Motion Picture and Television Fund and Affiliated Entities

Consolidated Financial Statements
December 31, 2018 and 2017

Motion Picture and Television Fund and Affiliated Entities
Index
December 31, 2018 and 2017

MOSSADAMS

Report of Independent Auditors

The Board of Directors
Motion Picture and Television Fund and Affiliated Entities

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Motion Picture and Television Fund and Affiliated Entities (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Motion Picture and Television Fund and Affiliated Entities as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, as of December 31, 2018, the Company adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-profit Entities.* The ASU has been applied retrospectively to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to this matter.

Moss Adams LLP

Irvine, California
April 23, 2019

Motion Picture and Television Fund and Affiliated Entities
Consolidated Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 3,608,000	$ 3,669,000
Patient accounts receivable, net	1,795,000	1,738,000
Other receivables	2,864,000	1,967,000
Pledges receivable, net	6,651,000	6,486,000
Other current assets	996,000	706,000
Total current assets	15,914,000	14,566,000
Investments	72,251,000	69,148,000
Land, buildings and equipment, net	27,089,000	30,432,000
Insurance recoveries receivable, net of current portion	3,543,000	3,324,000
Pledges receivable, net of current portion	24,964,000	28,650,000
Assets held under split-interest agreements	547,000	656,000
Other assets	367,000	367,000
Total assets	$ 144,675,000	$ 147,143,000
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 3,443,000	$ 3,608,000
Accrued liabilities	7,117,000	6,353,000
Current portion of long-term debt	1,125,000	1,080,000
Total current liabilities	11,685,000	11,041,000
Long-term debt, net of current portion	17,269,000	18,367,000
Accrued pension benefits, net of current portion	18,897,000	20,161,000
Insurance claim liability, net of current portion	6,834,000	6,215,000
Interest rate swap liability	954,000	1,444,000
Actuarial liability under split-interest agreements	400,000	440,000
Total liabilities	56,039,000	57,668,000
Commitments and contingencies (Note 14)		
Net assets		
Without donor restrictions	29,397,000	25,390,000
With donor restrictions	59,239,000	64,085,000
Total net assets	88,636,000	89,475,000
Total liabilities and net assets	$ 144,675,000	$ 147,143,000

The accompanying notes are an integral part of these consolidated financial statements.

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Net patient service and resident revenue	$ 21,683,000	$ -	$ 21,683,000
Other operating revenue	1,130,000	-	1,130,000
Contributions	35,718,000	3,891,000	39,609,000
Investment income	1,550,000	855,000	2,405,000
Loss on sale of investments	(944,000)	(835,000)	(1,779,000)
Net assets released from restrictions used for operations	7,501,000	(7,501,000)	-
Total revenues, gains, and other support	66,638,000	(3,590,000)	63,048,000
Expenses			
Salaries, wages and benefits	36,802,000	-	36,802,000
Purchased services	11,868,000	-	11,868,000
Professional fees	6,071,000	-	6,071,000
Supplies	1,687,000	-	1,687,000
Depreciation	4,134,000	-	4,134,000
Market adjustment on interest rate swap	(92,000)	-	(92,000)
Interest and financing costs	506,000	-	506,000
Other expenses	2,007,000	-	2,007,000
Total expenses	62,983,000	-	62,983,000
Excess (deficiency) of revenues, gains, and other support over expenses	3,655,000	(3,590,000)	65,000
Other changes in net assets			
Unrealized losses on investments	(752,000)	(1,153,000)	(1,905,000)
Minimum pension liability adjustment	1,070,000	-	1,070,000
Net assets released from restrictions used for purchase of property and equipment	34,000	(34,000)	-
Change in split-interest agreements	-	(69,000)	(69,000)
Total other changes in net assets	352,000	(1,256,000)	(904,000)
Total changes in net assets	4,007,000	(4,846,000)	(839,000)
Net assets			
Beginning of year	25,390,000	64,085,000	89,475,000
End of year	$ 29,397,000	$ 59,239,000	$ 88,636,000

The accompanying notes are an integral part of these consolidated financial statements.

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statement of Operations and Changes in Net Assets
Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support			
Net patient service and resident revenue	$ 21,488,000	$ -	$ 21,488,000
Other operating revenue	1,737,000	-	1,737,000
Contributions	15,820,000	4,507,000	20,327,000
Investment income	1,039,000	577,000	1,616,000
(Loss) gain on sale of investments	(123,000)	1,010,000	887,000
Net assets released from restrictions used for operations	15,805,000	(15,805,000)	-
Total revenues, gains, and other support	55,766,000	(9,711,000)	46,055,000
Expenses			
Salaries, wages and benefits	36,297,000	-	36,297,000
Purchased services	11,477,000	-	11,477,000
Professional fees	4,555,000	-	4,555,000
Supplies	2,628,000	-	2,628,000
Depreciation	4,454,000	-	4,454,000
Market adjustment on interest rate swap	(35,000)	-	(35,000)
Interest and financing costs	632,000	-	632,000
Other expenses	2,198,000	-	2,198,000
Total expenses	62,206,000	-	62,206,000
Deficiency of revenues, gains, and other support over expenses	(6,440,000)	(9,711,000)	(16,151,000)
Other changes in net assets			
Unrealized gain on investments	334,000	123,000	457,000
Minimum pension liability adjustment	(812,000)	-	(812,000)
Net assets released from restrictions used for purchase of property and equipment	1,700,000	(1,700,000)	-
Change in split-interest agreements	-	10,000	10,000
Total other changes in net assets	1,222,000	(1,567,000)	(345,000)
Total changes in net assets	(5,218,000)	(11,278,000)	(16,496,000)
Net assets			
Beginning of year	30,608,000	75,363,000	105,971,000
End of year	$ 25,390,000	$ 64,085,000	$ 89,475,000

The accompanying notes are an integral part of these consolidated financial statements.

