURRENT LIABILITIES				
Accrued interest	$	567,791	$	595,749
Accounts payable		725,604		667,885
Accrued liabilities		681,863		941,589
Deposits on entrance fees		985,020		806,420
Deferred revenue from provider relief payments		374,663		200,109
Current portion of long-term debt		945,000		910,000
Workers' compensation liability		297,979		338,773
Current portion of lease liability		55,678		22,608
Total current liabilities		4,633,598		4,483,133
NONCURRENT LIABILITIES				
Long-term debt, net of current portion		27,025,329		27,979,880
Deferred revenue from entrance fees		18,006,024		16,705,116
Repayable entrance fees liability		14,533,353		15,896,239
Pension liability		1,173,123		1,915,862
Gift annuities payable		1,183,697		1,233,094
Paycheck Protection Program Loan		-		1,539,410
Lease liability, net of current portion		159,157		67,433
Liabilities under charitable remainder trusts and pooled income funds		15,894		21,954
Total liabilities		66,730,175		69,842,121
NET ASSETS (DEFICIT)				
Without donor restrictions		776,423		(7,618,826)
With donor restrictions		551,654		413,469
Total net assets (deficit)		1,328,077		(7,205,357)
Total liabilities and net assets (deficit)	$	68,058,252	$	62,636,764

Atherton Baptist Homes
Statements of Operations and Changes in Net Assets (Deficit) Without Donor Restrictions

	Years Ended December 31, 2021	2020
REVENUES		
Residential services, including amortization of entrance fees of $2,784,124 in 2021 and $2,114,286 in 2020	$ 11,821,484	$ 10,775,604
Nursing center revenue	9,203,222	10,780,948
Investment income, net of fees	1,297,550	754,783
Gifts	5,216,272	437,812
Grant revenues	303,005	769,492
Other income	244,510	172,915
Net assets released from restrictions, used for operations	102,280	106,352
Total revenues	28,188,323	23,797,906
OPERATING EXPENSES		
Salaries and benefits	8,335,076	8,708,004
Purchased goods and services	10,546,576	10,319,659
Interest	1,135,702	1,176,510
Provision for doubtful accounts	-	27,871
Loss on fixed asset disposal	228,896	81,963
Total operating expenses before depreciation	20,246,250	20,314,007
OPERATING INCOME BEFORE DEPRECIATION	7,942,073	3,483,899
Depreciation and amortization	2,658,790	2,656,777
Total operating income	5,283,283	827,122
NONOPERATING INCOME		
Forgiveness on Paycheck Protection Program Loan	1,551,177	-
Change in unrealized gains on equity securities	1,090,306	823,804
EXCESS OF REVENUE OVER EXPENSES	$ 7,924,766	$ 1,650,926

See accompanying notes.

	Years Ended December 31, 2021	2020
CHANGE IN NET ASSETS (DEFICIT) WITHOUT DONOR RESTRICTIONS		
Excess of revenue over expenses	$ 7,924,766	$ 1,650,926
Change in minimum pension liability	470,483	269,949
Change in net assets (deficit) without donor restrictions	8,395,249	1,920,875
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Investment income	19,416	182
Unrealized gains on investments, net	12,110	11,747
Contributions	213,788	235,715
Change in value associated with obligations under charitable remainder trusts and pooled income funds	(4,849)	(3,419)
Net assets released from restrictions used for operations	(102,280)	(106,352)
Change in net assets with donor restrictions	138,185	137,873
CHANGE IN NET ASSETS (DEFICIT)	8,533,434	2,058,748
NET DEFICIT, beginning of year	(7,205,357)	(9,264,105)
NET ASSETS (DEFICIT), end of year	$ 1,328,077	$ (7,205,357)

