

DIAKON

2022 ANNUAL REPORT



The Diakon organization has evolved in many ways since its founding as an orphanage more than 150 years ago, but two things have remained constant – a strong commitment to serving people in need and the careful stewardship of the limited resources that are necessary to provide those services.

I feel so fortunate to be part of an organization that has the capacity to extend services to thousands of people in need every year, and I take seriously the responsibility to manage our inherently limited resources in a manner that maximizes our impact on the communities in which we serve.



Scott D. Habecker

It is through responsible stewardship that we preserve the organization’s ability to have a greater impact far into the future. It also allows us to “weather the storm” when business conditions are not as favorable as we might prefer.

In 2022, we saw the continued negative impacts of the pandemic, investment markets that deteriorated significantly, and labor availability challenges as severe as any of us have experienced. However, our commitment to responsible stewardship of resources may be best illustrated during these challenging times, as our strong financial foundation allowed us to continue offering certain services that a weaker organization may have found impossible to support. At the same time, we were able to once again offer more than \$2 million of benevolent care to senior living residents who had outlived their own financial resources.

During the past 12 months, our financial strength was utilized to help raise additional funding at favorable interest rates in order to expand our services at our Luther Crest retirement community in Allentown, PA. We also continued to invest heavily to enhance our mental health services, which experienced a 20% volume increase year over year. And across the entire organization, we invested millions of additional dollars in personnel, the backbone of everything we do at Diakon.

I acknowledge that balancing the provision of high-quality services with responsible financial management is not an easy task for our team. However, we remain committed to ensuring that quality and financial soundness are not mutually exclusive. With that in mind, I invite you to review the enclosed financial reports and service summary related to our organization, and I hope you find them informative.

I thank everyone who has played a role in providing care to the many people who benefit from our services and help us maintain the strong financial foundation necessary to grow those services.

A handwritten signature in black ink that reads "Scott D. Habecker". The signature is written in a cursive style.

Scott D. Habecker, CPA
President/CEO

STATEMENT OF FINANCIAL POSITION

Consolidated Balance Sheets

December 31	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,261,958	\$ 10,138,935
Investments	—	2,000,000
Assets limited as to use	11,065,998	11,974,509
Accounts receivable, net		
Patients and residents	7,069,824	7,329,091
Statewide Adoption & Permanency Network	12,126,420	5,057,853
Other client services	4,354,057	4,206,633
Estimated third-party payor settlements	439,044	687,863
Prepaid expenses and other assets	3,214,714	3,117,664
Total current assets	47,532,015	44,512,548
Investments	139,481,360	163,369,018
Assets limited as to use, net of current portion:		
Statutory minimum liquid reserves	5,523,908	7,062,597
Other	48,161,348	33,852,126
Investment in joint venture	1,417,665	1,329,282
Land, buildings and equipment, net	137,005,902	136,412,692
Assets held for sale	—	11,226,771
Finance lease right of use assets, net	715,908	837,920
Operating lease right of use assets	1,894,303	1,885,325
Other assets:		
Receivables from charitable gift annuities	270,085	464,733
Funds held in trust by others and beneficial interest in trust	34,516,826	43,394,004
Swap agreement	70,410	—
Other assets	850,119	657,488
Total assets	417,439,849	445,004,504

Consolidated Balance Sheets *continued*

December 31

2022

2021

Liabilities and Net Assets

Current liabilities:

Line of credit	\$ —	\$ 451,747
Accounts payable and accrued expenses	25,028,276	22,185,059
Provider relief fund and other	2,754,558	10,715,987
Deposits – patients and residents	404,918	451,519
Estimated third-party payor settlements	498,247	1,960,626
Current finance lease liabilities	231,939	260,871
Current operating lease liabilities	808,404	720,210
Current maturities of long-term debt	4,611,812	6,741,392
Total current liabilities	34,338,154	43,487,411
Pension liability	24,796,630	36,784,372
Swap agreement	—	696,575
Deferred revenue – entrance agreements	57,255,785	53,070,331
Refundable entrance fee liability	17,395,567	18,148,436
Liabilities held for sale	—	7,235,584
Other long-term liabilities	1,345,801	1,355,567
Long-term finance lease liabilities	459,010	538,726
Long-term operating lease liabilities	1,168,819	1,267,253
Long-term debt, less current maturities and debt issuance costs	139,230,106	141,069,460
Total liabilities	275,989,872	303,653,715
Net assets:		
Without donor restrictions	80,695,238	66,131,538
With donor restrictions	60,754,739	75,219,251
Total net assets	141,449,977	141,350,789
Total liabilities and net assets	417,439,849	445,004,504

