DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2021 and 2020

(With Independent Auditor's Report Thereon)

DIAKON
AND CONTROLLED AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Diakon and Controlled Affiliates
Middletown, Pennsylvania

Opinion

We have audited the consolidated financial statements of Diakon and Controlled Affiliates (the Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2021 and 2020, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

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

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in schedules 1 through 3 is presented for purposes of additional analyses of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Also, the minimum liquid reserve calculation found in schedule 4 is presented for purposes of additional analysis 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 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.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 25, 2022

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	$ 10,138,935	11,630,504
Investments	2,000,000	—
Assets limited as to use	11,974,509	13,539,777
Accounts receivable, net (Note 1)		
Patients and residents	7,329,091	11,029,432
Statewide Adoption and Permanency Network	5,057,853	4,865,085
Other client services	4,206,633	3,240,270
Estimated third-party payor settlements	687,863	691,299
Prepaid expenses and other assets	3,117,664	2,980,071
Total current assets	44,512,548	47,976,438
Investments	163,369,018	149,079,048
Assets limited as to use, less current portion:		
Statutory minimum liquid reserves	7,062,597	5,935,450
Other	33,852,126	31,162,318
Investment in joint venture	1,329,282	1,137,733
Land, buildings and equipment, net	136,412,692	167,771,989
Assets held for sale	11,226,771	—
Finance lease right-of-use assets, net	837,920	1,087,846
Operating lease right-of-use assets	1,885,325	2,406,528
Other assets:		
Receivables from charitable gift annuities	464,733	536,650
Funds held in trust by others and beneficial interest in trust	43,394,004	40,298,659
Other assets	657,488	454,760
Total assets	$ 445,004,504	447,847,419

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2021 and 2020

Liabilities and Net Assets	**2021**	**2020**
Current liabilities:		
Lines of credit	$ 451,747	—
Accounts payable and accrued expenses	22,185,059	23,868,641
Provider relief, paycheck protection, and other funds	10,715,987	6,665,229
Deposits – patients and residents	451,519	633,062
Estimated third-party payor settlements	1,960,626	4,628,737
Current finance lease liabilities	260,871	452,944
Current operating lease liabilities	720,210	927,885
Current maturities of long-term debt	6,741,392	6,524,525
Total current liabilities	43,487,411	43,701,023
Pension liability	36,784,372	46,661,192
Swap agreement	696,575	1,079,138
Deferred revenue – entrance agreements	53,070,331	59,470,533
Refundable entrance fee liability	18,148,436	24,701,647
Liabilities held for sale	7,235,584	—
Other long-term liabilities	1,355,567	1,625,116
Long-term finance lease liabilities	538,726	625,156
Long-term operating lease liabilities	1,267,253	1,589,461
Long-term debt, less current maturities and debt issuance costs	141,069,460	200,922,228
Total liabilities	303,653,715	380,375,494
Net assets (deficit):		
Without donor restrictions	66,131,538	(2,387,069)
With donor restrictions	75,219,251	69,858,994
Total net assets	141,350,789	67,471,925
Total liabilities and net assets	$ 445,004,504	447,847,419

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2021 and 2020

		2021	2020
Operating revenues, gains and other support:			
Patient and resident service revenue, net	$	115,984,573	133,033,031
Patient and resident service revenue, nursing home assessment		3,517,123	3,838,313
Amortization of entrance fees		8,670,455	10,126,994
Contract revenue		25,837,669	23,968,987
Other fees and services		10,423,161	10,278,325
Statewide Adoption and Permanency Network revenue		72,303,384	71,111,889
Investment income, net of expenses		7,462,464	7,492,203
Income from trusts		1,603,024	1,629,004
Contributions and bequests		546,582	1,133,412
Net assets released from restrictions – operations		1,845,198	1,406,630
Gain on insurance proceeds		5,850	6,328
Total operating revenues, gains and other support		248,199,483	264,025,116
Expenses:			
Salaries and wages		61,415,837	70,368,022
Employee benefits		13,457,344	16,139,475
Other expenses		66,009,255	71,853,495
Other expenses – Statewide Adoption and Permanency Network		70,441,341	69,293,889
Nursing home assessment		883,773	1,766,884
Interest		8,228,149	9,102,640
Depreciation and amortization		17,429,772	18,283,873
Total expenses		237,865,471	256,808,278
Operating income		10,334,012	7,216,838
Net periodic pension benefit (costs), non-service component		55,256	(154,343)
Equity in gains (losses) of joint venture		191,549	(32,430)
Unrealized gains on investments		7,552,182	7,495,966
Gain on disposal of assets		43,978,762	1,041,364
Loss from early extinguishment of debt		(3,846,572)	(2,677,128)
Excess of operating revenues, gains and other support over expenses		58,265,189	12,890,267

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Consolidated Statements of Operations and Changes in Net Assets
Years ended December 31, 2021 and 2020

	2021	2020
Other changes:		
Pension-related changes other than net periodic pension benefit (costs)	9,821,564	(6,751,087)
Increase (decrease) in fair value of swap agreement	382,563	(359,779)
Net assets released from restrictions – capital	49,291	236,909
Total other changes	10,253,418	(6,873,957)
Increase in net assets without donor restrictions	68,518,607	6,016,310
Net assets with donor restrictions:		
Contributions and bequests	897,825	1,255,431
Investment income, net of expenses	1,544,042	1,060,743
Unrealized gains on investments	1,432,608	2,144,535
Net assets released from restrictions – operations	(1,845,198)	(1,406,630)
Net assets released from restrictions – capital	(49,291)	(236,909)
Change in beneficial interest in trust	320,584	109,339
Increase in fair value of funds held in trust by others	3,059,687	2,658,023
Increase in net assets with donor restrictions	5,360,257	5,584,532
Increase in net assets	73,878,864	11,600,842
Net assets, beginning of year	67,471,925	55,871,083
Net assets, end of year	$ 141,350,789	67,471,925

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Increase in net assets	$	73,878,864	11,600,842
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Net realized gains on investments		(221,189)	(899,334)
Net unrealized gains on investments		(8,984,790)	(9,640,501)
Depreciation and amortization		17,429,772	18,283,873
Amortization of debt issuance costs		194,825	194,825
(Decrease) increase in pension liability		(9,876,820)	6,905,430
Amortization of bond premium		(972,034)	(1,059,670)
Amortization of entrance fees		(8,670,455)	(10,126,994)
Proceeds from entrance fees		8,654,441	9,693,945
Change in funds held in trust by others and beneficial interest in trust		(3,095,345)	(2,664,399)
(Decrease) increase in fair value of swap agreement		(382,563)	359,779
Equity in (gains) losses of joint venture		(191,549)	32,430
Gains on disposal of assets		(43,978,762)	(1,041,364)
Loss on early extinguishment of debt		3,846,572	2,677,128
Restricted contributions and investment income		(596,669)	(909,544)
Variable operating lease adjustments		(1,219)	10,508
Change in assets and liabilities:			
Accounts receivable and estimated third-party payor settlements		(123,465)	7,745,303
Prepaid expenses and other current assets		(137,593)	(238,162)
Other assets		(202,728)	(265,124)
Accounts payable, accrued expenses, and other liabilities		829,165	10,394,356
Deposits – patients and residents		(181,543)	(127,684)
Net cash provided by operating activities		27,216,915	40,925,643
Cash flows from investing activities:			
Purchase of investments and assets limited as to use		(26,480,052)	(26,209,077)
Proceeds from sales of investments and assets limited as to use		16,752,381	24,882,132
Contributions and charitable gift/remainder trusts		71,917	162,022
Purchase of property and equipment		(11,029,633)	(14,548,276)
Proceeds from sale of property and equipment		54,513,596	19,446,083
Acquisition of leased property and equipment		(43,778)	(18,181)
Net cash provided by investing activities		33,784,431	3,714,703

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Consolidated Statements of Cash Flows

