RECEIVED
MAY 03 2013
CONTINUING CARE
CONTRACTS BRANCH

ANNUAL REPORT CHECKLIST for FISCAL YEAR ENDED: 12/31/2012

PROVIDER(S): Atherton Baptist Elder Ministries

CCRC(S): Atherton Baptist Homes

CONTACT PERSON: Jackie Pascual, CFO

TELEPHONE NO.: (626) 863-1738 **EMAIL:** jpascual@abh.org

The **complete** annual report must consist of ***three (3) copies*** of the following:

- ☑ Checklist.#
- ☑ Annual Provider Fee in the amount of: $12,091
  - ☐ If applicable, Late Fee in the amount of: $______
- ☑ Certification by the provider's *chief executive officer* that:
  - ☑ The reports are correct to the best of his/her knowledge and belief.
  - ☑ Each continuing care contract form in use for new residents has been approved by CDSS.
  - ☑ The provider is maintaining the required liquid reserves and refund reserves, if applicable.
- ☑ Evidence of the provider's fidelity bond.
- ☑ Provider's audited financial statements with a certified public accountant's opinion.
  NOTE: Statement of Cash Flows must be prepared using the direct method.
- ☑ Provider's audited reserve reports (on Department forms) with a certified public accountant's opinion.
  NOTE: If the entries on these forms do not directly reconcile with the amounts stated, on the face of, or in the notes to, the financial statements, a two-way reconciliation schedule must be included.
- ☑ "Continuing Care Retirement Community Disclosure Statement" for **each** community.
- ☐ "Key Indicators Report"
  NOTE: The KIR may be included with this submission, but it is not required at this time. The KIR is due within the next 30 days. Please ensure that three (3) signed copies are submitted.

FORM 1-1
RESIDENT POPULATION

RECEIVED MAY 03 20[illegible] CONTINUING CARE CONTRACTS BRANCH

Line	Continuing Care Residents	TOTAL
[1]	Number at beginning of fiscal year	289
[2]	Number at end of fiscal year	285
[3]	Total Lines 1 and 2	574
[4]	Multiply Line 3 by ".50" and enter result on Line 5.	x .50
[5]	Mean number of continuing care residents	287
	All Residents	
[6]	Number at beginning of fiscal year	348
[7]	Number at end of fiscal year	344
[8]	Total Lines 6 and 7	692
[9]	Multiply Line 8 by ".50" and enter result on Line 10.	x .50
[10]	Mean number of *all* residents	346
[11]	Divide the mean number of continuing care residents (Line 5) by the mean number of *all* residents (Line 10) and enter the result (round to two decimal places).	0.83

FORM 1-2
ANNUAL PROVIDER FEE

Line			TOTAL
[1]	Total Operating Expenses (including depreciation and debt service - interest only)		$20,767,139
[a]	Depreciation	$2,864,218	
[b]	Debt Service (Interest Only)	$3,326,066	
[2]	Subtotal (add Line 1a and 1b)		$6,190,284
[3]	Subtract Line 2 from Line 1 and enter result.		$14,576,855
[4]	Percentage allocated to continuing care residents (Form 1-1, Line 11)		83%
[5]	Total Operating Expense for Continuing Care Residents (multiply Line 3 by Line 4)		$12,091,206
			x .001
[6]	**Total Amount Due** (multiply Line 5 by .001)		$12,091

PROVIDEI Atherton Baptist Elder Ministries
COMMUN Atherton Baptist Homes

214 S. Atlantic Blvd. Alhambra, California 91801
ATHERTON
TEL 626-289-4178 FAX 626-576-0857 www.abh.org

April 30, 2013

Continuing Care Contracts Branch
California Department of Social Services
744 P Street, M.S. 8-3-90
Sacramento, CA 95814

Gentlemen:

I, Dennis E. McFadden, certify that the annual audit, reports and any amendments thereto submitted for December 31, 2012 for Atherton Baptist Homes are true and correct to the best of my knowledge.

Each continuing care contract form in use or offered to new residents by Atherton Baptist Homes have been approved by the Department of Social Services.

Atherton Baptist Homes is maintaining the required liquid reserve.

Atherton Baptist Homes does not offer refundable contracts.

Sincerely,

Dennis E. McFadden
President/CEO

STATE OF CALIFORNIA-HEALTH AND HUMAN SERVICES AGENCY

RECEIVED MAY 03 2013 CONTINUING CARE CONTRACTS BRANCH

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES

1000 Corporate Center Drive # 500
Monterey Park, CA 91754

SURETY BOND
(Original sent to District Office)

Premium: $3,00.00 1 year

Applicant/Licensee Name: Atherton Baptist Homes, Inc.

Address: 214 S. Atlantic Blvd,. Alhambra, CA 91801

Bonding Company: INTERNATIONAL FIDELITY INSURANCE COMPANY

Address: 2999 Oak Road,. Suite 820 Walnut Creek, CA 94597 | Telephone #: (925) 256-8760

Local Agent Name: USI of Southern California Insurance Services, Inc. | Telephone #: (800) 339-2218

The addresses shown above for licensee and Bonding Company will be used for service of notices, papers and other documents.

BE IT KNOWN THAT:

Licensee, as Principal, and Bonding Company, as Surety, are held and firmly bound to the State of California, as beneficiary, in the amount of $ $300,000. (Three hundred Thousand Dollars) for the payment of which the principal and surety bind themselves, their respective heirs, successors and assigns, jointly and severally.

WHEREAS Health and Safety Code sections 1560, 1568.021 and 1569.60 each require certain applicants for licenses to file with the State Department of Social Services a surety bond; and

WHEREAS the licensee has applied to operate a (*check all that apply*):

[ ] Adult Residential, Adult Day Care, Adult Day Support or Social Rehabilitation Facility, and the licensee handles client/resident funds in any amount; or

[X] Foster Family Home, Foster Family Agency, Group Home, Small Family Home, Residential Care Facility for Persons with Chronic, Life-Threatening Illness, or Residential Care Facility for the Elderly, and the licensee handles Funds of $50 or more per client/resident r $500 or more for all clients/residents in any month;

NOW, THEREFORE, the surety is liable on this bond in the event that the principal fails to handle faithfully and honestly the money of facility clients/residents.

The facility covered by this bond is:

Facility Name: Atherton Baptist Homes, Inc.

Facility Address: 214 S. Atlantic Blvd,. Alhambra, CA 91801

Facility License Number (if facility is currently licensed :) 197802543
(*If other facilities are covered by this bond, specify on a separate, attached page the name, address, facility license number, and bond amount for each facility.)*

Every person injured as a result of any unfaithful or dishonest handling of client money may bring an action in a proper court on the bond for the amount of damage suffered thereby to the extent covered by the bond.

The aggregate liability of the Surety for all claims against this bond shall not exceed the amount of the bond, shown above.

This bond may be canceled the Surety in accordance with Code of Civil Procedure section 996.030, and notice of cancellation must be sent in accordance with Code of Civil Procedure section 996.320. This bond is effective 06/10/2012 - 06/10/2013, and remains in effect as long as the license is valid.

I certify under penalty of perjury under the laws of the State of California that the information provided on this page and on any attachments is true and correct.

