DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2019 and 2018

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

DIAKON
AND CONTROLLED AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diakon and Controlled Affiliates
Middletown, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Diakon and Controlled Affiliates, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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 Consolidated 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 entities' 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 entities' 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 Diakon and Controlled Affiliates as of December 31, 2019 and 2018, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 consolidating information is presented for purposes of additional analyses rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 21, 2020

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2019 and 2018

Assets		2019	2018
Current assets:			
Cash and cash equivalents	$	6,286,793	4,347,531
Assets limited as to use		10,657,227	9,131,747
Accounts receivable, net (Note 1)			
Patients and residents		13,005,149	14,446,701
Statewide Adoption and Permanency Network		5,635,507	5,117,316
Other client services		3,443,721	2,862,750
Estimated third-party payor settlements		1,754,127	2,088,829
Prepaid expenses and other assets		2,741,909	2,474,917
Total current assets		43,524,433	40,469,791
Investments		137,570,037	122,635,829
Assets limited as to use, less current portion:			
Statutory minimum liquid reserves		7,431,584	7,032,788
Other		28,095,881	24,206,203
Investment in joint venture		1,262,163	1,201,799
Land, buildings and equipment, net		203,006,491	229,205,190
Finance lease right of use assets, net		1,646,136	—
Operating lease right of use assets		2,801,603	—
Other assets:			
Receivables from charitable gift annuities		698,672	789,212
Funds held in trust by others and beneficial interest in trust		37,634,260	33,351,262
Other assets		189,636	4,776,125
Total assets	$	463,860,896	463,668,199

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2019 and 2018

Liabilities and Net Assets	**2019**	**2018**
Current liabilities:		
Lines of credit	$ 6,294,158	—
Accounts payable and accrued expenses	20,837,248	23,617,013
Deposits – patients and residents	760,746	710,452
Estimated third-party payor settlements	895,852	927,970
Current finance lease liabilities	719,684	—
Current operating lease liabilities	693,383	—
Current maturities of long-term debt	6,779,413	7,279,544
Total current liabilities	36,980,484	32,534,979
Pension liability	39,755,762	34,275,607
Swap agreement	719,359	380,717
Deferred revenue – entrance agreements	69,184,366	68,209,000
Refundable entrance fee liability	29,092,491	32,344,247
Other long-term liabilities	1,313,108	1,167,099
Long-term finance lease liabilities	905,676	—
Long-term operating lease liabilities	2,217,246	—
Future services obligation	1,772,624	—
Long-term debt, less current maturities and debt issuance costs	226,048,697	232,998,686
Total liabilities	407,989,813	401,910,335
Net assets (deficit):		
Without donor restrictions	(8,403,379)	5,499,963
With donor restrictions	64,274,462	56,257,901
Total net assets	55,871,083	61,757,864
Total liabilities and net assets	$ 463,860,896	463,668,199

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

		2019	2018
Operating revenues, gains and other support:			
Patient and resident service revenue, net	$	144,003,176	142,139,504
Patient and resident service revenue, nursing home assessment		3,830,094	3,801,372
Amortization of entrance fees		10,289,649	10,139,406
Contract revenue		16,480,159	14,255,858
Other fees and services		11,710,565	10,926,126
Statewide Adoption and Permanency Network revenue		71,854,415	67,597,279
Investment income, net of expenses		7,110,018	6,368,425
Income from trusts		1,223,896	1,385,739
Contributions and bequests		1,696,765	1,189,525
Net assets released from restrictions – operations		1,363,188	1,382,431
Loss on disposal of assets		(7,545)	(94,642)
Gain on insurance proceeds		302,090	510,229
Total operating revenues, gains and other support		269,856,470	259,601,252
Expenses:			
Salaries and wages		73,339,140	70,657,669
Employee benefits		15,437,158	15,066,027
Other expenses		75,573,184	73,927,955
Other expenses – Statewide Adoption and Permanency Network		70,155,970	65,893,992
Nursing home assessment		1,823,772	1,945,692
Interest		9,892,678	9,755,476
Depreciation and amortization		19,481,948	18,851,092
Total expenses		265,703,850	256,097,903
Operating income		4,152,620	3,503,349
Net periodic pension (costs) benefit, non-service component		(497,009)	271,720
Equity in gains of joint venture		60,364	343,262
Unrealized gains (losses) on investments		14,515,736	(12,666,660)
Loss from early extinguishment of debt		(626,216)	(96,608)
Loss from future services obligations		(1,772,624)	—
Impairment of goodwill		(4,572,283)	—
Impairment of long-lived assets		(20,301,659)	—
Deficit of operating revenues, gains and other support over expenses		(9,041,071)	(8,644,937)

DIAKON
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Consolidated Statements of Operations and Changes in Net Assets
Years ended December 31, 2019 and 2018

		2019	**2018**
Other changes:			
Pension-related changes other than net periodic pension costs		(4,983,146)	35,565
Decrease in fair value of swap agreement		(338,642)	(380,717)
Unrealized gains (losses) on investments		276,822	(782,906)
Net assets released from restrictions – capital		282,171	97,392
Total other changes		(4,762,795)	(1,030,666)
Decrease in net assets (deficit) without donor restrictions		(13,803,866)	(9,675,603)
Net assets with donor restrictions:			
Contributions and bequests		1,166,756	370,029
Investment income, net of expenses		824,337	1,039,815
Unrealized gains (losses) on investments		3,165,452	(2,225,225)
Net assets released from restrictions – operations		(1,363,188)	(1,382,431)
Net assets released from restrictions – capital		(282,171)	(97,392)
Change in beneficial interest in trust		180,076	(418,853)
Increase (decrease) in fair value of funds held in trust by others		4,325,299	(3,969,464)
Increase (decrease) in net assets with donor restrictions		8,016,561	(6,683,521)
Decrease in net assets		(5,787,305)	(16,359,124)
Net assets, beginning of year as previously reported		61,757,864	78,116,988
Cumulative effect of change in accounting principle		(99,476)	—
Net assets, beginning of year as adjusted		61,658,388	78,116,988
Net assets, end of year	$	55,871,083	61,757,864

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Decrease in net assets	$	(5,787,305)	(16,359,124)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Net realized gains on investments		(1,776,950)	(131,714)
Net unrealized (gains) losses on investments		(17,958,010)	15,674,791
Depreciation and amortization		19,481,948	18,851,092
Amortization of debt issuance costs		194,326	181,387
Increase (decrease) in pension liability		5,480,155	(307,285)
Amortization of entrance fees		(10,289,649)	(10,139,406)
Proceeds from entrance fees		11,604,322	14,443,745
Change in funds held in trust by others and beneficial interest in trust		(4,282,998)	4,334,555
Decrease in fair value of swap agreement		338,642	380,717
Equity in gains of joint venture		(60,364)	(343,262)
Loss on disposal of assets		7,545	94,642
Loss on early extinguishment of debt		626,216	96,608
Loss on future services obligation		1,772,624	—
Impairment of goodwill		4,572,283	—
Impairment of long-lived assets		20,301,659	—
Restricted contributions and investment income		(627,905)	(27,413)
Variable operating lease payments		8,561	—
Change in assets and liabilities:			
Accounts receivable and estimated third-party payor settlements		644,974	(2,334,446)
Prepaid expenses and other current assets		(266,992)	(21,926)
Other assets		14,206	(2,887)
Accounts payable, accrued expenses, and other liabilities		(615,594)	1,070,759
Deposits – patients and residents		50,294	48,489
Net cash provided by operating activities		23,431,988	25,509,322
Cash flows from investing activities:			
Purchase of investments and assets limited as to use		(9,117,629)	(30,792,212)
Proceeds from sales of investments and assets limited as to use		10,400,094	27,552,702
Contributions and charitable gift/remainder trusts		90,540	444,214
Purchase of property and equipment		(14,961,930)	(15,018,372)
Acquisition of leased property and equipment		(49,427)	—
Net cash used in investing activities		(13,638,352)	(17,813,668)

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

		2019	2018
Cash flows from financing activities:			
Payment of long-term debt		(8,284,831)	(8,138,678)
Bond refunding		(35,973,000)	—
Proceeds from debt issuance		36,811,881	1,376,414
Principal payments under finance lease obligations		(704,801)	—
Net proceeds (payment) on lines of credit		6,294,158	(1,529,382)
Payment of debt issuance costs		(707,800)	(221,314)
Proceeds from restricted contributions and investment income		627,905	27,413
Proceeds from entrance fees		1,860,554	1,984,606
Refunds of entrance fees		(5,451,617)	(3,744,633)
Net cash used in financing activities		(5,527,551)	(10,245,574)
Net increase (decrease) in cash, cash equivalents, and restricted cash		4,266,085	(2,549,920)
Cash, cash equivalents and restricted cash, beginning of year		17,252,688	19,802,608
Cash, cash equivalents and restricted cash, end of year	$	21,518,773	17,252,688
Reconciliation of Cash, Cash Equivalents and Restricted Cash			
Amounts reported in these lines on the consolidated balance sheets			
Current assets:			
Cash and cash equivalents	$	6,286,793	4,347,531
Assets limited as to use		10,657,227	9,131,747
Assets limited to use, less current portion:			
Other		4,574,753	3,773,410
Total cash, cash equivalents and restricted cash	$	21,518,773	17,252,688
Supplemental schedule of noncash investing and financing activity:			
(Increase) decrease in purchase of property and equipment through (decrease) in accounts payable, accrued expenses, and other liabilities	$	(2,103,918)	2,940,000
Acquisition of leased property and equipment funded by finance lease borrowings	$	528,684	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Diakon is a private, nonprofit charitable organization recognized by the Internal Revenue Service as a 501(c)(3) corporation and exempt from federal income taxation under the group exemption of the Evangelical Lutheran Church in America (ELCA). Diakon is the sole member of Diakon Lutheran Social Ministries (DLSM), Diakon Lutheran Fund (DLF), Diakon Lutheran Senior Living-Maryland LLC (DLSL-MD), Diakon Child, Family and Community Ministries (DCFCM), Diakon Medical Group LLC (DMG), and Diakon Home Care Services LLC (DHCS). DLSM is the sole member of Diakon-SWAN LLC (SWAN LLC) and is related to four U.S. Department of Housing and Urban Development (HUD) senior housing projects by appointment of the boards of Diakon Lutheran Senior Housing at Heilman House and Diakon Lutheran Senior Housing at Luther Meadows, and by acting as sole member of Diakon Lutherwood Senior Housing LLC and Diakon Frostburg Senior Housing, LLC (DFSH). DCFCM is the sole member of Old Main LLC (Old Main). Diakon is affiliated with ELCA through Lutheran Services in America (LSA), the membership alliance of Lutheran social ministry organizations and church bodies. Diakon has a relationship with the following participating synods: Delaware-Maryland, Lower Susquehanna, Northeastern Pennsylvania, Southeastern Pennsylvania, and Upper Susquehanna. Through a cooperative agreement, it also serves in the Allegheny Synod (collectively, the Synods). In accordance with Diakon's bylaws, the bishops of the Synods elect the majority of Diakon's board of directors. The bishops of the Synods also elect the majority of DLSM's and DCFCM's board of directors. The board of Diakon, in its role as sole member, appoints the board for DLF.

(b) Description of Controlled Affiliates

DLSM is a Pennsylvania nonprofit corporation recognized as a charitable organization under Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxation under the group exemption of the ELCA. DLSM provides senior living and healthcare services in Pennsylvania.

DLSL-MD, a Maryland Limited Liability Company, is the operating entity for the retirement living community in Maryland. DLSL-MD is a disregarded entity of Diakon for federal tax purposes.

DCFCM, a 501(c)(3) corporation, operates various programs serving children, communities, and families.

DLF, a 501(c)(3) corporation, is authorized by its charter to provide management of its own investment portfolio and other Diakon affiliates' investments and solicit contributions for the charitable organizations that it supports.

In the absence of donor restrictions, DLF has discretionary control over the amounts, timing, and use of its distributions to the charitable organizations that it supports. Certain of its funds are restricted to children, youth, community, and family programs.

SWAN LLC, a Pennsylvania Limited Liability Company, provides an array of administrative and support services for the Pennsylvania Statewide Adoption and Permanency Network, a program overseen and funded by the Pennsylvania Department of Human Services. SWAN LLC is a disregarded entity of DLSM for federal tax purposes.

DMG, a Pennsylvania Limited Liability Company, provides medical director and physician services to the Diakon senior living communities. DMG is a disregarded entity of Diakon for federal tax purposes.

Old Main, a Pennsylvania Limited Liability Company, was created in 2017 to be the borrower and operator of the Old Main Building project at the Lutheran Home at Topton campus. Old Main is a disregarded entity of DCFCM for federal tax purposes.

(c) Basis of Consolidation

The accompanying consolidated financial statements have been prepared to focus on Diakon and all controlled affiliated organizations (collectively, the Corporation) as a whole. All material intercompany transactions have been eliminated in consolidation.