Motion Picture and Television Fund and Affiliated Entities
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	$ (839,000)	$ (16,496,000)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized losses (gains) on investments	1,905,000	(457,000)
Losses (gains) on sale of investments	1,779,000	(887,000)
Loss on sale or disposal of land, buildings and equipment	34,000	176,000
Minimum pension liability adjustment	(1,070,000)	812,000
Depreciation and amortization, including bond issuance costs	4,161,000	4,471,000
Write off of unamortized financing costs related to retirement of bonds	-	227,000
Receipt of contributed securities	(523,000)	(791,000)
Change in fair value of interest rate swap	(490,000)	(616,000)
Contributions restricted for buildings and equipment	(149,000)	(338,000)
Changes in annuity and trust liabilities	48,000	51,000
Contributions restricted for long-term investment	(260,000)	(75,000)
Changes in assets and liabilities:		
Patient accounts receivable, net	(57,000)	28,000
Other receivables	(895,000)	323,000
Insurance recoveries receivable	(221,000)	139,000
Pledges receivable	3,521,000	11,358,000
Other current assets and other assets	37,000	(173,000)
Accounts payable and accrued liabilities	605,000	410,000
Accrued pension benefits	(194,000)	(310,000)
Insurance claim liability	567,000	(145,000)
Cash provided by (used in) operating activities	7,959,000	(2,293,000)
Cash flows from investing activities		
Purchases of buildings and equipment	(796,000)	(2,700,000)
Proceeds from sale of land, buildings and equipment	17,000	-
Purchases of investments	(63,269,000)	(28,959,000)
Proceeds from sales of investments	56,787,000	34,290,000
Cash (used in) provided by investing activities	(7,261,000)	2,631,000
Cash flows from financing activities		
Financing costs	-	(358,000)
Principal payment on long-term debt	(1,080,000)	(1,020,000)
Payment on retirement of long-term debt	-	(19,430,000)
Proceeds from issuance of long-term debt	-	19,805,000
Payments made under split-interest agreements	(88,000)	(122,000)
Proceeds from contributions for		
Buildings and equipment	149,000	338,000
Long-term investment	260,000	260,000
Cash used in financing activities	(759,000)	(527,000)
Net decrease in cash and cash equivalents	(61,000)	(189,000)
Cash and cash equivalents		
Beginning of year	3,669,000	3,858,000
End of year	$ 3,608,000	$ 3,669,000
Supplemental disclosures of cash flow information		
Contributed securities	$ 523,000	$ 791,000
Interest paid	482,000	401,000
Accrued purchases of buildings and equipment	25,000	25,000

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization

Founded in 1921, Motion Picture and Television Fund ("MPTF", or the "Company") is an integrated health and social service organization that supports eligible active and retiree members of the entertainment industry (the "Industry") and their families in Southern California. The MPTF campus includes a 122-bed multilevel care hospital and skilled nursing facility, and a 186-unit retirement community with independent, assisted living and memory care accommodations. The Company's activities include providing inpatient medical and residential care, social services, temporary financial assistance, various wellness and education programs, and daycare in our freestanding child care facility.

The Company is the sole member of Before and After Productions LLC ("BAP LLC") and The Industry Advantage, LLC, f/k/a, The Industry Health Network LLC ("TIA LLC"). BAP LLC is a limited liability company established for the primary purpose of organizing, producing and promoting fundraising activities. BAP LLC was dissolved effective June 18, 2018. TIA LLC provides health insurance services to the entertainment community.

Motion Picture and Television Fund and its affiliated entities are consolidated for financial statement presentation. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Based on the existence or absence of donor-imposed restrictions, the Company classifies resources into two categories: without donor restrictions and with donor restrictions.

- *Without Donor Restrictions* – All revenues, expenditures, gains and losses that are not restricted by donors are included in net assets without donor restrictions. Expenditures funded by restricted contributions are also reported in the without donor restrictions net asset class because funds used in accordance with donor stipulations result in the release of such restrictions.

- *With Donor Restrictions* – Net assets with donor restrictions can only be used in accordance with stipulations imposed by the donor and include unconditional pledges and accumulated appreciation on restricted endowments. Restrictions may either expire with the passage of time, be satisfied by action of the Company, or be required to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the Company to use the income earned on the related investments for specific purposes.

Expiration of donor-imposed restrictions – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purpose and/or by occurrence of events specified by the donors, including passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service or expenditures exceed the amount of the gift.

The Company has elected to present contributions with donor-imposed restrictions that are fulfilled in the same period as donated within the net assets without donor restrictions classification.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, and cash in checking and savings accounts. Marketable securities purchased with original maturities of three months or less are considered cash equivalents.

Investments

Investments consist of money market funds, mutual funds (including fixed income and equity funds), U.S. government notes, municipal bonds, and other holdings comprised of non-publicly traded investments (alternative investments). Investments are classified as noncurrent as investments are not expected to be used for current operations in the next year. Marketable securities and alternative investments are valued in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*. Investment earnings (including realized gains and losses on investments, interest, dividends and other than temporary impairments) are included in operating revenue unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of expenses, gains, and other support over revenues. The Company records its investment income, realized and unrealized gains and losses on investments of donor restricted funds as additions to or deductions from the appropriate net asset category based on the donor's restriction.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost except for donated assets, which are recorded at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over each asset's estimated useful lives, which range from 5 to 40 years for building and improvements, 3 to 20 years for furniture and equipment and 10 years for land improvements. Estimated useful lives are assigned based on the Estimated Useful Lives of Depreciable Hospital Assets guide published by the American Hospital Association. In addition, the Company records a liability for the fair value of any conditional asset retirement obligation, if determinable.

Significant replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon sale or disposal of land, buildings and equipment, the cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the consolidated statements of operations. The Company capitalizes all expenditures for land, buildings and equipment in excess of $1,000.

Pledges Receivable

Unconditional promises to give ("pledges") are recorded as receivables and contribution revenue and require the Company to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Multi-year pledges are recorded at fair value on the date of donation. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the pledges are received and recorded in their respective net asset category. Amortization of the discount is calculated using the effective interest method and included in contribution revenue in the consolidated statements of operations. Conditional promises to give are not included as support until the conditions have been substantially met.

Split-Interest Agreements

Split interest gift agreements consist primarily of irrevocable charitable gift annuities and a charitable remainder unitrust. Using the actuarial method, when a gift is received, the present value of estimated future payments to be made to the beneficiaries is recorded as a liability, based upon life expectancy tables and appropriate discount rates. The remainder is recorded as contribution revenue in the appropriate net asset category.