BONDING COMPANY SIGNATURE	BOND NUMBER	REPLACES BOND NO:	DATE:
[signature]	0332783		05-25-2012

Tel (973) 624-7200

POWER OF ATTORNEY
INTERNATIONAL FIDELITY INSURANCE COMPANY

HOME OFFICE: ONE NEWARK CENTER, 20TH FLOOR
NEWARK, NEW JERSEY 07102-5207

KNOW ALL MEN BY THESE PRESENTS: That **INTERNATIONAL FIDELITY INSURANCE COMPANY,** a corporation organized and existing laws of the State of New Jersey, and having its principal office in the City of Newark, New Jersey, does hereby constitute and appoint

MARCY RICHARDS, JON CASTELLANO

Woodland Hills, CA.

its true and lawful attorney(s)-in-fact to execute, seal and deliver for and on its behalf as surety, any and all bonds and undertakings, contracts of indemnity and other writings obligatory in the nature thereof, which are or may be allowed, required or permitted by law, statute, rule, regulation, contract or otherwise, and the execution of such instrument(s) in pursuance of these presents, shall be as binding upon the said **INTERNATIONAL FIDELITY INSURANCE COMPANY,** as fully and amply, to all intents and purposes, as if the same had been duly executed and acknowledged by its regularly elected officers at its principal office.

This Power of Attorney is executed, and may be revoked, pursuant to and by authority of Article 3-Section 3, of the By-Laws adopted by the Board of Directors of **INTERNATIONAL FIDELITY INSURANCE COMPANY** at a meeting called and held on the 7th day of February, 1974.

The President or any Vice President, Executive Vice President, Secretary or Assistant Secretary, shall have power and authority

(1) To appoint Attorneys-in-fact, and to authorize them to execute on behalf of the Company, and attach the Seal of the Company thereto, bonds and undertakings, contracts of indemnity and other writings obligatory in the nature thereof and,

(2) To remove, at any time, any such attorney-in-fact and revoke the authority given.

Further, this Power of Attorney is signed and sealed by facsimile pursuant to resolution of the Board of Directors of said Company adopted at a meeting duly called and held on the 29th day of April, 1982 of which the following is a true excerpt:

Now therefore the signatures of such officers and the seal of the Company may be affixed to any such power of attorney or any certificate relating thereto by facsimile, and any such power of attorney or certificate bearing such facsimile signatures or facsimile seal shall be valid and binding upon the Company and any such power so executed and certified by facsimile signatures and facsimile seal shall be valid and binding upon the Company in the future with respect to any bond or undertaking to which it is attached.

INTERNATIONAL FIDELITY INSURANCE COMPANY CORPORATE SEAL 1904 NEW JERSEY

IN TESTIMONY WHEREOF, **INTERNATIONAL FIDELITY INSURANCE COMPANY** has caused this instrument to be signed and its corporate seal to be affixed by its authorized officer, this 29th day of August, A.D. 2003.

INTERNATIONAL FIDELITY INSURANCE COMPANY

STATE OF NEW JERSEY
County of Essex

Secretary

On this 29th day of August 2003, before me came the individual who executed the preceding instrument, to me personally known, and, being by me duly sworn, said the he is the therein described and authorized officer of the **INTERNATIONAL FIDELITY INSURANCE COMPANY;** that the seal affixed to said instrument is the Corporate Seal of said Company; that the said Corporate Seal and his signature were duly affixed by order of the Board of Directors of said Company.

JOSE A. MARQUEZ, JR. NOTARY PUBLIC NEW JERSEY

IN TESTIMONY WHEREOF, I have hereunto set my hand affixed my Official Seal, at the City of Newark, New Jersey the day and year first above written.

A NOTARY PUBLIC OF NEW JERSEY
My Commission Expires Nov. 21, 2010

CERTIFICATION

I, the undersigned officer of **INTERNATIONAL FIDELITY INSURANCE COMPANY** do hereby certify that I have compared the foregoing copy of the Power of Attorney and affidavit, and the copy of the Section of the By-Laws of said Company as set forth in said Power of Attorney, with the ORIGINALS ON IN THE HOME OFFICE OF SAID COMPANY, and that the same are correct transcripts thereof, and of the whole of the said originals, and that the said Power Attorney has not been revoked and is now in full force and effect

IN TESTIMONY WHEREOF, I have hereunto set my hand this day of

Maria H. Branco

Assistant Secretary

04/30/2013

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Continuing Care Retirement Community Disclosure Statement
General Information

FACILITY NAME: Atherton Baptist Homes
ADDRESS: 214 S. Atlantic Blvd., Alhambra, CA ZIP CODE: 91801 PHONE: (626) 863-1738
PROVIDER NAME: Atherton Baptist Elder Ministries FACILITY OPERATOR: N/A
RELATED FACILITIES: N/A RELIGIOUS AFFILIATION: ABC-PSW and Transformation Ministries
YEAR OPENED: 1914 NO. OF ACRES: 15 MULTI-STORY: ☐ SINGLE STORY: ☐ BOTH: ☑
MILES TO SHOPPING CTR: 1/2 MILES TO HOSPITAL: 1/2

NUMBER OF UNITS:

INDEPENDENT LIVING		HEALTH CARE	
APARTMENTS - STUDIO	4	ASSISTED LIVING	38
APARTMENTS – 1 BDRM	74	SKILLED NURSING	99
APARTMENTS – 2 BDRM	121	SPECIAL CARE	N/A
COTTAGES/HOUSES	21	DESCRIBE SPECIAL CARE:	N/A
% OCCUPANCY AT YEAR END	77%		

TYPE OF OWNERSHIP: ☑ NOT FOR PROFIT ☐ FOR PROFIT ☐ ACCREDITED: ☐ Y ☑ N BY: ________

FORM OF CONTRACT: ☐ LIFE CARE ☑ CONTINUING CARE ☐ FEE FOR SERVICE
☐ ASSIGN ASSETS ☐ EQUITY ☐ ENTRY FEE ☐ RENTAL

REFUND PROVISIONS (Check all that apply): ☑ 90% ☐ 75% ☑ 50% ☑ PRORATED TO 0% ☑ OTHER: 70%

RANGE OF ENTRANCE FEES: $ 112,000 TO $ 420,000 **LONG-TERM CARE INSURANCE REQUIRED?** ☐ Y ☑ N

HEALTH CARE BENEFITS INCLUDED IN CONTRACT: None

ENTRY REQUIREMENTS: MIN. AGE: 60 PRIOR PROFESSION: N/A OTHER: N/A

FACILITY SERVICES AND AMENITIES

COMMON AREA AMENITIES

	AVAILABLE	FEE FOR SERVICE
BEAUTY/BARBER SHOP	☑	☑
BILLIARD ROOM	☑	☐
BOWLING GREEN	☐	☐
CARD ROOMS	☑	☐
CHAPEL	☑	☐
COFFEE SHOP	☑	☐
CRAFT ROOMS	☑	☐
EXERCISE ROOM	☑	☐
GOLF COURSE ACCESS	☐	☐
LIBRARY	☑	☐
PUTTING GREEN	☐	☐
SHUFFLEBOARD	☐	☐
SPA	☑	☐
SWIMMING POOL-INDOOR	☑	☐
SWIMMING POOL-OUTDOOR	☐	☐
TENNIS COURT	☐	☐
WORKSHOP	☑	☐
OTHER Gift Shop	☑	☐

SERVICES AVAILABLE

	INCLUDED IN FEE	FOR EXTRA CHARGE
HOUSEKEEPING TIMES/MONTH	4x/mo	Yes
NUMBER OF MEALS/DAY	3/day	Yes
SPECIAL DIETS AVAILABLE	Yes	Yes
24-HOUR EMERGENCY RESPONSE	☑	☐
ACTIVITIES PROGRAM	☑	☐
ALL UTILITIES EXCEPT PHONE	☑	☑
APARTMENT MAINTENANCE	☑	☑
CABLE TV	☑	☑
LINENS FURNISHED	☑	☑
LINENS LAUNDERED	☑	☑
MEDICATION MANAGEMENT	☑	☑
NURSING/WELLNESS CLINIC	☑	☑
PERSONAL NURSING/HOME CARE	☑	☑
TRANSPORTATION-PERSONAL	☑	☑
TRANSPORTATION-PREARRANGED	☑	☑
OTHER________	☐	☐

All providers are required by Health and Safety Code section 1789.1 to provide this report to prospective residents before executing a deposit agreement or continuing care contract, or receiving any payment. Many communities are part of multi-facility operations which may influence financial reporting. Consumers are encouraged to ask questions of the continuing care retirement community that they are considering and to seek advice from professional advisors.

