Diakon and Controlled Affiliates

Consolidated Financial Statements
and Supplementary Information

December 31, 2023 and 2022

Independent Auditors' Report

To the Board of Directors of
Diakon and Controlled Affiliates

Report on the Audit of Consolidated Financial Statements

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, 2023 and 2022, 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, 2023 and 2022, 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) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit 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.

Auditors' 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 auditors' 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 and minimum liquid reserve calculation found on pages 44 through 50 are presented for purposes of additional analysis 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 are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2024 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 24, 2024

Diakon and Controlled Affiliates

Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 22,239,356	$ 9,261,958
Assets limited as to use	6,440,747	11,065,998
Accounts receivable, net:		
Patients and residents	7,006,753	7,069,824
Statewide adoption and permanency network	5,502,851	12,126,420
Other client services	4,275,238	4,354,057
Estimated third-party payor settlements	47,419	439,044
Prepaid expenses and other assets	2,999,360	3,214,714
Total current assets	48,511,724	47,532,015
Investments	151,401,356	139,481,360
Assets limited as to use, less current portion:		
Statutory minimum liquid reserves	5,551,202	5,523,908
Other	32,909,468	48,161,348
Investment in joint venture	1,417,665	1,417,665
Land, buildings and equipment, net	166,839,296	137,005,902
Finance lease right-of-use assets, net	1,813,377	715,908
Operating lease right-of-use assets	1,861,596	1,894,303
Other assets:		
Receivables from charitable gift annuities	136,494	270,085
Funds held in trust by others and beneficial interest in trust	37,532,794	34,516,826
Swap agreement	42,566	70,410
Other assets	1,024,865	850,119
Total assets	$ 449,042,403	$ 417,439,849

See notes to consolidated financial statements

	2023	2022
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 35,196,326	$ 25,028,276
Provider relief and other funds	1,189,155	2,754,558
Deposits, patients and residents	369,303	404,918
Estimated third-party payor settlements	518,125	498,247
Current finance lease liabilities	427,322	231,939
Current operating lease liabilities	806,992	808,404
Current maturities of long-term debt	4,805,479	4,611,812
Total current liabilities	43,312,702	34,338,154
Pension liability	24,420,445	24,796,630
Deferred revenue, entrance fee agreements	57,970,780	57,255,785
Refundable entrance fee liability	16,849,115	17,395,567
Other long-term liabilities	1,123,786	1,345,801
Long-term finance lease liabilities	1,339,745	459,010
Long-term operating lease liabilities	1,090,404	1,168,819
Long-term debt, less current maturities and debt issuance costs	135,462,979	139,230,106
Total liabilities	281,569,956	275,989,872
Net assets:		
Without donor restrictions	99,783,402	80,695,238
With donor restrictions	67,689,045	60,754,739
Total net assets	167,472,447	141,449,977
Total liabilities and net assets	$ 449,042,403	$ 417,439,849

See notes to consolidated financial statements

Diakon and Controlled Affiliates

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2023 and 2022

	2023	2022
Operating revenues, gains and other support:		
Patient and resident service revenue, net	$ 79,146,972	$ 73,912,353
Amortization of entrance fees	8,621,002	8,178,596
Contract revenue	18,164,393	27,572,650
Other fees and services	11,773,589	12,352,535
Statewide Adoption and Permanency Network revenue	74,898,114	73,899,267
Investment income, net of expenses	6,684,807	3,851,631
Income from trusts	1,582,522	1,733,526
Contributions and bequests	355,034	1,402,387
Net assets released from restrictions, operations	1,483,903	1,491,964
Gain on disposal of assets	685	20,377,943
Gain on insurance proceeds	4,360	18,188
Total operating revenues, gains and other support	202,715,381	224,791,040
Expenses:		
Salaries and wages	37,069,049	39,178,365
Employee benefits	9,382,032	9,608,207
Other expenses	57,649,997	55,283,425
Other expenses, Statewide Adoption and Permanency Network	73,822,477	71,946,498
Nursing home assessment	1,046,484	703,364
Interest	4,681,498	5,355,723
Depreciation and amortization	13,935,929	13,968,853
Total expenses	197,587,466	196,044,435
Operating income	5,127,915	28,746,605
Nonoperating income (loss):		
Net periodic pension (cost) benefit, nonservice component	(1,171,731)	403,647
Equity gains in joint venture	-	88,383
Unrealized gains (losses) on investments	13,553,625	(26,532,535)
Loss from early extinguishment of debt	-	(865,823)
Total nonoperating income (loss)	12,381,894	(26,906,328)
Excess of operating revenues, gains and other support over expenses	17,509,809	1,840,277

See notes to consolidated financial statements

Diakon and Controlled Affiliated

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2023 and 2022

	2023	2022
Other changes:		
Pension-related changes other than net periodic pension (cost) benefit	$ 1,547,916	$ 11,584,094
(Decrease) increase in fair value of swap agreement	(27,844)	766,985
Net assets released from restrictions, capital	58,283	372,344
Total other changes	1,578,355	12,723,423
Increase in net assets without donor restrictions	19,088,164	14,563,700
Net assets with donor restrictions:		
Contributions and bequests	1,616,563	442,550
Investment income, net of expenses	757,794	631,042
Unrealized gains (losses) on investments	2,975,380	(4,803,858)
Net assets released from restrictions, operations	(1,483,903)	(1,491,964)
Net assets released from restrictions, capital	(58,283)	(372,344)
Change in beneficial interest in trust	249,312	(397,779)
Increase (decrease) in fair value of funds held in trust by others	2,877,443	(8,472,159)
Increase (decrease) in net assets with donor restrictions	6,934,306	(14,464,512)
Increase in net assets	26,022,470	99,188
Net assets, beginning	141,449,977	141,350,789
Net assets, ending	$ 167,472,447	$ 141,449,977