(d) Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present balances and transactions according to the existence or absence of donor-imposed restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has lapsed) are reported as net assets released from restrictions on the consolidated statements of operations and changes in net assets.

There are two classes of net assets (deficit) – with donor restrictions and without donor restrictions.

> *Net assets with donor restrictions* are assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Corporation. Certain restrictions may need to be maintained in perpetuity.
>
> *Net assets (deficit) without donor restrictions* are amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

(e) Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing instruments with an original maturity of three months or less from the date of purchase, excluding amounts classified as assets limited as to use.

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of FDIC insured limits. As of December 31, 2019, the amount held in excess of the FDIC insured limits at financial institutions was approximately $6,900,000.

(f) Accounts Receivable

Accounts receivable from patients, residents, and clients are reported at estimated net realizable value taking into account estimated implicit and explicit price concessions. The estimated implicit price concessions are based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. For receivables associated with services provided to patients, residents and clients who have third-party coverage (which includes deductible and payment balances for which third-party coverage exists for part of the bill), the Corporation analyzes contractually due amounts and provides an allowance for explicit price concessions, if necessary. Throughout the year, management assesses the adequacy of the estimated price concessions based upon its review of accounts receivable payor composition and aging, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to patient and resident service revenue and to establish an appropriate estimate for price concessions.

(g) Investments and Investment Income

Investments are measured at fair value on the consolidated balance sheets.

Investment income and gains and losses on the sale of investments are added to or deducted from the appropriate net asset classification depending on the existence of donor-imposed restrictions. Investment expenses are netted with investment gains and losses.

A decline in market value of any investment below its cost basis that is deemed to be other-than-temporary results in a reduction in carrying amount to the fair value. The impairment is recognized as a loss and a new cost basis for the investment is established. No such losses were recognized in 2019 or 2018.

(h) Assets Limited as to Use

Assets limited as to use include assets held by trustees under mortgage agreements with agencies of the U.S. government; assets held by trustees under bond indentures; and donor and other restricted funds. Investment income and gains and losses on assets limited as to use are included in investment income.

(i) Investment in Joint Venture

Investment in joint venture represents an investment in a less than 50% owned information technology joint venture. The Corporation accounts for the equity interest it has in a for-profit joint venture where it has significant influence under the equity method of accounting.

Changes in the venture's equity have been reflected on the consolidated statements of operations and changes in net assets as equity in gains of joint venture and classified consistent with the characteristics of the joint venture's activities.

In December 2018, the joint venture returned additional paid in capital of $100,000.

(j) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost. The cost of maintenance and repairs is expensed as incurred, whereas significant renewals and betterments are capitalized. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets.

Depreciable lives are determined as follows:

Land improvements	10 to 25 years
Buildings	10 to 40 years
Furniture and equipment	3 to 20 years
Vehicles	4 to 7 years
Leasehold improvements	Lesser of lease term or life of the asset

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest cost incurred on borrowed funds less interest income earned on these funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(k) Leases

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-02 – Leases (Topic 842), leases are classified as either finance or operating. The Corporation has three asset classes for leases: property, vehicles and equipment.

The Corporation has elected to apply the following practical expedients related to leases:

- Leases with a term of twelve months or less are considered short term, and no asset or liability needs to be recognized.
- For the property and equipment asset classes, the Corporation has elected not to separate the lease components from non-lease components. This practical expedient was not elected for the vehicle asset class.

Both finance and operating leases are recorded at the present value of future lease payments. The finance right of use asset is amortized using the straight-line method over the lease term. The operating right of use asset is reduced with a direct credit to the right of use asset and a corresponding debit to the operating lease liability based on the lease amortization schedule. The Corporation does not have options required to be recognized as part of the lease right-of-use assets, or residual value guarantees.

See Note 5 for additional lease disclosures.

(l) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset.

If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented on the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

No impairment losses were recognized in 2018.

DLSM’s Twining Village senior living campus in Holland, Pennsylvania, has experienced sustained pressure on resident census and operating results over recent fiscal years. Long range planning efforts had been undertaken by management to assess opportunities for a comprehensive repositioning of the campus; however, in light of recent developments in Twining Village’s market area and in the senior living industry in general, not the least of which, is the impact of the COVID-19 pandemic and related disruption on the industry, it is unclear when such campus repositioning efforts will be feasible to commence (See Note 16). Accordingly, the Corporation evaluated the fair market value of the property and equipment of the Twining Village campus versus its net book value as of December 31, 2019, and concluded the net book value is less than fair value. Additionally, the Corporation assessed its goodwill of $4,572,283, which is exclusively associated with the Corporation’s prior acquisition of the Twining Village property, and concluded such

Goodwill is not recoverable. Consequently, the Corporation recorded an impairment loss of $24,873,942 for the year ended December 31, 2019. The impairment loss is recorded as two separate line items, impairment of goodwill and impairment of long-lived assets, on the consolidated statement of operations and changes in net assets for the fiscal year ended December 31, 2019.

(m) Deferred Debt Issuance Costs and Other Assets

Debt issuance costs are amortized over the period the obligation is outstanding. Amortization expense was $194,326 and $181,387 in 2019 and 2018, respectively. Debt issuance costs incurred and subject to amortization totaled approximately $5,000,000 and $4,800,000 as of December 31, 2019 and 2018, respectively. Accumulated amortization as of December 31, 2019 and 2018, totaled $1,308,946 and $1,114,620, respectively.

Other noncurrent assets include goodwill related to the acquisition of a continuing care retirement community within the senior living services line of service. Goodwill is analyzed at least annually by management to assess whether it is more likely than not that the senior living services reporting unit goodwill is impaired based upon qualitative factors. As described in note 1(l), DLSM recognized an impairment loss in 2019, which included the impairment of goodwill.

(n) Receivables from Charitable Gift Annuities

Independent trustees maintain charitable gift annuities for which the Corporation has been named beneficiary of the corpus and will receive these funds upon the death of the annuitant.

(o) Funds Held in Trust by Others and Beneficial Interest in Trust

DLSM, or its predecessor entities, and DLF (the beneficiaries) have been named as the beneficiaries of a number of trusts that are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the beneficiaries are notified of the trust’s existence. The beneficiaries receive the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trusts are recorded as income from trusts.

Funds held in trust by others and the beneficial interest in trust are valued at the fair value of the underlying investments. The change in the fair value of funds held in trust by others and beneficial interest in trust is reported as a change in net assets with donor restrictions. Lifecare residents at one community requiring financial assistance have been named as the beneficiaries of a trust administered and controlled by independent trustees. The trust was terminated during year ended December 31, 2019.

(p) Self Insurance

Accounts payable and accrued expenses and other long-term liabilities include a provision for estimated self-insured workers’ compensation and health insurance claims for both reported claims not yet paid and claims incurred but not reported.

(q) Deposits – Patients and Residents

Deposits – patients and residents represents security deposits paid in advance to cover possible costs when patients and residents vacate their apartments or personal care units.

These deposits are taken into income only if earned upon the termination of a residency agreement. Deposits – patients and residents also includes nursing home patients' funds held in safekeeping by the Corporation for the patients' personal use.

(r) Pension Benefits

The Corporation has a noncontributory defined benefit pension plan covering certain employees upon their retirement. The benefits are based on years of service and the employee's compensation. On August 17, 2011, DLSM (the plan sponsor) amended the pension plan to freeze benefit accruals, effective December 31, 2011, and to freeze participation with respect to new participants, effective January 2, 2012.

The Corporation records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Corporation reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as an other change in net assets without donor restrictions on the consolidated statements of operations and changes in net assets. These amounts are amortized to net periodic cost over future periods using the corridor method. The Corporation believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the pension benefits. The funded status of the plan is reported in the pension liability caption on the consolidated balance sheets. The Corporation is required to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in net assets without donor restrictions on the consolidated statements of operations and changes in net assets to the extent those changes are not included in the net periodic cost.

(s) Derivative Instruments

The Corporation entered into an interest rate swap agreement to limit its exposure to interest rate changes on its variable rate revenue bonds. Simplified hedge accounting was applied to the interest rate swap, as it was an effective cash flow hedge. Changes in the fair value are reported within other changes on the consolidated statements of operations and changes in net assets.

(t) Entrance Agreement Contracts

Entrance fees paid by residents of the Corporation's independent living units, including certain cottages and apartments, are recorded as deferred revenue and/or refundable entrance fee liability, depending on the nature of the contractual arrangement with the respective resident. The

Corporation’s financial reporting policies related to such contracts and the related recognition of associated entrance fee amortization revenue are described further in the Revenue Recognition disclosure (Note 2).

(u) Conditional Asset Retirements

The Corporation has evaluated its facilities to determine if it has a liability for the fair value of a conditional asset retirement obligation. The types of asset retirement obligations evaluated are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation is conditional on a future event that may or may not be within the control of the Corporation. No material conditional asset retirement obligations have been identified by the Corporation as of December 31, 2019 or 2018.

(v) Obligation to Provide Future Services to Continuing Care Residents

The Corporation annually calculates the present value of the net cost of future services using a discount rate of 5% and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. Periodically, the Corporation engages an actuary to perform the present value calculation, which it did in 2018 and 2019. For 2018, the present value of the net cost of future services did not exceed deferred revenue; accordingly, no obligation was recorded. For 2019, the actuarial analysis indicated the present value of the net cost of future services exceeded deferred revenue; therefore, the Corporation recognized a future services obligation liability of $1,772,624.

(w) Income Taxes

Diakon and its controlled affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and have been recognized as tax exempt under 501(a) of the Code.

The Corporation uses a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Corporation does not believe that there are any unrecognized tax benefits or liabilities that should be recorded. Generally, tax returns for years ended December 31, 2016, and thereafter remain subject to examination by federal and state taxing authorities.

(x) Patient and Resident Service Revenue

Patient and resident service revenue primarily relates to the provision of services to the Corporation’s senior living customers. The Corporation’s policies related to recognition of revenue from such customers is described in the Revenue Recognition disclosure (Note 2).

(y) Contributions and Donor Restrictions

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as increases in net assets with donor restrictions, and reclassified to net assets without donor restrictions as net assets are released from restrictions.

(Continued)

Contributions, including unconditional promises to give, if any, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectable contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

(z) Loss from Early Extinguishment of Debt

During the year ended December 31, 2018, the Corporation entered into a transaction that involved the issuance of the Wernersville Municipal Revenue Bond Series 2018 (Note 6). The proceeds from this bond were used to fully refund the previously outstanding Series 2009 Bonds and to pay for issuance costs. This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $96,608 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2018.

During the year ended December 31, 2019, the Corporation entered into a transaction that involved the issuance of Cumberland County Municipal Authority Series A 2019 Bonds and Washington County, Maryland Series B 2019 Bonds (Note 6). The proceeds from such bond issues were used to fully refund the outstanding Series A 2014 Bonds and Series C 2014 Bonds and to pay for issuance costs. This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $626,216 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2019.

(aa) Operating Income

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled "Operating income." Changes that are excluded from this measure include net periodic pension (costs) benefit, joint venture equity changes, unrealized gains (losses) on investments (excluding investments valued at net asset value (NAV)), loss from early extinguishment of debt, loss from future services obligations, impairment of goodwill, and impairment of long-lived assets.

(bb) Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator of operations labeled "Deficit of operating revenues, gains and other support over expenses." Changes in net assets without donor restrictions that are excluded from this measure include unrealized gains (losses) on investments on investments valued at net asset value (NAV), pension-related changes other than net periodic pension costs, net assets released from restrictions for capital purposes, and changes in the fair value of swap agreement.

(cc) Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(dd) Statutory Reserve Requirement

The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan or 10% of the projected annual operating expenses of the facilities exclusive of depreciation, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance fee agreement contracts. This statutory reserve requirement is considered to be fulfilled from equity and fixed income funds included within assets limited as to use. The Pennsylvania statutory reserve as of December 31, 2019 and 2018, was $7,431,584 and $7,032,788, respectively.

The State of Maryland regulation 32.02.01.20 requires licensed continuing care retirement communities to maintain an operating reserve equal to fifteen percent of the facility's net operating expenses for the most recent fiscal year. The regulations allow a provider to meet the requirement at a minimum rate of 10% per year as of the date of its first initial certificate of registration up to a total of 100% as of the end of the tenth fiscal year. DLSL-MD was required to maintain a reserve of 12.0% of net operating expenses, or $1,858,879, as of December 31, 2019, its eighth year of operation, and 10.5% of net operating expenses, or $1,617,214, as of December 31, 2018, its seventh year of operation. The reserves must be maintained in a reasonably liquid form in the judgment of the provider and in accordance with the provider's investment policies.