PROVIDER NAME: Atherton Baptist Elder Ministries

CCRCs	LOCATION (City, State)	PHONE (with area code)
Atherton Baptist Homes	Alhambra, CA	(626) 289-4178

MULTI-LEVEL RETIREMENT COMMUNITIES

N/A

FREE-STANDING SKILLED NURSING

N/A

SUBSIDIZED SENIOR HOUSING

N/A

*** PLEASE INDICATE IF THE FACILITY IS LIFE CARE.**

PROVIDER NAME: Atherton Baptist Elder Ministries

	2009	2010	2011	2012
INCOME FROM ONGOING OPERATIONS				
OPERATING INCOME (excluding amortization of entrance fee income)	$12,817,530	$14,304,074	$14,389,595	$16,980,428
LESS OPERATING EXPENSES (excluding depreciation, amortization, & interest)	$11,316,554	$11,934,145	$13,226,513	$14,284,011
NET INCOME FROM OPERATIONS	-$669,724	$23,039	-$913,093	$599,238
LESS INTEREST EXPENSE	$327,896	$467,687	$1,144,734	$3,326,066
PLUS CONTRIBUTIONS	$190,641	$513,725	$92,911	$169,968
PLUS NON-OPERATING INCOME (EXPENSES) (excluding extraordinary items)	$216,832	$134,712	$138,344	$115,689
NET INCOME (LOSS) BEFORE ENTRANCE FEES, DEPRECIATION AND AMORTIZATION	-$590,146	$203,788	-$1,826,573	-$2,441,171
NET CASH FLOW FROM ENTRANCE FEES (Total Deposits Less Refunds)	$1,760,437	$703,976	$10,412,948	$2,882,256

DESCRIPTION OF SECURED DEBT AS OF MOST RECENT FISCAL YEAR END

LENDER	OUTSTANDING BALANCE	INTEREST RATE	DATE OF ORIGINATION	DATE OF MATURITY	AMORTIZATION PERIOD
2010A Revenue Bonds	$10,685,000	7.50	01/28/10	01/01/30	20 years
2010A Revenue Bonds	$18,615,000	7.63	01/28/10	01/01/40	30 years
2010B Revenue Bonds	$6,020,000	6.63	01/28/10	01/01/17	4 years

FINANCIAL RATIOS (see next page for ratio formulas)

	2011 CCAC Medians 50th Percentile *(optional)*	2010	2011	2012
DEBT TO ASSET RATIO	42.2	62.88	51.94	54.57
OPERATING RATIO	98.5	98.38	114.56	116.09
DEBT SERVICE COVERAGE RATIO	1.91	1.01	1.18	1.29
DAYS CASH-ON-HAND RATIO	19	217.55	203.63	137.66

HISTORICAL MONTHLY SERVICE FEES

AVERAGE FEE AND PERCENT CHANGE

	2009	%	2010	%	2011	%	2012
STUDIO	$516	2.0%	$526	2.5%	$539	3.0%	$555
ONE BEDROOM	$981	2.0%	$1,000	2.5%	$1,025	3.0%	$1,056
TWO BEDROOM	$1,357	2.0%	$1,384	2.5%	$1,419	3.0%	$1,462
COTTAGE/HOUSE	$1,346	2.0%	$1,373	2.5%	$1,407	3.0%	$1,449
ASSISTED LIVING	$3,042	2.0%	$3,103	2.5%	$3,181	3.0%	$3,276
SKILLED NURSING	$230	0.0%	$230	2.5%	$236	3.0%	$243
SPECIAL CARE		0.0%		0.0%		0.0%	

COMMENTS FROM PROVIDER: Rate increases were approved by the Board of Trustees. Historical monthly service fees reflect rate increases charged to current residents. Skilled nursing historical daily rates reflect the average daily rate for private and semi-private rooms.

PROVIDER NAME: Atherton Baptist Elder Ministries

FINANCIAL RATIO FORMULAS

LONG-TERM DEBT TO TOTAL ASSETS RATIO

$$\frac{\text{Long-Term Debt, less Current Portion}}{\text{Total Assets}}$$

OPERATING RATIO

$$\frac{\text{Total Operating Expenses} - \text{Depreciation Expense} - \text{Amortization Expense}}{\text{Total Operating Revenues} - \text{Amortization of Deferred Revenue}}$$

DEBT SERVICE COVERAGE RATIO

$$\frac{\text{Total Excess of Revenues over Expenses} + \text{Interest, Depreciation, and Amortization Expenses} - \text{Amortization of Deferred Revenue} + \text{Net Proceeds from Entrance Fees}}{\text{Annual Debt Service}}$$

DAYS CASH ON HAND RATIO

$$\frac{\text{Unrestricted Current Cash And Investments} + \text{Unrestricted Non-Current Cash and Investments}}{(\text{Operating Expenses} - \text{Depreciation} - \text{Amortization})/365}$$

Note: These formulas are also used by the Continuing Care Accreditation Commission. For each formula, that organization also publishes annual median figures for certain continuing care retirement communities.

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

		RESIDENTIAL LIVING	ASSISTED LIVING	SKILLED NURSING
[1]	Monthly Service Fees at beginning of reporting period: (indicate range, if applicable)	$ 470 to $ 4,600	$ 2,738 to $ 4,740	$ 221/day to $ 264/day
[2]	Indicate percentage of increase in fees imposed during reporting period: (indicate range, if applicable)	3.0%	3.0%	3.0%

☐ Check here if monthly service fees at this community were not increased during the reporting period. (If you checked this box, please skip down to the bottom of this form and specify the names of the provider and community.)

[3] Indicate the date the fee increase was implemented: January 1, 2012
(If more than 1 increase was implemented, indicate the dates for each increase.)

[4] Check each of the appropriate boxes:

☒ Each fee increase is based on the provider's projected costs, prior year per capita costs, and economic indicators.

☒ All affected residents were given written notice of this fee increase at least 30 days prior to its implementation.

☒ At least 30 days prior to the increase in monthly service fees, the designated representative of the provider convened a meeting that all residents were invited to attend.

☒ At the meeting with residents, the provider discussed and explained the reasons for the increase, the basis for determining the amount of the increase, and the data used for calculating the increase.

☒ The provider provided residents with at least 14 days advance notice of each meeting held to discuss the fee increases.

☒ The governing body of the provider, or the designated representative of the provider posted the notice of, and the agenda for, the meeting in a conspicuous place in the community at least 14 days prior to the meeting.

[5] On an attached page, provide a concise explanation for the increase in monthly service fees including the amount of the increase.