The actuarial liability is based on the present value of future payments discounted at rates ranging from 2.2% to 8.3% over estimated time periods derived from the Internal Revenue Service ("IRS") actuarial tables on life expectancy. Liabilities are adjusted during the term of the agreements for changes in the fair value of the assets, accretion of discounts, and other changes in the estimates of future benefits. Valuation follows generally accepted actuarial methods and is based on the requirements of FASB ASC 958. Assets held under split-interest agreements are stated at fair market value and are invested in publicly traded securities.

Debt Issuance Costs

Costs incurred in the issuance of long-term debt, including legal fees, bank fees, and accounting and consulting costs are amortized on the straight-line basis over the term of the related long-term debt. The straight-line method approximates the effective interest method. Unamortized debt issuance costs are presented as a reduction to long-term debt in accordance with FASB's Accounting Standards Update ("ASU") No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30)*: *Simplifying the Presentation of Debt Issuance Costs*. Unamortized debt issuance costs totaling $331,000 and $358,000 at December 31, 2018 and 2017, respectively, are included as a reduction of long-term debt in the consolidated balance sheets.

Interest Rate Swap Agreement

In 2006, the Company entered into an interest rate swap agreement, also known as a risk management or derivative instrument, to reduce the effect of interest rate fluctuation on its variable rate 2006 Bonds. The swap was amended and restated in October 2012, with its scheduled notional amount to be reduced according to the original mandatory sinking account schedule for the 2006 Bonds, regardless of any subsequent redemption or reduction of the 2006 Bonds. The swap is recognized on the consolidated balance sheets at its fair value and changes in the fair value and net cash payments or receipts are recorded in the consolidated statements of operations and changes in net assets, respectively.

Excess (Deficiency) of Revenues, Gains, and Other Support over Expenses

The consolidated statements of operations include the caption excess (deficiency) of revenues, gains, and other support over expenses ("operating indicator"). Consistent with industry practice, changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), changes in split-interest agreements, and minimum pension liability adjustments. As such, the Company's operating indicator was $3,655,000 and ($6,440,000) for the years ended December 31, 2018 and 2017, respectively.

Net Patient Service and Resident Revenue

Net patient service and resident revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Bequests and Trusts

Amounts to be received from bequests and trusts are recorded at the time the Company becomes entitled to the assets and the amounts to be received are assured and reasonably determined. Amounts to be received are recorded as other receivables on the consolidated balance sheets.

At December 31, 2018, the Company has been named as a beneficiary in certain bequests and trusts which have not been recorded as they do not meet all the criteria for income recognition.

Charity Care and Community Benefit

The Company provides charity care for certain non-elective healthcare services to qualifying individuals who complete an application which is based on Federal Poverty Guidelines. The Company also provides various community services including retirement housing and assisted living services, as well as various social service and community welfare programs and direct emergency financial assistance to eligible Industry employees, retirees and members of their immediate family.

Professional and General Liability

The Company has a claims-made policy for all professional and general liability coverage, with nominal deductibles, that was purchased on January 1, 2003. Liabilities for the Company's retained risk related to the professional and general liability coverage are determined by an actuary. The amounts representing the current portion of the professional and general liability and insurance recoveries receivable are $173,000 and $149,000 in other current assets and accrued liabilities at December 31, 2018 and 2017, respectively. The amounts representing the long-term components of the professional and general liability are $1,424,000 and $1,196,000 in insurance recoveries receivable and $1,662,000 and $1,432,000 in insurance claims liability approximating a net liability of $238,000 and $236,000 at December 31, 2018 and 2017, respectively.

Workers’ Compensation Insurance

The Company has a workers' compensation insurance policy for its employees with a $250,000 per occurrence deductible and $3,000,000 annual aggregate. This policy was purchased in November 2012. During the period of November 2006 through November 2012 the Company maintained a workers’ compensation policy with a zero deductible. Between November 1999 and November 2006, the Company had a workers' compensation insurance policy with a deductible of $350,000 per claim, and an annual aggregate of $6,200,000. Liabilities for the Company's retained risk related to the coverage are determined by an actuary. The amounts representing the current portion of the workers’ compensation liability are $428,000 and $450,000 in other receivables and $1,046,000 and $1,012,000 in accrued liabilities at December 31, 2018 and 2017, respectively. The amounts representing the long-term components of the workers’ compensation liability are $2,119,000 and $2,128,000 in insurance recoveries receivable and $5,172,000 and $4,783,000 in insurance claims liability approximating a net liability of $3,671,000 and $3,217,000 at December 31, 2018 and 2017, respectively.

The Company has $1,830,000 and $1,809,000 held by the bank as collateral for the workers’ compensation insurance carrier at December 31, 2018 and 2017, respectively. All deposited amounts are included in investments in the consolidated balance sheets.

Income Taxes

The Company is a nonprofit organization determined by the IRS and the California Franchise Tax Board to be exempt from federal and state income taxes, except to the extent of any unrelated business income. Certain of the affiliated entities included in the consolidated financial statements are subject to federal and state income taxes.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of temporary cash investments, receivables and investments in marketable equity and other securities.

The Company invests its excess cash in deposits with major financial institutions. The Company has not experienced any losses on its temporary cash investments.

The Company receives payment for services rendered to patients from the federal and state governments under the Medicare and Medi-Cal programs and other payors. The following table summarizes the percentages of gross patient accounts receivable from all payors:

	December 31,	
	2018	**2017**
Medi-Cal	63 %	77 %
Medicare	24 %	21 %
Others	13 %	2 %
	100 %	100 %

The Company believes there is no significant credit risk associated with patient receivables from government programs. The Company continually monitors and adjusts the reserves associated with patient receivables. The Company estimates bad debt expense and the allowance for doubtful accounts based on historical collection experience.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements
The Company applies the provision of FASB ASC 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The assets reported at fair value by the Company on a recurring basis include investments, assets held under split-interest agreements and interest rate swap obligation. At December 31, 2018 and 2017, the Company's financial instruments include accounts receivable, accounts payable, and other liabilities. The fair values of these financial instruments approximate their carrying values due to their short-term maturities.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three level inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.

- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Significant increases or decreases in these inputs in isolation may result in a significantly lower or higher fair value measurement, respectively.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

- *Income approach* – Techniques to convert future amounts to a single present value amount based on market expectations (including present value techniques, option-pricing models and lattice models).

The valuation techniques above may be used for assets and liabilities measured using Level 3 inputs and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available, or not cost effective to obtain.

The Company applies the authoritative guidance contained in FASB 820-10, *Fair Value Measurements and Disclosures*, for estimating the fair value of investment funds that have calculated Net Asset Value ("NAV") per Share in accordance with FASB ASC 946-10, *Financial Services-Investment Companies* (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide, Investment Companies). According to the guidance, in circumstances in which NAV per share of an investment is not determinative of fair value, a reporting entity is permitted to estimate the fair value of an investment in an investment fund using the NAV per share of the investment (or its equivalent) without further adjustment, if the NAV per share of the investment is determined in accordance with FASB ASC 946-10 as of the reporting entity's measurement date. Accordingly, the Company uses NAV as reported by money managers as a practical expedient, to determine fair value of investments in investment funds which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment fund or prepare their financial statements consistent with the measurement principles of an investment fund.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis:

- *Money Market Funds:* Valued at the closing price reported on the active market on which the individual securities are traded at the measurement date.

- *Mutual Funds:* Mutual Funds classified as Level 1 under the fair value hierarchy are valued using the unadjusted quoted prices in active markets that are available at the measurement date. The composition of the Company's investments in mutual funds at December 31, 2018 was approximately 70% fixed income, 13% equity securities and 17% U.S. notes. Investments in mutual funds consist primarily of large capitalization securities, and are diversified among several industries, issuers and growth, value, indexed, bond and international funds.

- *Alternative Investments:* These investments are valued at the NAV of the investments.

- *Interest rate swap obligation:* Valued at the net present value of future cash flows based on quotes from pricing sources and market data.

The following methods were used to estimate the fair value of all other financial instruments:

- *Cash and cash equivalents:* The carrying amount approximates fair value.

- *Long-term debt:* The carrying value of the Company's long-term debt approximates fair value due to the variable nature of the interest rates.

Recently Adopted Accounting Pronouncement
In August 2016, the FASB issued ASU No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This guidance is intended to improve the net assets classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service, and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The Company has adopted this standard as of the end of its current fiscal year. Prior year information in these financial statements has been reclassified to conform with the adoption of this standard as follows:

	December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted	$ 25,390,000	$ -	$ 25,390,000
Temporarily restricted	-	35,861,000	35,861,000
Permanently restricted	-	28,224,000	28,224,000
	$ 25,390,000	$ 64,085,000	$ 89,475,000

	December 31, 2016		
	Without Donor Restrictions	With Donor Restrictions	Total
Unrestricted	$ 30,608,000	$ -	$ 30,608,000
Temporarily restricted	-	48,878,000	48,878,000
Permanently restricted	-	26,485,000	26,485,000
	$ 30,608,000	$ 75,363,000	$ 105,971,000

Recent Accounting Pronouncements
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. This literature is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, *Deferral of the Effective Date*, which defers the effective date of ASU No. 2014-09 by one year, to fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this new guidance, as of the lease commencement date, lessees will be required to recognize the following for all leases, with the exception of short-term leases: i) a lease liability for the obligation to make lease payments arising from a lease, measured on a discounted basis; and ii) a right-of-use asset, representing the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a 'modified retrospective' transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application is permitted. Management is currently evaluating the impact of the provisions of ASU No. 2016-02 on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* to improve the presentation of net periodic pension costs and net periodic postretirement benefit cost. The amendment (a) requires that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, (b) requires that an employer present the other components of net periodic benefit cost in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented and (c) allows only the service cost component to be eligible for capitalization when applicable. This update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact of the provisions of ASU No. 2017-07 on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10),* which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including requiring equity investments (other than those under the equity method) to be measured at each reporting at fair value through net income, with an exception allowed for equity investments that do not have readily determinable fair value, thereby eliminating the other-than trading equity security designation. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of the provisions of ASU No. 2016-01 on the consolidated financial statements.

Reclassifications
Certain prior period amounts have been reclassified to conform to current year presentation.

Subsequent Events
Subsequent events are events or transactions that occur after the balance sheet date but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Company's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued.

3. Investments

The following is a summary of investments at fair value at December 31:

	2018	2017
Money market funds	$ 3,032,000	$ 3,481,000
Mutual funds	48,288,000	44,095,000
U.S. government notes/municipal bonds	9,601,000	6,728,000
Alternative investments [(a)]	11,330,000	14,844,000
Total investments	$ 72,251,000	$ 69,148,000

(a) Included in the 2017 alternative investments group above is the redemption of certain securities of approximately $10 million, which redemption was initiated on the last business day of the year, however, was in process of distribution to the Company as of December 31, 2017 and subsequently received in January and February 2018.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, categorized by the length of time individual securities have been in a continuous unrealized loss position, at December 31, 2018 and 2017, respectively:

	2018					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mutual funds	$ 32,119,000	$ (1,237,000)	$ 29,464,000	$ (1,512,000)	$ 61,583,000	$ (2,749,000)
Total investments	$ 32,119,000	$ (1,237,000)	$ 29,464,000	$ (1,512,000)	$ 61,583,000	$ (2,749,000)

	2017					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mutual funds	$ 11,302,000	$ (168,000)	$ 40,470,000	$ (992,000)	$ 51,772,000	$ (1,160,000)
Total investments	$ 11,302,000	$ (168,000)	$ 40,470,000	$ (992,000)	$ 51,772,000	$ (1,160,000)

The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, credit quality and the Company's ability to hold the investment for a period sufficient to allow for any anticipated recovery in fair value. General market conditions have caused the declines in fair value over the past two years.

Investment return on investments consist of the following for the years ended December 31:

	2018	2017
Investment income	$ 2,405,000	$ 1,616,000
Realized (loss) gain on investments	(1,779,000)	887,000
Unrealized (loss) gain on investments	(1,905,000)	457,000
	$ (1,279,000)	$ 2,960,000

Management fees paid were $190,000 and $154,000 for the years ended December 31, 2018 and 2017, respectively, and are included in investment income on the consolidated statements of operations and changes in net assets.