(ee) Changes in Accounting Principle

The Corporation adopted the following accounting pronouncements as of January 1, 2019:

ASU 2016-01/ASU 2018-03, *Financial Instruments – Overall* – These ASUs require entities to measure equity investments at fair values and to recognize any changes in fair value in the performance indicator. This does not apply to investments under the equity method. Adoption of these ASUs resulted in a reclassification of unrealized gains (losses) from Other Changes in Net Assets without Donor Restrictions to within the performance indicator of $14,515,736 and $(12,666,660) for years ended December 31, 2019 and 2018, respectively, excluding those for assets measured at fair value based on net asset value (NAV).

ASU 2016-02/ASU 2018-01/ASU 2018-10/ASU 2018-11/ASU 2018-20/ASU 2019-01, *Leases* (Topic 842) – These ASUs require entities to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. The Corporation adopted the ASUs effective January 1, 2019, using a modified retrospective approach which resulted in a cumulative effect of change in accounting principle reported on the Consolidated Statements of Operations and Changes in Net Assets. See Note 1(k) and Note 5 for additional disclosures.

ASU 2016-15, *Statement of Cash Flows* (Topic 230) *Classification of Certain Cash Receipts and Cash Payments* – This ASU describes how to present and classify eight specific cash flow issues. Changes are reflected on the Consolidated Statements of Cash Flows.

ASU 2016-18, *Statement of Cash Flows* (Topic 230) *Restricted Cash* – This ASU requires entities to include cash and cash equivalents that have legal, regulatory or compliance restrictions in total cash and cash equivalents on the Statement of Cash Flows. This standard is effective for the year ended December 31, 2019, and thereafter, and must be applied on a retrospective basis to the years presented. The Corporation has adopted these changes in the Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018.

ASU 2017-07, *Compensation – Retirement Benefits* (Topic 715) *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post Retirement Benefit Cost* – This ASU requires that the service cost component of pension expense is reported in the same line item as other compensation costs arising from services rendered by employees. The other components of net pension cost are required to be presented in the income statement separately from the service cost component and outside of the income from operations. This standard is effective for the year ended December 31, 2019, and thereafter, and must be applied on a retrospective basis for the years presented. For the years ended December 31, 2019 and 2018, the Corporation has reported net periodic pension (costs) benefit within the performance indicator as noted in Note 1(bb).

ASU 2018-08, *Not-For-Profit Entities* (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* – This ASU clarifies guidance on how entities determine whether to account for a transfer of assets as an exchange transaction or a contribution and how entities determine whether the contribution is conditional or unconditional. Adoption of this guidance did not have a material impact on the Corporation’s consolidated financial statements.

(ff) Reclassifications

Certain prior period amounts have been reclassified to conform with the current period consolidated financial statement presentation.

(2) Revenue Recognition

(a) Patient and Resident Service Revenue

Patient and resident service revenue primarily relates to the services provided to the senior living customers residing in the communities operated by DLSM and DLSL-MD. Such revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient and resident services. These amounts are due from patients, residents, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients, residents, and third-party payors either: (a) on a monthly basis for those customers that are permanent residents, or (b) several days after completion of a short-term service (i.e., skilled nursing short-term rehabilitation or outpatient rehabilitation services).

Performance obligations are determined based on the nature of the services provided by the Corporation. The majority of senior living services provided by the Corporation involve performance obligations which are satisfied at the time the services are provided or shortly thereafter, therefore revenue for such services is recognized when services are rendered.

The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third-party payors. The Corporation determines its estimates of explicit price concessions and discounts based on applicable government reimbursement guidelines, contractual agreements with payors, and historical experience.

In addition to explicit price concessions, the Corporation determines its estimate of implicit price concessions based on its historical collection experience with the respective class of payors. Such implicit price concessions arise from self-paid financial obligations which are deemed uncollectable, or from third-party payors which deny payment for administrative errors, insufficient medical documentation, or a variety of other reasons. Such implicit price concessions are periodically evaluated and adjusted based on the organization's historical collection experience.

With the exception of continuing care residency agreements (CCRC Agreements) all of the Corporation's other senior living related performance obligations relate to contracts with customers with a duration of less than one year; therefore, with the exception of the obligations related to such CCRC Agreements, the Corporation is not disclosing the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

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

- Medicare: Reimburses certain short-term skilled nursing and rehabilitative services which are paid at prospectively determined rates based on clinical factors. Medicare also reimburses certain outpatient services and physician services, which are paid at rates determined by applicable fee schedules.

- Medicaid: Reimbursements for Medicaid long-term care skilled nursing services are paid at either prospectively determined rates based on clinical factors, or contractually negotiated rates with Medicaid managed care insurance plans.

- Managed Care and Commercial Insurance: The Corporation has various contractual agreements in place with commercial insurance carriers, health maintenance organizations, and preferred provider organizations which reimburse for certain short-term skilled nursing and rehabilitative services using prospectively determined rates or contractually negotiated fee arrangements. Such payors also provide reimbursement for certain outpatient services based on contractually negotiated fee schedules.

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

(b) Entrance Fee Contracts

DLSM and DLSL-MD offer independent living accommodations and services pursuant to CCRC Agreements, which require payment of an up front, one time entrance fee and monthly service fees. In exchange for payment of the entrance fee and monthly fees, residents residing in a senior living community (referred to herein as "CCRC Residents") are entitled to occupancy rights of their independent living accommodation and certain services and amenities for as long as they live. The majority of the CCRC Agreements offered by DLSM and DLSL-MD are a fee-for-service contract, whereby the CCRC Resident has preferred access to personal care, assisted living, and skilled nursing services at a Diakon senior living facility, but is required to pay the prevailing rate for such services at the time the resident requires them.

At one of DLSM's communities, a lifecare CCRC Agreement is also offered to prospective residents. A CCRC Resident selecting a lifecare agreement can access personal care and nursing services at the same monthly fee the resident pays for their independent living accommodation. Two other DLSM communities had offered lifecare agreements prior, but no longer offer such contracts to prospective residents. As of December 31, 2019, there were 860 outstanding CCRC Agreements at DLSM and DLSL-MD collectively, of which 99 were lifecare agreements.

Performance obligations relative to entrance fees are determined based upon the services outlined in the resident entrance contract. Performance obligations are satisfied and the related revenue is recognized over the resident's life expectancy. As the life of expectancy matches the expected consumption of resources, the performance obligation is satisfied when the resident receives such services. The Corporation measures the performance obligation from the time a resident moves in to the point when it is no longer required to provide service to the resident, which is generally at the time a resident transfers to another location or passes on.

CCRC Agreements offered by the Corporation feature non-refundable and guaranteed refundable components. The non-refundable component of a CCRC Agreement features an amortization provision whereby the non-refundable component of the entrance fee is earned ratably by the Corporation over a future time period following the initial date of occupancy, generally 46 months or less. After 46 months of occupancy, no refund is due to the CCRC Resident.

A refund payment can be triggered on the portion of the CCRC Agreement that is non-refundable, as the agreements contain provisions whereby the non-refundable portion of the entrance fee is earned over a period of time following the initial date of occupancy. However, the Corporation has chosen to recognize revenue on the non-refundable portion of the entrance fee for CCRC Agreements, as the Corporation does not have a reasonably objective basis to identify in advance which contracts are likely to trigger refunds. Accordingly, the non-refundable portion of entrance fees as stated in each contract is recorded as deferred revenue and amortized to revenue over the estimated life expectancy of the resident.

The guaranteed refundable component of a CCRC Agreement features a provision which guarantees a certain percentage of the original entrance fee paid is refunded to the CCRC Resident upon termination of the agreement, and following receipt of an entrance fee payment from a new resident for the unit previously occupied by the CCRC Resident. The component of a CCRC Agreement which is guaranteed refundable is recorded as a refundable entrance fee liability. No revenue is recognized in conjunction with the guaranteed refundable component of a CCRC Agreement.

The amount of entrance fees which is subject to contractual refunds was approximately $50,492,000 and $55,304,000 as of December 31, 2019 and 2018, respectively.

The Corporation may receive entrance fee payments prior to the date an independent living resident occupies a living unit. Such entrance fee deposits received during 2019 and 2018 amounted to $606,920 and $587,327, respectively, and are included in refundable entrance fee liability on the accompanying consolidated balance sheets. The Corporation maintains a separate entrance fee escrow account, which is a component of cash and cash equivalents. The amount in the entrance fee escrow account covers deposit liabilities to prospective independent living residents. Such amounts in the entrance fee escrow account totaled $919,614 and $913,465 as of December 31, 2019 and 2018, respectively.

Monthly fees paid by CCRC Residents entitle the occupant to simultaneously receive and consume benefits indicated in the CCRC Agreement; therefore, the Corporation records monthly fee revenue for CCRC Agreements in the period such services are rendered.

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(c) Charity Care

The Corporation provides services to patients and residents who cannot afford the full cost of care because of inadequate resources and/or who are uninsured or underinsured, and offers those persons a discount from standard charges in accordance with its benevolent care policies. Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. The Corporation considers discounts for those patients and residents who have made application for benevolent care subsidy. The monthly fees charged to such patients and residents are reduced to the amount the patient or resident can afford to pay from their resources, inclusive of any other forms of charitable support they may qualify for. The Corporation maintains records to identify and monitor the amount of charity care it provides. These records include direct and indirect costs for services and supplies furnished under its charity care policy. The total cost of charity care under these policies amounted to $3,064,997 and $3,138,241 for the years ended December 31, 2019 and 2018, respectively. The cost of charity care is estimated by management based upon the cost to gross charges ratio multiplied by the gross uncompensated charges associated with providing care. The Corporation received $1,020,000 and $675,000 for the years ended December 31, 2019 and 2018, respectively, to offset or subsidize charity care services provided.

(d) Resident and Patient Service Revenue by Service Line and Payor

The composition of resident and patient service revenue by payor for the years ended December 31 is as follows:

	2019	2018
Senior living services revenue, net:		
Private pay	$ 73,824,950	73,127,261
Medicaid	39,104,732	37,851,625
Medicare Part A	14,724,232	17,033,076
Managed care and commercial insurers	11,139,825	9,541,416
Medicare Part B	4,025,144	4,109,555
Total Senior Living Service revenue	142,818,883	141,662,933
Diakon Medical Group	1,177,049	467,680
Diakon Child, Family and Community Ministries	7,244	8,891
Patient and resident service revenue, net	$ 144,003,176	142,139,504

The composition of senior living services resident and patient service revenue by respective line of service for the years ended December 31 is as follows:

	2019	2018
Nursing care	$ 91,442,417	91,338,630
Personal care/assisted living	28,559,904	28,396,733
Independent living	22,816,562	21,927,570
	$ 142,818,883	141,662,933

(e) Nursing Home Assessment

Pennsylvania nursing providers are subject to a Nursing Home Assessment (the Assessment) which was approved by the Centers for Medicare and Medicaid Services (CMS) in September 2003. The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Human Services (DHS) based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities based upon a standard rate per Medicaid day claimed. Total nursing home assessment revenues and expenses were $3,830,094 and $1,823,772 for 2019, respectively, and $3,801,372 and $1,945,692 for 2018, respectively.

(f) Contract Revenue, Other Fees and Services

Contract Revenue and Other Fees and Services revenue primarily relates to the activities of the Corporation's non-senior living affiliates, most notably DCFCM and the HUD entities.

DCFCM generates the majority of its revenue from third-party payors, including health insurers and government payor sources. A small proportion of DCFCM revenue is from self-pay sources, generally made up of deductibles and co-insurance for outpatient behavioral health services or privately paid adult day care services. Typically DCFCM bills either: (a) on a monthly basis for government contracted services, or (b) at the time of service or shortly thereafter for outpatient services. Payor sources include:

- Various County government agencies which provide funding for foster care resource families, certain youth service programs, community senior centers, certain behavioral health programs, and certain adult day care services.
- The Commonwealth of Pennsylvania, Department of Human Services which provides funding for statewide adoption services.
- Medicaid which provides funding for certain behavioral health programs, and certain adult day services.
- Commercial Insurance which provides funding for certain behavioral health programs.
- Various foundations, government sources, and other payors providing operating grants for certain DCFCM activities.

Diakon's affordable housing properties are subject to the regulations of HUD, which establishes resident eligibility guidelines, rent subsidy amounts for eligible residents, and resident's financial responsibilities. Contract pricing is also determined by such HUD guidelines.

Performance obligations are determined based on the nature of the services provided and the related contractual agreements with payors. Both DCFCM and the affordable housing entities offer services involving performance obligations which are satisfied at the time the services are provided, therefore revenue is recognized when such services are rendered. Neither DCFCM nor the affordable housing properties have contracts with unsatisfied performance obligations.

The contract price is typically determined by the terms of contractual arrangements with governmental and other third-party payors, and such pricing arrangements are determined by a negotiated fee schedule. DCFCM and the affordable housing entities recognize revenue at the agreed-upon contractual price with government payors, less implicit price concessions based on its historical collection experience with the respective class of payors.