Atherton Baptist Homes
Statements of Cash Flows

	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	$ 16,830,195	$ 17,137,881
Cash received from noncontracted residents	1,853,917	2,195,810
Cash received from deferred entrance fees	3,102,044	3,622,650
Cash received from entrance fees from re-occupancy	3,069,700	2,770,300
Contributions received	5,216,272	437,812
Cash received from grants	477,559	969,601
Dividend and interest income received	1,297,550	754,783
Other receipts	449,856	271,809
Processing fees	1,600	800
Cash received for services to nonresidents	1,472	3,659
Cash paid to employees, suppliers, and others	(20,745,608)	(19,430,806)
Interest paid	(1,161,444)	(1,193,804)
Repayments of repayable entrance fees from re-occupancy	(2,861,386)	(1,884,009)
Cash paid for fundraising costs	(83,926)	(89,948)
Net cash provided by operating activities	7,447,801	5,566,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,284,708)	(2,080,242)
Purchases of investments, assets held by bond indenture trustee, and assets limited by Board as to use	(19,333,875)	(12,769,042)
Proceeds from sale of investments, assets held by bond indenture trustee, and assets limited by Board as to use	15,068,469	12,718,314
Change in liabilities under charitable remainder trusts, pooled income funds, and gift annuities	(55,457)	24,098
Net cash used in investing activities	(6,605,571)	(2,106,872)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program Loan	-	1,539,410
Principal payments on long-term debt	(910,000)	(875,000)
Principal payments on finance leases	(43,283)	(52,663)
Refunds of entrance fees and deposits	(293,258)	(582,639)
Net cash (used in) provided by financing activities	(1,246,541)	29,108
NET CHANGE IN CASH AND CASH EQUIVALENTS	(404,311)	3,488,774
CASH AND CASH EQUIVALENTS, beginning of year	8,761,033	5,272,259
CASH AND CASH EQUIVALENTS, end of year	$ 8,356,722	$ 8,761,033
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Finance leases	$ 168,077	$ 28,552
Forgiveness of Paycheck Protection Program Loan, including accrued interest	$ 1,551,177	$ -

See accompanying notes.

	Years Ended December 31, 2021	Years Ended December 31, 2020
Reconciliation of change in net assets (deficit) to net cash provided by operating activities		
Change in net assets (deficit)	$ 8,533,434	$ 2,058,748
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities		
Depreciation and amortization	2,658,790	2,656,777
Amortization of deferred financing costs	97,319	97,317
Amortization of bond premium	(106,870)	(106,869)
Change in minimum pension liability	(470,483)	(269,949)
Provision for doubtful accounts	-	27,871
Loss on fixed asset disposal	228,896	81,963
Amortization of entrance fees	(2,784,124)	(2,114,286)
Unrealized gains on investments, net	(1,102,416)	(835,551)
Realized gains on investments, net	(1,084,257)	(541,219)
Forgiveness of Paycheck Protection Program Loan	(1,551,177)	-
Changes in operating assets and liabilities		
Accounts receivable	(531,126)	104,116
Prepaid expenses and other current assets	268,948	171,638
Entrance fee receivable	294,950	(355,700)
Accounts payable	57,719	(15,121)
Accrued liabilities	(158,104)	(159,446)
Deferred revenue from provider relief payments	174,554	200,109
Deposits on entrance fees	178,600	(185,465)
Deferred revenue from entrance fees	3,162,790	3,622,650
Entrance fees from re-occupancy	2,714,000	3,126,000
Repayments of repayable entrance fees from re-occupancy	(2,861,386)	(1,884,009)
Pension liability	(272,256)	(113,036)
Net cash provided by operating activities	$ 7,447,801	$ 5,566,538

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 those 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 – Atherton recognizes in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries in accordance with ASU 2010-24, *Presentation of Insurance Claims and 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, 2021 and 2020.

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%, 75%, 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, 2021 and 2020, repayable entrance fee liability totaled approximately $14,533,000 and $15,896,000, respectively. The 90% repayable contract type was discontinued in 2016.

Residents who entered into repayable contracts pay an entrance fee ranging from $395,000 for a one-bedroom unit to between $420,000 and $445,000 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 75% 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. 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 90 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 48 months from the date the resident signed the Agreement.

Note 2 – Summary of Significant Accounting Policies (continued)

The refundable portion of entrance fees paid by contracted residents is recorded as deferred revenue from entrance fees in the statements of financial position and is 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.

Obligation to provide future services – Annually, Atherton calculates the present value (using a 5% discount rate as of December 31, 2021 and 2020, 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, 2021 and 2020.