4. Fair Value Measurements

The tables below present the assets and liabilities measured at fair value on a recurring basis at December 31, categorized by the level of inputs used in the valuation:

	2018				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**NAV as Practical Expedient**
Assets					
Assets included in investments					
Money market funds	$ 3,032,000	$ 3,032,000	$ -	$ -	$ -
Mutual funds					
Domestic fixed income	48,288,000	48,288,000	-	-	-
U.S. government notes	9,601,000	9,601,000	-	-	-
Alternative investments	11,330,000	5,999,000	-	-	5,331,000
Total assets included in investments at fair value	$ 72,251,000	$ 66,920,000	$ -	$ -	$ 5,331,000
Liabilities					
Interest rate swap liability	$ 954,000	$ -	$ 954,000	$ -	$ -

	2017				
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**NAV as Practical Expedient**
Assets					
Assets included in investments					
Money market funds	$ 3,481,000	$ 3,481,000	$ -	$ -	$ -
Mutual funds					
Domestic fixed income	44,054,000	44,054,000	-	-	-
Domestic equity	41,000	41,000	-	-	-
U.S. government notes	6,728,000	6,728,000	-	-	-
Alternative investments (b)	14,844,000	14,083,000	-	-	761,000
Total assets included in investments at fair value	$ 69,148,000	$ 68,387,000	$ -	$ -	$ 761,000
Liabilities					
Interest rate swap liability	$ 1,444,000	$ -	$ 1,444,000	$ -	$ -

(b) Included in the 2017 alternative investments group above is the redemption of certain securities of approximately $10 million, which redemption was initiated on the last business day of the year, however, was in process of distribution to the Company as of December 31, 2017 and subsequently received in January and February 2018.

The Company's policy is to recognize the transfer into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 or 3 during the year ended December 31, 2018. During 2017, the Company transferred an alternative investment from NAV to Level 1 due to a redemption.

The following table shows the fair value and redemption restrictions for investments valued at NAV at December 31:

	2018			
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**	**Strategies and Other Restrictions**
Limited partnerships				
Hedge funds	$ 1,269,000	monthly	15 or 30 calendar days	(1)
Hedge funds	1,377,000	monthly	10 business days	(1)
Hedge funds	1,386,000	monthly	15 calendar days	(1)
Multi-strategy hedge funds	1,299,000	monthly	14 calendar days	(1)
Totals	$ 5,331,000			

	2017			
	Fair Value	**Redemption Frequency**	**Redemption Notice Period**	**Strategies and Other Restrictions**
Limited partnerships				
Multi-strategy hedge funds	$ 761,000	monthly	14 calendar days	(1)
Totals	$ 761,000			

(1) Limited partnerships are invested with managers whose investment strategies include, but are not limited to, absolute return, capital appreciation with low volatility relative to equity markets, global fixed income and equity, currencies, EFTs, futures, forwards, options, swaps, asset and security mispricings capture, commodities and other derivatives.

5. Government Reimbursement Programs

The Company has contractual agreements with government sponsored programs (Medicare and Medi-Cal). Some revenues received under these reimbursement agreements are subject to retroactive adjustment based upon cost reports prepared by the Company and subsequent audits by fiscal intermediaries for these programs.

Acute in-patient services are reimbursed by Medicare under the prospective payment system, which provides for payment at predetermined amounts based on the discharge diagnosis. Medicare reimburses for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The difference between customary charges and actual third-party payments is accounted for as a contractual allowance, which is a deduction from patient service and resident revenue.

Long-term care services are reimbursed by Medi-Cal on a per-diem basis. The Company is licensed as a Distinct-Part Long-Term Care Facility for provision of these services.

Medicare and Medi-Cal cost reports have been finalized through December 31, 2016. Reserves, where applicable, have been accrued for all years subject to adjustment. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is a risk that recorded estimates will change in the near term. In the opinion of management, subsequent settlement adjustments, if any, would not have a materially adverse effect on the Company’s consolidated financial position.

Total revenue from the Medi-Cal skilled nursing program approximated 41% and 39% of net patient service and resident revenue during the years ended December 31, 2018 and 2017, respectively. In addition, the Company received approximately 6% and 5% of net patient service and resident revenue in 2018 and 2017, respectively, from the Medicare programs.

6. Pledges Receivable

Unconditional promises to give are included in the consolidated financial statements as pledges receivable and contribution revenue in the appropriate net asset category. Pledges are recorded at the discounted net present value of the future cash flows, using discount rates ranging from 4.2% to 9.9% at December 31, 2018.

Unconditional promises to give are expected to be realized in the following periods:

	2018	2017
In one year or less	$ 6,651,000	$ 6,487,000
Between one year and five years	23,646,000	28,215,000
Five years and more	17,198,000	18,434,000
Total pledges receivable, gross	47,495,000	53,136,000
Less: Discount for pledges receivable	(15,880,000)	(17,999,000)
Less: Allowance for doubtful accounts	-	(1,000)
Total pledges receivable, net	31,615,000	35,136,000
Less: Current portion	(6,651,000)	(6,486,000)
Pledges receivable, net of current portion	$ 24,964,000	$ 28,650,000

Pledges receivable at December 31 have the following restrictions:

	2018	2017
Program expenses	$ 34,783,000	$ 39,043,000
Building construction	2,479,000	2,550,000
Permanent endowment - other program support	1,000,000	1,200,000
Permanent endowment - patient and resident support	-	60,000
Time restricted/general benefit	9,233,000	10,283,000
Total pledges receivable, gross	$ 47,495,000	$ 53,136,000

7. Land, Buildings and Equipment

A summary of land, buildings and equipment at December 31 is as follows:

	2018	2017
Buildings and improvements	$ 79,090,000	$ 79,036,000
Furniture and equipment	36,779,000	38,317,000
Land and improvements	13,751,000	13,700,000
Construction-in-progress	540,000	334,000
	130,160,000	131,387,000
Less: Accumulated depreciation	(103,071,000)	(100,955,000)
Land, buildings and equipment	$ 27,089,000	$ 30,432,000

Total depreciation expense was $4,134,000 and $4,454,000 for the years ended December 31, 2018 and 2017, respectively.