Years ended December 31, 2021 and 2020

		2021	2020
Cash flows from financing activities:			
Payment of long-term debt		(5,375,322)	(6,779,370)
Bond refunding		(57,329,942)	(20,414,270)
Principal payments under finance lease obligations		(565,636)	(763,819)
Net proceeds (payment) on lines of credit		451,747	(6,294,158)
Proceeds from restricted contributions and investment income		596,669	909,544
Proceeds from entrance fees		1,612,170	1,755,036
Refunds of entrance fees		(2,274,593)	(3,706,514)
Net cash used in financing activities		(62,884,907)	(35,293,551)
Net (decrease) increase in cash, cash equivalents and restricted cash		(1,883,561)	9,346,795
Cash, cash equivalents and restricted cash, beginning of year		30,865,568	21,518,773
Cash, cash equivalents and restricted cash, end of year	$	28,982,007	30,865,568
Reconciliation of Cash, Cash Equivalents and Restricted Cash			
Amounts reported in these lines on the consolidated balance sheets			
Current assets:			
Cash and cash equivalents	$	10,138,935	11,630,504
Assets limited as to use		11,974,509	13,539,777
Assets limited to use, less current portion:			
Other		6,868,563	5,695,287
Total cash, cash equivalents and restricted cash	$	28,982,007	30,865,568
Supplemental schedule of noncash investing and financing activity:			
Increase (decrease) in purchase of property and equipment through accounts payable, accrued expenses, and other liabilities	$	1,268,462	(385,723)
Acquisition of leased property and equipment funded by finance lease borrowings	$	372,457	324,158

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 health care 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, provided medical director and physician services to the Diakon senior living communities. DMG was a disregarded entity of Diakon for federal tax purposes and ceased operations effective June 30, 2021.

Old Main, a Pennsylvania Limited Liability Company, was created 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 are 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. The Corporation has not experienced any losses to date in these accounts.

(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 allowances for 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 health care 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 recognized and to establish an appropriate estimate for price concession allowances.

(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.

(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. In addition, the current portion of assets whose use is limited includes restricted cash associated with the unused Provider Relief Funds (PRFs) that will be used in the next twelve months to offset lost revenue and qualified expenditures associated with the COVID-19 pandemic (Note 16). 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 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 (losses) of joint venture and classified consistent with the characteristics of the joint venture's activities.

(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 recorded at fair value and 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

The Corporation has three asset classes for leases: property, vehicles and equipment, which are classified as operating or financing in accordance with authoritative guidance.

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 and liability are reduced by operating lease payments made less imputed interest. 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 held for sale or disposal are no longer depreciated and are separately presented on the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell. No impairment losses were recognized in 2021 or 2020.

(m) Deferred Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the term of the applicable obligation, which approximates the effective-interest method. Amortization expense was $194,825 in 2021 and 2020. Amortization expense is expected to approximate $195,000 over the next five years.

(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.

(p) Self-Insurance

Accounts payable and accrued expenses and other long-term liabilities include a provision for estimated self-insured workers' compensation, health insurance, and general and professional liability 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, 2021 or 2020.

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

The Corporation determined that the present value of the net costs of future services and use of facilities to be provided to current residents (excluding adjustable periodic fees) exceeds the balance of 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. The Corporation determined that there was no future service obligation liability as of December 31, 2021 or 2020.

(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, 2018, 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.

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, 2020, the Corporation executed an Escrow Agreement with Cumberland County Municipal Authority and Manufacturers and Traders Trust Company, as escrow agent, which provided for the legal defeasance and refunding of a portion of the outstanding Series 2015 Bonds and a portion of the outstanding Series 2016 Bonds (Note 6). This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $2,677,128 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2020.

During the year ended December 31, 2021, the Corporation executed an Escrow Agreement with Cumberland County Municipal Authority and Manufacturers and Traders Trust Company, as escrow agent, which provided for the legal defeasance and refunding of a portion of the outstanding Series 2015 Bonds and a portion of the outstanding Series A 2019 Bonds (Note 6). This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $3,846,572 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2021.

(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 benefit (costs), joint venture equity changes, unrealized gains on investments, gain on disposal of assets, and loss from early extinguishment of debt.

(bb) Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator of operations labeled "Excess of operating revenues, gains and other support over expenses." Changes in net assets without donor restrictions that are excluded from this measure include pension-related changes other than net periodic pension benefit (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 accounting principles generally accepted in the United States of America 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, 2021 and 2020, was $7,062,597 and $5,935,450, 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 15% of net operating expenses, or $1,887,051, as of December 31, 2021, its tenth year of operation, and 13.5% of net operating expenses, or $1,936,373, as of December 31, 2020, its ninth 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.

On January 1, 2023, the operating reserve requirement will change to 25% of net operating expenses. DLSL-MD currently holds sufficient unrestricted cash and investments to meet this requirement.

(ee) Changes in Accounting Principles

The Corporation adopted the following Accounting Standards Updates (ASUs) as of January 1, 2021:

ASU 2020-01: *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815)*

ASU 2020-03: *Codification Improvements to Financial Instruments*

The adoption of these pronouncements 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. The most significant being the reclassification of Paycheck Protection Program (PPP) loans from long-term debt to deferred revenue based on the Corporation's assertion that the PPP loans received should be accounted for as conditional contributions and recognized as a refundable advance until the conditions have been substantially met or explicitly waived.

(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 2021 or 2020.

(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 Corporation only offers a fee-for-service contract to prospective residents, 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. Two DLSM communities had offered lifecare agreements prior, but no longer offer such contracts to prospective residents. As of December 31, 2021, there were 624 outstanding CCRC Agreements at DLSM and DLSL-MD collectively, of which 2 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 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 $36,236,000 and $42,573,000 as of December 31, 2021 and 2020, 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 2021 and 2020 amounted to $1,138,500 and $1,731,750, 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 $1,250,000 and $2,100,000 as of December 31, 2021 and 2020, 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.

(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 $3,111,408 and $3,344,982 for the years ended December 31, 2021 and 2020, 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 contributions of approximately $185,832 and $1,071,000 for the years ended December 31, 2021 and 2020, 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:

	2021	2020
Senior living services revenue, net:		
Private pay	$ 56,783,836	67,535,027
Medicaid	33,212,354	36,285,931
Medicare Part A	12,418,179	13,197,665
Managed care and commercial insurers	9,727,126	11,146,996
Medicare Part B	3,435,409	3,676,143
Total Senior Living Service revenue	115,576,904	131,841,762
Diakon Medical Group	407,669	1,188,122
Diakon Child, Family and Community Ministries	-	3,147
Patient and resident service revenue, net	$ 115,984,573	133,033,031

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

	2021	2020
Nursing care	$ 77,705,779	85,432,791
Personal care/assisted living	19,569,412	25,604,097
Independent living	18,301,713	20,804,874
Other	407,669	1,191,269
	$ 115,984,573	133,033,031

(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. The 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 $3,517,123 and $883,773 for 2021, respectively, and $3,838,313 and $1,766,884 for 2020, 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, family preservation services, 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.

In 2021 and 2020, the Corporation included COVID-19 provider relief funds as a component of contract revenue. Refer to Note 16 for information regarding sources of provider relief funds and amounts recognized as income. The composition of Contract Revenue and Other Fees and Services revenue by major program for the years ended December 31 is as follows:

		12/31/2021	12/31/2020
DCFCM Programs:			
Youth services	$	3,100,748	3,140,129
Permanency services		9,555,215	9,142,158
Family life services		679,667	794,794
Community services for seniors		1,943,145	1,558,091
Other DCFCM		51,500	94,437
DCFCM program services		15,330,275	14,729,609
HUD		1,825,288	1,816,171
DCFCM provider relief and paycheck protection funds		2,690,790	431,098
Diakon Medical Group provider relief and paycheck protection funds		214,995	45,116
DLSM & DLSL-MD provider relief funds		5,769,504	6,936,151
DLSM & DLSL-MD other		6,817	10,842
Total Contract Revenue	**$**	**25,837,669**	**23,968,987**
DCFCM Programs:			
Youth services	$	113,080	48,495
Permanency services		2,221,414	2,174,587
Family life services		5,603,045	4,949,899
Community services for seniors		41,244	22,201
Adult day services		-	468,893
Other DCFCM		65,031	28,369
DCFCM Total		8,043,814	7,692,444
HUD		1,432,001	1,547,866
DLSM & DLSL-MD		803,019	621,760
Diakon Medical Group		1,299	115,155
Other		143,028	301,100
Total Other Fees and Services Revenue	**$**	**10,423,161**	**10,278,325**

(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. 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 work-plan and budget approved by the 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 the 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 the DHS. Revenue recognized by SWAN LLC equals the amounts invoiced to the DHS as historically there have been no implicit or explicit price concessions related to the services rendered by SWAN LLC. The contract periods between the DHS and SWAN LLC begin on July 1st and end on June 30th; therefore, as of December 31, 2021, SWAN LLC has an unsatisfied performance obligation through June 30, 2022, associated with the active contract with the DHS. Contract revenue is 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 2021 or 2020, or the future unsatisfied performance obligation. There were approximately $41,500,000 and $41,000,000 in unsatisfied performance obligations relative to SWAN LLC as of December 31, 2021 and 2020, respectively.