See notes to consolidated financial statements

Diakon and Controlled Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Increase in net assets	$ 26,022,470	$ 99,188
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized gains on investments	(1,230,704)	(1,344)
Net unrealized (gains) losses on investments	(16,529,005)	31,336,393
Depreciation and amortization	13,935,929	13,968,853
Amortization of debt issuance costs	219,169	195,475
Decrease in pension liability	(376,185)	(11,987,742)
Amortization of bond premium	(541,405)	(712,585)
Amortization of entrance fees	(8,621,002)	(8,178,596)
Proceeds from entrance fees	11,560,919	14,465,289
Change in funds held in trust by others and beneficial interest in trust	(3,015,968)	8,869,938
Loss (gain) on fair value of swap agreement	27,844	(766,985)
Equity in gains of joint venture	-	(88,383)
Gains on disposal of assets	(685)	(20,377,943)
Loss from early extinguishment of debt	-	865,823
Variable lease adjustments	(45,587)	(6,996)
Change in assets and liabilities:		
Accounts receivable and estimated third-party payor settlements	7,176,962	(8,170,284)
Prepaid expenses and other current assets	215,354	(178,854)
Operating lease right-of-use assets	32,707	(8,978)
Other assets	(174,746)	(192,631)
Accounts payable, accrued expenses, and other liabilities	2,473,853	(5,127,978)
Deposits, patients and residents	(35,615)	(67,305)
Operating lease liabilities	(79,827)	(10,240)
Net cash provided by operating activities	31,014,478	13,924,115
Cash flows from investing activities:		
Purchases of investments and assets limited as to use	(10,700,618)	(26,319,382)
Proceeds from sales of investments and assets limited as to use	11,304,837	27,259,128
Contributions and charitable gift/remainder trusts	133,591	201,888
Purchase of property and equipment	(37,568,024)	(14,221,626)
Proceeds from sale of property and equipment	-	24,425,260
Net cash (used in) provided by investing activities	(36,830,214)	11,345,268
Cash flows from financing activities:		
Payment of long-term debt	(4,611,813)	(6,741,391)
Proceeds from issuance of long-term debt	1,360,589	27,014,532
Payment of deferred debt issuance costs	-	(753,598)
Bond refunding	-	(23,837,190)
Principal payments under finance lease obligations	(269,599)	(273,699)
Net payments on lines of credit	-	(451,747)
Proceeds from entrance fees	119,867	1,716,175
Refunds of entrance fees	(2,891,241)	(4,570,283)
Net cash used in financing activities	(6,292,197)	(7,897,201)
Net (decrease) increase in cash, cash equivalents and restricted cash	(12,107,933)	17,372,182
Cash, cash equivalents and restricted cash, beginning	46,354,189	28,982,007
Cash, cash equivalents and restricted cash, ending	$ 34,246,256	$ 46,354,189

See notes to consolidated financial statements

	2023	2022
Reconciliation of cash, cash equivalents and restricted cash amounts reported in these lines on the consolidated balance sheets:		
Current assets:		
Cash and cash equivalents	$ 22,239,356	$ 9,261,958
Assets limited as to use	6,440,747	11,065,998
Assets limited to use, less current portion:		
Other	5,566,153	26,026,233
Total cash, cash equivalents and restricted cash	$ 34,246,256	$ 46,354,189

See 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, LLC (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 (the HUD Entities). 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.

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 (the 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, was the operating entity for a retirement living community in Maryland. DLSL-MD is a disregarded entity of Diakon for federal tax purposes. On June 30, 2022, the property operated by DLSL-MD was sold and operations ceased on the sale date (Note 4).

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. As of January 1, 2023, DLF was converted to a disregarded limited liability company of Diakon, and the Diakon board became the governing body of DLF.

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 is 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:

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 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.

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of Federal Deposit Insurance Corporation (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 credit losses and explicit price concessions. The allowances for estimated credit losses 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 allowances for credit losses and 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 credit loss and price concession allowances.

g. Investments and Investment Risk

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. 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.

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:

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

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. 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. No impairment losses were recognized in 2023 or 2022.

l. Leases

The Corporation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Corporation also considers whether its service arrangements include the right to control the use of an asset. The Corporation has three asset classes for leases, property, vehicles, and equipment.

The Corporation recognizes most leases on its consolidated balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the income statement.

The Corporation has elected not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, the Corporation uses the explicit or implied interest rate based on the lease terms.

Future lease payments may include fixed-rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

The Corporation has elected to account for lease and nonlease components in its contracts as a single lease component for its leased equipment and property. The nonlease components typically represent additional services transferred to the Corporation, which are variable in nature and recorded as lease expense in the period incurred.

See Note 5 for additional lease disclosures.

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 $219,169 and $195,475 in 2023 and 2022, respectively. Amortization expense is expected to approximate $200,000 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 at their actuarial present value based on calculations that incorporate various assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates.

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 (Note 9). The interest rate swap is reported at fair value in the balance sheets and changes in 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, 2023 or 2022.

v. Obligation to Provide Future Services to Continuing Care Residents

The Corporation has determined that if 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, 2023 or 2022.

w. Income Taxes

Diakon and its controlled affiliates are not-for-profit corporations as described in Section 501(c)(3) of the 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, 2020, 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, 2022, the Corporation executed two escrow agreements, one 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 A 2019 Bonds (Note 6), and one with the County Commissioners of Washington County, Maryland and Manufacturers and Traders Trust Company, as escrow agent, which provided for the legal defeasance and refunding of the remaining Series B 2019 Bonds (Note 6). These transactions resulted in the recognition of a loss from early extinguishment of debt in the amount of $865,823, which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2022.