8. Long-Term Debt

A summary of long-term debt at December 31 follows:

	2018	2017
Series 2017A Variable Rate Revenue Bonds	$ 18,725,000	$ 19,805,000
Unamortized debt issuance costs	(331,000)	(358,000)
Long-term debt, including current portion	18,394,000	19,447,000
Current portion of long-term debt	(1,125,000)	(1,080,000)
Long-term debt, net of current portion	$ 17,269,000	$ 18,367,000

In March 2001, the California Statewide Communities Development Authority ("CSCDA") issued, on behalf of the Company, its Series 2001A Variable Rate Revenue Bonds in the aggregate principal amount of $25,000,000 (the "2001 Bonds") for the purpose of financing the cost of acquiring, constructing, improving and equipping certain of the Company's healthcare, assisted living and retirement facilities, and paying certain costs of issuance of the 2001 Bonds. Payment of the 2001 Bonds was collateralized primarily by an irrevocable direct pay letter of credit and secondarily by a pledge of the Company's gross revenues.

On December 28, 2017, the CSCDA issued, on behalf of the Company, its Series 2017A Variable Rate Revenue Bonds (the "2017 Bonds") in the aggregate principal amount of $19,805,000. The 2017 Bonds were issued for the purpose of retiring the 2001 Bonds and to pay certain costs of issuance related to the 2017 Bonds. The letter of credit associated with the 2001 Bonds was canceled as a result of the retirement. The retirement of the 2001 Bonds resulted in a write-off of unamortized bond issuance costs of $227,000, which is included in interest and financing costs in the consolidated statement of operations.

The 2017 Bonds bear interest at variable rates (2.4% as of December 31, 2018), which are reset and payable monthly in arrears. Principal on the 2017 Bonds is payable March 1 of each year beginning March 1, 2018. Principal amounts range from $1,080,000 to $1,795,000, with final payment due in 2031.

The 2017 Bonds may be redeemed early at the request of the Company through the CSCDA in whole or part, on any interest payment date. Payment of principal and interest on the 2017 Bonds is collateralized by a pledge against the gross revenue of the Company.

The Company uses an interest rate swap, with a notional value of $18,200,000 at December 31, 2018, to manage the interest rate exposure of the 2017 Bonds. The swap agreement was amended and restated in October 2012. Under the terms of the restated swap agreement, which expires January 1, 2024, the Company pays the counter-party a fixed interest rate of 3.533% and receives a variable rate, indexed at 67% of the one-month London Interbank Offered Rate ("LIBOR") (1.57400% at December 31, 2018), on the notional principal amount of the swap.

The interest rate swap agreement is recognized on the consolidated balance sheets at its estimated fair market value, corroborated by market data and therefore classified within Level 2 (See Note 4). The estimated fair value of the interest rate swap is recorded as a liability of $954,000 and $1,444,000 for the years ended December 31, 2018 and 2017, respectively.

The interest rate swap has not been designated as a hedge under ASC 825, *Derivatives and Hedging,* and as such the change in fair value is recorded as decreases of $490,000 and $616,000 in the consolidated statements of operations and changes in net assets for the years ended December 31, 2018 and 2017, respectively. In addition, cash payments and receipts resulted in net cash disbursements of $398,000 and $581,000 for the years ended December 31, 2018 and 2017, respectively.

The 2017 Bonds are subject to certain restrictive covenants requiring certain quarterly and annual financial information, both unaudited and audited, and compliance with liquidity and debt service coverage requirements.

The amounts due on long-term debt at December 31, 2018 are as follows:

Year Ending December 31,	
2019	$ 1,125,000
2020	1,175,000
2021	1,220,000
2022	1,270,000
2023	1,315,000
Thereafter	12,620,000
Total long-term debt	$ 18,725,000

9. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	2018	**2017**
Subject to expenditure for specified purpose:		
Buildings and equipment	$ 984,000	$ 1,051,000
Patient and resident support	485,000	660,000
Emergency financial assistance	92,000	292,000
	1,561,000	2,003,000
Subject to the passage of time:		
For periods after December 31,	31,015,000	33,858,000
	31,015,000	33,858,000
Subject to endowment spending policy and appropriation:		
Patient and resident support	9,123,000	10,505,000
Grounds maintenance	4,571,000	4,827,000
Other program support	12,969,000	12,892,000
	26,663,000	28,224,000
Total net assets with donor restrictions	$ 59,239,000	$ 64,085,000

Net assets released from restrictions by incurring expenses satisfying the restricted purpose or by the passage of time comprise the following at December 31:

	2018	2017
Buildings and equipment	$ 34,000	$ 1,700,000
Emergency financial assistance	-	65,000
Other program support	7,501,000	15,740,000
Total releases from restriction	$ 7,535,000	$ 17,505,000

10. Endowments

The Company's seventeen endowments are donor-restricted and established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Company does not have any Board designated endowments at December 31, 2018 or 2017.

The Company classifies as net assets with donor restrictions: (a) the portion of the gift explicitly stipulated to be retained permanently in the subject gift instrument, or (b) in the absence of such stipulation, the fair value of the endowment gift as of the gift date. Investment income relating to an endowment gift, including interest, dividends and realized net gains is temporarily classified as net assets with donor restrictions until such amounts are appropriated for expenditure, unless otherwise explicitly stipulated in the gift instrument.

Changes in endowment net assets with donor restrictions for the years ended December 31 had the following activity:

	2018	2017
Endowment net assets, beginning of year	$ 28,224,000	$ 26,711,000
Investment income	855,000	577,000
Net realized and unrealized appreciation (depreciation)	(1,988,000)	1,133,000
Total investment return	(1,133,000)	1,710,000
Contributions	62,000	75,000
Appropriation of endowment net assets for expenditure	(490,000)	(272,000)
Endowment net assets, end of year	$ 26,663,000	$ 28,224,000

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (i.e., deficit). When donor endowment deficits exist, they are classified as a reduction of net assets without donor restrictions. Deficits of this nature reported in net assets without donor restrictions were $221,000 as of December 31,2018.