The composition of Contract Revenue and Other Fees and Services revenue by major program for the years ended December 31 is as follows:

		12/31/2019	12/31/2018
DCFCM Programs:			
Youth services	$	3,720,341	3,319,559
Permanency services		8,643,806	6,818,638
Family life services		758,327	770,470
Community services for seniors		1,377,248	1,423,838
Other DCFCM		141,819	142,777
DCFCM total		14,641,541	12,475,282
HUD		1,758,297	1,743,403
DLSM & DLSL-MD		80,321	37,173
Total Contract Revenue	**$**	**16,480,159**	**14,255,858**
DCFCM Programs:			
Youth services	$	102,666	108,097
Permanency services		2,456,717	2,373,227
Family life services		5,616,118	4,711,703
Community services for seniors		62,322	81,914
Adult day services		957,305	982,783
Other DCFCM		91,993	90,851
DCFCM Total		9,287,121	8,348,575
HUD		1,543,964	1,508,122
DLSM & DLSL-MD		815,978	858,937
Diakon Medical Group		129,601	125,995
Other		(66,099)	84,497
Total Other Fees and Services Revenue	**$**	**11,710,565**	**10,926,126**

(Continued)

(g) Statewide Adoption and Permanency Network Revenue

SWAN LLC is subject to performance obligations indicated in its contract with the Pennsylvania Department of Human Services (DHS). Such performance obligations include provision of certain administrative, technical, and support services related to the operations of the Statewide Adoption and Permanency Network, as outlined in an annual workplan and budget approved by DHS. In addition to the services rendered by its own personnel, SWAN LLC contracts with third-party adoption agencies which complete various case management and related services for children in the custody of a Pennsylvania county child welfare agency. The contract price for such adoption services is a statewide standard rate for each type of service. SWAN LLC invoices DHS monthly for its provision of administrative, technical, and support services, and also for any units of service completed by adoption agencies. SWAN LLC, in turn, reimburses contracted adoption agencies on a dollar-for-dollar basis for completed services, following receipt of reimbursement from DHS. Revenue recognized by SWAN LLC equals the amounts invoiced to DHS as historically there have been no implicit or explicit price concessions related to the services rendered by SWAN LLC. SWAN LLC has an unsatisfied performance obligation through June 30, 2020, the end of the current contract term with DHS. The revenue will be recognized over a period of time as the performance obligation is satisfied, using an output method. Accounting Standards Codification (ASC) 606 defines output methods as revenue recognized as a direct measurement of the service transferred to date relative to the remaining service promised under contract. There is no variable consideration applied to the transaction price in either the performance obligations satisfied in fiscal years 2019 or 2018, or the future unsatisfied performance obligation. There has been no revenue recognized in fiscal years 2019 or 2018, where performance obligations were satisfied in a previous period. There were approximately $44,600,000 and $98,000,000 in unsatisfied performance obligations relative to SWAN LLC as of December 31, 2019 and 2018, respectively.

(h) Contract Acquisition Costs

The Corporation has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

(i) Financing Component

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from customers and third-party payors for the effects of a significant financing component due to the Corporation’s expectation that the period between the time the service is provided to a customer and the time that the customer or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with customers that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

(3) Assets Limited as to Use and Investments

The composition of assets limited as to use as of December 31 is set forth in the following table:

		2019	2018
Under bond indentures for debt service reserve fund:			
Cash and short-term investments	$	833	818
Debt Service Sinking Fund:			
Cash and short-term investments		10,657,228	9,131,747
Endowment funds:			
Cash and short-term investments		812,598	566,794
Equity funds		8,472,267	7,813,568
Fixed income funds		4,181,399	4,510,498
Donor and other temporarily restricted funds:			
Cash and short-term investments		990,539	619,574
Equity funds		6,724,643	4,652,303
Fixed income funds		3,695,535	3,024,017
Assets Limited to Use for HUD Reserves:			
Cash and short-term investments		2,314,805	2,200,243
By board for designated purposes:			
Entrance fees and other designated purposes:			
Cash and short-term investments		455,980	385,981
Equity funds		—	8,485
Fixed income funds		447,281	423,922
Statutory minimum liquid reserves:			
Equity funds		3,834,929	3,452,408
Fixed income funds		3,596,655	3,580,380
Total assets limited as to use		46,184,692	40,370,738
Less assets limited as to use – required for current liabilities:			
Other		10,657,227	9,131,747
Assets limited as to use, less current portion	$	35,527,465	31,238,991

A summary of investments as of December 31 is as follows:

		2019	2018
Cash and short-term investments	$	7,600,225	5,117,641
Equity funds		68,358,184	58,161,007
Fixed income funds		58,363,078	55,617,721
Alternative investment		3,248,550	3,739,460
Investments	$	137,570,037	122,635,829

The combined composition of assets limited as to use and investments as of December 31 is as follows:

	2019		2018	
Cash and short-term investments	$ 22,832,208	12.4%	$ 18,022,798	11.0%
Equity funds	87,390,023	47.6%	74,087,771	45.5%
Fixed income funds	70,283,948	38.2%	67,156,538	41.2%
Alternative investment	3,248,550	1.8%	3,739,460	2.3%
	$ 183,754,729	100.0%	$ 163,006,567	100.0%

Total investment return for the years ended December 31 consists of the following:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends, net of expenses	$ 5,268,215	889,191	6,157,406
Net realized gains (losses) on investments	1,841,803	(64,854)	1,776,949
Investment income, net of expenses	7,110,018	824,337	7,934,355
Unrealized gain on investments	14,792,558	—	14,792,558
Changes in unrealized gains on net assets with donor restrictions	—	3,165,452	3,165,452
Total investment return	$ 21,902,576	3,989,789	25,892,365

(Continued)

		2018		
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
Interest and dividends, net of expenses	$	6,232,343	1,044,183	7,276,526
Net realized gains (losses) on investments		136,082	(4,368)	131,714
Investment income, net of expenses		6,368,425	1,039,815	7,408,240
Unrealized (losses) on investments		(13,449,566)	—	(13,449,566)
Changes in unrealized (losses) on net assets with donor restrictions		—	(2,225,225)	(2,225,225)
Total investment return	$	(7,081,141)	(1,185,410)	(8,266,551)

As described in Note 1(g), a summary of unrestricted investments with fair values below cost as of December 31 is as follows:

		Less than 12 months		12 months or longer		Total	
December 31, 2019		**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Description of funds:							
Fixed income funds	$	—	—	16,251,924	834,058	16,251,924	834,058
Total temporarily impaired funds	$	—	—	16,251,924	834,058	16,251,924	834,058

		Less than 12 months		12 months or longer		Total	
December 31, 2018		**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Description of funds:							
Fixed income funds	$	20,478,960	807,752	38,762,078	2,041,728	59,241,038	2,849,480
Equity funds		27,121,690	3,025,586	—	—	27,121,690	3,025,586
Total temporarily impaired funds	$	47,600,650	3,833,338	38,762,078	2,041,728	86,362,728	5,875,066

The Corporation monitors its investment portfolio and reviews investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations consider, among other things, the magnitude and reasons for a decline, the prospects for the fair value to recover in the near term, and the Corporation's intent and ability to retain the investment for a period of time sufficient to allow for a recovery in value. The declines in fair value as of December 31, 2019 and 2018, are considered temporary.

(4) Land, Buildings and Equipment

Land, buildings and equipment and accumulated depreciation as of December 31 are as follows:

		2019	2018
Land	$	16,385,689	16,385,689
Land improvements		26,624,263	28,040,422
Buildings		369,427,665	370,503,403
Furniture and equipment		46,127,536	44,698,387
Vehicles		490,730	515,381
		459,055,883	460,143,282
Accumulated depreciation		(259,802,512)	(241,063,592)
		199,253,371	219,079,690
Construction in progress		3,753,120	10,125,500
	$	203,006,491	229,205,190

Depreciation expense for the years ended December 31, 2019 and 2018, was $18,747,506 and $18,851,092, respectively.

Construction in progress as of December 31, 2019 and 2018, is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Non-cash purchases of land, buildings and equipment totaled approximately $836,000 and $2,940,000 for the years ended December 31, 2019 and 2018, respectively.

(5) Leases

The Corporation adopted ASU 2016-02 and related ASUs, *Leases* (Topic 842) effective for the year ended December 31, 2019. The ASU was applied on a modified retrospective basis, which resulted in a decrease to net assets as of January 1, 2019, of $99,476, shown as a cumulative effect of a change in accounting principle on the consolidated statements of operations and changes in net assets. The Corporation also recognized as of January 1, 2019, a right of use asset of $5,299,854 and a lease liability of $5,399,330.

The Corporation has multiple leases in all three asset classes. Several leases include multiple optional renewal periods. Generally, the Corporation does not consider any additional renewal periods to be reasonably certain of being exercised.

During the year ended December 31, 2019, the Corporation recognized lease costs associated with the leases as follows:

Finance lease cost:	
Amortization	$ 734,442
Interest expense	68,534
Operating lease cost	931,844
Short-term lease cost	199,633
Total lease cost	$ 1,934,453

During the year ended December 31, 2019, the Corporation had the following cash and non-cash activities associated with the leases:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for finance leases	$ 68,534
Operating cash flows for operating leases	$923,283
Financing cash flows for finance leases	$704,801
Right of use assets obtained in exchange for new finance lease liabilities	$578,112
Right of use assets obtained in exchange for new operating lease liabilities	$106,933
Weighted average remaining lease term for finance leases	2.72
Weighted average remaining lease term for operating leases	4.84

The Corporation utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with the finance and operating leases as of December 31, 2019, was 3.95%.

The future minimum lease payments due under operating and finance leases as of December 31, 2019, is as follows:

	Operating	Finance
2020	$ 795,145	$ 770,590
2021	608,909	542,045
2022	543,807	235,998
2023	523,210	122,255
2024	522,791	46,195
Thereafter	213,931	—
Total lease payments	3,207,793	1,717,083
Imputed interest	(297,164)	(91,723)
Total lease liability	$ 2,910,629	$ 1,625,360

(6) Long-Term Debt

The Corporation has established an obligated group (the Obligated Group) comprised of the assets/liabilities and activities of the DLSM corporate entity, excluding the activities of the following related entities of DLSM: Diakon – SWAN LLC and the four HUD entities outlined in Note 1 (a).

Long-term debt of the Corporation consists of the following as of December 31:

	2019	2018
Obligated Group:		
Cumberland County Municipal Authority Bonds Series A 2019, $19,535,000 of tax exempt fixed interest rate bonds with principal payable in installments ranging from $380,000 to $12,870,000 through January 1, 2039 (the final maturity date). The interest rate is 5.0% and the bonds were issued at an aggregate premium of $1,275,180, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.29%.	$ 18,185,000	—
Washington County, Maryland Bonds Series B 2019, $14,325,000 of tax exempt fixed interest rate bonds with principal payable in annual installments ranging from $395,000 to $1,660,000 through 2032. The interest rate is 5.0% and the bonds were issued at an aggregate premium of $1,676,701 which is being amortized ratably over the life of the issue, to yield an effective interest rate of 3.06%.	14,325,000	—
Wernersville Municipal Authority Bond Series 2018, $8,326,000 of tax exempt variable rate bonds with principal payable in annual installments ranging from $182,000 to $1,160,000 through 2039. The Series 2018 bonds are subject to floating to fixed interest rate swap which results in Diakon paying a fixed interest rate of 3.63% through October 1, 2030.	7,915,000	8,326,000

(Continued)

	2019	**2018**
Cumberland County Municipal Authority Bonds Series 2016, $34,780,000 of tax exempt fixed interest rate bonds with principal payable in annual installments ranging from $80,000 to $2,915,000 through 2039. Interest rates range from 2.5% to 5.0% and the bonds were issued at an aggregate premium of $4,003,300, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 3.14%.	28,500,000	30,915,000
Cumberland County Municipal Authority Bonds Series 2015, $147,545,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $2,465,000 to $12,855,000 through 2038. Interest rates range from 3.0% to 5.0% and the bonds were issued at an aggregate premium of $8,559,916, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.25%.	136,775,000	139,430,000
Cumberland County Municipal Authority Bonds Series A 2014, $22,728,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $35,000 to $136,000 through 2039. The Series A 2014 are direct placement notes with PNC Bank with an interest rate of 2.46% as of December 31, 2018.	—	20,374,000
Washington County, Maryland Bonds Series C 2014, $18,798,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $43,000 to $131,000 through 2033. The Series C 2014 are direct placement notes with PNC Bank with an interest rate of 2.46% as of December 31, 2018.	—	15,708,000

(Continued)

	2019	2018
Non-Obligated Group:		
Mortgage notes payable, U.S. Department of Housing and Urban Development (HUD) and Wells Fargo, four individual notes collateralized by the property and equipment of the HUD Senior Housing properties. The mortgages bear interest at fixed rates ranging from 3.07% to 4.22% and monthly payments, including interest, ranging from $12,144 to $30,274 through 2051.	13,553,854	13,823,822
Maxatawny Township Municipal Authority, Revenue Note Series 2017, with a maximum principal amount of $6,100,000. The mortgage note is collateralized by rental proceeds of Old Main, LLC and certain endowment distributions. The note bears interest at a floating rate of 2.0% plus sixty-seven percent (67%) of 30-day LIBOR (3.54% as of December 31, 2019). The note was interest only through March 31, 2019. Effective April 1, 2019, principal installments of $17,395 plus applicable interest based off variable rate, are payable monthly. Final maturity of the note is March 1, 2044.	5,062,037	5,218,595
	224,315,891	233,795,417
Less current maturities of bonds and mortgages payable	(6,779,413)	(7,279,544)
Unamortized debt issuance costs	(3,728,989)	(3,724,775)
Unamortized premium	12,241,208	10,207,588
	$ 226,048,697	232,998,686

The Obligated Group's outstanding bonds have been issued pursuant to the terms of a 1998 Master Trust Indenture (MTI), as amended and supplemented over time. The effect of these amendments was to consolidate the entities comprising the Obligated Group and to grant all bondholders and credit providers equal standing. The MTI contains certain provisions that require the Obligated Group to maintain certain cash deposits with a trustee as well as meet certain financial covenants on an annual basis. The MTI also places various restrictions on the Obligated Group's ability to incur additional indebtedness. The cash deposits held with the trustee are included in assets limited as to use on the consolidated balance sheets.