PROVIDER: Atherton Baptist Elder Ministries
COMMUNITY: Atherton Baptist Homes

FORM 7-1
REPORT ON CCRC MONTHLY SERVICE FEES

Attachment to Item [5]:

Rate increases on monthly fees for the following levels of care were approved by the Board of Trustees based on projected operating costs of the continuing care retirement community, projected per capita costs, and economic indicators:

	Rate Increase	Range of Monthly Fees
Residential living	3.0%	$ 470 to $4,600 *
Assisted living	3.0%	$2,738 to $4,740
Skilled nursing care	3.0%	$221/day to $264/day

* Range of monthly fees effective January 1, 2012 based on square footage of units.

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CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and
Continuing Care Liquid Reserve Schedules

Atherton Baptist Homes

As of and for the year ended
December 31, 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Members of the Board of Directors of
Atherton Baptist Homes
Alhambra, California

Financial Statements

We have audited the accompanying financial statements of Atherton Baptist Homes, which comprise the continuing care liquid reserve schedules, Form 5-1 through Form 5-5 as of and for the year ended December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the liquid reserve requirements of California Health and Safety Code Section 1792. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 misstatements 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.

MOSS ADAMS LLP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the continuing care reserve of Atherton Baptist Homes as of and for the year ended December 31, 2012, in conformity with the liquid reserve requirements of California Health and Safety Code Section 1792.

Basis of Accounting

We draw attention to the basis of accounting used to prepare the financial statements. The financial statements are prepared by Atherton Baptist Homes on the basis of the liquid reserve requirements of California Health and Safety Code Section 1792, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of California Health and Safety Code Section 1792. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and management of Atherton Baptist Homes and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Moss Adams LLP

Los Angeles, California
April 30, 2013

CONTINUING CARE LIQUID RESERVE SCHEDULES

ATHERTON BAPTIST HOMES
FORM 5-1
LONG-TERM DEBT INCURRED IN PRIOR FISCAL YEAR
DECEMBER 31, 2012

Long-Term Debt Obligation	(a) Date Incurred	(b) Principal Paid During Fiscal Year	(c) Interest Paid During Fiscal Year	(d) Credit Enhancement Premiums Paid in Fiscal Year	(e) Total Paid (columns (b) + (c) + (d))
1	01/28/10	$0	$2,812,950	$0	$2,812,950
2					$0
3					$0
4					$0
5					$0
6					$0
7					$0
8					$0
	TOTAL:	$0	$2,812,950	$0	$2,812,950

(Transfer this amount to Form 5-3, Line 1)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

Series B Bonds have an optional or planned principal payment schedule. However, we also have the discretion to spread out the principal payments up to 1/1/2017, the final date when Series B Bonds become due and payable. We made a principal payment of $5.00 million in 2011. We also made principal payments of $2.50 million on 1/1/2012 and $1.12 million on 11/1/2012. We have the option to pay down additional amounts when funds become available. As principal payments represent voluntary redemptions prior to maturity date, we have not included the amounts paid in the current fiscal year on this schedule.

PROVIDER: Atherton Baptist Elder Ministries

ATHERTON BAPTIST HOMES
FORM 5-2
LONG-TERM DEBT INCURRED DURING FISCAL YEAR
DECEMBER 31, 2012

Long-Term Debt Obligation	(a) Date Incurred	(b) Total Interest Paid During Fiscal Year	(c) Amount of Most Recent Payment on the Debt	(d) Number of Payments over next 12 months	(e) Reserve Requirement (see instruction 5) (columns (c) x (d))
1					
2					
3					
4					
5					
6					
7					$0
8					$0
	TOTAL:	$0	$0	0	$0

(Transfer this amount to Form 5-3, Line 2)

NOTE: For column (b), do not include voluntary payments made to pay down principal.

PROVIDER: Atherton Baptist Elder Ministries

ATHERTON BAPTIST HOMES
FORM 5-3
CALCULATION OF LONG-TERM DEBT RESERVE AMOUNT
DECEMBER 31, 2012

Line		TOTAL
1	Total from Form 5-1 bottom of Column (e)	$2,812,950
2	Total from Form 5-2 bottom of Column (e)	$0
3	Facility leasehold or rental payment paid by provider during fiscal year (including related payments such as lease insurance)	$0
4	**TOTAL AMOUNT REQUIRED FOR LONG-TERM DEBT RESERVE:**	$2,812,950

PROVIDER: Atherton Baptist Elder Ministries

ATHERTON BAPTIST HOMES
FORM 5-4
CALCULATION OF NET OPERATING EXPENSES
DECEMBER 31, 2012

Line			Amounts	TOTAL
1		Total operating expenses from financial statements		$20,767,139
2		Deductions:		
	a.	Interest paid on long-term debt (see instructions)	$2,812,950	
	b.	Credit enhancement premiums paid for long-term debt (see instructions)	$0	
	c.	Depreciation	**$2,864,218**	
	d.	Amortization	$292,843	
	e.	Revenues received during the fiscal year for services to persons who did not have a continuing care contract	$2,066,989	
	f.	Extraordinary expenses approved by the Department	$0	
3		Total Deductions		$8,037,000
4		Net Operating Expenses		$12,730,139
5		Divide Line 4 by 365 and enter the result.		$34,877
6		**Multiply Line 5 by 75 and enter the result.** This is the provider's operating expense reserve		$2,615,782

PROVIDER: Atherton Baptist Elder Ministries
COMMUNITY: Atherton Baptist Homes

ATHERTON BAPTIST HOMES
FORM 5-5
ANNUAL RESERVE CERTIFICATION
DECEMBER 31, 2012

Provider Name: Atherton Baptist Elder Ministries
Fiscal Year Ended: 12/31/2012

We have reviewed our debt service reserve and operating expense reserve requirements as of, and for the period ended 12/31/2012 and are in compliance with those requirements.

Our liquid reserve requirements, computed using the audited financial statements for the fiscal year are as follows:

		Amount
[1]	Debt Service Reserve Amount	$2,812,950
[2]	Operating Expense Reserve Amount	$2,615,782
[3]	**Total Liquid Reserve Amount:**	$5,428,732

Qualifying assets sufficient to fulfill the above requirements are held as follows:

	Qualifying Asset Description		**Amount** **Debt Service Reserve**		**Operating Reserve**
[4]	Cash and Cash Equivalents				$1,149,565
[5]	Investment Securities				$1,853,440
[6]	Equity Securities				$3,638,773
[7]	Unused/Available Lines of Credit				
[8]	Unused/Available Letters of Credit				
[9]	Debt Service Reserve		$5,270,533		(not applicable)
[10]	Other: (describe qualifying asset)				
	Total Amount of Qualifying Assets		$5,270,533	[12]	$6,641,778
	Reserve Obligation Amount:	[13]	$2,812,950	[14]	$2,615,782
	Surplus/(Deficiency):	[15]	$2,457,583	[16]	$4,025,996

Signature:

(Authorized Representative)

Date: April 30, 2013

Chief Financial Officer
(Title)

SUPPLEMENTARY SCHEDULE

ATHERTON BAPTIST HOMES
SUPPLEMENTARY FORM 5-5
RECONCILIATION TO AUDIT REPORT
DECEMBER 31, 2012

Total cash and investments per audited statement of financial position:		
Cash and cash equivalents	$	941,007
Investments - general fund		1,769,960
Assets limited as to use, required for current liabilities		1,386,519
Assets limited as to use, noncurrent		8,545,208
Total cash and investments		12,642,694
Reservations and Designations:		
Assets held by bond indenture trustee:		
Entrance fee account		1,868
Project fund account		728,515
Total reservations and designations		730,383
Net cash and investments available for operating reserve and debt service reserve	$	11,912,311
Qualifying Assets per Form 5-5		
Operating Reserve	$	6,641,778
Debt Service Reserve		5,270,533
Total Qualifying Assets	$	11,912,311