(h) Contract Acquisition Costs

The Corporation has applied the practical expedient provided by the Financial Accounting Standards Board (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:

		2021	2020
Under bond indentures for debt service reserve fund:			
Cash and short-term investments	$	2,065	835
Debt service sinking fund:			
Cash and short-term investments		9,889,976	9,742,954
Endowment funds:			
Cash and short-term investments		1,660,142	1,273,861
Equity funds		9,531,220	9,081,535
Fixed income funds		3,422,900	3,728,284
Donor and other temporarily restricted funds:			
Cash and short-term investments		4,482,495	5,570,361
Equity funds		9,704,423	8,359,518
Fixed income funds		4,121,330	4,087,611
Assets limited to use for HUD reserves:			
Cash and short-term investments		2,599,714	2,436,258
By board for designated purposes:			
Entrance fees and other designated purposes:			
Cash and short-term investments		208,680	211,631
Equity funds		4,246	—
Fixed income funds		199,444	209,247
Statutory minimum liquid reserves:			
Equity funds		4,075,423	3,371,600
Fixed income funds		2,987,174	2,563,850
Total assets limited as to use		52,889,232	50,637,545
Less assets limited as to use – required for current liabilities:			
Other		11,974,509	13,539,777
Assets limited as to use, less current portion	$	40,914,723	37,097,768

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

		2021	2020
Cash and short-term investments	$	11,563,067	17,833,522
Equity funds		92,312,774	77,479,309
Fixed income funds		61,493,177	53,766,217
Investments	$	165,369,018	149,079,048

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

	2021		2020	
Cash and short-term investments	$ 30,406,139	13.9%	$ 37,069,422	18.6%
Equity funds	115,628,086	53.0%	98,291,962	49.2%
Fixed income funds	72,224,025	33.1%	64,355,209	32.2%
	$ 218,258,250	100.0%	$ 199,716,593	100.0%

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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends, net of expenses	$ 7,241,275	1,544,042	8,785,317
Net realized gains on investments	221,189	—	221,189
Investment income, net of expenses	7,462,464	1,544,042	9,006,506
Unrealized gains on investments	7,552,182	—	7,552,182
Changes in unrealized gains on net assets with donor restrictions	—	1,432,608	1,432,608
Total investment return	$ 15,014,646	2,976,650	17,991,296

	2020		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Interest and dividends, net of expenses	$ 6,413,635	1,239,976	7,653,611
Net realized gains (losses) on investments	1,078,568	(179,233)	899,335
Investment income, net of expenses	7,492,203	1,060,743	8,552,946
Unrealized gains on investments	7,495,966	—	7,495,966
Changes in unrealized gains on net assets with donor restrictions	—	2,144,535	2,144,535
Total investment return	$ 14,988,169	3,205,278	18,193,447

(4) Land, Buildings and Equipment

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

	2021	**2020**
Land	$ 7,638,378	8,860,689
Land improvements	20,105,064	22,061,546
Buildings	271,041,370	303,019,051
Furniture and equipment	34,050,641	40,587,622
Vehicles	142,716	142,716
	332,978,169	374,671,624
Accumulated depreciation	(194,708,946)	(210,771,725)
	138,269,223	163,899,899
Construction in progress	9,370,240	3,872,090
Less:		
Assets held for sale	(11,226,771)	—
	$ 136,412,692	167,771,989

Depreciation expense for the years ended December 31, 2021 and 2020, was $16,859,450 and $17,499,562, respectively.

Construction in progress as of December 31, 2021 and 2020, 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 $1,719,000 and $450,000 for the years ended December 31, 2021 and 2020, respectively.

On August 3, 2020, the Corporation sold the Twining Village senior living retirement community located in Holland, Pennsylvania. Cash received at settlement was $19,446,083. The proceeds offset the book value of property sold approximating $32,300,000, the entrance fee liabilities of approximately $11,700,000, the future service obligation liability of approximately $1,800,000, and other miscellaneous amounts that netted to a liability of approximately $395,000. The transaction resulted in a gain on the sale of $1,048,367 which is included in gain on disposal of assets on the consolidated statement of operations and changes in net assets.

On December 1, 2021, the Corporation sold three senior living retirement communities, Frey Village, Middletown, Pennsylvania (PA), Manatawny Manor, Pottstown, PA, and Ohesson Manor, Lewistown, PA. Cash received at settlement was $54,513,596. The proceeds offset the book value of property sold approximating $18,000,000, the entrance fee liabilities approximating $5,000,000, accrued liabilities for land settlements approximating $1,000,000, accrued payroll liabilities of $568,000, and other miscellaneous amounts that netted to a liability of approximately $650,000. The transaction resulted in a gain on the sale of $43,730,616 which is included in gain on disposal of assets on the consolidated statement of operations and changes in net assets.

A fourth community in Hagerstown, Maryland, is subject to the same asset purchase agreement; however, the sale will not close until the completion of a required regulatory process of the Maryland Department of Aging. Management anticipates the closing in the first half of 2022. Until such closing, the Corporation entered into a management agreement with the respective buyer to operate the community effective December 1, 2021. Under the terms of the agreement, the future buyer has discretion over management decisions and takes responsibility for any losses incurred during the period up to closing, or if applicable, retains any profits. The assets and liabilities of the Maryland community are shown on the consolidated balance sheet as assets held for sale of $11,226,771 and liabilities held for sale of $7,235,584 as of December 31, 2021. The change in net assets (deficit) represented by the community was $(1,289,675) in 2021 and $(8,792,575) in 2020.

(5) Leases

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 years ended December 31, 2021 and 2020, the Corporation recognized lease costs associated with the leases as follows:

	2021	2020
Finance lease cost:		
Amortization	$ 570,322	784,311
Interest expense	34,488	58,823
Operating lease cost	927,144	996,948
Short-term lease cost	96,013	54,052
Total lease cost	$ 1,627,967	1,894,134

During the years ended December 31, 2021 and 2020, the Corporation had the following cash and non-cash activities associated with the leases:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for finance leases	$ 34,488	58,823
Operating cash flows for operating leases	$ 934,186	991,970
Financing cash flows for finance leases	$ 565,636	963,819
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 402,345	342,339
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 48,984	142,724
Weighted average remaining lease term for finance leases	3.67	2.75
Weighted average remaining lease term for operating leases	3.04	3.87

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, 2021, was 3.95%.