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 (cost) benefit, joint venture equity changes, unrealized gains and (losses) on investments, 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 (cost) benefit, 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, 2023 and 2022 was $5,551,202 and $5,523,908, respectively.

ee. Changes in Accounting Principles

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 (as amended) requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The adoption of ASU No. 2016-13 (as amended) did not have a material effect on the Corporation's results of operations, financial position or cash flows for the years.

During March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. ASU No. 2020-04 provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. Entities could elect the optional expedients and exceptions included in ASU No. 2020-04 as of March 12, 2020 and through December 31, 2022. During December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. These amendments defer the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. The adoption of ASU No. 2020-04 (as amended) did not have a material effect on the Corporation's results of operations, financial position and cash flows.

ff. Reclassifications

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

2. Revenue Recognition

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. 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 credit losses based on its historical collection experience with the respective class of payors. Such credit losses arise from self-pay 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 credit losses 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 prospectively determined rates based on clinical factors determined by the Pennsylvania Department of Health.

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 2023 or 2022.

Entrance Fee Contracts

DLSM offers 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. DLSM communities had offered lifecare agreements prior, but no longer offer such contracts to prospective residents. As of December 31, 2023, there were 550 outstanding CCRC Agreements at DLSM communities, of which one was a lifecare agreement.

Performance obligations relative to entrance fees are determined based upon the services outlined in the resident entrance fee 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 into 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 nonrefundable and guaranteed refundable components. The nonrefundable component of a CCRC Agreement features an amortization provision whereby the nonrefundable component of the entrance fee is earned ratably by the Corporation over a future time period following the initial date of occupancy, generally 49 months or less. After 49 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 nonrefundable, as the agreements contain provisions whereby the nonrefundable 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 nonrefundable 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 nonrefundable 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 residents.

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 subject to contractual refunds was approximately $31,675,000 and $34,355,000 as of December 31, 2023 and 2022, respectively.

The Corporation may receive entrance fee payments prior to the date an independent living resident occupies a living unit. The liability for such payment are included in the refundable entrance fee liability and were $1,681,532 and $1,254,507 as of December 31, 2023 and 2022, respectively, and are included in refundable entrance fee liability on the accompanying consolidated balance sheets. The Corporation maintains separate entrance fee escrow accounts, which are a component of cash and cash equivalents. The amounts in the entrance fee escrow accounts cover deposit liabilities to prospective independent living residents. Such amounts in the entrance fee escrow accounts totaled $2,563,000 and $2,373,000 as of December 31, 2023 and 2022, 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.

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 $2,133,191 and $2,069,514 for the years ended December 31, 2023 and 2022, 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 $661,000 and $649,000 for the years ended December 31, 2023 and 2022, respectively, to offset or subsidize charity care services provided.

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:

	2023	2022
Senior living services revenue, net:		
Private pay	$ 42,653,194	$ 42,099,462
Medicaid	22,799,107	18,201,263
Medicare Part A	6,273,284	6,856,944
Managed care and commercial insurers	6,029,664	5,278,745
Medicare Part B	1,391,723	1,475,939
Patient and resident service revenue, net	$ 79,146,972	$ 73,912,353

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

	2023	2022
Nursing care	$ 47,175,564	$ 44,840,438
Personal care/assisted living	13,040,867	11,295,393
Independent living	18,930,541	17,776,522
Total	$ 79,146,972	$ 73,912,353

Nursing Home Assessment

Pennsylvania nursing providers are subject to a Nursing Home Assessment (the Assessment). The Assessment requires Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Human Services (DHS) based upon all non-Medicare days, which is included in operating expenses. The DHS makes supplemental payments back to nursing home facilities as a component of the state directed managed care minimum payment rates. The revenue from these payments are included as a component of patient and resident service revenue, net.

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. 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, and certain behavioral health programs.

- The Commonwealth of Pennsylvania, Department of Human Services which provides funding for statewide adoption services.

- Medicaid which provides funding for certain behavioral health programs.

- 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 impairment losses based on its historical collection experience with the respective class of payors.

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

	2023	2022
DCFCM Programs:		
Youth services	$ 3,660,365	$ 3,119,111
Permanency services	8,416,320	8,843,765
Family life services	509,470	1,083,237
Community services for seniors	2,262,134	2,186,023
DCFCM pandemic funds	-	111,308
Other DCFCM	-	235,052
DCFCM program services	14,848,289	15,578,496
HUD	1,892,142	1,914,167
DLSM provider relief funds	1,423,962	10,079,987
Total contract revenue	$ 18,164,393	$ 27,572,650
DCFCM Programs:		
Youth services	$ 138,066	$ 123,205
Permanency services	2,112,220	2,226,969
Family life services	7,010,684	6,926,047
Community services for seniors	60,763	48,641
Other DCFCM	100	62,360
DCFCM total	9,321,833	9,387,222
HUD	1,661,414	1,511,238
DLSM	579,548	661,585
Other	210,794	792,490
Total other fees and services revenue	$ 11,773,589	$ 12,352,535

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 impairment losses or explicit price concessions related to the services rendered by SWAN LLC. Contract revenue is recognized over a period of time as the performance obligation is satisfied, using an output method, whereby revenue is 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 2023 or 2022, or the future unsatisfied performance obligation. The current contract between DHS and SWAN LLC was signed on May 2023 and covers the period of July 2023 through June 2024; therefore, as of December 31, 2023, SWAN LLC has an unsatisfied performance obligation associated with the active contract with DHS of approximately $47,800,000.