To secure the required loan payments for the outstanding bonds, the Obligated Group has granted the Cumberland County Municipal Authority and the County Commissioners of Washington County, MD (the Washington issuer) (issuer of the Series B 2019 and Series C 2014 bonds) a parity security interest in their gross receipts and a parity first lien mortgage on substantially all of the Obligated Group's property and equipment, with the exception of the property leased to DLSL-MD.

The Obligated Group is also subject to certain financial and other restrictive covenants through a Loan and Agency Agreement with the conduit issuers of the outstanding bonds.

On January 31, 2019, the Cumberland County Municipal Authority issued $19,535,000 of Series A of 2019 revenue bonds and the County Commissioners of Washington County issued $14,325,000 of Series B of 2019 revenue bonds, the proceeds of which were used to refund the Obligated Group’s Series 2014 A and Series 2014 C Bonds and to pay for costs of issuance. The Series A of 2019 Bonds had a principal installment of $1,350,000, due July 1, 2019, and annual installments ranging from $380,000 to $12,870,000 from January 1, 2031, through January 1, 2039, the final maturity date. The Series A of 2019 Bonds were issued at a fixed interest rate with an average yield of 4.29%. The Series B of 2019 Bonds have annual principal installments due January 1 of each year, ranging from $395,000 to $1,660,000, and a final maturity of January 1, 2032. The Series B of 2019 Bonds were issued at a fixed interest rate with an average yield of 3.06%.

On October 18, 2018, the Wernersville Municipal Authority in Berks County, Pennsylvania, issued $8,326,000 of Series 2018 revenue bonds (2018 Bonds), the proceeds of which were used to refund the Cumberland County Municipal Authority’s outstanding Revenue Bonds Series of 2009 and to pay debt issuance costs. The Series 2018 bonds are direct placement notes with Branch Banking and Trust Company (BB&T) issued at a floating interest rate equal to 79% of USD-LIBOR-BBA plus a fixed spread equal to 0.95%. The 2018 Bonds are equally and ratably secured by the provisions of the MTI. Diakon executed a floating to fixed interest rate swap agreement with BB&T concurrent with the closing of the transaction, which is described in Note 9, derivative instruments.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2019:

		Scheduled maturity
2020	$	6,779,413
2021		7,089,525
2022		7,433,082
2023		7,776,103
2024		8,137,606
Thereafter		187,100,162
	$	224,315,891

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $9,178,391 and $10,110,943 for the years ended December 31, 2019 and 2018, respectively. There was no capitalized interest in 2019 or 2018.

The effective interest rates paid for the years ended December 31 are as follows:

	2019	2018
DLSM Obligated Group	4.14 %	3.98 %
Obligations Oustide the Obligated Group	4.06	3.88
Combined	4.13	3.97

(7) Lines of Credit

DLSM has a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $20,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.75% (4.56% as of December 31, 2019). Amounts ranging from $0 to $6,294,158 were outstanding for various periods during 2019 and 2018. Borrowings outstanding under the line of credit totaled $6,294,158 and $0 as of December 31, 2019 and 2018, respectively. The bank line of credit is secured on a parity basis with the Obligated Group's outstanding bonds. In addition to the line of credit, DLSM had unused outstanding letters of credit with M&T in the amount of $3,364,024 for each of the years ended December 31, 2019 and 2018.

In 2014, DCFCM entered into a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.35% (4.11% as of December 31, 2019). Amounts ranging from $0 to $2,013,347 were outstanding for various periods during 2019 and 2018. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2019 and 2018. The bank line of credit is secured by DCFCM's accounts receivable and a $1,000,000 guarantee by DLF's investments.

(8) Fair Value

(a) Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Corporation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Corporation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accounts receivable, estimated third-party payor settlements, prepaid expenses and other assets, accounts payable and accrued expenses, deposits, and lines of credit – The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Investments and assets limited as to use – These assets are carried at fair value, which is based primarily on quoted market prices at the reporting date. When quoted market prices in active markets are not available, the Corporation relies on a pricing service to estimate fair value. The fair value of mutual fund holdings is based on the net asset value as reported by the fund.

Alternative investments – Alternative investments are recorded under the equity method of accounting using net asset value (NAV). The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. The Corporation believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. The Corporation's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specific times in accordance with terms of the subscription agreements. The financial statements of all of the Corporation's alternative investments are audited annually.

Funds held in trust by others and beneficial interest in trust – These assets are carried at fair value, which is based on quoted market prices for the underlying securities held by the trusts multiplied by the Corporation's percentage interest in the trusts. The inputs to fair value of these trusts are classified as Level 3 based upon the Corporation's inability to redeem its investment at the net asset value. The activity for the Level 3 classified input from December 31, 2018, to December 31, 2019, is the increase in the fair value of the underlying assets.

Long-term debt (including mortgages and bonds payable) – The fair value of mortgages and fixed rate bonds payable is determined by discounting future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing which are deemed to be Level 2 inputs. The carrying amounts of variable rate bonds payable included in long-term debt on the consolidated balance sheets for bonds payable approximate fair value.

The fair value of the Corporation's long-term debt was $353,086,087 and $246,265,278 as of December 31, 2019 and 2018, respectively.

(b) Fair Value Hierarchy

The Corporation determines fair value measurements using the fair value hierarchy, which 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of December 31:

	Fair value measurements as of December 31, 2019			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets:				
Investments and assets limited as to use:				
Cash and short-term investments	$ 22,832,208	—	—	22,832,208
Fixed income funds:				
Short term	18,133,259	—	—	18,133,259
Intermediate term	52,150,689	—	—	52,150,689
Equity funds:				
International	37,752,490	—	—	37,752,490
Large cap	43,957,182	—	—	43,957,182
Small cap	5,680,351	—	—	5,680,351
Funds valued at NAV				
Master Limited Partnership				3,176,096
Other				72,454
Funds held in trust by others and beneficial interest in trust	—	—	37,634,260	37,634,260
Total assets	$ 180,506,179	—	37,634,260	221,388,989
Liability:				
Interest rate swap agreement	$ —	719,359	—	719,359

	Fair value measurements as of December 31, 2018			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets:				
Investments and assets limited as to use:				
Cash and short-term investments	$ 18,022,798	—	—	18,022,798
Fixed income funds:				
Short term	17,899,146	—	—	17,899,146
Intermediate term	49,257,392	—	—	49,257,392
Equity funds:				
International	31,677,136	—	—	31,677,136
Large cap	37,787,595	—	—	37,787,595
Small cap	4,623,040	—	—	4,623,040
Funds valued at NAV				
Master Limited Partnership				3,683,754
Other				55,706
Funds held in trust by others and beneficial interest in trust	—	—	33,351,262	33,351,262
Total	$ 159,267,107	—	33,351,262	196,357,829
Liability:				
Interest rate swap agreement	$ —	380,717	—	380,717

Alternative investments measured at net asset value were excluded from the fair value hierarchy as of December 31, 2019 and 2018, as required by ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*

	Investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2019			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Master Limited Partnership	$ 3,176,096	—	Daily	1 Day
Other	72,455	—	Daily	1 Day
Total	$ 3,248,551	—		

	Investments measured at fair value based on net asset value (NAVs) per share as of December 31, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Master Limited Partnership	$ 3,683,754	—	Daily	1 Day
Other	55,706	—	Daily	1 Day
Total	$ 3,739,460	—		

The changes in Funds held in trust by others and beneficial interest in trust measured at fair value as a Level III asset is summarized as follows for the years ending December 31:

	2019	2018
Balance, beginning of year	$ 33,351,262	37,685,817
Change in valuation	4,282,998	(4,334,555)
Balance, end of year	$ 37,634,260	33,351,262

(9) Derivative Instruments

On October 18, 2018, the Obligated Group executed a floating-to-fixed interest rate swap relating to the 2018 Bond consisting of a $8,326,000 notional transaction with BB&T. The purpose of the swap is to assist the Obligated Group in managing interest rate risk or interest cost relative to the 2018 Bond.

The swap was structured with the Obligated Group receiving payments on a floating leg equal to 79% of LIBOR plus a fixed spread equal to 0.95% on the outstanding notional amount of the swap to be paid semi-annually and the Obligated Group making payments on a fixed leg equal to 3.63% on the outstanding notional amount of the swap also semi-annually. The term of the swap is October 18, 2018, to October 1, 2030. The swap is considered an effective cash flow hedge under hedge accounting standards.

(Continued)

(10) Pension Benefits

The Corporation has a noncontributory defined benefit pension plan covering certain employees upon their retirement. On August 17, 2011, the Corporation amended the pension plan to freeze benefit accruals, effective December 31, 2011, and to freeze participation with respect to new participants, effective January 2, 2012. The benefits are based on years of service and the employee's compensation. The measurement date used for the defined benefit plan is December 31.

Actuarial gains and losses are generally amortized subject to a corridor, over the average remaining life of the Corporation's active employees.

The following table sets forth the pension benefit obligation, fair value of plan assets, and funded status as of December 31:

	Pension benefits	
	2019	**2018**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 92,599,268	101,343,679
Interest cost	3,655,013	3,386,726
Change in assumptions	10,301,821	(7,665,337)
Actuarial loss	149,500	215,490
Benefit payments	(4,756,672)	(4,681,290)
Benefit obligation at end of year	101,948,930	92,599,268
Change in plan assets:		
Fair value of plan assets at beginning of year	58,323,661	66,760,787
Actual return on plan assets, net of expenses	8,626,179	(3,755,836)
Benefit payments	(4,756,672)	(4,681,290)
Fair value of plan assets at end of year	62,193,168	58,323,661
Funded status	$ (39,755,762)	(34,275,607)

Amounts recognized on the consolidated balance sheets as of December 31 consist of:

	2019	**2018**
Noncurrent liabilities	$ 39,755,762	34,275,607
Net assets without donor restrictions	(43,314,366)	(38,331,220)
Net amount recognized	$ (3,558,604)	(4,055,613)

Amounts recognized in net assets without donor restrictions but not yet included in net periodic benefit costs as of December 31 consist of:

		2019	2018
Net actuarial loss	$	(43,314,366)	(38,331,220)
	$	(43,314,366)	(38,331,220)

Other changes in plan assets and benefit obligations recognized directly in net assets without donor restrictions for the years ended December 31 are as follows:

		2019	2018
Net estimated gain (loss)	$	(4,983,146)	35,565
Total recognized in net assets without donor restrictions	$	(4,983,146)	35,565

The net loss for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $1,439,977.

The following table summarizes the components of net periodic pension costs (benefit) recognized for the years ended December 31:

		2019	2018
Interest cost	$	3,655,013	3,386,726
Expected return on plan assets		(4,374,914)	(4,795,500)
Amortization of net loss		1,216,910	1,137,054
Net periodic pension costs (benefit), non-service component	$	497,009	(271,720)

		2019	2018
Benefit cost (benefit)	$	497,009	(271,720)
Benefits paid		4,756,672	4,681,290

Weighted average assumptions used to determine benefit obligations as of December 31 were as follows:

	2019	2018
Discount rate	3.01%	4.07%

(Continued)

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31 were as follows:

	2019	2018
Discount rate	4.07%	3.43%
Expected long-term rate of return on plan assets	7.90	7.50

The expected long-term rate of return is based on the expected sum of the returns on individual asset categories.