RECEIVED

CONTINUING CARE
CONTRACTS BRANCH

Report of Independent Auditors and Financial Statements

Atherton Baptist Homes

December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Atherton Baptist Homes

Report on Financial Statements

We have audited the accompanying financial statements of Atherton Baptist Homes, which comprise the statement of financial position as of December 31, 2012, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements. The December 31, 2011 financial statements of Atherton Baptist Homes were audited by other auditors whose report dated April 16, 2012 expressed an unqualified opinion on those 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. 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 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, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
April 23, 2013

ATHERTON BAPTIST HOMES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
Current Assets		
Cash and cash equivalents	$ 941,007	$ 1,922,514
Investments - general fund	1,769,960	1,535,480
Accounts receivable, less allowance for doubtful accounts of $235,000 in 2012 and $200,000 in 2011	1,006,179	552,641
Assets limited as to use, required for current liabilities	1,386,519	3,061,358
Prepaid expenses and other current assets	795,383	732,801
Insurance recoveries receivable	1,190,669	495,138
Total current assets	7,089,717	8,299,932
Noncurrent Assets		
Assets limited as to use	8,545,208	9,972,488
Property and equipment, net	42,537,529	44,231,018
Deferred costs, net	3,329,588	3,569,782
Other investments	198,031	195,392
Other assets	277,500	632,887
Total noncurrent assets	54,887,856	58,601,567
Total Assets	$ 61,977,573	$ 66,901,499

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities		
Accounts payable	$ 386,336	$ 506,745
Accrued liabilities	1,932,829	1,445,483
Line of credit	472,664	-
Deposits on entrance fees	609,894	411,987
Current portion of long-term debt	1,500,000	3,850,000
Workers' compensation liability	1,190,669	495,138
Total current liabilities	6,092,392	6,709,353
Noncurrent Liabilities		
Long-term debt, net of current portion	33,820,000	35,090,000
Deferred revenue from entrance fees	17,182,325	16,257,920
Pension liability	2,350,743	1,483,471
Gift annuities payable	1,261,407	1,429,369
Liabilities under charitable remainder trusts and pooled income funds	93,968	87,476
Total noncurrent liabilities	54,708,443	54,348,236
Total Liabilities	60,800,835	61,057,589
Net Assets		
Unrestricted	927,632	5,585,810
Temporarily restricted	249,106	258,100
Total net assets	1,176,738	5,843,910
Total Liabilities and Net Assets	$ 61,977,573	$ 66,901,499

ATHERTON BAPTIST HOMES
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Revenues, Gains, and Other Support		
Residential services, including amortization of entrance fees of $1,811,522 in 2012 and $1,844,920 in 2011	$ 7,129,631	$ 6,288,462
Nursing center revenue	8,747,633	7,315,067
Investment income	817,507	554,809
Gifts	169,968	76,709
Other income	115,689	138,344
Net assets released from restrictions, used for operations	-	16,202
Total revenues	16,980,428	14,389,593
Operating Expenses		
Salaries and benefits	8,387,675	8,320,458
Purchased goods and services	5,830,231	4,770,138
Interest	3,618,910	1,317,988
Depreciation	2,864,218	2,227,825
Provision for doubtful accounts	50,319	129,634
Other expenses	15,786	6,280
Total operating expenses	20,767,139	16,772,323
Operating Loss	$ (3,786,711)	$ (2,382,730)

See accompanying report of independent auditors and notes.

ATHERTON BAPTIST HOMES
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Change in Unrestricted Net Assets		
Operating loss	$ (3,786,711)	$ (2,382,730)
Unrealized losses on investments	(231,405)	(63,193)
Net assets released from restrictions used for purchase of property and equipment	124,287	-
Change in minimum pension liability	(764,349)	(91,105)
Decrease in unrestricted net assets	(4,658,178)	(2,537,028)
Temporarily Restricted Net Assets		
Investment income	23,009	19,436
Unrealized losses on investments	(19,189)	(6,145)
Change in value associated with obligations under charitable remainder trusts and pooled income funds	111,473	146,765
Net assets released from restrictions used for operations	-	(16,202)
Net assets released from restrictions used for purchase of property and equipment	(124,287)	-
Change in temporarily restricted net assets	(8,994)	143,854
Change in Net Assets	(4,667,172)	(2,393,174)
Net Assets, Beginning of Year	5,843,910	8,237,084
Net Assets, End of Year	$ 1,176,738	$ 5,843,910

ATHERTON BAPTIST HOMES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	$ 11,399,521	$ 9,785,178
Cash received from noncontracted residents	2,066,989	1,904,059
Entrance fees received	2,882,256	10,412,948
Contributions received	259,113	176,896
Dividend and interest income received	365,469	494,436
Other receipts	422,488	495,267
Processing fees	4,900	4,300
Cash received for services to nonresidents	16,116	18,107
Cash paid to employees, suppliers, and others	(13,973,466)	(12,819,025)
Interest paid	(2,812,950)	(567,559)
Cash paid for fundraising costs	(60,700)	(76,822)
Net cash provided by operating activities	569,736	9,827,785
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,191,865)	(944,358)
Proceeds from sale of property and equipment	5,350	2,920
Purchases of investments, assets held by bond indenture trustee and assets limited by Board as to use	(8,739,968)	(17,297,406)
Proceeds from sale of investments, assets held by bond indenture trustee and assets limited by Board as to use	11,829,421	29,843,587
Increase (decrease) in liabilities under charitable remainder trusts, pooled income funds, and gift annuities	(161,470)	28,233
Issuance of notes receivable	(15,000)	33,101
Collections of principal on notes receivable	15,954	-
Project financing costs	-	(93,641)
Project development costs, net	-	(124,130)
The Courtyard at Atherton capital construction costs	-	(12,547,411)
The Courtyard at Atherton capitalized interest	-	(2,705,932)
Net cash provided by (used in) investing activities	1,742,422	(3,805,037)
Cash Flows from Financing Activities		
Borrowings under line of credit	500,000	-
Repayments of line of credit	(27,336)	-
Principal payments on long-term debt	(3,620,000)	(5,000,000)
Refunds of entrance fees	(146,329)	-
Net cash used in financing activities	(3,293,665)	(5,000,000)
Net (Decrease) Increase in Cash and Cash Equivalents	(981,507)	1,022,748
Cash and Cash Equivalents, Beginning of Year	1,922,514	899,766
Cash and Cash Equivalents, End of Year	$ 941,007	$ 1,922,514