The future minimum lease payments due under operating and finance leases as of December 31, 2021, is as follows:

	Operating	**Finance**
2022	$ 774,770	287,609
2023	585,330	217,897
2024	540,014	174,929
2025	213,931	106,560
2026	—	73,386
Total lease payments	2,114,045	860,381
Imputed interest	(126,582)	(60,784)
Total lease liability	$ 1,987,463	799,597

(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:

	2021	2020
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%.	$ 16,945,000	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%.	12,880,000	13,640,000
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.	7,001,000	7,495,000
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%.	24,425,000	25,530,000

	2021	2020
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%.	64,395,000	117,295,000
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 2.46% to 3.07% and monthly payments, including interest, ranging from $9,096 to $25,504 through 2051.	12,975,510	13,273,184
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 (2.07% as of December 31, 2021). 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.	4,644,549	4,853,293
	143,266,059	200,271,477
Less current maturities of bonds and mortgages payable	(6,741,392)	(6,524,525)
Unamortized debt issuance costs	(2,702,897)	(3,362,033)
Unamortized premium	7,247,690	10,537,309
	$ 141,069,460	200,922,228

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, Maryland (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 December 1, 2020, the Corporation executed an Escrow Agreement with the Cumberland County Municipal Authority (the Authority) and Manufacturers and Traders Trust Company, as escrow agent, to provide for the legal defeasance and refunding of a portion of the Authority's Series 2016 and Series 2015 Bonds. The Corporation paid $20,414,270 which was deposited in an escrow account to provide funds, together with interest to be earned, to pay the principal and interest on the 2015 Bonds through and including January 1, 2025, and the redemption price of the Refunded 2015 bonds on January 1, 2025, the date selected for redemption of the 2015 bonds, and to pay the interest through and including January 1, 2026, and the redemption price of the Refunded 2016 Bonds on January 1, 2026, the date selected for redemption of the 2016 bonds.

On December 22, 2021, the Corporation executed an Escrow Agreement with the Authority and Manufacturers and Traders Trust Company, as escrow agent, to provide for the legal defeasance and refunding of a portion of the Authority's Series 2019A and Series 2015 Bonds. The Corporation paid $57,329,942 which was deposited in an escrow account to provide funds, together with interest to be earned, to pay the principal and interest on the 2015 Bonds through and including January 1, 2025, and the redemption price of the Refunded 2015 bonds on January 1, 2025, the date selected for redemption of the 2015 bonds, and to pay the interest through and including January 1, 2029, and the redemption price of the Refunded 2019A bonds on January 1, 2029, the date selected for redemption of the 2019A Bonds.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2021:

	Scheduled maturities
2022	$ 6,741,392
2023	5,526,812
2024	5,800,479
2025	6,117,400
2026	6,436,582
Thereafter	112,643,394
	$ 143,266,059

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $9,605,094 and $9,645,863 for the years ended December 31, 2021 and 2020, respectively. There was no capitalized interest in 2021 or 2020.

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

	2021	2020
DLSM Obligated Group	4.16 %	3.98 %
Obligations outside the Obligated Group	3.63	4.07
Combined	4.12	3.99

(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% (2.88% as of December 31, 2021). Amounts ranging from $0 to $3,275,000 were outstanding for various periods during 2021 and 2020. Borrowings outstanding under the line of credit totaled $451,747 and $0 as of December 31, 2021 and 2020, 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 $2,364,000 and $3,364,000 for the years ended December 31, 2021 and 2020, respectively.

In 2014, DCFCM entered into a line of credit with Manufacturers and Traders Trust Company 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% (2.46% as of December 31, 2021). There were no amounts outstanding on the line during 2021 or 2020. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2021 and 2020. 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.

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, 2020, to December 31, 2021, 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 $297,290,821 and $325,718,325 as of December 31, 2021 and 2020, 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, 2021			
	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	$ 30,406,139	—	—	30,406,139
Fixed income funds:				
Short term	22,245,000	—	—	22,245,000
Intermediate term	49,979,025	—	—	49,979,025
Equity funds:				
International	47,614,114	—	—	47,614,114
Large cap	60,557,756	—	—	60,557,756
Small cap	7,456,216	—	—	7,456,216
Funds held in trust by others and beneficial interest in trust	—	—	43,394,004	43,394,004
Total assets	$ 218,258,250	—	43,394,004	261,652,254
Liability:				
Interest rate swap agreement	$ —	696,575	—	696,575

	Fair value measurements as of December 31, 2020			
	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	$ 37,069,422	—	—	37,069,422
Fixed income funds:				
Short term	16,346,223	—	—	16,346,223
Intermediate term	48,008,986	—	—	48,008,986
Equity funds:				
International	40,470,099	—	—	40,470,099
Large cap	51,471,680	—	—	51,471,680
Small cap	6,350,183	—	—	6,350,183
Funds held in trust by others and beneficial interest in trust	—	—	40,298,659	40,298,659
Total	$ 199,716,593	—	40,298,659	240,015,252
Liability:				
Interest rate swap agreement	$ —	1,079,138	—	1,079,138

The changes in funds held in trust by others and beneficial interest in trust measured at fair value as a Level 3 asset is summarized as follows for the years ending December 31:

	2021	2020
Balance, beginning of year	$ 40,298,659	37,634,260
Change in valuation	3,095,345	2,664,399
Balance, end of year	$ 43,394,004	40,298,659

(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.

(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	
	2021	**2020**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 110,035,583	101,948,930
Interest cost	2,365,731	2,989,451
Change in assumptions	(4,532,686)	9,588,046
Actuarial loss	581,686	386,331
Benefit payments	(5,102,878)	(4,877,175)
Benefit obligation at end of year	103,347,436	110,035,583
Change in plan assets:		
Fair value of plan assets at beginning of year	63,374,391	62,193,168
Actual return on plan assets, net of expenses	8,291,551	6,058,398
Benefit payments	(5,102,878)	(4,877,175)
Fair value of plan assets at end of year	66,563,064	63,374,391
Funded status	$ (36,784,372)	(46,661,192)

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

	2021	**2020**
Noncurrent liabilities	$ 36,784,372	46,661,192
Net assets without donor restrictions	(40,243,889)	(50,065,453)
Net amount recognized	$ (3,459,517)	(3,404,261)

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

	2021	**2020**
Net actuarial loss	$ (40,243,889)	(50,065,453)

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:

	2021	**2020**
Net estimated gain (loss), total recognized in net assets without donor restrictions	$ 9,821,564	(6,751,087)

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 $1,424,245.

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

		2021	2020
Interest cost	$	2,365,731	2,989,451
Expected return on plan assets		(4,220,324)	(4,290,202)
Amortization of net loss		1,799,337	1,455,094
Net periodic pension costs (benefit), non-service component	$	(55,256)	154,343

		2021	2020
Benefit cost (benefit)	$	(55,256)	154,343
Benefits paid		5,102,878	4,877,175

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

	2021	2020
Discount rate	2.59%	2.20%

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

	2021	2020
Discount rate	2.20%	3.01%
Expected long-term rate of return on plan assets	7.00	7.25

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, 2021 and 2020, the Corporation has invested approximately 25% and 19%, respectively, of the pension plan assets into alternative investments, including a special situations master feeder fund (6%), a core property real estate fund (10%), an energy debt fund (4%), and a vista collective investment trust (5%) as of December 31, 2021. The Corporation's risk management policies permit investments in such asset classes. 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 alternative investments held as plan assets have their financial statements 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, 2021			
	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:				
Equity funds:				
Large cap disciplined	$ 7,198,386	7,198,386	—	—
Small/mid cap	2,587,161	2,587,161	—	—
World Equity Ex-U.S.	14,130,525	14,130,525	—	—
Extended market index fund	2,484,888	2,484,888	—	—
S&P 500 index fund	9,113,444	9,113,444		
Emerging markets equity fund	1,915,336	1,915,336	—	—
Fixed income funds:				
High yield bond fund	2,604,341	2,604,341	—	—
Emerging markets debt fund	2,524,358	2,524,358	—	—
Core fixed income fund	7,754,024	7,754,024	—	—
Plan assets valued at NAV				
Core property collective investment trust	6,331,631	—	—	—
Special situations collective fund	4,191,903	—	—	—
Energy debt fund	2,571,161			
Vista collective investment trust	3,155,906	—	—	—
Total	$ 66,563,064	50,312,463	—	—

		Fair value measurements as of December 31, 2020		
	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	$ 266	266	—	—
Equity funds:				
Large cap disciplined	6,905,010	6,905,010	—	—
Small/mid cap	2,580,516	2,580,516	—	—
World Equity Ex-U.S.	14,175,979	14,175,979	—	—
Extended market index fund	2,637,487	2,637,487	—	—
S&P 500 index fund	8,798,345	8,798,345	—	—
Emerging markets equity fund	1,944,358	1,944,358	—	—
Fixed income funds:				
High yield bond fund	2,410,767	2,410,767	—	—
Limited duration bond fund	4,504,923	4,504,923	—	—
Emerging markets debt fund	2,439,777	2,439,777	—	—
Core fixed income fund	5,129,215	5,129,215	—	—
Plan assets valued at NAV				
Core property collective investment trust	5,373,688	—	—	—
Special situations collective fund	4,621,669	—	—	—
Energy debt fund	1,852,391	—	—	—
Total	$ 63,374,391	51,526,643	—	—

In accordance with authoritative guidance, alternative investments measured at fair value using the net asset value (NAV) practical expedient have not been classified in the fair value hierarchy as of December 31, 2021 or 2020. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarch to the amounts presented on the consolidated balance sheets.