Consolidated Statements of Operations and Changes in Net Assets

For the years ended December 31	2022	2021
Operating revenues, gains and other support:		
Patient and resident service revenue, net	\$ 71,972,353	\$ 115,984,573
Patient and resident service revenue –		
nursing home assessment	1,940,000	3,517,123
Amortization of entrance fees	8,178,596	8,670,455
Contract revenue	27,572,650	25,837,669
Other fees and services	12,352,535	10,423,161
Statewide Adoption & Permanency Network revenue	73,899,267	72,303,384
Investment income, net of expenses	3,851,631	7,462,464
Income from trusts	1,733,526	1,603,024
Contributions and bequests	1,402,387	546,582
Net assets released from restrictions – operations	1,491,964	1,845,198
Gain on disposal of assets	20,377,943	43,978,762
Gain on insurance proceeds	18,188	5,850
Total operating revenues, gains and other support	<u>224,791,040</u>	<u>248,199,483</u>
Expenses:		
Salaries and wages	39,178,365	61,415,837
Employee benefits	9,608,207	13,457,344
Other expenses	55,283,425	66,009,255
Other expenses – Statewide Adoption & Permanency Network	71,946,498	70,441,341
Nursing home assessment	703,364	883,773
Interest	5,355,723	8,228,149
Depreciation and amortization	13,968,853	17,429,772
Total expenses	<u>196,044,435</u>	<u>237,865,471</u>
Operating income	<u>28,746,605</u>	<u>54,312,774</u>

*Comparative results shown above are impacted by the divestiture of four senior living communities on December 1, 2021.

Consolidated Statements of Operations and Changes in Net Assets *continued*

For the years ended December 31	2022	2021
Net periodic pension benefit, non-service component	\$ 403,647	\$ 55,256
Equity in gains of joint venture	88,383	191,549
Unrealized gains on investments	(26,532,535)	7,552,182
Loss from early extinguishment of debt	<u>(865,823)</u>	<u>(3,846,572)</u>
Total non-operating income (loss)	(26,906,328)	3,952,415
Excess of operating revenues, gains and other support over expenses	<u>1,840,277</u>	<u>58,265,189</u>
Other changes:		
Pension-related changes other than net periodic pension costs	11,584,094	9,821,564
Increase in fair value of swap agreement	766,985	382,563
Net assets released from restrictions – capital	372,344	49,291
Total other changes	<u>12,723,423</u>	<u>10,253,418</u>
Increase in net assets without donor restrictions	<u>14,563,700</u>	<u>68,518,607</u>
Net assets with donor restrictions:		
Contributions and bequests	442,550	897,825
Investment income, net of expenses	631,042	1,544,042
Unrealized gains (losses) on investments	(4,803,858)	1,432,608
Net assets released from restrictions – operations	(1,491,964)	(1,845,198)
Net assets released from restrictions – capital	(372,344)	(49,291)
Change in beneficial interest in trust	(397,779)	320,584
Increase (decrease) in fair value of funds held in trust by others	<u>(8,472,159)</u>	<u>3,059,687</u>
Increase (decrease) in net assets with donor restrictions	<u>(14,464,512)</u>	<u>5,360,257</u>
Increase in net assets	<u>99,188</u>	<u>73,878,864</u>
Net assets, beginning of year	<u>141,350,789</u>	<u>67,471,925</u>
Net assets, end of year	<u>141,449,977</u>	<u>141,350,789</u>

Consolidated Statements of Cash Flows

For the years ended December 31	2022	2021
Cash flows from operating activities:		
Increase in net assets	\$ 99,188	\$ 73,878,864
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gains on investments	(1,344)	(221,189)
Net unrealized gains losses on investments	31,336,393	(8,984,790)
Depreciation and amortization	13,968,853	17,429,772
Amortization of debt issuance costs	195,475	194,825
Decrease in pension liability	(11,987,742)	(9,876,820)
Amortization of bond premium	(712,585)	(972,034)
Amortization of entrance fees	(8,178,596)	(8,670,455)
Proceeds from entrance fees	14,465,289	8,654,441
Change in funds held in trust by others and beneficial interest in trust	8,869,938	(3,095,345)
Increase (decrease) in fair value of swap agreement	(766,985)	(382,563)
Equity in (gains) losses of joint venture	(88,383)	(191,549)
Gain on disposal of assets	(20,377,943)	(43,978,762)
Loss on early extinguishment of debt	865,823	3,846,572
Variable lease adjustments	(6,996)	(36,317)
Change in assets and liabilities:		
Accounts receivable and estimated third-party payor settlements	(8,170,284)	(123,465)
Prepaid expenses and other current assets	(178,854)	(137,593)
Operating lease right-of-use assets	(8,978)	521,203
Other assets	192,631	(202,728)
Accounts payable, accrued expenses and other liabilities	(5,127,978)	829,165
Deposits – patients and residents	(67,305)	(181,543)
Operating lease liabilities	(10,240)	(529,883)
Net cash provided by operating activities	13,924,115	27,216,915