The Corporation's investment policies and strategies for the defined benefit pension plan use target allocations for the individual asset categories. The Corporation's investment goals are to generate returns that are sufficient to meet the plan's obligations while preserving capital. As part of this investment strategy, as of December 31, 2019 and 2018, the Corporation has invested approximately 21% and 22%, respectively, of the pension plan assets into alternative investments, including a special situations master feeder fund (7%), a core property real estate fund (11%), and an energy debt fund (3%), as of December 31, 2019. The Corporation's risk management policies permit investments in mutual funds. The Corporation addresses diversification by the use of private mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are only available to institutional investors and are not traded on a public exchange; however, they can be sold to fund benefit payment obligations as they become payable without restriction.

The Corporation determines the fair value of the mutual funds based on quoted prices from the fund managers as of December 31. While these funds are not traded in active markets, there are no lock-ups or restrictions on redemptions related to mutual funds or the hedge fund of funds. The December 31 unit values reported by the fund managers approximate the exit price of the security.

The Corporation determines the fair value of alternative investments under the equity method of accounting using net asset value (NAV). The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. The Corporation believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. The Corporation's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specific times in accordance with terms of the subscription agreements. The financial statements of all of the Corporation's alternative investments are audited annually.

The fair value of the Corporation's plan assets as of December 31 by asset category are as follows:

	Fair value measurements as of December 31, 2019			
	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset category:				
Cash and short-term investments:				
SEI daily income prime obligation fund	$ 9	9	—	—
Equity funds:				
Large cap disciplined	6,505,168	6,505,168	—	—
Small/mid cap	2,365,459	2,365,459	—	—
World Equity Ex-U.S.	14,837,763	14,837,763	—	—
Extended market index fund	2,361,814	2,361,814	—	—
S&P 500 index fund	6,505,333	6,505,333		
Emerging markets equity fund	1,787,451	1,787,451	—	—
Fixed income funds:				
High yield bond fund	2,390,240	2,390,240	—	—
Limited duration bond fund	4,757,665	4,757,665	—	—
Emerging markets debt fund	2,387,490	2,387,490	—	—
Core fixed income fund	5,354,913	5,354,913	—	—
Plan assets valued at NAV				
Core property collective investment trust	6,734,621			
Special situations collective fund	4,288,554			
Energy debt fund	1,916,688			
Total	$ 62,193,168	49,253,305	—	—

	Fair value measurements as of December 31, 2018			
	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset category:				
Cash and short-term investments:				
SEI daily income prime obligation fund	$ 459	459	—	—
Equity funds:				
Large cap disciplined	8,822,018	8,822,018	—	—
Small/mid cap	3,517,502	3,517,502	—	—
World Equity Ex-U.S.	12,519,234	12,519,234	—	—
Dynamic asset allocation	3,681,088	3,681,088	—	—
Emerging markets equity fund	1,635,444	1,635,444	—	—
Fixed income funds:				
High yield bond fund	2,441,557	2,441,557	—	—
Limited duration bond fund	5,077,989	5,077,989	—	—
Emerging markets debt fund	2,289,309	2,289,309	—	—
Core fixed income fund	5,622,710	5,622,710	—	—
Plan assets valued at NAV				
Core property collective investment trust	6,291,243			
Special situations collective fund	4,119,562			
Energy debt fund	2,305,546			
Total	$ 58,323,661	45,607,310	—	—

Alternative investments measured at net asset value were excluded from the fair value hierarchy as of December 31, 2019 and 2018, as required by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).*

	Plan assets measured at fair value based on net asset value (NAVs) per share as of December 31, 2019			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Core property collective investment trust	$ 6,734,621	—	Daily	1 Day
Special situations collective fund	4,288,554	—	Daily	1 Day
Energy debt fund	1,916,688	—	Daily	1 Day
Total	$ 12,939,863	—		

	Plan assets measured at fair value based on net asset value (NAVs) per share as of December 31, 2018			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Core property collective investment trust	$ 6,291,243	—	Daily	1 Day
Special situations collective fund	4,119,562	—	Daily	1 Day
Energy debt fund	2,305,546	—	Daily	1 Day
Total	$ 12,716,351	—		

The actual asset allocations of the Corporation's plan assets as of December 31 are as follows and approximate the target allocations:

	2019	**2018**
Asset category:		
Equity funds	55%	52%
Fixed income funds	24	26
Alternative investments	21	22
Total	100%	100%

The Corporation does not expect to make any contributions to its pension plan in 2020.

The estimated benefit payments, which reflect expected future service as of December 31, 2019, as appropriate, are as follows:

2020	$ 5,502,640
2021	5,583,479
2022	5,672,199
2023	5,707,893
2024	5,717,886
2025 – 2029	28,077,978

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $464,336 and $447,392 for the years ended December 31, 2019 and 2018, respectively.

(11) Net Assets with Donor Restrictions

Net assets with donor restrictions carry the following time or purpose restrictions as of December 31:

	2019	2018
Subject to expenditure for specified purpose:		
Beneficial interest in trust for senior living residents at Twining campus	$ -	230,959
Promises to give for senior living program activities	5,694	5,922
Promises to give for DCFCM program activities	19,260	4,175
Capital projects for senior living services	580,597	558,474
Capital projects for DCFCM	8,483	13,997
Senior living services program activities	330,839	249,182
DCFCM program activities	402,957	317,724
Employee assistance and wellness	47,260	35,696
Chaplain activities	43,415	27,855
Other	113,314	70,207
	1,551,819	**1,514,191**
Subject to the passage of time:		
Charitable remainder trust	1,307,274	1,118,616
Charitable gift annuities	588,663	695,761
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	21,000	61,650
Life insurance gifts	189,637	190,773
	2,106,574	**2,066,800**

Endowments		
Subject to appropriation and expenditure when a specified event occurs:		
Support of specific SLS programs	516,059	430,972
Support of specific DCFCM programs	599,673	506,486
Promises to give for senior living benevolent care	8,957	6,425
Charitable gift annuities for senior living benevolent care	110,008	93,451
	1,234,697	**1,037,334**
Subject to endowment spending policy and appropriation:		
Senior living benevolent care and program activities	12,939,872	10,848,517
Program activities for a specific senior living campus	4,966,869	4,345,522
DCFCM program activities	2,612,561	2,207,805
Employee tuition assistance	698,123	615,971
Scholarships	1,690,874	1,484,188
As defined by donor	146,087	135,886
	23,054,386	**19,637,889**
Funds held in trust by others		
Subject to appropriation and expenditure when a specified event occurs:		
Staff and resident programs	161,443	144,395
General use	36,165,543	31,857,292
	36,326,986	**32,001,687**
Total net assets with donor restrictions	**$ 64,274,462**	**56,257,901**

The Corporation has interpreted the laws of the Commonwealth of Pennsylvania as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the laws of the Commonwealth of Pennsylvania. In accordance with the laws of the Commonwealth of Pennsylvania, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the laws of the Commonwealth of Pennsylvania require the Corporation to retain as a fund of perpetual duration. No such deficiencies of this nature are reported in net assets without donor restrictions as of December 31, 2019 or 2018. The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets in relation to inflation trends. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity.

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(12) Medical Malpractice Claims Coverage and Self Insurance

The Corporation purchases professional liability and umbrella liability coverage through a carrier, on a claims made basis. Management has evaluated claims incurred but not reported. Based on the Corporation's claims history, management has not recorded a liability for claims incurred but not reported as of December 31, 2019 or 2018. The Corporation believes it has adequate insurance coverage or reserves for all asserted claims and unasserted claims.

The Corporation participates in a self-insured program for its workers' compensation insurance. In the case of catastrophes or other events that would cause excessive workers' compensation claims, the Corporation is reinsured for losses in excess of $600,000 per occurrence as of December 31, 2019 and 2018. Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported and approximated $1,834,000 and $1,624,000 as of December 31, 2019 and 2018, respectively, and are reported within accounts payable and accrued expenses and other long-term liabilities captions on the consolidated balance sheets. In addition, the Corporation maintains a $2,500,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation participates in a self funded plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $530,000 and $360,000 as of December 31, 2019 and 2018, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

(13) Liquidity

As of December 31, 2019, the Corporation had $6,286,793 of cash and cash equivalents and $137,570,037 of unrestricted investments available to meet the cash needs of the Corporation over the next twelve months. Additionally, the Corporation had $46,184,692 of assets limited as to use which consist of endowments, other donor restricted funds, funds held for the Pennsylvania statutory liquid reserve requirement, and debt service funds which are not available for general expenditures. The unrestricted portion of the Corporation's investments are not limited by specific board designations regarding use; however, the Corporation has an investment policy which establishes the goals for the investment portfolio, investment selection guidelines and limitations, and portfolio allocation ranges by investment category. The Corporation has assigned investment policy oversight and governance responsibilities for all investments of the Corporation to the DLF board of directors. The DLF board meets regularly with management and a third-party investment advisor to review investment performance, security selection, and discuss changes in investment strategy. The Corporation places a certain amount of reliance on investment income and dividend distributions from the investment portfolio to support its operating liquidity needs; accordingly, the Corporation periodically transfers such amounts from the investment portfolio to its operating cash. To the extent accumulated income and dividend distributions are in excess of the amount needed for operations, such amounts are redeployed in the investment portfolio in accordance with the investment policy guidelines. Cash balances are monitored regularly by management to ensure appropriate liquidity to cover general expenditures, and the Corporation maintains two lines of credit with M&T as described in Note 7 to manage short-term changes in cash flow.

(14) Functional Expenses

The Corporation's cost of providing program services and supporting activities has been summarized on a functional basis in the tables on the following page. Program service costs include direct costs to provide services in accordance with the defined mission. Supporting activities include fundraising costs and management and other costs to administer and support the program activities. The administrative costs included in the program activities section include marketing, insurance, travel, postage, lease costs and other costs that directly impact the program services. Benefit costs are allocated to the programs and supporting activities based on various factors including salary, benefit elections, and employee count. Other expenses are directly attributable to a specific functional activity. Expenses by functional and natural classification for the years ended December 31 are as follows:

DIAKON
AND CONTROLLED AFFILIATES

Schedules of Functional Expenses

December 31, 2019 and 2018

For the Year ended December 31, 2019

	Program Activities						Supporting Activities			
	Senior Living Services	Diakon Child, Family and Community Ministries	Housing and Urban Development	Statewide Adoption and Permanency Network	Diakon Medical Group	**Programs Subtotal**	Management and General	Fundraising	**Supporting Subtotal**	**Total Expenses**
Salaries, benefits and staff costs	$ 64,480,546	13,012,969	738,456	1,386,164	1,423,605	**81,041,740**	9,461,615	694,939	**10,156,554**	**91,198,294**
Utilities	5,373,212	401,775	466,063	206,994	10,339	**6,458,383**	991,047	5,547	**996,594**	**7,454,977**
Maintenance and repairs	5,182,464	216,240	246,273	229,837	2,499	**5,877,313**	2,495,913	40,168	**2,536,081**	**8,413,394**
Contracted costs	32,674,652	940,742	6,389	65,485,323	5,948	**99,113,054**	2,979,351	51,794	**3,031,145**	**102,144,199**
Program costs	7,100,553	3,475,755	84,589	281,036	1,132	**10,943,065**	36,509	3,220	**39,729**	**10,982,794**
Administrative costs	6,223,573	2,526,546	347,632	1,534,593	114,638	**10,746,982**	1,305,522	222,107	**1,527,629**	**12,274,611**
Management fee	—	—	—	—	—	—	2,037,183	—	**2,037,183**	**2,037,183**
Nursing home assessment	1,823,772	—	—	—	—	**1,823,772**	—	—	—	**1,823,772**
Interest	9,011,038	5,011	564,598	—	1,001	**9,581,648**	311,030	—	**311,030**	**9,892,678**
Depreciation and amortization	16,225,176	438,051	749,660	—	9,528	**17,422,415**	2,059,533	—	**2,059,533**	**19,481,948**
Total Expenses	**$ 148,094,986**	**21,017,089**	**3,203,660**	**69,123,947**	**1,568,690**	**243,008,372**	**21,677,703**	**1,017,775**	**22,695,478**	**265,703,850**

For the Year ended December 31, 2018

	Program Activities						Supporting Activities			
	Senior Living Services	Diakon Child, Family and Community Ministries	Housing and Urban Development	Statewide Adoption and Permanency Network	Diakon Medical Group	**Programs Subtotal**	Management and General	Fundraising	**Supporting Subtotal**	**Total Expenses**
Salaries, benefits and staff costs	$ 62,541,663	11,674,746	739,859	1,324,972	1,006,119	**77,287,359**	9,954,056	696,186	**10,650,242**	**87,937,601**
Utilities	5,658,378	376,097	457,025	189,120	5,944	**6,686,564**	1,072,020	5,280	**1,077,300**	**7,763,864**
Maintenance and repairs	4,241,106	171,904	387,319	262,822	1,628	**5,064,779**	1,648,127	34,378	**1,682,505**	**6,747,284**
Contracted costs	32,803,559	783,821	12,190	61,465,936	10,624	**95,076,130**	2,439,921	51,471	**2,491,392**	**97,567,522**
Program costs	7,098,150	2,899,827	79,884	259,639	72	**10,337,572**	27,602	2,924	**30,526**	**10,368,098**
Administrative costs	5,935,919	2,237,102	300,396	1,476,784	67,836	**10,018,037**	3,033,948	229,038	**3,262,986**	**13,281,023**
Management fee	—	—	—	—	—	—	1,880,251	—	**1,880,251**	**1,880,251**
Nursing home assessment	1,945,692	—	—	—	—	**1,945,692**	—	—	—	**1,945,692**
Interest	8,904,682	—	573,035	—	—	**9,477,717**	277,759	—	**277,759**	**9,755,476**
Depreciation and amortization	16,114,210	337,415	723,432	—	—	**17,175,057**	1,676,035	—	**1,676,035**	**18,851,092**
Total Expenses	**$ 145,243,359**	**18,480,912**	**3,273,140**	**64,979,273**	**1,092,223**	**233,068,907**	**22,009,719**	**1,019,277**	**23,028,996**	**256,097,903**

(15) Commitments and Contingencies

The Corporation has entered into various construction contracts related to campus repositioning activities at certain senior living communities. Contractual commitments as of December 31, 2019, totaled approximately $824,000.