	Plan assets measured at fair value based on net asset value (NAVs) per share as of December 31, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Core property collective investment trust	$ 6,331,631	—	Daily	1 Day
Special situations collective fund	4,191,903	—	Daily	1 Day
Energy debt fund	2,571,161	—	Daily	1 Day
Vista collective investment trust	3,155,906	—	Daily	1 Day
Total	$ 16,250,601	—		

	Plan assets measured at fair value based on net asset value (NAVs) per share as of December 31, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Core property collective investment trust	$ 5,373,688	—	Daily	1 Day
Special situations collective fund	4,621,669	—	Daily	1 Day
Energy debt fund	1,852,391	—	Daily	1 Day
Total	$ 11,847,748	—		

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

	2021	2020
Asset category:		
Equity funds	56%	58%
Fixed income funds	19	23
Alternative investments	25	19
Total	100%	100%

The Corporation does not expect to make any contributions to its pension plan in 2022.

The estimated benefit payments, which reflect expected future service as of December 31, 2021, as appropriate, are as follows:

2022	$ 5,781,686
2023	5,836,181
2024	5,852,348
2025	5,822,447
2026	5,808,988
2027 – 2031	28,209,096

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $370,795 and $446,214 for the years ended December 31, 2021 and 2020, respectively.

(11) Net Assets with Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose:		
Promises to give for DCFCM program activities	$ 21,760	21,760
Capital projects for senior living services	909,699	667,249
Senior living services program activities	322,144	395,641
DCFCM program activities	306,671	345,029
Employee assistance and wellness	9,813	62,809
Chaplain activities	31,959	24,212
Other	36,559	-
	1,638,605	**1,516,700**
Subject to the passage of time:		
Charitable remainder trust	1,737,196	1,416,612
Charitable gift annuities	370,478	440,646
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	4,778	4,778
Life insurance gifts	189,637	189,637
	2,302,089	**2,051,673**

Endowments		
Subject to appropriation and expenditure when a specified event occurs:		
Support of specific SLS programs	650,672	585,937
Support of specific DCFCM programs	755,094	677,772
Promises to give for senior living benevolent care	2,687	2,687
Charitable gift annuities for senior living benevolent care	94,254	96,003
	1,502,707	**1,362,399**
Subject to endowment spending policy and appropriation:		
Senior living benevolent care and program activities	16,421,442	15,043,778
Program activities for a specific senior living campus	5,738,547	5,391,651
DCFCM program activities	3,023,923	2,838,879
Employee tuition assistance	787,241	761,138
Scholarships	1,992,366	1,860,077
As defined by donor	155,521	150,652
	28,119,040	**26,046,175**
Funds held in trust by others		
Subject to appropriation and expenditure when a specified event occurs:		
Staff and resident programs	190,273	173,721
General use	41,466,537	38,708,326
	41,656,810	**38,882,047**
Total net assets with donor restrictions	**$ 75,219,251**	**69,858,994**

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, 2021 or 2020. 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

On January 1, 2020, the Corporation entered into a risk retention group captive insurance arrangement for general and professional liability coverage on a claims-made basis. Management has evaluated claims incurred but not reported and has recorded a liability for claims incurred but not reported (IBNR) of $500,000 and $120,000 as of December 31, 2021 and 2020, respectively. 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, 2021 and 2020. 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 $2,381,000 and $2,121,000 as of December 31, 2021 and 2020, 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 employee health insurance plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $887,000 and $566,000 as of December 31, 2021 and 2020, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

(13) Liquidity

Financial assets are considered liquid and available when convertible into cash within a year. Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the consolidated balance sheets are comprised of the following as of December 31:

		2021	2020
Cash and cash equivalents	$	10,138,935	11,630,504
Accounts receivable			
Patients and residents		7,329,091	11,029,432
Statewide Adoption and Permanency Network		5,057,853	4,865,085
Other client services		4,206,633	3,240,270
Estimated third-party payor settlements		687,863	691,299
Investments		165,369,018	149,079,048
	$	192,789,393	180,535,638

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. The amount available to be drawn on the lines of credit were $22,548,253 and $23,000,000 for the year ended December 31, 2021 and 2020, respectively.

(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:

For the Year ended December 31, 2021

	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	$ 54,155,348	13,300,744	691,484	1,136,306	598,224	**69,882,106**	8,816,637	240,808	**9,057,445**	**78,939,551**
Utilities	4,407,123	472,235	506,036	233,343	7,594	**5,626,331**	1,059,763	1,649	**1,061,412**	**6,687,743**
Maintenance and repairs	4,922,311	122,778	249,172	329,310	2,591	**5,626,162**	2,076,451	32,542	**2,108,993**	**7,735,155**
Contracted costs	26,873,169	846,319	8,345	66,888,071	3,052	**94,618,956**	2,110,771	7,478	**2,118,249**	**96,737,205**
Program costs	5,109,788	3,973,641	10,995	13,435	-	**9,107,859**	9,990	-	**9,990**	**9,117,849**
Administrative costs	5,369,732	2,090,442	554,624	653,773	48,695	**8,717,266**	1,105,855	35,970	**1,141,825**	**9,859,091**
Management fee	-	-	-	-	-	**-**	2,247,183	-	**2,247,183**	**2,247,183**
Nursing home assessment	883,773	-	-	-	-	**883,773**	-	-	**-**	**883,773**
Interest	5,509,915	5,923	462,144	-	289	**5,978,271**	2,249,878	-	**2,249,878**	**8,228,149**
Depreciation and amortization	14,990,893	281,883	737,677	-	6,804	**16,017,257**	1,412,515	-	**1,412,515**	**17,429,772**
Total Expenses	**$ 122,222,052**	**21,093,965**	**3,220,477**	**69,254,238**	**667,249**	**216,457,981**	**21,089,043**	**318,447**	**21,407,490**	**237,865,471**

For the Year ended December 31, 2020

	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	$ 61,809,446	13,032,214	747,993	1,197,974	1,343,693	**78,131,320**	9,867,300	720,565	**10,587,865**	**88,719,185**
Utilities	5,082,864	446,969	469,265	217,958	10,883	**6,227,939**	1,039,363	6,265	**1,045,628**	**7,273,567**
Maintenance and repairs	4,866,919	150,363	245,184	317,102	10,316	**5,589,884**	1,927,722	29,311	**1,957,033**	**7,546,917**
Contracted costs	29,941,636	739,584	7,664	65,645,547	8,610	**96,343,041**	2,919,640	51,626	**2,971,266**	**99,314,307**
Program costs	8,703,246	3,422,030	75,993	80,037	1,260	**12,282,566**	16,003	612	**16,615**	**12,299,181**
Administrative costs	5,310,143	1,999,773	364,673	739,493	85,899	**8,499,981**	1,678,984	184,800	**1,863,784**	**10,363,765**
Management fee	-	-	-	-	-	**-**	2,137,959	-	**2,137,959**	**2,137,959**
Nursing home assessment	1,766,884	-	-	-	-	**1,766,884**	-	-	**-**	**1,766,884**
Interest	8,444,179	7,595	554,197	-	638	**9,006,609**	96,031	-	**96,031**	**9,102,640**
Depreciation and amortization	14,832,979	475,985	753,933	-	9,528	**16,072,425**	2,211,448	-	**2,211,448**	**18,283,873**
Total Expenses	**$ 140,758,296**	**20,274,513**	**3,218,902**	**68,198,111**	**1,470,827**	**233,920,649**	**21,894,450**	**993,179**	**22,887,629**	**256,808,278**

(15) Commitments and Contingencies

The Corporation has entered into various construction contracts related to campus renovation and/or expansion activities at certain senior living communities. Contractual commitments as of December 31, 2021, totaled approximately $1,120,000.