Contract Acquisition Costs

The Corporation has applied the practical expedient provided by FASB Accounting Standards Codification (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.

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:

	2023	2022
Under bond indentures for debt service reserve fund:		
Cash and short-term investments	$ -	$ 2,091
Debt service and sinking fund:		
Cash and short-term investments	6,440,747	5,685,324
Construction funds:		
Cash and short-term investments	-	23,514,332

	2023	2022
Endowment funds:		
Cash and short-term investments	$ 1,112,221	$ 1,916,090
Equity funds	10,377,772	9,394,487
Fixed income funds	4,872,181	3,711,292
Donor and other temporarily restricted funds:		
Cash and short-term investments	1,401,760	3,134,279
Equity funds	7,836,227	5,949,014
Fixed income funds	4,074,769	2,935,432
Assets limited to use for HUD reserves:		
Cash and short-term investments	2,820,085	2,663,737
By board for designated purposes:		
Other designated purposes:		
Cash and short-term investments	232,087	179,171
Fixed income funds	182,366	142,097
Statutory minimum liquid reserves:		
Equity funds	3,164,851	3,069,940
Fixed income funds	2,386,351	2,453,968
Total assets limited as to use	$ 44,901,417	$ 64,751,254

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

	2023	2022
Cash and short-term investments	$ 1,424,854	$ 9,805,865
Equity funds	86,074,936	72,486,123
Fixed income funds	63,901,566	57,189,372
Investments	$ 151,401,356	$ 139,481,360

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

	2023		2022	
	Amount	Percent	Amount	Percent
Cash and short-term investments	$ 13,431,754	7 %	$ 46,900,889	23 %
Equity funds	107,453,786	55	90,899,564	44
Fixed income funds	75,417,233	38	66,432,161	33
Total	$ 196,302,773	100 %	$ 204,232,614	100 %

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

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends, net of expenses	$ 5,419,405	$ 792,492	$ 6,211,897
Net realized gains (losses) on investments	1,265,402	(34,698)	1,230,704
Investment income, net of expenses	6,684,807	757,794	7,442,601
Unrealized gains on investments	13,553,625	-	13,553,625
Unrealized gains on net assets with donor restrictions	-	2,975,380	2,975,380
Total investment return	$ 20,238,432	$ 3,733,174	$ 23,971,606

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends, net of expenses	$ 3,850,287	$ 631,042	$ 4,481,329
Net realized gains on investments	1,344	-	1,344
Investment income, net of expenses	3,851,631	631,042	4,482,673
Unrealized losses on investments	(26,532,535)	-	(26,532,535)
Unrealized losses on net assets with donor restrictions	-	(4,803,858)	(4,803,858)
Total investment losses	$ (22,680,904)	$ (4,172,816)	$ (26,853,720)

4. Land, Buildings and Equipment

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

	2023	2022
Land	$ 5,193,881	$ 5,075,099
Land improvements	19,794,153	19,444,417
Buildings	265,158,361	265,200,937
Furniture and equipment	29,131,018	32,185,172
Vehicles	12,372	76,882
	319,289,785	321,982,507
Accumulated depreciation	(196,717,679)	(194,968,245)
	122,572,106	127,014,262
Construction in progress	44,267,190	9,991,640
	$ 166,839,296	$ 137,005,902

Depreciation expense for the years ended December 31, 2023 and 2022, was $13,642,094 and $13,674,811 respectively.

Construction in progress as of December 31, 2023 and 2022 is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Noncash purchases of land, buildings and equipment totaled approximately $5,907,000 and $402,000 for the years ended December 31, 2023 and 2022, respectively.

On December 1, 2021, the Corporation sold three senior living retirement communities. A community in Hagerstown, Maryland, was subject to the same asset purchase agreement; however, the sale closed on June 30, 2022. Cash received at settlement was approximately $24,765,178. The proceeds offset the book value of property sold approximating $11,300,000, the entrance fee liabilities approximating $7,200,000, and other miscellaneous amounts that net to an asset of $287,000 to result in a gain on the sale of $20,377,943. The sold community contributed a decrease in net assets of approximately $1,300,000 to the overall change in net assets reported in 2022.

5. Leases

The Corporation has leases in three asset classes as described in Note 1(l). Several leases include multiple optional renewal periods. Generally, the Corporation does not consider any additional renewal periods to be reasonably certain of being exercised.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

The components of lease expense are as follows for the years ended December 31:

	2023	2022
Finance lease costs:		
Amortization	$ 293,834	$ 294,041
Interest expense	39,140	29,312
Operating lease cost	793,238	881,863
Short-term lease cost	189,252	173,526
Total lease cost	$ 1,315,464	$ 1,378,742

Supplemental cash flow information related to leases is as follows for the years ended December 31:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for finance leases	$ 33,463	$ 29,312
Operating cash flows for operating leases	839,768	900,242
Financing cash flows for finance leases	275,276	273,699
Right-of-use assets obtained in exchange for new finance lease liabilities	1,397,663	172,031
Right-of-use assets obtained in exchange for new operating lease liabilities	664,252	638,700
Weighted average remaining lease term for financing leases (in years)	4.34	3.35
Weighted average remaining lease term for operating leases (in years)	4.35	3.94

The weighted-average discount rates for the years ended December 31 were as follows:

	2023	2022
Weighted average discount rates:		
Financing leases	7.03 %	4.27 %
Operating leases	5.84 %	4.56 %