From time to time, the Corporation is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

(16) Subsequent Events

Effective January 1, 2020, the Corporation entered into a risk retention group captive insurance arrangement for general and professional liability coverage.

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world.

The pandemic has significantly impacted both the world and U.S economies. During March 2020 many state and local governments, in addition to the federal government, have reacted to the public health crisis, creating significant uncertainties in the U.S. economy. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In certain geographic regions in which the Corporation operates, temporary closures of businesses have been ordered or suggested and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of travel-related businesses.

This pandemic crisis could diminish the public trust in healthcare corporations, especially hospitals and nursing homes that fail to accurately or timely diagnose, or that are treating (or have treated) patients affected by contagious diseases.

In particular, it is uncertain the extent to which the coronavirus may impact the Corporation. Given that a portion of necessary pharmaceuticals and medical supplies are sourced from China, any actions taken by the Chinese government or other governmental authorities could disrupt the supply of these pharmaceuticals and/or medical supplies and adversely impact the Corporation.

(Continued)

Further, a pandemic might adversely impact the Corporation's business by causing a temporary shutdown or diversion of patients, by disrupting or delaying production and delivery of materials and products in the supply chain or by causing staffing shortages in the Corporation's senior living facilities and other programs.

In addition, although the Corporation has disaster plans in place and operates pursuant to infectious disease protocols, the potential impact of a pandemic, epidemic or outbreak of an infectious disease with respect to the markets or facilities is difficult to predict and could adversely impact the Corporation.

While it is unknown how long these conditions will last and what the complete financial effect will be to the Corporation, the coronavirus outbreak has had a significant effect on the Corporation's 2020 operating results to date. For example, as of March 31, 2020:

- The Corporation's investment portfolio has sustained 13% losses in market value since December 31, 2019.
- Certain of the Corporation's child and family programs have been forced to shut down as required by state government due to social distancing measures, such as the adult day programs, certain youth services programs, certain community senior programs, and school based counseling programs. While efforts are ongoing to secure continued funding for such programs and/or access financial relief through the government or other funding sources, it is unclear at present how much of the revenue gap the Corporation will be able to compensate for, or for how long such closures will last.
- Admission volume from referring acute care hospitals to skilled nursing facilities has declined in the near term, a result of such hospitals postponing or cancelling elective procedures.
- Inquiries from potential prospects for independent living and personal care / assisted living have significantly slowed in recent weeks. The psychological impacts of the pandemic on potential consumers is naturally creating a delay in a decision to move to a retirement community. Such delays could persist for some time after the pandemic.
- Competition for personal protective equipment (PPE) has been fierce. The Corporation has been able to sustain an appropriate inventory of supplies on hand, but has incurred significant premiums on all of its recent PPE orders.

Given the uncertainty regarding the spread of this coronavirus, the potential timeframe of the pandemic, and remaining adverse impacts thereafter, the related financial impact on the Corporation's results of operations, financial position, and liquidity or capital resources cannot be reasonably estimated at this time. Certain economic commitments that the Organization entered into as of December 31, 2019, have become substantially doubtful due to the economic uncertainties of the COVID-19 pandemic. The financial statement effect of those economic uncertainties are not known at this time.

The Corporation has evaluated subsequent events through April 21, 2020, the date the consolidated financial statements were issued, and determined there were no additional subsequent events requiring disclosure or adjustment to the consolidated financial statements.

Schedule 1

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2019

Assets		DLSM Obligated Group	Nonobligated Group: Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Old Main LLC	Other	Elimination entries	Total
Current assets:										
Cash and cash equivalents	$	390,011	270,438	—	365,053	3,752,753	—	1,508,538	—	6,286,793
Assets limited as to use		10,657,227	—	—	—	—	—	—	—	10,657,227
Accounts receivable, net (Note 1)										
Patients and residents		11,374,448	—	—	1,366,133	131,224	—	133,344	—	13,005,149
Statewide Adoption and Permanency Network		—	—	—	—	—	—	5,635,507	—	5,635,507
Other client services		1,358,603	—	—	—	3,335,466	—	39,572	(1,289,920)	3,443,721
Intercompany		6,775,315	141,974	86,190	(3,417,304)	(1,924,233)	(216,981)	(1,444,961)	—	—
Estimated third-party payor settlements		1,777,092	—	—	(22,968)	—	—	3	—	1,754,127
Lease receivable current		1,616,593	—	—	—	—	—	—	(1,616,593)	—
Prepaid expenses and other assets		2,409,145	—	5,470	166,886	41,531	—	118,877	—	2,741,909
Total current assets		36,358,434	412,412	91,660	(1,542,200)	5,336,741	(216,981)	5,990,880	(2,906,513)	43,524,433
Investments		113,011,054	1,126,811	19,667,305	3,526,116	238,751	—	—	—	137,570,037
Assets limited as to use, less current portion:										
Statutory minimum liquid reserves		7,431,584	—	—	—	—	—	—	—	7,431,584
Other		19,140,201	—	3,002,629	220,284	3,417,962	—	2,314,805	—	28,095,881
Investment in joint venture		1,262,163	—	—	—	—	—	—	—	1,262,163
Land, buildings and equipment, net		181,211,981	—	—	—	1,415,289	4,946,311	5,467,150	9,965,760	203,006,491
Finance lease right of use assets, net		1,391,027	—	—	17,400,848	121,819	—	41,235	(17,308,793)	1,646,136
Operating lease right of use assets		2,343,443	—	—	3,469	274,460	—	180,231	—	2,801,603
Other assets:										
Receivables from charitable gift annuities		698,672	—	—	—	—	—	—	—	698,672
Funds held in trust by others and beneficial interest in trust		28,647,318	—	8,986,942	—	—	—	—	—	37,634,260
Lease receivable long term		10,085,273	—	—	—	—	—	—	(10,085,273)	—
Other assets		189,636	—	—	—	—	—	—	—	189,636
Total assets	$	401,770,786	1,539,223	31,748,536	19,608,517	10,805,022	4,729,330	13,994,301	(20,334,819)	463,860,896

Schedule 1

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2019

Liabilities and Net Assets (Deficit)	DLSM Obligated Group	Nonobligated Group: Diakon	Nonobligated Group: Diakon Lutheran Fund	Nonobligated Group: Diakon Lutheran Senior Living Maryland LLC	Nonobligated Group: Diakon Child, Family & Community Ministries	Nonobligated Group: Old Main LLC	Nonobligated Group: Other	Elimination entries	Total
Current liabilities:									
Lines of credit	$ 6,294,158	—	—	—	—	—	—	—	6,294,158
Accounts payable and accrued expenses	14,158,952	84,101	—	302,106	791,432	—	6,867,715	(1,367,058)	20,837,248
Deposits – patients and residents	634,938	968	—	4,000	—	—	120,840	—	760,746
Estimated third-party payor settlements	895,852	—	—	—	—	—	—	—	895,852
Current finance lease liabilities	583,585	—	—	513,645	74,408	—	29,910	(481,864)	719,684
Current operating lease liabilities	410,798	—	—	719	160,911	—	120,955	—	693,383
Current maturities of long-term debt	6,290,000	—	—	—	—	208,743	280,670	—	6,779,413
Total current liabilities	29,268,283	85,069	—	820,470	1,026,751	208,743	7,420,090	(1,848,922)	36,980,484
Pension liability	39,755,762	—	—	—	—	—	—	—	39,755,762
Swap agreement	719,359	—	—	—	—	—	—	—	719,359
Deferred revenue – entrance agreements	64,472,416	—	—	4,711,950	—	—	—	—	69,184,366
Refundable entrance fee liability	26,008,680	—	—	3,083,811	—	—	—	—	29,092,491
Other long-term liabilities	1,308,989	—	—	—	—	—	4,119	—	1,313,108
Long-term finance lease liability	794,800	—	—	19,782,111	45,511	—	11,045	(19,727,791)	905,676
Long-term operating lease liability	2,049,159	—	—	2,750	117,289	—	48,048	—	2,217,246
Future services obligation	1,772,624	—	—	—	—	—	—	—	1,772,624
Long-term debt, less current maturities and debt issuance costs	208,943,134	—	—	—	—	4,791,433	12,314,130	—	226,048,697
Total liabilities	375,093,206	85,069	—	28,401,092	1,189,551	5,000,176	19,797,432	(21,576,713)	407,989,813
Net assets (deficit):									
Without donor restrictions	(22,415,917)	1,454,154	19,690,889	(8,957,640)	6,657,218	(270,846)	(5,803,131)	1,241,894	(8,403,379)
With donor restrictions	49,093,497	—	12,057,647	165,065	2,958,253	—	—	—	64,274,462
Total net assets (deficit)	26,677,580	1,454,154	31,748,536	(8,792,575)	9,615,471	(270,846)	(5,803,131)	1,241,894	55,871,083
Total liabilities and net assets (deficit)	$ 401,770,786	1,539,223	31,748,536	19,608,517	10,805,022	4,729,330	13,994,301	(20,334,819)	463,860,896

See accompanying independent auditor's report.

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Year ended December 31, 2019