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) COVID-19 Pandemic

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. Since March 2020, many state and local governments, in addition to the federal government, 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.

As a result of the COVID-19 pandemic, the Corporation has experienced a decline in residents, patients, and revenue which has contributed to decreases in total operating revenue and increases in expenses related to supply chain and other expenditures.

Federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, which included, among other programs, the Paycheck Protection Program (PPP) and the Provider Relief Fund (PRF).

The material government funding received by the Corporation, and the corresponding accounting for the funding, is outlined below:

U.S. Department of Health and Human Services (HHS) Provider Relief Fund: During the years ended December 31, 2021 and 2020, the Corporation received $1,899,553 and $8,315,736, respectively, in funding through the HHS PRF program established by the CARES Act. According to guidance provided by the HHS, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by the HHS, when spending the funds. If the health care provider is unable to justify utilization of the funds through lost revenue or COVID-19 expenses, the funds must be returned to the HHS.

The balance of advanced PRF funds unused to offset lost revenue and qualified expenditures is reported in provider relief, paycheck protection, and other funds on the consolidated balance sheets as of December 31, 2021 and 2020. Based on the Corporation's calculation of lost revenue and COVID-19 expenses, the Corporation has recognized $4,267,798 and $4,519,545 as federal award revenue during the years ended December 31, 2021 and 2020, respectively, which is reported in contract revenue on the consolidated statements of operations and changes in net assets, while $1,427,946 and $3,796,191 are reported within provider relief, paycheck protection, and other funds on the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

Pennsylvania Office of Long-Term Living, Coronavirus Relief Fund Awards: During the year ended December 31, 2020, the Corporation was awarded $2,704,076 in CARES Act funding through the Pennsylvania programs through the Office of Long-Term Living to benefit nursing facilities, licensed personal care homes, and licensed assisted living residences. According to guidance provided by federal and state governments, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by federal and state governments, when spending the funds. If the health care provider is unable to justify utilization of the funds through COVID-19 expenses, the funds must be returned to the Pennsylvania State Treasury. Based on the Corporation's calculation of lost revenue and COVID-19 expenses, the Corporation utilized all of the funding awarded from Pennsylvania, and has recognized $2,704,076 as award revenue during the year ended December 31, 2020, which is reported in contract revenue on the consolidated statement of operations and changes in net assets. During the year ended December 31, 2021, the Corporation received $2,305,315 of funding from the Pennsylvania Office of Long-Term Living under the American Rescue Plan Act. The Corporation recognized $1,501,706 of these funds which is reported in contract revenue on the statement of operations and changes in net assets, while $803,609 is reported within provider relief, paycheck protection, and other funds on the consolidated balance sheet as of December 31, 2021.

Washington County, Maryland, Coronavirus Relief Fund Awards: During the year ended December 31, 2020, the Corporation was awarded $188,744 in CARES Act funding through the Washington County, Maryland program. According to guidance provided by Washington County, these funds may only be used when health care providers incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by federal and state governments, when spending funds. The Corporation has recognized all of the funds received from Maryland as award revenue, reported in contract revenue on the statement of operations and changes in net assets.

Paycheck Protection Program Loan: The Corporation obtained a loan in June 2021 for DLSM in the amount of $8,484,432 and two loans totaling $2,905,785 in April and May 2020 ($2,690,790 for DCFCM and $214,995 for DMG) under the Paycheck Protection Program pursuant to the CARES Act. The Corporation elected to account for the PPP loans as current liabilities in provider relief, paycheck protection, and other funds on the consolidated balance sheets as of December 31, 2021 and 2020. The proceeds from the loans must be spent on qualifying expenses such as covered payroll costs, mortgage interest on real or personal property, rental obligations on real or personal property, and covered utility costs allowed under the CARES Act. The Corporation selected the twenty-four week covered period as allowed under the CARES Act. The Corporation has endeavored to use the loan proceeds in accordance with the terms of the PPP and has fully expended funds on qualifying expenses. The DCFCM and DMG loans were forgiven by the federal Small

Business Administration in June 2021, and the Corporation recognized $2,690,790 in contract revenue on the statement of operations and changes in net assets for the year ended December 31, 2021. The DLSM loan was not forgiven as of December 31, 2021, but was subsequently forgiven on January 21, 2022 (Note 17), and is reported as a liability within provider relief, paycheck protection, and other funds on the consolidated balance sheet as of December 31, 2021.

The Corporation received Medicare Advance Payments (advance payments) totaling $3,181,397 in April 2020 from the CMS in order to alleviate the financial burden health care providers faced in the early stages of combating COVID-19. Mandatory repayment of unreturned advance payments begins one year after the first payment was received by recouping a percent of the Corporation's claims over a seventeen month period. Any unpaid advance payments that remain twenty-nine months after the first payment was received will be subject to interest. In addition, the Corporation received $278,291 and $581,723 of PA Behavioral Health Medicaid advances to help alleviate the financial burden COVID-19 placed on its community service programs. The Medicare and Medicaid advance payments are included in estimated third-party payor settlements as a liability as of December 31, 2021 and 2020, respectively.

(17) Subsequent Events

The Corporation received forgiveness of the PPP loan for DLSM in the amount of $8,484,432 on January 21, 2022.

The Corporation has evaluated subsequent events through April 25, 2022, 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.

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2021

		Nonobligated Group							
Assets	**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**
Current assets:									
Cash and cash equivalents	$ 307,637	270,438	—	1,164,462	6,689,769	—	1,706,629	—	10,138,935
Investments	2,000,000	—	—	—	—	—	—	—	2,000,000
Assets limited as to use	11,863,201	—	—	—	111,308	—	—	—	11,974,509
Accounts receivable, net (Note 1)									
Patients and residents	6,993,236	—	—	333,918	2,643	—	(706)	—	7,329,091
Statewide Adoption and Permanency Network	—	—	—	—	—	—	5,057,853	—	5,057,853
Other client services	908,253	—	—	—	3,946,398	—	1,292	(649,310)	4,206,633
Intercompany	9,402,306	169,029	(159,695)	(5,706,305)	(2,218,854)	(216,544)	(1,269,937)	—	—
Estimated third-party payor settlements	653,132	—	—	34,728	—	—	3	—	687,863
Lease receivable current	1,788,953	—	—	—	—	—	—	(1,788,953)	—
Prepaid expenses and other assets	2,777,200	—	42,121	112,533	40,075	—	145,735	—	3,117,664
Total current assets	36,693,918	439,467	(117,574)	(4,060,664)	8,571,339	(216,544)	5,640,869	(2,438,263)	44,512,548
Investments	131,470,004	1,340,075	23,034,338	4,427,715	3,096,886	—	—	—	163,369,018
Assets limited as to use, less current portion:									
Statutory minimum liquid reserves	7,062,597	—	—	—	—	—	—	—	7,062,597
Other	23,578,853	—	3,522,706	260,460	3,890,393	—	2,599,714	—	33,852,126
Investment in joint venture	1,329,282	—	—	—	—	—	—	—	1,329,282
Land, buildings and equipment, net	116,094,221	—	—	—	1,255,460	4,515,719	4,331,858	10,215,434	136,412,692
Assets held for sale	11,226,771	—	—	—	—	—	—	—	11,226,771
Finance lease right-of-use assets, net	615,745	—	—	17,266,041	127,095	—	95,080	(17,266,041)	837,920
Operating lease right-of-use assets	1,551,065	—	—	2,003	205,703	—	126,554	—	1,885,325
Other assets:									
Receivables from charitable gift annuities	464,733	—	—	—	—	—	—	—	464,733
Funds held in trust by others and beneficial interest in trust	32,784,220	—	10,609,784	—	—	—	—	—	43,394,004
Lease receivable long term	10,979,744	—	—	—	—	—	—	(10,979,744)	—
Other assets	657,488	—	—	—	—	—	—	—	657,488
Total assets	$ 374,508,641	1,779,542	37,049,254	17,895,555	17,146,876	4,299,175	12,794,075	(20,468,614)	445,004,504