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the consolidated balance sheet are as follows as of December 31, 2023:

	Operating	Finance
2024	$ 796,736	$ 536,512
2025	464,070	471,334
2026	229,137	438,161
2027	212,943	332,059
2028	182,360	273,193
Thereafter	297,340	13,596
Total lease payments	2,182,586	2,064,855
Imputed interest	(285,190)	(297,788)
Total lease liability	$ 1,897,396	$ 1,767,067

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:

	2023	2022
Obligated Group:		
Maxatawny Township Municipal Authority, Revenue Bond Series A of 2022, $27,155,000 of tax-exempt fixed interest rate bonds with principal payments in annual installments ranging from $540,000 to $4,965,000 beginning 2039 through 2045 (the final maturity date). Interest rates range from 4.5% to 5.0% and the bonds were issued at an aggregate discount of $358,043, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.74%.	$ 27,155,000	$ 27,155,000
Maxatawny Township Municipal Authority, Revenue Bond Series B of 2022, aggregate advances are limited to $23,750,000 and no advances are allowed after September 20, 2024. Payments are interest only beginning on October 1, 2022 through September 20, 2024 at which time any outstanding principal balance and interest is due. The variable interest of 79% of 1 Month SOFR plus a spread rate (5.09% as of December 31, 2023).	1,578,164	217,575

	2023	2022
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%.	$ 7,155,000	$ 7,155,000
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 a floating interest rate, that uses an interest rate swap to fix the rate at 3.63% through October 1, 2030 .	5,953,000	6,490,000
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%.	22,265,000	23,310,000
Cumberland County Municipal Authority Bonds Series 2015, $147,545,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $2,465,000 to $12,855,000 through 2038. Interest rates range from 3.0% to 5.0% and the bonds were issued at an aggregate premium of $8,559,916, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.25%.	58,235,000	60,685,000
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.	12,242,793	12,613,862

	2023	2022
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 fixed rate of 3.54% through April 1, 2024; after which time the Corporation may choose at each Reset date the fixed rate or a floating rate of 2% plus 80% of 1 Month SOFR plus a spread rate. The note was interest only through March 31, 2019. Effective April 1, 2019, principal installments of $17,395 plus applicable interest, are payable monthly. Final maturity of the note is March 1, 2044.	$ 4,227,062	$ 4,435,806
	138,811,019	142,062,243
Less current maturities of bonds and mortgages payable	(4,805,479)	(4,611,812)
Unamortized debt issuance costs	(2,612,447)	(2,831,616)
Unamortized premium and discount	4,069,886	4,611,291
Total	$ 135,462,979	$ 139,230,106

In September 2022, DLSM issued the Series A and B 2022 bonds to finance a renovation and expansion project at one of the senior living communities.

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, the Maxatawny Township Municipal Authority and the Wernersville Municipal Authority associated with Bonds listed in the table above, 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.

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 August 16, 2022, the Corporation executed two Escrow Agreements, one with Cumberland County Municipal 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 Bonds. The Corporation paid $10,914,671 which was deposited in an escrow account to provide funds, together with interest to be earned, to pay the principal and interest on all outstanding Refunded Series A 2019 bonds on January 1, 2029, the date selected for redemption of the Series A 2019 bonds. The 2nd Escrow Agreement was with the County Commissioners of Washington County and Manufacturers and Traders Trust Company, as escrow agent, to provide for the legal defeasance and refunding of the Series B 2019 Bonds. The Corporation paid $13,047,192 which was deposited in an escrow account to provide funds, together with interest to be earned, to pay the principal and interest on all outstanding Series B 2019 bonds through and including January 1, 2029, and to pay on January 1, 2029, the date selected for redemption of the Series B 2019 bonds, the redemption price of the callable Series B 2019 bonds.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2023:

	Scheduled Maturities
Years ending December 31:	
2024	$ 4,805,479
2025	5,027,400
2026	5,251,581
2027	5,487,032
2028	5,744,756
Thereafter	112,494,771
	$ 138,811,019

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $6,104,353 and $6,510,855 for the years ended December 31, 2023 and 2022, respectively. There was capitalized interest of $1,286,500 in 2023 and $360,935 in 2022.

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

	2023	2022
DLSM Obligated Group	4.33 %	4.11 %
Obligations outside the Obligated Group	3.18	3.17
Combined	4.19	3.99

7. Lines and Letters 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 1 Month SOFR (rounded upwards to the nearest 1/16th) plus 2.75% and a spread adjustment (8.24% as of December 31, 2023). Amounts ranging from $0 to $3,460,613 were outstanding on the line of credit for various periods during 2023 and 2022. There were no outstanding borrowings on the line of credit as of December 31, 2023 or 2022. 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 standby letters of credit with financial institutions that are related to construction projects and required by local ordinances. The available and unused amounts of the letters of credit approximated $3,416,000 for both years ended December 31, 2023 and 2022.

In 2014, DCFCM entered a line of credit agreement with M&T with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at 1 Month SOFR (rounded upwards to the nearest 1/16th) plus 2.35% and a spread adjustment (7.84% as of December 31, 2023). There were no amounts outstanding or borrowed on the line of credit during 2023 and 2022.

8. Fair Value

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:

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. Currently there are no markets in which these trusts trade, therefore these assets are measured using Level 3 inputs.

Interest rate swap agreement asset - Swap agreements are classified as over the counter derivative instruments that are measured at fair valued using Level 2 inputs by third-party specialists. The valuations used by the specialists considered observable market inputs such as relevant yield curves, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both the Corporation's non-performance risk and the respective counterparty's non-performance risk. These adjustments are determined generally by applying a credit spread for the counterparty as appropriate to the total expected exposure of the derivative.