ATHERTON BAPTIST HOMES
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Reconciliation of Decrease in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	$ (4,667,172)	$ (2,393,174)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,864,218	2,227,825
Amortization of deferred costs	292,843	173,254
Change in minimum pension liability	764,349	91,105
Provision for doubtful accounts	50,319	129,634
Loss on disposal of property and equipment	15,786	6,280
Amortization of entrance fees	(1,811,522)	(1,844,920)
Unrealized losses on investments	250,594	69,338
Realized gains on investments	(475,047)	(126,946)
Forgiveness of principal on note receivable	-	1,667
Changes in operating assets and liabilities:		
Accounts receivable	(503,857)	(79,263)
Contribution (pledge) receivable	10,000	(50,000)
Prepaid expenses and other	(68,356)	(55,487)
Entrance fee receivable	350,207	(451,346)
Costs of acquiring initial care contracts	(52,649)	(32,694)
Accounts payable	(120,409)	285,338
Accrued expenses	487,346	665,581
Deposits on entrance fees	197,907	265,867
Deferred compensation payable	-	(1,754)
Entrance fees received	2,882,256	10,864,294
Pension liability	102,923	83,186
Net cash provided by operating activities	$ 569,736	$ 9,827,785
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Entrance fee receivable	$ -	$ 55,000
Other receivables due from resident	-	15,000
Total converted to note receivable	$ -	$ 70,000

Note 1 - Nature of Organization

Organization and business activity - Atherton Baptist Homes ("Atherton") is a nonprofit corporation, established in 1914 and licensed by the State of California, Department of Social Services as a continuing care retirement community. Atherton's principal mission is sponsoring a Christian retirement community fostered and supported by the American Baptist Churches, its original sponsoring body, Transformation Ministries, its successor body, and other friends, offering a full range of living options and services to ministers, missionaries and their spouses, and to the lay community. Atherton offers four levels of care, namely, 220 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 6-bed memory support care facility; and a 99-bed skilled nursing facility on an approximately 15-acre campus located in Alhambra, California.

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

Atherton Baptist Elder Ministries, a nonprofit corporation founded in 1997, is the sole corporate member of Atherton.

Note 2 - Summary of Significant Accounting Policies

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

Workers' compensation - In accordance with Accounting Standards Update ("ASU") No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, Atherton discloses in the statements of financial position the estimated liability outstanding for workers' compensation claims as well as the related insurance recoveries. The estimated liability and insurance recoveries for workers' compensation claims amounted to approximately $1,191,000 and $495,000 for the years ended December 31, 2012 and 2011, respectively.

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 (losses) are restricted by donor or law.

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

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

Construction in progress - Construction in progress consists of costs incurred on construction projects that have not been completed. Depreciation begins when related assets are placed in service.

Accounting for the impairment of long-lived assets and long-lived assets to be disposed of - Atherton reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. Atherton considers assets to be impaired, and writes them down to fair value if expected associated cash flows are less than the carrying amounts. Fair value is the present value of the associated cash flows. Atherton has determined that no long-lived assets were impaired at December 31, 2012 and 2011.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred costs - Costs incurred in obtaining long-term financing are amortized over the respective terms of the related obligations using the interest method. Costs of acquiring initial continuing care contracts, which represent certain advertising and marketing costs incurred with acquiring initial continuing care contracts related to the construction and completion of The Courtyard at Atherton, are amortized on a straight-line basis over the average expected remaining lives of the residents under the contract.

Obligation to provide future services - Annually, Atherton calculates the present value (using a 3.0% and 6.0% discount rate at December 31, 2012 and 2011, 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 deferred revenue from entrance fees, refundable entrance fees, monthly maintenance fees and other contractually committed revenue, a liability would be recorded for the obligation to provide future services with a corresponding charge included in the statements of operations. The change in the obligation during a year would be reported as a current year change in obligation to provide future services in the statements of operations. No such liability was necessary at December 31, 2012 or 2011.

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 mandate a statutory reserve and a liquid asset requirement. The mandates were met for the years ended December 31, 2012 and 2011.

Net assets - Atherton's net assets comprise the following:

> **Unrestricted net assets** - Unrestricted net assets represent the portion of expendable net assets that are neither permanently restricted nor temporarily restricted by donor-imposed restrictions. These net assets are available for support of the ordinary operations and administration of Atherton.
>
> **Temporarily restricted net assets** - Temporarily restricted net assets are those whose use by Atherton has been limited by donors to a specific time or purpose. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. When a donor restriction expires, that is, when a stipulated time restriction and/or purpose restriction is met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions where restrictions are met within the same year as received, are reflected as unrestricted contributions in the statements of operations.

Note 2 - Summary of Significant Accounting Policies (continued)

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

Gift annuities: As consideration for certain irrevocable gifts made to Atherton for benevolent purposes, Atherton enters into agreements to make fixed annual payments to the donors or their beneficiaries for life. A liability is established for the present value of future payments, discounted at 6.5%, 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 corporate use without approval of the California Department of Insurance. However, the Board of Trustees (the "Board") has limited the use of the excess assets until the gift matures (the death of the beneficiary).

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

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

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

Financial instruments, which potentially subject Atherton to concentration of credit risk, consist primarily of investments and receivables. Investments are managed by professional investment managers within the guidelines established by the Board, which, as a matter of policy, limit the amounts that may be invested in anyone 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, 2012 and 2011, 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.

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Entrance and monthly maintenance fees - Generally, in return for care to be provided by Atherton, residents pay an initial (most often a lump sum) entrance fee and an ongoing monthly maintenance fee. The initial entrance fee is largely refundable during a brief probationary period (ninety days). After the end of the probationary period, the refundable portion of the entrance fee decreases over time. Entrance fees paid by residents upon entering into continuing care contracts, net of expected refunds to residents, are recorded as deferred revenue and are amortized into income over the life expectancy of the residents.

Beginning in July 2011, Atherton introduced a re-occupancy benefit contract (for residents of The Courtyard at Atherton) whereby residents pay an entrance fee ranging from $298,000 for a one-bedroom unit to between $357,000 and $395,000 for a two-bedroom unit and an ongoing monthly maintenance fee. There is an additional entrance fee of $25,000 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.

Note 2 - Summary of Significant Accounting Policies (continued)

2. If the resident's tenancy terminates subsequent to the first ninety days, Atherton offers the following re-occupancy benefit refunds to the resident (or their estate) once the unit has been re-occupied:

    a. Re-occupancy benefit equal to 50% of the paid entrance fees.
    b. Re-occupancy benefit equal to 70% of the paid entrance fees.
    c. Re-occupancy benefit equal to 90% of the paid entrance fees.

Under the re-occupancy benefit contract agreements, Atherton amortizes the non-refundable portion of the paid entrance fee over the resident's expected life and the re-occupancy benefit over the life of the building.

Residents pay for the right to occupy Atherton's units and for access to its services, but do not obtain title to any of its real estate. Monthly maintenance fees are reported on the accrual basis in the period in which services are provided. Contractually refundable entrance fees, included in deferred entrance fees on the statements of financial position, amounted to approximately $12,664,000 and $11,286,402 at December 31, 2012 and 2011, respectively.

Advertising costs - Advertising costs (not associated with acquiring initial continuing-care contracts) are charged to operations when incurred. Total advertising expense for the years ended December 31, 2012 and 2011 were approximately $198,000 and $115,000, respectively.

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

Atherton considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Atherton evaluates its uncertain tax positions using the provisions with accounting principles generally accepted in the United States of America ("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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Comparative financial statements - Certain amounts included in the 2011 financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2012 financial statements.

Recent accounting pronouncements - In July 2012, the FASB issued ASU 2012-01. ASU 2012-01 "Continuing Care Retirement Communities - Refundable Advance Fees" which clarifies that an entity should classify an entrance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable entrance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable entrance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy should be accounted for and reported as a liability. The adoption of ASU 2012-01 is effective for Atherton beginning January 1, 2013. Management is currently evaluating the impact of the adoption of ASU 2012-01 on Atherton's financial statements.

Subsequent events - Subsequent events are events or transactions that occur after the statements of financial position date but before financial statements are available to be 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's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial position but arose after the statements of financial position date and before the financial statements are available to be issued.