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, 2021 and 2020.

Short-term obligations – In accordance with Accounting Standards Codification (ASC) 470, Atherton assesses the classification for short-term obligations and classifies such obligations as noncurrent if the obligation is refinanced or forgiven subsequent to the year-end balance sheet date but before the issuance of the financial statements.

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 net assets with donor restrictions when the agreements become irrevocable. Upon the death of the trustor, the remaining assets are transferred to net assets without donor restrictions.

Note 2 – Summary of Significant Accounting Policies (continued)

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 net assets with donor restrictions 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%. Upon termination of the irrevocable gift agreements, the remaining assets are transferred to net assets without donor restrictions.

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, 2021 and 2020, 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.

Grants – Grant revenue is recognized when all eligibility requirements are met.

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 ASC 842, *Leases* (ASC 842).

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, Medi-Cal and other programs. Generally, Atherton bills patients and third-party payors at the beginning of each month and sends a final bill or reconciliation at the time of discharge. Revenue is recognized in the month in which the performance obligations are satisfied.

Note 2 – Summary of Significant Accounting Policies (continued)

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 Atherton's 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.

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. Therapy services are paid based upon established fee schedules.

Medi-Cal – Medi-Cal typically covers patients that require standard room and board services and provides reimbursement rates that are generally lower than rates earned from other sources. Medi-Cal reimbursement formulas are established by each state with approval of the federal government in accordance with federal guidelines.

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 and Medi-Cal, 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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, 2021 and 2020, was not significant.

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

	December 31, 2021	December 31, 2020
Nursing center revenue		
Medicare	$ 1,068,770	$ 934,436
Hospice	273,833	171,264
HMO	494,223	461,979
Medi-Cal	2,519,612	1,910,823
Share of costs	507,499	438,464
Private	4,339,285	6,863,982
	$ 9,203,222	$ 10,780,948

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, 2021 and 2020, Atherton had approximately $18,006,000 and $16,705,000, respectively, in deferred entrance fee revenue to be recognized as the performance obligations are satisfied. See Note 9 for changes in the deferred entrance fee revenue for the years ended December 31, 2021 and 2020. 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, 2021 and 2020, amounted to approximately $46,000 and $36,000, respectively, and are included in purchased goods and services in the accompanying statements of operations and changes in net assets (deficit) without donor restrictions.

Note 2 – Summary of Significant Accounting Policies (continued)

Performance indicator – Excess of revenue over expenses is the performance indicator. Changes in unrestricted net assets (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.

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 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 6.

Going concern – On at least an annual basis, management evaluates whether there is substantial doubt about 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)

Recent accounting standards – 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 – COVID-19 Pandemic

In March 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, patients, customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, include Atherton's operations.

Starting in March 2020, COVID-19 disrupted move-ins reducing entrance fees received and resident care fees modestly. Atherton's COVID-19 response also increased costs of supplies, staffing, and precautionary efforts. In May 2020, management re-initiated move-ins with adapted precautionary protocols including new resident and staff testing and initial 14-day isolation.

Management's evaluation of and adaptions to the COVID-19 pandemic and related events are ongoing, including impacts on the economy and general population. Atherton cannot accurately estimate the impact on its operations and financial results, and the duration and intensity of the impact of the COVID-19 pandemic and resulting disruption to Atherton's operations are uncertain.

Note 3 – COVID-19 Pandemic (continued)

Provider Relief Funds (PRF) – On March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Securities (CARES) Act. The CARES Act included provisions for health care under the PRF. During the year ended December 31, 2020, Atherton received funds under the PRF, administered by the U.S. Department of Health & Human Services (HHS) of approximately $1,015,000 and $10,000 administered by the Small Business Administration Economic Injury Disaster Loan ("SBA EIDL") agency. During the year ended December 31, 2021, Atherton was provided with an additional round of PRF funding totaling $477,500 for a total received under the PRF grant of approximately $1,493,000. Atherton was required to and timely signed attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to prevent fraud and misuse. Documentation is required to ensure that these funds are to be used for healthcare-related expenses or lost revenue attributable to COVID-19, limitations of out-of-pocket payments from certain patients, and the acceptance of several other reporting and compliance requirements. It is noted that anti-fraud monitoring and auditing will be performed by HHS and the Officer of the Inspector General.