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, 2023			
	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**				$ 13,431,754
Fixed income funds:				
Short-term	$ 23,303,928	$ -	$ -	23,303,928
Immediate term	52,113,305	-	-	52,113,305
Equity funds:				
International	43,841,144	-	-	43,841,144
Large cap	55,661,062	-	-	55,661,062
Small cap	7,951,580	-	-	7,951,580
Funds held in trust by others and beneficial interest in trust	-	-	37,532,794	37,532,794
Total assets	$ 182,871,019	$ -	$ 37,532,794	$ 233,835,567
Asset (Liability):				
Interest rate swap agreement	$ -	$ 42,566	$ -	$ 42,566

** Cash and short-term investments are included in the above tables to reconcile the total investments, assets limited as to use, and statutory minimum liquid reserves reported on the consolidated balance sheets.

	Fair Value Measurements as of December 31, 2022			
	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**				$ 46,900,889
Fixed income funds:				
Short-term	$ 21,656,884	$ -	$ -	21,656,884
Immediate term	44,775,277	-	-	44,775,277
Equity funds:				
International	36,996,123	-	-	36,996,123
Large cap	47,267,773	-	-	47,267,773
Small cap	6,635,668	-	-	6,635,668
Funds held in trust by others and beneficial interest in trust	-	-	34,516,826	34,516,826
Total assets	$ 157,331,725	$ -	$ 34,516,826	$ 238,749,440
Asset (Liability):				
Interest rate swap agreement	$ -	$ 70,410	$ -	$ 70,410

** Cash and short-term investments are included in the above tables to reconcile the total investments, assets limited as to use, and statutory minimum liquid reserves reported on the consolidated balance sheets.

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:

	2023	2022
Balance, beginning of year	$ 34,516,826	$ 43,394,004
Change in valuation, net distributions	3,015,968	(8,877,178)
Balance, end of year	$ 37,532,794	$ 34,516,826

9. Derivative Instruments

On October 18, 2018, the Obligated Group executed a floating-to-fixed interest rate swap relating to the Series 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 Series 2018 Bond. The swap was structured with. the Obligated Group receiving payments on a floating leg equal to 79% of 1-Month Fallback to LIBOR plus 0.95% 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 agreement is considered a highly effective cash flow hedge, as a result the gains or (losses) on the swap are reported as a component of other changes in the consolidated statements of operations and changes in net assets for the years ended December 31, 2023 and 2022. The net cash paid or received under the swap agreement is recognized as an adjustment to interest expense.

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 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:

	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 79,653,684	$ 103,347,436
Interest cost	3,795,906	2,600,304
Change in assumptions	1,550,403	(21,285,155)
Actuarial loss	296,151	219,263
Benefit payments	(5,422,585)	(5,228,164)
Benefit obligation at end of year	79,873,559	79,653,684
Change in plan assets:		
Fair value of plan assets at beginning of year	54,857,054	66,563,064
Actual return on plan assets, net of expenses	6,018,645	(6,477,846)
Benefit payments	(5,422,585)	(5,228,164)
Fair value of plan assets at end of year	55,453,114	54,857,054
Funded status	$ (24,420,445)	$ (24,796,630)

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

	2023	2022
Net actuarial loss	$ (27,111,882)	$ (28,659,795)

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:

	2023	2022
Net estimated gain, total recognized in net assets without donor restrictions	$ 1,547,916	$ 11,584,094

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 $956,226.

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

	2023	2022
Interest cost	$ 3,795,906	$ 2,600,304
Expected return on plan assets	(3,622,319)	(4,437,594)
Amortization of net loss	998,144	1,433,643
Net periodic pension costs (benefit), nonservice component	$ 1,171,731	$ (403,647)
Cost (benefit)	$ 1,171,731	$ (403,647)
Benefits paid	5,422,585	5,228,164

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

	2023	2022
Discount rate	4.74 %	4.94 %

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

	2023	2022
Discount rate	4.94 %	2.59 %
Expected long-term rate of return on plan assets	7.00	7.00

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, 2023 and 2022, the Corporation has invested approximately 24% and 30%, respectively, of the pension plan assets into alternative investments, including a special situations fund (33%), a core property real estate fund (45%), an energy debt fund (2%), and a vista collective investment trust (20%) as of December 31, 2023. 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:

	2023		2022	
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**
Cash and short-term investments:				
Equity funds:				
Large cap disciplined	$ 6,286,265	$ 6,286,265	$ 5,435,517	$ 5,435,517
Small/mid cap	2,086,747	2,086,747	1,928,729	1,928,729
World Equity Ex-U.S.	12,051,044	12,051,044	10,978,572	10,978,572
Extended market index fund	2,099,320	2,099,320	1,924,404	1,924,404
S&P 500 index fund	7,792,308	7,792,308	6,803,880	6,803,880
Emerging markets equity fund	1,562,471	1,562,471	1,503,154	1,503,154
Fixed income funds:				
High yield bond fund	2,019,911	2,019,911	1,960,998	1,960,998
Emerging markets debt fund	2,077,900	2,077,900	2,012,863	2,012,863
Core fixed income fund	6,161,595	6,161,595	5,953,027	5,953,027
Plan assets valued at NAV:				
Core property collective investment trust	5,946,815	-	7,871,692	-
Special situations collective fund	4,404,888	-	4,036,836	-
Energy debt fund	304,974	-	744,018	-
Vista collective investment trust	2,658,876	-	3,703,364	-
Total	$ 55,453,114	$ 42,137,561	$ 54,857,054	$ 38,501,144

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, 2023 or 2022. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated balance sheets.