Consolidated Statements of Cash Flows *continued*

For the years ended December 31	2022	2021
Cash flows from investing activities:		
Purchase of investments and assets limited as to use	\$ (26,319,382)	\$ (26,480,052)
Proceeds from sales of investments and assets limited as to use	27,259,128	16,752,381
Contributions and charitable gift/remainder trusts	201,888	71,917
Purchase of property and equipment	(14,221,626)	(11,029,633)
Proceeds from sale of property and equipment	<u>24,425,260</u>	<u>54,513,596</u>
Net cash provided by investing activities	<u>11,345,268</u>	<u>33,784,431</u>
Cash flows from financing activities:		
Payment of long-term debt	(6,741,391)	(5,375,322)
Proceeds from issuance of long-term debt	27,014,532	—
Payment of deferred debt issuance costs	(753,598)	—
Bond refunding	(23,837,190)	(57,329,942)
Principal payments under finance lease obligations	(273,699)	(565,636)
Net proceeds (payment) on lines of credit	(451,747)	451,747
Proceeds from restricted contributions and investment income	596,669	—
Proceeds from entrance fees	1,716,175	1,612,170
Refunds of entrance fees	<u>(4,570,283)</u>	<u>(2,274,593)</u>
Net cash used in financing activities	<u>(7,897,201)</u>	<u>(63,481,576)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	17,372,182	(1,883,561)
Cash, cash equivalents and restricted cash, beginning of year	<u>28,982,007</u>	<u>30,865,568</u>
Cash, cash equivalents and restricted cash, end of year	<u><u>46,354,189</u></u>	<u><u>28,982,007</u></u>

2022 Number of People Served

Community-Based Services for Older Persons	
<ul style="list-style-type: none"> Community-Based Services <i>PA MEDI, Meals on Wheels, Living and Learning, Pa. Health & Wellness, senior centers, Americorps/RSVP</i> 	16,393 persons served
Diakon Adoption & Foster Care	
<ul style="list-style-type: none"> Mechanicsburg, Topton and York offices 	4,460 persons served
<ul style="list-style-type: none"> Diakon Pregnancy Services 	6 children/families served
<ul style="list-style-type: none"> SWAN (Pa. Statewide Adoption & Permanency Network, administered by Diakon) 	47,155 children/families served
Diakon Family Life Services	
<ul style="list-style-type: none"> Capital Region 	1,125 persons served
<ul style="list-style-type: none"> Upper Susquehanna 	3,222 persons served
Diakon Family Preservation & Reunification Services	786 children/families served
Girls on the Run – Lehigh Valley	3,751 persons served
Diakon Housing (Rental-Assistance Communities)	
<ul style="list-style-type: none"> Frostburg Heights 	134 persons served
<ul style="list-style-type: none"> Luther Meadows & Heilman House (LH at Topton) 	124 persons served
<ul style="list-style-type: none"> Lutherwood Apartments 	148 persons served
Diakon Senior Living Communities	
<ul style="list-style-type: none"> Buffalo Valley Lutheran Village 	770 persons served
<ul style="list-style-type: none"> Cumberland Crossings 	463 persons served
<ul style="list-style-type: none"> Luther Crest 	750 persons served
<ul style="list-style-type: none"> The Lutheran Home at Topton 	727 persons served
Diakon Youth Services	
<ul style="list-style-type: none"> <i>Weekend Alternative Program, Center Point Day, Flight, Group Services, Regional Programs (Bridge, Turning Point)</i> 	1091 persons served
Total Served in 2022	81,105

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2023 SERVICE LISTING

DIAKON CHILD, FAMILY & COMMUNITY MINISTRIES

DIAKON ADOPTION & FOSTER CARE

Mechanicsburg, Topton and York, PA

DIAKON COMMUNITY SERVICES

Pottsville, PA

DIAKON FAMILY LIFE SERVICES

Mechanicsburg, Lewisburg, Williamsport and Montoursville, PA

DIAKON FAMILY REUNIFICATION & PRESERVATION SERVICES

Jamison, Norwood, Lebanon and Allentown, PA

DIAKON YOUTH SERVICES

Boiling Springs, Chester, Lancaster and York, PA

DIAKON LUTHERAN SOCIAL MINISTRIES (Senior Living & Housing Services)

BUFFALO VALLEY LUTHERAN VILLAGE

Lewisburg, PA

CUMBERLAND CROSSINGS

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LUTHER CREST

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THE LUTHERAN HOME AT TOPTON

Topton, PA

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