		Nonobligated Group								
	DLSM Obligated Group	**Diakon**	**Diakon Lutheran Fund**	**Diakon Lutheran Senior Living Maryland LLC**	**Diakon Child, Family & Community Ministries**	**Old Main LLC**	**Other**	**Subtotal**	**Elimination entries**	**Total**
Operating revenues, gains and other support:										
Patient and resident service revenue, net	$ 129,129,380	—	—	13,689,503	7,244	—	1,177,049	144,003,176	—	144,003,176
Patient and resident service revenue, nursing home assessment	3,830,094	—	—	—	—	—	—	3,830,094	—	3,830,094
Amortization of entrance fees	9,446,242	—	—	843,407	—	—	—	10,289,649	—	10,289,649
Contract revenue	80,321	—	—	—	14,641,541	—	1,758,297	16,480,159	—	16,480,159
Grants from affiliates	1,097,300	—	—	—	20,500	406,660	200,000	1,724,460	(1,724,460)	—
Other fees and services	6,367,708	133,370	—	51,166	9,162,127	30,853	1,533,645	17,278,869	(5,568,304)	11,710,565
Statewide Adoption and Permanency Network revenue	—	—	—	—	—	—	71,854,415	71,854,415	—	71,854,415
Investment income, net of expenses	7,241,066	27,723	680,886	102,832	31,269	—	1,263	8,085,039	(975,021)	7,110,018
Income from trusts	868,513	—	355,383	—	—	—	—	1,223,896	—	1,223,896
Contributions and bequests	1,331,152	—	37,980	280	325,661	—	1,692	1,696,765	—	1,696,765
Net assets released from restrictions – operations	912,374	—	108,889	15,765	326,160	—	—	1,363,188	—	1,363,188
Gain (loss) on disposal of assets	(8,178)	—	—	—	633	—	—	(7,545)	—	(7,545)
Gain on insurance proceeds	291,415	—	—	—	10,675	—	—	302,090	—	302,090
Total operating revenues, gains and other support	160,587,387	161,093	1,183,138	14,702,953	24,525,810	437,513	76,526,361	278,124,255	(8,267,785)	269,856,470
Expenses:										
Salaries and wages	55,209,096	—	—	4,998,207	10,504,282	—	2,627,555	73,339,140	—	73,339,140
Employee benefits	11,601,111	—	—	950,052	2,434,710	—	451,285	15,437,158	—	15,437,158
Other expenses	61,335,066	133,370	1,373,628	7,562,231	10,209,034	62,880	1,521,292	82,197,501	(6,624,317)	75,573,184
Other expenses – Statewide Adoption and Permanency Network	—	—	—	—	—	—	70,824,418	70,824,418	(668,448)	70,155,970
Nursing home assessment	1,823,772	—	—	—	—	—	—	1,823,772	—	1,823,772
Interest	9,116,738	—	—	1,161,844	5,011	201,778	565,599	11,050,970	(1,158,292)	9,892,678
Depreciation and amortization	17,163,997	—	—	818,323	251,902	215,296	759,188	19,208,706	273,242	19,481,948
Total expenses	156,249,780	133,370	1,373,628	15,490,657	23,404,939	479,954	76,749,337	273,881,665	(8,177,815)	265,703,850
Operating income (loss)	4,337,607	27,723	(190,490)	(787,704)	1,120,871	(42,441)	(222,976)	4,242,590	(89,970)	4,152,620
Net periodic pension costs	(376,663)	—	—	(32,512)	(75,502)	—	(12,332)	(497,009)	—	(497,009)
Equity in gains (losses) of joint venture	150,314	(89,950)	—	—	—	—	—	60,364	—	60,364
Unrealized gain on investments	11,318,053	149,216	2,599,344	411,241	37,882	—	—	14,515,736	—	14,515,736
Loss from early extinguishment of debt	(626,216)	—	—	—	—	—	—	(626,216)	—	(626,216)
Loss from future services obligations	(1,772,624)	—	—	—	—	—	—	(1,772,624)	—	(1,772,624)
Impairment of goodwill	(4,572,283)	—	—	—	—	—	—	(4,572,283)	—	(4,572,283)
Impairment of long-lived assets	(20,301,659)	—	—	—	—	—	—	(20,301,659)	—	(20,301,659)
Excess (deficit) of operating revenues, gains and other support over expenses	(11,843,471)	86,989	2,408,854	(408,975)	1,083,251	(42,441)	(235,308)	(8,951,101)	(89,970)	(9,041,071)
Other changes:										
Pension-related changes other than net periodic pension costs	(4,983,146)	—	—	—	—	—	—	(4,983,146)	—	(4,983,146)
Decrease in fair value of swap agreement	(338,642)	—	—	—	—	—	—	(338,642)	—	(338,642)
Unrealized gain on investments	276,822	—	—	—	—	—	—	276,822	—	276,822
Net assets released from restrictions – capital	38,924	—	—	—	243,247	—	—	282,171	—	282,171
Total other changes	(5,006,042)	—	—	—	243,247	—	—	(4,762,795)	—	(4,762,795)
Increase (decrease) in net assets (deficit) without restrictions	(16,849,513)	86,989	2,408,854	(408,975)	1,326,498	(42,441)	(235,308)	(13,713,896)	(89,970)	(13,803,866)

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)

Year ended December 31, 2019

		Nonobligated Group								
	DLSM Obligated Group	**Diakon**	**Diakon Lutheran Fund**	**Diakon Lutheran Senior Living Maryland LLC**	**Diakon Child, Family & Community Ministries**	**Old Main LLC**	**Other**	**Subtotal**	**Elimination entries**	**Total**
Net assets with donor restrictions:										
Contributions and bequests	562,501	—	(1,950)	24,276	581,929	—	—	1,166,756	—	1,166,756
Investment income, net of expenses	630,450	—	98,290	7,348	88,249	—	—	824,337	—	824,337
Unrealized gains on investments	2,411,547	—	387,626	26,906	339,373	—	—	3,165,452	—	3,165,452
Net assets released from restrictions – operations	(912,374)	—	(108,889)	(15,765)	(326,160)	—	—	(1,363,188)	—	(1,363,188)
Net assets released from restrictions – capital	(38,924)	—	—	—	(243,247)	—	—	(282,171)	—	(282,171)
Change in beneficial interest in trust	180,076	—	—	—	—	—	—	180,076	—	180,076
Increase in fair value of funds held in trust by others	3,301,361	—	1,023,938	—	—	—	—	4,325,299	—	4,325,299
Increase in net assets with donor restrictions	6,134,637	—	1,399,015	42,765	440,144	—	—	8,016,561	—	8,016,561
Increase (decrease) in net assets (deficit)	(10,714,876)	86,989	3,807,869	(366,210)	1,766,642	(42,441)	(235,308)	(5,697,335)	(89,970)	(5,787,305)
Net assets (deficit), beginning of year as previously reported	37,508,033	1,367,165	27,940,667	(8,429,169)	7,854,629	(228,405)	(5,586,920)	60,426,000	1,331,864	61,757,864
Cumulative effect of change in accounting principle	(115,577)	—	—	2,804	(5,800)	—	19,097	(99,476)	—	(99,476)
Net assets (deficit), beginning of year as adjusted	37,392,456	1,367,165	27,940,667	(8,426,365)	7,848,829	(228,405)	(5,567,823)	60,326,524	1,331,864	61,658,388
Net assets (deficit), end of year	$ 26,677,580	1,454,154	31,748,536	(8,792,575)	9,615,471	(270,846)	(5,803,131)	54,629,189	1,241,894	55,871,083

See accompanying independent auditor's report.

Schedule 3

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2019

	DLSM Obligated Group	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Old Main LLC	Other	Elimination entries	Total
Cash flows from operating activities:									
Increase (decrease) in net assets (deficit)	$ (10,714,876)	86,989	3,807,869	(366,210)	1,766,642	(42,441)	(235,308)	(89,970)	(5,787,305)
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by operating activities:									
Net realized (gains) losses on investments	(1,864,012)	7,644	75,322	189	3,907	—	—	—	(1,776,950)
Net unrealized gains on investments	(14,006,422)	(149,216)	(2,986,970)	(438,147)	(377,255)	—	—	—	(17,958,010)
Depreciation and amortization	17,163,997	—	—	818,323	251,902	215,296	759,188	273,242	19,481,948
Amortization of debt issuance costs	145,415	—	—	—	—	14,555	34,356	—	194,326
Increase in pension liability	5,480,155	—	—	—	—	—	—	—	5,480,155
Amortization of entrance fees	(9,446,242)	—	—	(843,407)	—	—	—	—	(10,289,649)
Proceeds from entrance fees	9,729,866	—	—	1,874,456	—	—	—	—	11,604,322
Change in funds held in trust by others and beneficial interest in trust	(3,259,060)	—	(1,023,938)	—	—	—	—	—	(4,282,998)
Decrease in fair value if swap agreement	338,642	—	—	—	—	—	—	—	338,642
Equity in (gains) losses of joint ventures	(150,314)	89,950	—	—	—	—	—	—	(60,364)
Loss (gain) on disposal of assets	8,178	—	—	—	(633)	—	—	—	7,545
Loss on early extinguishment of debt	626,216	—	—	—	—	—	—	—	626,216
Loss on future services obligation	1,772,624	—	—	—	—	—	—	—	1,772,624
Impairment of goodwill	4,572,283	—	—	—	—	—	—	—	4,572,283
Impairment of long-lived assets	20,301,659	—	—	—	—	—	—	—	20,301,659
Restricted contributions and investment (income) loss	(280,577)	—	12,549	(15,859)	(344,018)	—	—	—	(627,905)
Variable operating lease payments (refunds)	5,366	—	—	—	(2,572)	—	5,767	—	8,561
Changes in assets and liabilities:									—
Accounts receivable and estimated third-party payor settlements	(1,617,755)	1,205	594,067	379,824	2,085,824	(30,853)	(1,412,703)	645,365	644,974
Prepaid expenses and other current assets	(198,590)	—	(270)	(26,774)	1,160	—	(42,518)	—	(266,992)
Other assets	14,206	—	—	—	—	—	—	—	14,206
Accounts payable, accrued expenses, and other liabilities	(1,499,162)	(4,250)	—	48,035	369,200	—	1,114,278	(643,695)	(615,594)
Deposits – patients and residents	48,386	—	—	(1,000)	—	—	2,908	—	50,294
Net cash provided by operating activities	17,169,983	32,322	478,629	1,429,430	3,754,157	156,557	225,968	184,942	23,431,988
Cash flows from investing activities:									
Purchase of investments and assets limited as to use	(7,098,820)	(33,133)	(1,559,429)	(143,576)	(282,671)	—	—	—	(9,117,629)
Proceeds from sales of investments and assets limited as to use	9,048,604	811	1,152,309	6,466	191,904	—	—	—	10,400,094
Contributions and charitable gift/remainder trusts	90,540	—	—	—	—	—	—	—	90,540
Purchase of property and equipment	(14,097,157)	—	—	—	(425,813)	1	(254,019)	(184,942)	(14,961,930)
Acquisition of leased property and equipment	(39,908)	—	—	(6,243)	(3,276)	—	—	—	(49,427)
Proceeds from finance lease	456,631	—	—	—	—	—	—	(456,631)	—
Net cash (used in) provided by investing activities	(11,640,110)	(32,322)	(407,120)	(143,353)	(519,856)	1	(254,019)	(641,573)	(13,638,352)
Cash flows from financing activities:									
Payment of long-term debt	(7,858,262)	—	—	—	—	(156,558)	(270,011)	—	(8,284,831)
Bond refunding	(35,973,000)	—	—	—	—	—	—	—	(35,973,000)
Proceeds from debt issuance	36,811,881	—	—	—	—	—	—	—	36,811,881
Principal payments under finance lease obligations	(549,897)	—	—	(485,093)	(92,418)	—	(34,024)	456,631	(704,801)
Net proceeds on lines of credit	6,294,158	—	—	—	—	—	—	—	6,294,158
Payment of debt issuance costs	(707,800)	—	—	—	—	—	—	—	(707,800)
Proceeds from restricted contributions and investment income (loss)	280,577	—	(12,549)	15,859	344,018	—	—	—	627,905
Proceeds from entrance fees	1,838,153	—	—	22,401	—	—	—	—	1,860,554
Refunds of entrance fees	(4,527,323)	—	—	(924,294)	—	—	—	—	(5,451,617)
Net cash (used in) provided by financing activities	(4,391,513)	—	(12,549)	(1,371,127)	251,600	(156,558)	(304,035)	456,631	(5,527,551)
Net (decrease) increase in cash, cash equivalents and restricted cash	1,138,360	—	58,960	(85,050)	3,485,901	—	(332,086)	—	4,266,085
Cash, cash equivalents and restricted cash, beginning of year	11,407,023	270,438	107,555	462,271	849,972	—	4,155,429	—	17,252,688
Cash, cash equivalents and restricted cash, end of year	$ 12,545,383	270,438	166,515	377,221	4,335,873	—	3,823,343	—	21,518,773
Reconciliation of cash, cash equivalents and restricted cash									
Amounts included in these lines on the schedule of consolidating information, balance sheet									
Current assets									
Cash and cash equivalents	$ 390,011	270,438	—	365,053	3,752,753	—	1,508,538	—	6,286,793
Assets limited as to use	10,657,227	—	—	—	—	—	—	—	10,657,227
Assets limited to use, less current portion									
Other	1,498,145	—	166,515	12,168	583,120	—	2,314,805	—	4,574,753
Total cash, cash equivalents and restricted cash	$ 12,545,383	270,438	166,515	377,221	4,335,873	—	3,823,343	—	21,518,773

See accompanying independent auditor's report.

Schedule 4

DIAKON
AND CONTROLLED AFFILIATES

Statutory Minimum Liquid Reserves

December 31, 2019

2020 Budgeted Operating Expenses (All Diakon Facilities that offer a continuum of care) (**1**)	$	160,064,693	
Less: depreciation expense		17,103,309	
Expenses subject to minimum liquid reserve requirement		142,961,384	
Percentage (%) of residents subject to residence and care arrangements as of December 31, 2019		46.6%	
Expenses subject to minimum liquid reserve requirement		66,671,693	
Statutory requirement		10.0%	
Statutory minimum liquid reserve requirement	$	6,667,169	(a)
Next 12 months debt service payments:			
Principal and interest payments (1)	$	15,935,242	
Total debt service for next 12 months		15,935,242	
Percentage (%) of residents subject to residence and care arrangements as of December 31, 2019		46.6%	
Statutory minimum liquid reserve requirement	$	7,431,584	(b)
Assets satisfying statutory minimum liquid reserve requirement as of December 31, 2019:			
Cash and cash equivalents	$	390,011	
Investments		120,442,638	
Assets limited as to use		10,657,227	
		131,489,876	
Greater of (a) or (b)		7,431,584	
Assets in excess of statutory minimum liquid reserve requirement	$	124,058,292	

(1) Interest rate for variable rate debt is based on the 2019 average rate. See Note 6 for information regarding debt structure.

See accompanying independent auditor's report.