	Plan Assets Measured at Fair Value Based on Net Asset Value (NAV) Per Share as of December 31, 2023			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Core property collective investment trust	$ 5,946,815	$ -	Daily	1 day
Special situations collective fund	4,404,888	-	Daily	1 day
Energy debt fund	304,974	-	Daily	1 day
Vista collective investment trust	2,658,876	-	Daily	1 day
Total	$ 13,315,553	$ -		

	Plan Assets Measured at Fair Value Based on Net Asset Value (NAV) Per Share as of December 31, 2022			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Core property collective investment trust	$ 7,871,692	$ -	Daily	1 day
Special situations collective fund	4,036,836	-	Daily	1 day
Energy debt fund	744,020	-	Daily	1 day
Vista collective investment trust	3,703,264	-	Daily	1 day
Total	$ 16,355,812	$ -		

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

Asset Category	2023	2022
Equity funds	57 %	52 %
Fixed income funds	19	18
Alternative investments	24	30
Total	100 %	100 %

The Corporation does not expect to make any contributions to its pension plan in 2024.

The estimated benefit payments, which reflect expected future service as of December 31, 2023, as appropriate, are as follows:

Years ending December 31:	
2024	$ 5,781,520
2025	5,773,262
2026	5,757,745
2027	5,734,868
2028	5,734,415
2029-2033	27,689,325

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $224,497 and $225,642 for the years ended December 31, 2023 and 2022, respectively.

11. Net Assets With Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose:		
Promises to give for DCFCM program activities	$ 21,760	$ 21,760
Capital projects for senior living services	549,516	533,228
Senior living services program activities	241,254	275,379
DCFCM program activities	234,763	222,608
Employee assistance and wellness	29,813	22,313
Chaplain activities	27,701	31,916
Other	60,944	84,263
	1,165,751	1,191,467
Subject to the passage of time:		
Charitable remainder trust	1,588,728	1,339,416
Charitable gift annuities	97,626	219,783
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	189,636
	1,880,769	1,753,613
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Support of specific SLS programs	641,590	555,922
Support of specific DCFCM programs	614,285	633,741
Promises to give for senior living benevolent care	2,687	2,687
Charitable gift annuities for senior living benevolent care	38,868	50,302
	1,297,430	1,242,652
Subject to endowment spending policy and appropriation:		
Senor living benevolent care and program activities	16,758,950	13,861,866
Program activities for a specific senior living campus	5,108,687	4,662,037
DCFCM program activities	2,810,082	2,458,395
Employee tuition assistance	714,674	633,913
Scholarships	1,852,277	1,623,515
As defined by donor	156,359	149,871
	27,401,029	23,389,597

	2023	2022
Funds held in trust by others:		
Subject to appropriation and expenditure when a specified event occurs:		
Staff and resident programs	$ 160,405	$ 150,654
General use	35,783,661	33,026,756
	35,944,066	33,177,410
Total net assets with donor restrictions	$ 67,689,045	$ 60,754,739

12. Endowments

The Corporation's donor restricted endowment funds, including funds held in perpetuity, were established for the purposes described in Note 11. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

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

Investment and Spending Policies

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. 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.

Changes in endowment net assets for the years ended December 31 are as follows:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	$ 321,268	$ 24,632,249	$ 24,953,517
Investment return, net	-	789,594	789,594
Unrealized gains (losses)	-	2,975,380	2,975,380
Contribution	-	1,280,775	1,280,775
Appropriation of endowment assets	-	(979,539)	(979,539)
Other changes:			
Contributions to board designated, net	93,185	-	93,185
Endowment end of year	$ 414,453	$ 28,698,459	$ 29,112,912

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Beginning of year	$ 412,370	$ 29,621,747	$ 30,034,117
Investment return, net	-	588,275	588,275
Unrealized gains (losses)	-	(4,803,858)	(4,803,858)
Contribution	-	390,309	390,309
Appropriation of endowment assets	-	(1,164,224)	(1,164,224)
Other changes:			
Distributions from board designated, net	(91,102)	-	(91,102)
Endowment end of year	$ 321,268	$ 24,632,249	$ 24,953,517

At times, 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, 2023 or 2022.

13. 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 $225,000 and $500,000 as of December 31, 2023 and 2022, 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 $800,000 per occurrence as of December 31, 2023 and 2022. 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 $936,000 and $1,498,000 as of December 31, 2023 and 2022, 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 $1,500,000 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 $683,000 and $433,000 as of December 31, 2023 and 2022, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

14. 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:

	2023	2022
Cash and cash equivalents	$ 22,239,356	$ 9,261,958
Accounts receivable:		
Patients and residents	7,006,753	7,069,824
Statewide Adoption and Permanency Network	5,502,851	12,126,420
Other client services	4,275,238	4,354,057
Estimated third-party payor settlements	47,419	439,044
Investments	151,401,356	139,481,360
Total	$ 190,472,973	$ 172,732,663

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 Investment Committee of the Diakon board of directors. The Investment Committee, including members of management, meets regularly with 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 Bank as described in Note 7 to manage short-term changes in cash flow. The aggregate amount available to be drawn on the lines of credit was $23,000,000 for the years ended December 31, 2023 and 2022.