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Balance Sheet

December 31, 2021

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	$ 451,747	—	—	—	—	—	—	—	451,747
Accounts payable and accrued expenses	15,277,114	103,643	—	(65,140)	1,102,217	—	6,490,024	(722,799)	22,185,059
Provider relief, paycheck protection, and other funds	10,604,679	—	—	—	111,308	—	—	—	10,715,987
Deposits – patients and residents	327,763	968	—	2,000	—	—	120,788	—	451,519
Estimated third-party payor settlements	1,176,140	—	—	—	724,547	—	59,939	—	1,960,626
Current finance lease liabilities	196,451	—	—	567,165	41,716	—	22,704	(567,165)	260,871
Current operating lease liabilities	461,838	—	—	778	154,421	—	103,173	—	720,210
Current maturities of long-term debt	6,171,000	—	—	—	—	208,744	361,648	—	6,741,392
Total current liabilities	34,666,732	104,611	—	504,803	2,134,209	208,744	7,158,276	(1,289,964)	43,487,411
Pension liability	36,784,372	—	—	—	—	—	—	—	36,784,372
Swap agreement	696,575	—	—	—	—	—	—	—	696,575
Deferred revenue – entrance agreements	53,070,331	—	—	—	—	—	—	—	53,070,331
Refundable entrance fee liability	18,148,436	—	—	—	—	—	—	—	18,148,436
Liabilities held for sale	—	—	—	7,235,584	—	—	—	—	7,235,584
Other long-term liabilities	1,351,448	—	—	—	—	—	4,119	—	1,355,567
Long-term finance lease liabilities	391,933	—	—	20,254,063	82,721	—	64,072	(20,254,063)	538,726
Long-term operating lease liabilities	1,191,226	—	—	1,225	51,548	—	23,254	—	1,267,253
Long-term debt, less current maturities and debt issuance costs	124,942,842	—	—	—	—	4,403,056	11,723,562	—	141,069,460
Total liabilities	271,243,895	104,611	—	27,995,675	2,268,478	4,611,800	18,973,283	(21,544,027)	303,653,715
Net assets (deficit):									
Without donor restrictions	45,776,482	1,674,931	22,857,736	(10,306,700)	11,545,509	(312,625)	(6,179,208)	1,075,413	66,131,538
With donor restrictions	57,488,264	—	14,191,518	206,580	3,332,889	—	—	—	75,219,251
Total net assets (deficit)	103,264,746	1,674,931	37,049,254	(10,100,120)	14,878,398	(312,625)	(6,179,208)	1,075,413	141,350,789
Total liabilities and net assets (deficit)	$ 374,508,641	1,779,542	37,049,254	17,895,555	17,146,876	4,299,175	12,794,075	(20,468,614)	445,004,504

See accompanying independent auditor's report.

DIAKON
AND CONTROLLED AFFILIATES

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

Year ended December 31, 2021

	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	Subtotal	Elimination entries	Total
Operating revenues, gains and other support:										
Patient and resident service revenue, net	$ 104,615,897	—	—	10,961,008	—	—	407,668	115,984,573	—	115,984,573
Patient and resident service revenue, nursing home assessment	3,517,123	—	—	—	—	—	—	3,517,123	—	3,517,123
Amortization of entrance fees	8,152,402	—	—	518,053	—	—	—	8,670,455	—	8,670,455
Contract revenue	5,625,343	—	—	150,978	18,718,404	—	2,040,283	26,535,008	(697,339)	25,837,669
Grants from affiliates	1,069,800	—	—	—	279,379	407,965	—	1,757,144	(1,757,144)	—
Other fees and services	5,911,695	120,359	—	32,337	8,043,814	37,402	1,480,700	15,626,307	(5,203,146)	10,423,161
Statewide Adoption and Permanency Network revenue	—	—	—	—	—	—	72,303,384	72,303,384	—	72,303,384
Investment income, net of expenses	6,935,694	61,679	1,276,037	144,668	58,781	—	294	8,477,153	(1,014,689)	7,462,464
Income from trusts	1,283,702	—	319,322	—	—	—	—	1,603,024	—	1,603,024
Contributions and bequests	375,321	—	17,028	1,512	150,453	—	2,268	546,582	—	546,582
Net assets released from restrictions – operations	1,407,624	—	102,050	26,046	309,478	—	—	1,845,198	—	1,845,198
Gain on insurance proceeds	5,850	—	—	—	—	—	—	5,850	—	5,850
Total operating revenues, gains and other support	138,900,451	182,038	1,714,437	11,834,602	27,560,309	445,367	76,234,597	256,871,801	(8,672,318)	248,199,483
Expenses:										
Salaries and wages	45,019,974	—	—	4,009,225	10,454,203	—	1,932,435	61,415,837	—	61,415,837
Employee benefits	9,559,743	—	—	779,342	2,682,613	—	435,646	13,457,344	—	13,457,344
Other expenses	53,133,144	120,359	1,394,329	6,539,493	9,994,342	65,422	1,641,190	72,888,279	(6,879,024)	66,009,255
Other expenses – Statewide Adoption and Permanency Network	—	—	—	—	—	—	71,219,946	71,219,946	(778,605)	70,441,341
Nursing home assessment	883,773	—	—	—	—	—	—	883,773	—	883,773
Interest	7,573,032	—	—	1,252,278	5,923	185,320	462,434	9,478,987	(1,250,838)	8,228,149
Depreciation and amortization	14,930,779	—	—	885,183	281,883	215,296	744,480	17,057,621	372,151	17,429,772
Total expenses	131,100,445	120,359	1,394,329	13,465,521	23,418,964	466,038	76,436,131	246,401,787	(8,536,316)	237,865,471
Operating income (loss)	7,800,006	61,679	320,108	(1,630,919)	4,141,345	(20,671)	(201,534)	10,470,014	(136,002)	10,334,012
Net periodic pension benefit, non-service component	40,060	—	—	3,627	10,217	—	1,352	55,256	—	55,256
Equity in gains of joint venture	191,549	—	—	—	—	—	—	191,549	—	191,549
Unrealized gains on investments	6,031,194	54,222	1,121,545	326,036	19,185	—	—	7,552,182	—	7,552,182
Gain (loss) on disposal of assets	43,980,783	—	—	(2,021)	—	—	—	43,978,762	—	43,978,762
Loss from early extinguishment of debt	(3,846,572)	—	—	—	—	—	—	(3,846,572)	—	(3,846,572)
Excess (deficit) of operating revenues, gains and other support over expenses	54,197,020	115,901	1,441,653	(1,303,277)	4,170,747	(20,671)	(200,182)	58,401,191	(136,002)	58,265,189
Other changes:										
Pension-related changes other than net periodic pension benefit	9,821,564	—	—	—	—	—	—	9,821,564	—	9,821,564
Increase in fair value of swap agreement	382,563	—	—	—	—	—	—	382,563	—	382,563
Net assets released from restrictions – capital	49,291	—	—	—	—	—	—	49,291	—	49,291
Equity transfer	42,131	—	—	—	—	—	(42,131)	—	—	—
Total other changes	10,295,549	—	—	—	—	—	(42,131)	10,253,418	—	10,253,418
Increase (decrease) in net assets (deficit) without donor restrictions	64,492,569	115,901	1,441,653	(1,303,277)	4,170,747	(20,671)	(242,313)	68,654,609	(136,002)	68,518,607

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

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

Year ended December 31, 2021

	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	Subtotal	Elimination entries	Total
Net assets with donor restrictions:										
Contributions and bequests	738,185	—	600	12,881	146,159	—	—	897,825	—	897,825
Investment income, net of expenses	1,182,234	—	188,139	13,753	159,916	—	—	1,544,042	—	1,544,042
Unrealized gains on investments	1,102,352	—	165,004	13,014	152,238	—	—	1,432,608	—	1,432,608
Net assets released from restrictions – operations	(1,407,624)	—	(102,050)	(26,046)	(309,478)	—	—	(1,845,198)	—	(1,845,198)
Net assets released from restrictions – capital	(49,291)	—	—	—	—	—	—	(49,291)	—	(49,291)
Change in beneficial interest in trust	320,584	—	—	—	—	—	—	320,584	—	320,584
Increase in fair value of funds held in trust by others	2,134,167	—	925,520	—	—	—	—	3,059,687	—	3,059,687
Increase in net assets with donor restrictions	4,020,607	—	1,177,213	13,602	148,835	—	—	5,360,257	—	5,360,257
Increase (decrease) in net assets (deficit)	68,513,176	115,901	2,618,866	(1,289,675)	4,319,582	(20,671)	(242,313)	74,014,866	(136,002)	73,878,864
Net assets (deficit), beginning of year	34,751,570	1,559,030	34,430,388	(8,810,445)	10,558,816	(291,954)	(5,936,895)	66,260,510	1,211,415	67,471,925
Net assets (deficit), end of year	$ 103,264,746	1,674,931	37,049,254	(10,100,120)	14,878,398	(312,625)	(6,179,208)	140,275,376	1,075,413	141,350,789

See accompanying independent auditor's report.