For the years ended December 31, 2021 and 2020, Atherton has recognized approximately $303,000 and $759,000, respectively, of the PRF on its statements of operations and changes in net assets (deficit) without donor restrictions as grant revenues. Unspent funds, if any, will be refunded to HHS in accordance with the terms and conditions of the grant. As of December 31, 2021, Atherton has repaid $35,000 of these funds and has included in accrued liabilities approximately $20,000 that is expected to be refunded to HHS subsequent to December 31, 2021. Atherton has also deferred approximately $375,000 as of December 31, 2021, and expects to meet the terms and conditions to recognize this amount as revenue during the year ending December 31, 2022. Atherton's management has been closely monitoring the impact of COVID-19 on Atherton's operations, including the impact on its residents and employees. The duration and intensity of the pandemic are uncertain but may influence resident decisions, donor decisions, and may also negatively impact collections of Atherton's receivables.

Paycheck Protection Program loans – In May 2020, Atherton was granted a loan in the aggregate amount of approximately $1,539,000, pursuant to the Paycheck Protection Program (PPP), under Division A, Title I of the CARES Act.

The loan was subject to full forgiveness if Atherton used all proceeds for eligible purposes, maintained certain employment levels, and maintained certain compensation levels in accordance with and subject to the CARES Act and the rules, regulations, and guidance. Atherton used the loan for its intended purposes over the 24-week period and submitted its PPP Forgiveness Application on November 30, 2020. As more fully described in Note 20, Atherton received full forgiveness from the SBA on February 17, 2021. This loan forgiveness was reported as non-operating income in the statement of operations during the year ended December 31, 2021.

Note 4 – Assets Limited as to Use

Assets limited as to use are comprised of the following:

	December 31, 2021	December 31, 2020
Assets limited as to use	$ 10,346,148	$ 6,467,801
Assets held by trustee under bond indenture	2,571,014	2,566,936
Restricted by donor for capital projects	390,910	278,311
	$ 13,308,072	$ 9,313,048

Assets limited by Board as to use consist 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 14), 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, 2021	December 31, 2020
Debt Service Reserve Fund	$ 1,057,893	$ 1,069,783
Interest Fund	567,798	587,153
Principal Fund	945,013	910,000
Revenue Fund	310	-
	2,571,014	2,566,936
Less: current portion	1,512,790	1,495,990
	$ 1,058,224	$ 1,070,946

Atherton also maintains an Operating Reserve Fund for its own discretion. The Operating Reserve Fund, which totals approximately $3,904,000 and $3,220,000 as of December 31, 2021 and 2020, respectively, is included in the accompanying statements of financial position under assets limited as to use.

Note 5 – Investments

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

	December 31, 2021	December 31, 2020
Short-term investments	$ 9,299,900	$ 6,856,431
Assets held by bond indenture trustee	2,571,014	2,566,936
Assets limited by Board as to use	10,346,148	6,467,801
Assets restricted by donor for capital expenditures	390,910	278,311
Other investments (held under charitable remainder trusts and pooled income funds)	135,602	122,016
	$ 22,743,574	$ 16,291,495

Assets received under gift annuities are included in assets limited by Board as to use and total approximately $3,120,000 and $2,758,000 as of December 31, 2021 and 2020, respectively.

The following table discloses the composition of investment return:

	Years Ended December 31, 2021	Years Ended December 31, 2020
Without donor restriction		
Interest and dividend income	$ 363,074	$ 336,969
Realized gains	1,070,131	545,490
Unrealized gains	1,090,306	823,804
With donor restriction		
Interest and dividend income	5,290	4,453
Realized gains (losses)	14,126	(4,271)
Unrealized gains	12,110	11,747
External investment expense	(135,655)	(127,676)
	$ 2,419,382	$ 1,590,516

Note 6 – 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, 2021:

	Fair Value Measurements as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. equities	$ 11,974,643	$ -	$ -	$ 11,974,643
Certificates of deposit	-	2,368,748	-	2,368,748
Money market funds	3,390,344	-	-	3,390,344
Exchange traded funds	5,009,839	-	-	5,009,839
Total assets	$ 20,374,826	$ 2,368,748	$ -	$ 22,743,574
Liabilities				
Liabilities included in accrued liabilities				
Obligations under gift annuity payable	$ -	$ -	$ 1,183,698	$ 1,183,698
Obligations under charitable remainder trusts and pooled income funds	-	-	15,894	15,894
Total liabilities	$ -	$ -	$ 1,199,592	$ 1,199,592

Note 6 – 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, 2020:

	Fair Value Measurements as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets				
U.S. equities	$ 6,996,688	$ -	$ -	$ 6,996,688
Certificates of deposit	-	2,616,669	-	2,616,669
Money market funds	3,289,767	-	-	3,289,767
Exchange traded funds	3,388,371	-	-	3,388,371
Total assets	$ 13,674,826	$ 2,616,669	$ -	$ 16,291,495
Liabilities				
Liabilities included in accrued liabilities				
Obligations under gift annuity payable	$ -	$ -	$ 1,233,094	$ 1,233,094
Obligations under charitable remainder trusts and pooled income funds	-	-	21,954	21,954
Total liabilities	$ -	$ -	$ 1,255,048	$ 1,255,048

Note 6 – Fair Value Measurements (continued)

The following table is a rollforward of the amounts for financial instruments classified within Level 3 of the fair value hierarchy in the accompanying statements of financial position as of and for the years ended December 31:

	2021		
	Obligations Under Gift Annuity Payable	Obligations Under Charitable Remainder Trusts and Pooled Income Funds	Total
BALANCE, beginning of year	$ 1,233,094	$ 21,954	$ 1,255,048
Additions	178,576	-	178,576
Sales	(164,964)	-	(164,964)
Amortization for the year	(63,008)	-	(63,008)
Change in value	-	(6,060)	(6,060)
BALANCE, end of year	$ 1,183,698	$ 15,894	$ 1,199,592

	2020		
	Obligations Under Gift Annuity Payable	Obligations Under Charitable Remainder Trusts and Pooled Income Funds	Total
BALANCE, beginning of year	$ 1,193,767	$ 37,183	$ 1,230,950
Additions	197,443	-	197,443
Sales	(99,260)	-	(99,260)
Amortization for the year	(58,856)	-	(58,856)
Change in value	-	(15,229)	(15,229)
BALANCE, end of year	$ 1,233,094	$ 21,954	$ 1,255,048

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, certificates of deposit, 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.

Note 6 – Fair Value Measurements (continued)

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, 2021 and 2020.

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 7 – 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 $235,000 and $442,000 as of December 31, 2021 and 2020, respectively. As these funds do not represent assets of Atherton, a corresponding trust account liability is included in accrued liabilities.

Note 8 – Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2021	2020
Buildings and improvements	$ 63,355,897	$ 62,963,108
Major movable and fixed equipment	12,425,005	12,278,543
	75,780,902	75,241,651
Less accumulated depreciation	45,564,710	43,702,249
Total depreciable assets	30,216,192	31,539,402
Land	3,343,093	3,343,093
Construction in progress	1,587,647	810,061
	$ 35,146,932	$ 35,692,556

Note 8 – Property and Equipment (continued)

Depreciation expense for the years ended December 31, 2021 and 2020, amounted to approximately $2,601,000 and $2,606,000, respectively.

Note 9 – 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, 2021	December 31, 2020
BALANCE, beginning of year	$ 16,705,116	$ 14,503,991
New fees received	4,378,290	4,898,050
Entrance fees and deposits refunded	(293,258)	(582,639)
Amortization of entrance fees	(2,784,124)	(2,114,286)
BALANCE, end of year	$ 18,006,024	$ 16,705,116

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

	December 31, 2021	December 31, 2020
BALANCE, beginning of year	$ 15,896,239	$ 15,929,648
New fees received	1,498,500	1,850,600
Entrance fees refunded	(2,861,386)	(1,884,009)
BALANCE, end of year	$ 14,533,353	$ 15,896,239

Based on the past five years, actual refunds have averaged approximately $419,000 per year for the potentially refundable declining period.