The Company has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the Company must hold in perpetuity or for donor-specified period(s). Under the investment policy, as approved by the Board, the endowment assets are invested in fixed income securities that are intended to produce results that exceed the results of the Merrill Lynch Domestic Master Bond Index. The endowment funds, over time, provide an average rate of return of approximately six percent annually. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized) and current yield (the interest, realized capital appreciation related to the gains and dividends).

The Company's Board has established a spending policy whereby expenditures shall not exceed seven percent of the endowment fund's fair market value in any year.

11. Functional Expenses

Expenses incurred comprise the following program and support services for the years ended December 31:

2018

	Program Services				Support Services			
	Inpatient	Residential	Other	Program Subtotal	Management and General	Fundraising	Support Subtotal	2018 Total
Salaries, wages and benefits	$15,018,000	$10,562,000	$ 4,092,000	$29,672,000	$ 5,410,000	$ 1,720,000	$ 7,130,000	$36,802,000
Purchased services	2,451,000	4,089,000	750,000	7,290,000	1,203,000	3,375,000	4,578,000	11,868,000
Professional fees	3,433,000	1,371,000	255,000	5,059,000	282,000	730,000	1,012,000	6,071,000
Supplies	1,056,000	335,000	75,000	1,466,000	131,000	90,000	221,000	1,687,000
Depreciation	1,422,000	1,595,000	790,000	3,807,000	208,000	119,000	327,000	4,134,000
Other	376,000	823,000	938,000	2,137,000	191,000	93,000	284,000	2,421,000
Total expenses	$23,756,000	$18,775,000	$ 6,900,000	$49,431,000	$ 7,425,000	$ 6,127,000	$13,552,000	$62,983,000

2017

	Program Services				Support Services			
	Inpatient	Residential	Other	Program Subtotal	Management and General	Fundraising	Support Subtotal	2017 Total
Salaries, wages and benefits	$13,828,000	$10,311,000	$ 4,751,000	$28,890,000	$ 5,511,000	$ 1,896,000	$ 7,407,000	$36,297,000
Purchased services	2,357,000	3,925,000	723,000	7,005,000	1,129,000	3,343,000	4,472,000	11,477,000
Professional fees	2,243,000	941,000	232,000	3,416,000	337,000	802,000	1,139,000	4,555,000
Supplies	1,095,000	311,000	1,016,000	2,422,000	88,000	118,000	206,000	2,628,000
Depreciation	1,498,000	1,595,000	998,000	4,091,000	236,000	127,000	363,000	4,454,000
Other	540,000	1,014,000	1,022,000	2,576,000	108,000	111,000	219,000	2,795,000
Total expenses	$21,561,000	$18,097,000	$ 8,742,000	$48,400,000	$ 7,409,000	$ 6,397,000	$13,806,000	$62,206,000

Expenses are summarized and categorized based upon their functional classification as either program or support services. Specific expenses readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses attributable to more than one program or support service require allocation on a reasonable basis that is consistently applied. Allocated expenses include salaries, wages and benefits, dietary, plant maintenance, and housekeeping which are allocated based on estimates of time and effort; and depreciation expense which is allocated based on usage of the underlying assets. Management and general expenses are support services that are not directly identifiable with any specific program service function but provide for the overall support and direction of the Company.

12. Pension Plan

The Company sponsors a defined benefit pension plan (the "Plan"). On February 28, 2014, the Plan was frozen for all represented and new employees. With this action, the entire plan is frozen for all employees as the non-represented employee's portion has been frozen since July 1, 2011. Benefits are based on service with the Company and the highest five years of earnings. The Company's policy is to fund pension costs at a level at least as great as the required minimum contribution under Employee Retirement Income Security Act ("ERISA").

The following table sets forth the Plan's funded status and amounts recognized, using a measurement date of December 31, in the Company's consolidated financial statements at December 31:

	2018	2017
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 77,621,000	$ 73,536,000
Service cost	708,000	630,000
Interest cost	2,583,000	2,806,000
Benefits paid	(3,767,000)	(3,713,000)
Actuarial (gain)/loss	(6,700,000)	4,363,000
Projected benefit obligation at end of year	$ 70,445,000	$ 77,622,000
Change in plan assets		
Fair value of plan assets at beginning of year	58,104,000	54,493,000
Actual return on plan assets	(3,128,000)	5,857,000
Employer contributions	1,000,000	1,467,000
Benefits paid	(3,219,000)	(3,091,000)
Adminstrative expenses	(548,000)	(622,000)
Fair value of plan assets at end of year	$ 52,209,000	$ 58,104,000
Net amount recognized (unfunded status) at year-end	$ (18,236,000)	$ (19,518,000)

Amounts recognized in the balance sheet are included in noncurrent liabilities.

Net benefit expense for the years ended December 31 includes the following components:

	2018	2017
Components of net periodic benefit cost		
Service cost	$ 708,000	$ 630,000
Interest cost	2,583,000	2,806,000
Expected return on plan assets	(3,986,000)	(3,747,000)
Recognized net actuarial loss	1,576,000	1,538,000
Total net periodic benefit cost	$ 881,000	$ 1,227,000
Changes in plan asset and benefit obligations recognized in net assets without donor restrictions		
Net actuarial loss arising during the year	414,000	2,252,000
Amounts recognized as a component of net periodic benefit cost		
Amortization of loss	(1,576,000)	(1,538,000)
Total recognized in net assets without donor restrictions	$ (1,162,000)	$ 714,000
Total recognized in net periodic benefit cost and net assets without donor restrictions	$ (281,000)	$ 1,941,000
Estimated amounts that will be amortized from net assets without donor restrictions over the next fiscal year		
Unrecognized loss	$ (1,520,000)	$ (1,576,000)
Total	$ (1,520,000)	$ (1,576,000)

Additional information and assumptions are as follows:

	2018	2017
Assumptions		
Weighted-average assumptions used to determine benefit obligations at December 31		
Discount rate	4.1%	3.4%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31		
Discount rate	3.4%	3.9%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	N/A	N/A

The expected long-term rate of return on Plan assets was selected by the Company based on investment return modeling which incorporates historical returns and future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. The compensation increase assumption for the Plan is no longer applicable, as compensation increases and service accruals were frozen as of July 1, 2011 for non-union employees and as of February 28, 2014 for union plans.