Schedule 3

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2021

	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)	$ 68,513,176	115,901	2,618,866	(1,289,675)	4,319,582	(20,671)	(242,313)	(136,002)	73,878,864
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities:									
Net realized gains on investments	(220,378)	—	—	(99)	(712)	—	—	—	(221,189)
Net unrealized gains on investments	(7,133,546)	(54,222)	(1,286,549)	(339,050)	(171,423)	—	—	—	(8,984,790)
Depreciation and amortization	14,930,779	—	—	885,183	281,883	215,296	744,480	372,151	17,429,772
Amortization of debt issuance costs	145,914	—	—	—	—	14,555	34,356	—	194,825
Decrease in pension liability	(9,876,820)	—	—	—	—	—	—	—	(9,876,820)
Amortization of bond premium	(972,034)	—	—	—	—	—	—	—	(972,034)
Amortization of entrance fees	(8,152,402)	—	—	(518,053)	—	—	—	—	(8,670,455)
Proceeds from entrance fees	8,485,441	—	—	169,000	—	—	—	—	8,654,441
Change in funds held in trust by others and beneficial interest in trust	(2,169,827)	—	(925,518)	—	—	—	—	—	(3,095,345)
Decrease in fair value if swap agreement	(382,563)	—	—	—	—	—	—	—	(382,563)
Equity in gains of joint ventures	(191,549)	—	—	—	—	—	—	—	(191,549)
(Gain) loss on disposal of assets	(43,980,783)	—	—	2,021	—	—	—	—	(43,978,762)
Loss on early extinguishment of debt	3,846,572	—	—	—	—	—	—	—	3,846,572
Restricted contributions and investment (income) loss	(512,795)	—	(86,689)	(588)	3,403	—	—	—	(596,669)
Variable operating lease adjustments	(3,908)	—	—	—	(1,309)	—	3,998	—	(1,219)
Changes in assets and liabilities:									
Accounts receivable and estimated third-party payor settlements	(3,969,292)	19,037	94,905	3,060,118	1,512,022	(437)	(89,916)	(749,902)	(123,465)
Prepaid expenses and other current assets	(143,536)	—	(42,121)	45,263	183	—	2,618	—	(137,593)
Other assets	(202,728)	—	—	—	—	—	—	—	(202,728)
Accounts payable, accrued expenses, and other liabilities	3,048,518	(26,550)	—	(347,822)	(1,947,248)	—	(649,512)	751,779	829,165
Deposits – patients and residents	(184,638)	—	—	—	—	—	3,095	—	(181,543)
Net cash provided by (used in) operating activities	20,873,601	54,166	372,894	1,666,298	3,996,381	208,743	(193,194)	238,026	27,216,915
Cash flows from investing activities:									
Purchase of investments and assets limited as to use	(21,341,019)	(54,882)	(1,841,840)	(171,186)	(2,752,090)	—	(319,035)	—	(26,480,052)
Proceeds from sales of investments and assets limited as to use	14,867,444	716	1,431,197	10,151	123,838	—	319,035	—	16,752,381
Contributions and charitable gift/remainder trusts	71,917	—	—	—	—	—	—	—	71,917
Purchase of property and equipment	(10,583,242)	—	—	—	(70,860)	—	(137,505)	(238,026)	(11,029,633)
Proceeds from sale of property and equipment	54,513,596	—	—	—	—	—	—	—	54,513,596
Acquisition of leased property and equipment	(30,088)	—	—	—	(8,229)	—	(5,461)	—	(43,778)
Proceeds from finance lease	536,238	—	—	—	—	—	—	(536,238)	—
Net cash provided by (used in) investing activities	38,034,846	(54,166)	(410,643)	(161,035)	(2,707,341)	—	(142,966)	(774,264)	33,784,431
Cash flows from financing activities:									
Payment of long-term debt	(4,868,904)	—	—	—	—	(208,743)	(297,675)	—	(5,375,322)
Bond refunding	(57,329,942)	—	—	—	—	—	—	—	(57,329,942)
Principal payments under finance lease obligations	(469,894)	—	—	(556,832)	(55,835)	—	(19,313)	536,238	(565,636)
Net proceeds on lines of credit	451,747	—	—	—	—	—	—	—	451,747
Proceeds from restricted contributions and investment income (loss)	512,795	—	86,689	588	(3,403)	—	—	—	596,669
Proceeds from entrance fees	1,623,070	—	—	(10,900)	—	—	—	—	1,612,170
Refunds of entrance fees	(2,132,743)	—	—	(141,850)	—	—	—	—	(2,274,593)
Net cash (used in) provided by financing activities	(62,213,871)	—	86,689	(708,994)	(59,238)	(208,743)	(316,988)	536,238	(62,884,907)
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,305,424)	—	48,940	796,269	1,229,802	—	(653,148)	—	(1,883,561)
Cash, cash equivalents and restricted cash, beginning of year	18,627,307	270,438	254,009	398,031	6,356,292	—	4,959,491	—	30,865,568
Cash, cash equivalents and restricted cash, end of year	$ 15,321,883	270,438	302,949	1,194,300	7,586,094	—	4,306,343	—	28,982,007
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	$ 307,637	270,438	—	1,164,462	6,689,769	—	1,706,629	—	10,138,935
Assets limited as to use	11,863,201	—	—	—	111,308	—	—	—	11,974,509
Assets limited to use, less current portion:									
Other	3,151,045	—	302,949	29,838	785,017	—	2,599,714	—	6,868,563
Total cash, cash equivalents and restricted cash	$ 15,321,883	270,438	302,949	1,194,300	7,586,094	—	4,306,343	—	28,982,007

See accompanying independent auditor's report.

Schedule 4

DIAKON
AND CONTROLLED AFFILIATES
Statutory Minimum Liquid Reserves
December 31, 2021

2022 Budgeted Operating Expenses (All Diakon Facilities that offer a continuum of care) (**1**)	$	94,195,406	
Less: Depreciation expense		12,319,158	
Expenses subject to minimum liquid reserve requirement		81,876,248	
Perecentage (%) of residents subject to residence and care arrangements as of December 31, 2021		58.9%	
Expenses subject to minimum liquid reserve requirement		48,185,235	
Statutory requirement		10.0%	
Statutory mimimum liquid reserve requirement	$	4,818,524	(a)
Next 12 months debt service payments:			
Principal and interest payments (1)	$	12,000,749	
Perecentage (%) of residents subject to residence and care arrangements as of December 31, 2021		58.9%	
Statutory minimum liquid reserve requirement	$	7,062,597	(b)
Assets satisfying statutory minimum liquid reserve requirement as of December 31, 2021:			
Cash and cash equivalents	$	307,637	
Investments		140,532,601	
Assets limited as to use		9,889,976	
		150,730,214	
Greater of (a) or (b)		7,062,597	
Assets in excess of statutory minimum liquid reserve requirement	$	143,667,617	

See accompanying independent auditor's report.