Note 3 - Investments

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

	2012	2011
Investments - general fund	$ 1,769,960	$ 1,535,480
Assets held by bond indenture trustee, required for current liabilities	1,386,519	3,061,358
Assets limited by Board as to use	3,930,813	4,559,583
Assets held by bond indenture trustee, net of current portion	4,614,395	5,412,905
Other investments (held under charitable remainder trusts and pooled income funds)	198,031	195,392
	$ 11,899,718	$ 14,764,718

Note 3 - Investments (continued)

Assets recognized under gift annuities are included in assets limited by Board as to use and total approximately $1,279,000 and $1,689,000 at December 31, 2012 and 2011, respectively.

The following table discloses the composition of investment return for the years ended December 31:

	2012	2011
Unrestricted net assets:		
Interest and dividend income	$ 355,570	$ 435,309
Realized gains	461,937	119,500
Unrealized losses	(231,405)	(63,193)
	$ 586,102	$ 491,616
Temporarily restricted net assets:		
Interest and dividend income	$ 9,899	$ 11,990
Realized gains	13,110	7,446
Unrealized losses	(19,189)	(6,145)
	$ 3,820	$ 13,291

Atherton paid approximately $101,000 and $110,000 in investment consulting fees during the years ended December 31, 2012 and 2011, respectively.

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31:

	Fair Value Below Cost as of December 31, 2012					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Common stocks	$ 390,244	$ (36,074)	$ 632,300	$ (432,383)	$ 1,022,544	$ (468,457)
Fixed income	204,896	(778)	166,265	(1,081)	371,161	(1,859)
Total temporarily impaired securities	$ 595,140	$ (36,852)	$ 798,565	$ (433,464)	$ 1,393,705	$ (470,316)

	Fair Value Below Cost as of December 31, 2011					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Common stocks	$ 431,197	$ (94,563)	$ 412,846	$ (230,420)	$ 844,043	$ (324,983)
Fixed income	987,209	(13,650)	-	-	987,209	(13,650)
Total temporarily impaired securities	$ 1,418,406	$ (108,213)	$ 412,846	$ (230,420)	$ 1,831,252	$ (338,633)

Note 3 - Investments (continued)

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other than temporary impairment under management's policy. Atherton's policy of evaluating securities for impairment that considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of those losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended December 31, 2012 and 2011, no securities were determined to be other-than-temporarily impaired.

Note 4 - Fair Value Measurements

In accordance with ASC 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.

Note 4 - Fair Value Measurements (continued)

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2012:

	Investment Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Corporate bonds	$ 572,840	$ -	$ -	$ 572,840
Exchange traded funds	1,086,252	-	-	1,086,252
Government bonds	3,119,172	-	-	3,119,172
Money market funds	3,351,616	-	-	3,351,616
U.S. equities	3,769,838	-	-	3,769,838
	$ 11,899,718	$ -	$ -	$ 11,899,718

The following table sets forth by level, within the fair value hierarchy, assets at fair value at December 31, 2011:

	Investment Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Bonds	$ 5,701,696	$ -	$ -	$ 5,701,696
Common stock	4,098,357	-	-	4,098,357
Money market funds	4,913,638	-	-	4,913,638
Other	51,027	-	-	51,027
	$ 14,764,718	$ -	$ -	$ 14,764,718

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 consolidated statements of financial position, as well as the general classification of other investments pursuant to the valuation hierarchy:

Cash and cash equivalents, common stocks and fixed income securities: 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.

Split-interest agreements: Split-interest agreements include charitable remainder trusts, charitable gift annuities and pooled income funds. Split-interest agreements are valued at fair value by estimating the present value of expected future cash inflows.

Note 4 - 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 at December 31, 2012 and 2011.

Note 5 - 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 $151,000 and $212,000 as of December 31, 2012 and 2011, respectively. As these funds do not represent assets of Atherton, a corresponding trust account liability is included in accrued liabilities.

Note 6 - Assets Limited as to Use

Assets limited as to use are comprised of the following at December 31:

	2012	2011
Assets limited by Board as to use	$ 3,930,813	$ 4,559,583
Assets held by bond indenture trustee	4,614,395	5,412,905
	$ 8,545,208	$ 9,972,488

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.

Note 6 - Assets Limited as to Use (continued)

As part of the bond indenture (Note 12), several restricted funds were established and are maintained by the Trustee. These funds are the Debt Service Reserve Fund, Project Fund, and Bond Fund. These funds consist of cash and cash equivalents and fixed income securities. The balance in each fund as of December 31 is as follows:

	2012	2011
Debt Service Reserve Fund	$ 3,962,466	$ 6,847,658
Project Fund	728,515	1,047,738
Bond Fund	1,309,933	578,867
	6,000,914	8,474,263
Less: current portion	1,386,519	3,061,358
	$ 4,614,395	$ 5,412,905

Per the bond indenture, Atherton must also maintain an Operating Reserve Fund; however, it is not required to be maintained by the Trustee. The Operating Reserve Fund, which totals approximately $2,279,000 and $2,208,000 as of December 31, 2012 and 2011, respectively, is included in the accompanying statements of financial position under assets limited by Board as to use.

Note 7 - Property and Equipment

Property and equipment at December 31 consists of the following:

	2012	2011
Land	$ 3,350,093	$ 3,350,093
Buildings and improvements	55,084,557	54,912,861
Major movable and fixed equipment	9,134,725	8,892,440
Construction in progress	1,231,102	681,883
	68,800,477	67,837,277
Less accumulated depreciation	26,262,948	23,606,259
	$ 42,537,529	$ 44,231,018

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to approximately $2,864,000 and $2,227,000, respectively.

Note 8 - Deferred Costs, Net

Deferred costs, net of accumulated amortization, are comprised of the following at December 31:

	2012	2011
Deferred financing costs	$ 1,435,365	$ 1,435,365
Less: accumulated amortization	253,699	162,115
Deferred financing costs, net	1,181,666	1,273,250
Costs of acquiring initial continuing care contracts	2,431,278	2,378,629
Less: accumulated amortization	283,356	82,097
Costs of acquiring initial continuing care contracts, net	2,147,922	2,296,532
Deferred costs, net	$ 3,329,588	$ 3,569,782

Note 9 - Interest Capitalization and Expense

Interest capitalization and expense for the years ended December 31 is as follows:

	2012	2011
Interest cost incurred	$ 3,618,910	$ 4,656,949
Less: The Courtyard at Atherton capitalized interest	-	3,338,961
Interest charged to operations	$ 3,618,910	$ 1,317,988

Interest charged to operations in 2012 includes $633,000 that was funded with bond proceeds held by indenture trustee. Included in interest cost incurred is amortization of deferred financing costs of approximately $293,000 and $173,000 for the years ending December 31, 2012 and 2011, respectively.

Note 10 - Accrued Workers' Compensation Claims

Atherton entered into an agreement with two other retirement communities to establish a worker compensation self-insurance program in 2002. Under this program, Atherton purchases workers' compensation policies from a commercial insurance carrier, and subsequently reinsures back a portion of their claims costs through a captive insurance company. The arrangement with the other retirement communities allows for the sharing of the captive expenses, but not the cost of workers' compensation claims unless default shall occur 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 assumes the cost of its workers' compensation claims up to $350,000 of each claim, plus allocated loss adjustment expense.