Plan assets

The primary investment objective is to provide capital appreciation of the investment portfolio over long periods of time. The portfolio is perpetual in nature and is invested to withstand the loss of purchasing power from inflation.

The table below presents the pension plan assets at the fair value on a recurring basis at December 31, categorized by inputs used in the valuation of each investment:

	2018				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
Plan Assets at Fair Value					
Mutual funds					
Domestic fixed income	$ 18,721,000	$ 18,721,000	$ -	$ -	$ -
Domestic equity	5,337,000	5,337,000	-	-	-
International equity	2,758,000	2,758,000	-	-	-
Global equity	5,069,000	5,069,000	-	-	-
Alternative investments	18,602,000	17,532,000	-	-	1,070,000
Cash equivalents	1,722,000	1,722,000	-	-	-
Total plan assets at fair value	$ 52,209,000	$ 51,139,000	$ -	$ -	$ 1,070,000

	2017				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV as Practical Expedient
Plan Assets at Fair Value					
Mutual funds					
Domestic fixed income	$ 15,797,000	$ 15,797,000	$ -	$ -	$ -
Domestic equity	5,988,000	5,988,000	-	-	-
International equity	3,229,000	3,229,000	-	-	-
Global equity	10,709,000	10,709,000	-	-	-
Alternative investments (c)	22,085,000	20,633,000	-	-	1,452,000
Cash equivalents	296,000	296,000	-	-	-
Total plan assets at fair value	$ 58,104,000	$ 56,652,000	$ -	$ -	$ 1,452,000

(c) Included in the 2017 alternative investment group above is the redemption of certain securities of approximately $12 million, which redemption was initiated on the last business day of the year, however, was in process of distribution to the Company as of December 31, 2017 and subsequently received in January and February 2018.

Allocation of assets

The year-end asset allocation, which approximates the weighted-average allocation for the Plan assets as of December 31 in comparison to the current investment policy established ranges for each category, is as follows:

	2018	2017	Investment Policy Range
Asset Category			
Equity securities	25.2 %	34.3 %	20% to 40%
Debt securities (fixed income)	39.2 %	27.7 %	30% to 50%
Alternative investments	35.6 %	38.0 %	20% to 40%
	100.0 %	100.0 %	

Inappropriate investments, according to the Plan's investment policy, include options, futures and unregistered securities, and short sales or the use of margin. All investments are valued at the closing price reported on the active market on which the mutual funds are traded. As described in Note 2, the Company uses a hierarchy to report invested assets, including the invested assets of the Plan.

The Company expects to contribute $1,000,000 to its pension plan in 2019.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

	Expected Benefits
Fiscal Year Ending	
2019	$ 3,635,000
2020	3,787,000
2021	3,946,000
2022	4,010,000
2023	4,158,000
2024 - 2028	21,797,000

13. Supplemental Executive Retirement Plan

The Company provides supplemental executive retirement plan ("SERP") benefits to certain executives. The SERP provides benefits which are not subject to regulatory controls requiring funding of the obligation, and consequently, the benefits are payable out of general corporate assets. The projected SERP benefit obligation assuming a 3.20% and 3.70% discount rate and a 0% and 0% annual compensation increase is $660,000 and $636,000 at December 31, 2018 and 2017, respectively. Effective January 1, 2002, the Company's defined benefit pension plan, as described in Note 11, was amended to provide supplemental retirement benefits to certain plan participants, which participants are also participants in the SERP.

The following amounts are recognized, using a measurement date of December 31, in the Company's consolidated financial statements at December 31:

	2018	2017
Benefit cost charged for the year	$ (11,000)	$ (12,000)
Accrued benefit cost recognized in accrued pension benefits on the consolidated balance sheets	$ 660,000	$ 636,000

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service and compensation, as appropriate, are expected to be paid by the Company:

	Expected Benefits
Fiscal Year Ending	
2019	$ 51,000
2020	51,000
2021	50,000
2022	50,000
2023	48,000
2024-Thereafter	220,000

14. Commitments and Contingencies

Future minimum rental payments required under operating leases for real property as of December 31, 2018 are as follows:

	Operating
Year Ending December 31,	
2019	$ 228,000
2020	234,000
2021	242,000
2022	197,000
2023	185,000
Total	$ 1,086,000

Building rental expense totaled $276,000 and $322,000 for the years ended December 31, 2018 and 2017, respectively, and is included in purchased services in the accompanying consolidated statements of operations and changes in net assets.

The Company is involved in various legal proceedings that are incidental to the conduct of its operations. In the opinion of management, based on the current facts and circumstances known by the Company, the resolution of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

15. Available Resources and Liquidity

The following reflects the Company's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions:

	2018
Cash and cash equivalents	$ 3,608,000
Patient accounts receivable, net	1,795,000
Other receivables	2,864,000
Pledges receivable, net	6,651,000
Other current assets	996,000
Investments	72,251,000
Land, buildings and equipment, net	27,089,000
Insurance recoveries receivable, net of current portion	3,543,000
Pledges, net of current portion	24,964,000
Assets held under split-interest agreements	547,000
Other assets	367,000
Total assets	144,675,000
Exclude nonfinancial assets:	
Other current assets - prepaid insurance and inventory	(996,000)
Land, buildings and equipment, net	(27,089,000)
Other assets	(367,000)
Total assets, excluding nonfinancial assets	116,223,000
Less:	
Receivables scheduled to be collected in more than one year:	
Insurance recoveries receivable	(4,144,000)
Pledges, net of current portion	(24,964,000)
Contractual or donor-imposed restrictions:	
Assets held under split-interest agreements	(547,000)
Investments - endowment funds	(26,663,000)
Investments - workers comp insurance trusts	(1,830,000)
Long-term debt	(1,125,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 56,950,000

Management monitors and regularly reviews the Company's liquidity requirements with the Board of Directors (the Board) and relevant committees of the Board during the annual budget process and periodically throughout the year. The General Fund investment policy is designed to ensure adequate liquidity to meet obligations of the Company as they come due.

16. Subsequent Events

The Company has evaluated events through April 23, 2019, which represents the date these consolidated financial statements were issued. As of April 23, 2019, there were no subsequent events which require recognition or disclosure in the consolidated financial statements.