Note 10 – 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 25, 2021 through November 2022.

Note 10 – Accrued Workers' Compensation Claims (continued)

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, 2021 and 2020, management believes that the captive insurance company is adequately funded for the workers' compensation claim costs.

Note 11 – 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% as of December 31, 2021. No amounts were outstanding as of December 31, 2021 or 2020.

Note 12 – 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.

Note 12 – Long-Term Debt (continued)

Long-term debt consists of the following:

	December 31, 2021	December 31, 2020
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.	$ 27,800,000	$ 28,710,000
Less: current maturities	945,000	910,000
Less: unamortized deferred financing costs	1,735,512	1,832,831
Plus: unamortized bond premium	1,905,841	2,012,711
	$ 27,025,329	$ 27,979,880

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.

Principal payments due are as follows:

Fiscal Year	
2022	$ 945,000
2023	995,000
2024	1,045,000
2025	1,095,000
2026	1,150,000
Thereafter	22,570,000
Totals	$ 27,800,000

Note 13 – Pension Plans

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

Note 13 – Pension Plans (continued)

The defined contribution plan covered all employees effective January 1, 2004. The Ministers and Missionaries Benefit Board of the American Baptist Churches maintains 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, 2021 and 2020, totaled approximately $349,000 and $431,000, 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,	
	2021	2020
Benefit obligation as of December 31	$ 4,470,753	$ 4,516,598
Benefit payments	184,974	178,482
Fair value of plan assets as of December 31	3,297,630	2,600,736
Net unfunded status of plan	1,173,123	1,915,862

Amounts recognized in the statements of financial position consist of:

	December 31,	
	2021	2020
Pension liability	$ 1,173,123	$ 1,915,862

Amounts recognized in the statements of changes in net assets (deficit) without donor restrictions consist of:

	Years Ended December 31,	
	2021	2020
Actuarial losses	$ (470,483)	$ (269,949)

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,	
	2021	2020
Project benefit obligation	$ 4,470,753	$ 4,516,598
Accumulated benefit obligation	4,470,753	4,516,598
Fair value of plan assets	3,297,630	2,600,736

Note 13 – Pension Plans (continued)

The net periodic pension (benefit) cost recognized in the statements of changes in net assets (deficit) without donor restrictions is as follows:

	Years Ended December 31, 2021	Years Ended December 31, 2020
Net periodic pension (benefit) cost	$ (2,170)	$ 157,048

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 net assets without donor restrictions. For the year ended December 31, 2021, the minimum pension liability was decreased by approximately $743,000, bringing the total unfunded pension liability to approximately $1,173,000 as of December 31, 2021. For the year ended December 31, 2020, the minimum pension liability was decreased by approximately $383,000, bringing the total unfunded pension liability to approximately $1,916,000 as of December 31, 2020.

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
Discount rate	3.00%	3.00%
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, 2021	Years Ended December 31, 2020
Discount rate	3.00%	3.50%
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.

Note 13 – Pension Plans (continued)

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

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

Contributions – Atherton assesses funding of contributions to the plan on an annual basis and sets aside general fund assets to fund the pension plan. Atherton contributed approximately $270,000 to the plan for each of the years ended December 31, 2021 and 2020. Atherton expects to contribute approximately $270,000 to its pension plan during the year ending December 31, 2022. The balance of the general fund assets totaled approximately $3,298,000 and $2,601,000 as of December 31, 2021 and 2020, respectively.

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

Note 13 – Pension Plans (continued)

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, 2021			
	Level 1	Level 2	Level 3	Total
Cash	$ 61,946	$ -	$ -	$ 61,946
Equity securities	2,775,489	-	-	2,775,489
Fixed income securities	460,195	-	-	460,195
Net plan assets	$ 3,297,630	$ -	$ -	$ 3,297,630

	Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Cash	$ 220,681	$ -	$ -	$ 220,681
Equity securities	2,094,608	-	-	2,094,608
Fixed income securities	238,605	-	-	238,605
Total plan assets	2,553,894	-	-	2,553,894
Net of prepayment and payable	46,842	-	-	46,842
Net plan assets	$ 2,600,736	$ -	$ -	$ 2,600,736