Note 10 - Accrued Workers' Compensation Claims (continued)

Atherton deposits funds in the captive insurance company on an annual basis and records this as an insurance premium expense. In addition, Atherton has pledged letters of credit totaling $356,244 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, 2012 and 2011, 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 revolving line of credit (an increase from a $250,000 line of credit in June 2011), which is unsecured. The note bears interest at 1.5% above the prime rate published in the Wall Street Journal (with a floor rate of 4.0%) per annum, and is renewable annually. The amount outstanding on the line of credit amounted to approximately $473,000 as of December 31, 2012. There was no outstanding balance on the line of credit at December 31, 2011.

Note 12 - Long-Term Debt

On May 30, 2007, Atherton entered into a Cost Plus Fee with an Option for a Guaranteed Maximum Price contract with The Haskell Company, dba The Haskell Company of Florida, to build 50 one bedroom, 1 and 1/2 bathroom, and two bedroom two bathroom independent living units on the southeast portion of its campus called The Courtyard at Atherton (the "Courtyard"). Construction on the expansion project (the "Courtyard project") commenced in February 2010, and was completed in July 2011.

In connection with the development of the Courtyard project, Atherton issued 2010 Bonds pursuant to an Indenture of Trust dated as of January 1, 2010, ("Indenture") among the City of Alhambra, California ("Issuer"), Atherton and Wells Fargo Bank ("Trustee").

The proceeds of the 2010 Bonds, together with other available funds from Atherton, were applied to pay a portion of the costs of the Courtyard project; to fund interest on the portion of the 2010 Bonds that is allocated to the Courtyard and other expenses incidental to the Courtyard project; to fund a debt service reserve fund; and to pay the costs of issuance.

Note 12 - Long-Term Debt (continued)

Long-term debt at December 31 consists of the following bonds issued in connection with the development of the Courtyard project:

	2012	2011
Series 2010A bonds with semi-annual principal payments due through 2030 and 2040, at a stated interest rate of 7.5% and 7.625% per annum, respectively. Interest is payable semi-annually on January 1 and July 1.	$ 29,300,000	$ 29,300,000
Series 2010B bonds with semi-annual principal payments due through 2017, at a stated interest rate of 6.625% per annum. Interest is payable semi-annually on January 1 and July 1.	6,020,000	9,640,000
	35,320,000	38,940,000
Less: current maturities	1,500,000	3,850,000
	$ 33,820,000	$ 35,090,000

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. The financial covenants include cumulative cash used in operations, debt service coverage ratio, liquidity ratio, marketing targets, and occupancy requirements. As of December 31, 2012 and 2011, Atherton was only required to comply with the marketing targets and occupancy requirements. The other covenants will be required to be complied with upon occupancy and stabilization of the Courtyard. As of December 31, 2012, Atherton was not in compliance with the marketing targets by 10 units. Additionally, as of December 31, 2012, Atherton was not in compliance with the non-Courtyard occupancy requirements by 1 unit. As a result, Atherton hired a marketing agent and prepared a marketing report as required under the indenture agreement to remedy non-compliance with this covenant. Since these actions were taken, the covenant violation does not constitute a default under the terms of the loan agreement.

Note 12 - Long-term Debt (continued)

Principal payments due are as follows:

Fiscal Year	Principal Payments
2013	$ 1,500,000
2014	2,830,000
2015	2,380,000
2016	380,000
2017	415,000
Thereafter	27,815,000
Totals	$ 35,320,000

The 2010B bond future payments of long-term debt included in the schedule above are based upon the amount of initial entrance fees that are deposited into the redemption account (as defined in the bond agreements). As such, the original planned principal payment per the bond agreements of $9,640,000 for 2013 is now estimated to be $1,500,000. This estimated amount is based upon Atherton's 2013 budget of 4 new units expected to be occupied in 2013, each with an approximate entrance fee of $350,000. As a result, the remaining $4,520,000 of the original planned principal payment is expected to be paid in years 2014 through 2016 based upon estimated entrance fees to be received. This revision does not result in a default of the agreements.

Note 13 - 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, 2012 and 2011 totaled approximately $261,000 and $255,000, 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 plan is expected to be fully funded by 2014.

Note 13 - Pension Plans (continued)

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

	2012	2011
Benefit obligation at December 31	$ 3,488,070	$ 2,709,739
Benefit payments	124,535	71,403
Fair value of plan assets at December 31	1,137,327	1,226,268
Net unfunded status of plan	2,350,743	1,483,471

Amounts recognized in the statements of financial position consist of:

	2012	2011
Pension liability	$ 2,350,743	$ 1,483,471

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

	2012	2011
Actuarial losses	$ 1,354,036	$ 589,687

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:

	2012	2011
Project benefit obligation	$ 3,488,070	$ 2,709,739
Accumulated benefit obligation	3,488,070	2,709,739
Fair value of plan assets	1,137,327	1,226,268

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

	2012	2011
Net periodic benefit cost	$ 102,923	$ 83,186

Note 13 - Pension Plans (continued)

Atherton has recognized, in the accompanying statements of financial position, the minimum liability of the unfunded accumulated benefit obligation as unfunded pension liability with an offsetting adjustment to unrestricted net assets. For the year ended December 31, 2012, the change in minimum pension liability was approximately $867,000, bringing the total unfunded pension liability to approximately $2,351,000 at December 31, 2012. For the year ended December 31, 2011, the change in minimum pension liability was approximately $91,000, bringing the total unfunded pension liability to approximately $1,483,000 at December 31, 2011.

Assumptions:

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

	2012	2011
Discount rate	4.50%	6.25%
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:

	2012	2011
Discount rate	6.25%	6.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	N/A	N/A

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

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

Note 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%

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

	Assets at Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash	$ 90,397	$ -	$ -	$ 90,397
Equity securities	1,001,062	-	-	1,001,062
Fixed income securities	50,420	-	-	50,420
Total plan assets	1,141,879	-	-	1,141,879
Net of prepayment and payable	(4,552)	-	-	(4,552)
Net plan assets	$ 1,137,327	$ -	$ -	$ 1,137,327

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash	$ 12,276	$ -	$ -	$ 12,276
Equity securities	990,024	-	-	990,024
Fixed income securities	231,803	-	-	231,803
Total plan assets	1,234,103	-	-	1,234,103
Net of prepayment and payable	(7,835)	-	-	(7,835)
Net plan assets	$ 1,226,268	$ -	$ -	$ 1,226,268

Atherton expects to make no contribution to its pension plan during 2013. However, since January 2006, Atherton has been setting aside an annual amount of $180,000 of general fund assets to fund the pension plan. The balance of the general fund assets was approximately $1,649,000 and $1,451,000 as of December 31, 2012 and 2011, respectively.

Note 13 - Pension Plans (continued)

As of December 31, 2012, expected future benefit payments were as follows:

Years ending December 31,		
2013	$	168,577
2014		169,291
2015		171,568
2016		175,084
2017		181,056
Thereafter		1,022,607
	$	1,888,183

Note 14 - Functional Expenses

Atherton provides residential and nursing center services to its residents. Expenses related to providing these services for 2012 and 2011 are as follows:

		2012		2011
Residential services	$	9,016,189	$	6,277,245
Nursing center services		8,390,356		7,270,660
General and administrative		3,209,046		3,032,364
Fundraising		151,548		192,054
	$	20,767,139	$	16,772,323

Note 15 - 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 16 - Subsequent Events

Atherton has evaluated subsequent events through April 23, 2013, which is the date the financial statements were issued, and concluded that there were no additional events or transactions that need to be disclosed.