As of December 31, 2021, expected future benefit payments for the next ten years are as follows:

Years Ending December 31,	
2022	$ 245,079
2023	260,371
2024	274,344
2025	275,476
2026	285,768
2027 – 2031	1,361,853
	$ 2,702,891

Note 14 – Net Assets with Donor Restrictions

Net assets are restricted by donors for the following purposes:

	December 31, 2021	December 31, 2020
Pooled income fund	$ 119,708	$ 100,061
Capital projects	227,322	92,075
Dining	99,458	98,228
Employee Christmas fund	41,037	35,097
Employee Emergency Assistance fund	30,784	58,734
Loving Care fund	-	10,000
Missionary fund	5,645	17,764
COVID Response	-	1,410
Skilled nursing	27,600	-
Technology	100	100
	$ 551,654	$ 413,469

Note 15 – Liquidity and Availability

Financial assets available for general expenditures, that is, without donor restrictions limiting their use, within one year of December 31, 2021, comprise the following:

Cash and cash equivalents	$ 8,356,722
Short-term investments	9,299,900
Accounts receivable	825,608
	$ 18,482,230

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 deposit. 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 $10,346,000 as of December 31, 2021, are available and could be drawn upon Board approval for unexpected liquidity requirement. No funds were drawn for liquidity needs during the years ended December 31, 2021 and 2020.

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 $102,000 and $106,000 for the years ended December 31, 2021 and 2020, respectively. There were no assets released from restrictions and used for capital projects for the years ended December 31, 2021 and 2020.

Note 15 – 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, 2021 and 2020.

Note 16 – 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, 2021				
	Program Services		Support Services		
	Residential Services	Nursing Center Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 1,905,294	$ 5,255,040	$ 990,923	$ 183,819	$ 8,335,076
Purchased goods and services	4,947,551	4,909,469	644,499	45,057	10,546,576
Interest	816,286	319,416	-	-	1,135,702
Depreciation	1,903,032	419,929	335,829	-	2,658,790
Loss of fixed asset disposal	-	-	228,896	-	228,896
	$ 9,572,163	$ 10,903,854	$ 2,200,147	$ 228,876	$ 22,905,040

	Year Ended December 31, 2020				
	Program Services		Support Services		
	Residential Services	Nursing Center Services	General and Administrative	Fundraising	Total
Salaries and benefits	$ 1,927,260	$ 5,623,302	$ 980,764	$ 176,678	$ 8,708,004
Purchased goods and services	4,477,230	5,139,559	635,616	67,254	10,319,659
Interest	845,616	330,894	-	-	1,176,510
Depreciation	1,895,969	426,225	334,583	-	2,656,777
Provision for doubtful accounts	11,149	16,722	-	-	27,871
Other expenses	-	-	81,963	-	81,963
	$ 9,157,224	$ 11,536,702	$ 2,032,926	$ 243,932	$ 22,970,784

Note 17 – 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 of 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 resident 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 18 – Leases

Atherton has three finance type leases for certain office equipment expiring through June 2026. Quantitative disclosures related to the Company's finance leases are as follows:

	December 31,	
	2021	2020
Lease expense		
Finance lease expense		
Amortization of right of use assets	$ 57,354	$ 51,131
Interest on lease liabilities	7,663	4,322
Total	$ 65,017	$ 55,453
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 7,663	$ 4,322
Financing cash flows from financial leases	$ 43,283	$ 52,663
Right of use assets obtained in exchange for lease liabilities		
Finance leases	$ 200,089	$ 89,365
Weighted-average remaining lease term (in years)		
Finance leases	3.86	3.75
Weighted-average discount rate		
Finance leases	4.50%	4.50%

Note 18 – Leases (continued)

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

Fiscal Year	
2022	$ 58,013
2023	58,013
2024	48,958
2025	37,261
2026	8,655
Total	210,900
Add: present value discount	3,935
Lease liability	214,835
Current portion of finance lease liabilities	55,678
Finance lease liabilities, net of current portion	$ 159,157

Note 19 – 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 20 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the 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 21, 2022, which is the date the financial statements were issued, and concluded that there were no additional events or transactions that need to be disclosed.