15. 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:

	Year Ended December 31, 2023									
	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	$ 36,486,929	$ 14,815,214	$ 922,668	$ 1,346,637	$ -	$ 53,571,448	$ 6,380,346	$ 163,746	$ 6,544,092	$ 60,115,540
Utilities	3,175,878	377,749	550,963	246,536	-	4,351,126	1,096,017	635	1,096,652	5,447,778
Maintenance and repairs	3,303,493	147,681	270,103	418,908	-	4,140,185	2,134,586	58,859	2,193,445	6,333,630
Contracted costs	16,362,753	891,256	16,375	68,101,391	-	85,371,775	2,027,384	3,758	2,031,142	87,402,917
Program costs	3,113,878	3,589,683	1,733	307,820	-	7,013,114	63,077	727	63,804	7,076,918
Administrative costs	4,172,371	2,315,294	535,435	1,164,086	-	8,187,186	1,014,120	33,865	1,047,985	9,235,171
Management fee	-	-	-	-	-	-	2,311,601	-	2,311,601	2,311,601
Nursing home assessment	1,046,484	-	-	-	-	1,046,484	-	-	-	1,046,484
Interest	4,140,474	8,839	361,593	-	-	4,510,906	170,592	-	170,592	4,681,498
Depreciation and amortization	11,299,599	246,624	531,747	-	-	12,077,970	1,857,959	-	1,857,959	13,935,929
Total expenses	$ 83,101,859	$ 22,392,340	$ 3,190,617	$ 71,585,378	$ -	$ 180,270,194	$ 17,055,682	$ 261,590	$ 17,317,272	$ 197,587,466

	Year Ended December 31, 2022									
	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	$ 36,593,274	$ 14,185,174	$ 828,874	$ 1,219,387	$ -	$ 52,826,709	$ 6,051,381	$ 19,979	$ 6,071,360	$ 58,898,069
Utilities	2,853,532	463,291	502,374	243,126	-	4,062,323	1,074,289	405	1,074,694	5,137,017
Maintenance and repairs	3,199,826	446,939	232,998	258,352	1,286	4,139,401	1,830,217	26,040	1,856,257	5,995,658
Contracted costs	15,418,899	926,099	22,764	67,691,064	-	84,058,826	2,480,644	2,083	2,482,727	86,541,553
Program costs	3,099,576	3,801,899	3,502	225,048	-	7,130,025	17,404	-	17,404	7,147,429
Administrative costs	4,693,971	2,195,115	664,346	1,106,729	8,552	8,668,713	1,372,861	28,887	1,401,748	10,070,461
Management fee	-	-	-	-	-	-	2,226,308	-	2,226,308	2,226,308
Nursing home assessment	703,364	-	-	-	-	703,364	-	-	-	703,364
Interest	4,802,068	4,165	371,663	-	-	5,177,896	177,827	-	177,827	5,355,723
Depreciation and amortization	11,529,854	220,863	705,733	-	-	12,456,450	1,512,403	-	1,512,403	13,968,853
Total expenses	$ 82,894,364	$ 22,243,545	$ 3,332,254	$ 70,743,706	$ 9,838	$ 179,223,707	$ 16,743,334	$ 77,394	$ 16,820,728	$ 196,044,435

16. 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, 2023 totaled approximately $17,398,000.

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.

17. Subsequent Events

On March 26, 2024, Diakon and Lutheran Senior Services (LSS), a Missouri benevolent corporation, signed an agreement for LSS to succeed Diakon as the sole corporate member of DLSM. The Membership Substitution is planned to become effective on or about June 30, 2024, subject to certain regulatory approvals and other pre-closing conditions established pursuant to the agreement. In connection with the Membership Substitution, LSS will make a cash payment to Diakon.

The Corporation has evaluated subsequent events through the April 24, 2024, the date the consolidated financial statements were issued, and determined there are 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, 2023

	DLSM Obligated Group	Nonobligated Group: Diakon Lutheran Fund	Nonobligated Group: Diakon Child, Family & Community Ministries	Nonobligated Group: Old Main LLC	Nonobligated Group: Other	Elimination Entries	Total
Assets							
Current assets:							
Cash and cash equivalents	$ 6,687,461	$ -	$ 1,011,704	$ -	$ 14,540,191	$ -	$ 22,239,356
Assets limited as to use	6,440,747	-	-	-	-	-	6,440,747
Accounts receivable, net:							
Patients and residents	6,952,647	-	-	-	54,106	-	7,006,753
Statewide Adoption and Permanency Network	-	-	-	-	5,502,851	-	5,502,851
Other client services	1,789,761	-	5,437,204	-	-	(2,951,727)	4,275,238
Intercompany	1,553,474	43,319	(117,278)	(219,929)	(1,259,586)	-	-
Estimated third-party payor settlements	50,429	-	(3,013)	-	3	-	47,419
Prepaid expenses and other assets	2,672,709	46,487	96,605	-	183,559	-	2,999,360
Total current assets	26,147,228	89,806	6,425,222	(219,929)	19,021,124	(2,951,727)	48,511,724
Investments	122,126,807	20,316,847	7,504,803	-	1,452,899	-	151,401,356
Assets limited as to use, less current portion:							
Statutory minimum liquid reserves	5,551,202	-	-	-	-	-	5,551,202
Other	22,869,730	3,306,089	3,677,609	-	3,056,040	-	32,909,468
Investment in joint venture	1,417,665	-	-	-	-	-	1,417,665
Land, buildings and equipment, net	158,039,369	-	1,239,810	4,085,126	3,474,991	-	166,839,296
Finance lease right-of-use assets, net	1,478,973	-	286,958	-	47,446	-	1,813,377
Operating lease right-of-use assets	677,107	-	598,126	-	586,363	-	1,861,596
Other assets:							
Receivables from charitable gift annuities	136,494	-	-	-	-	-	136,494
Funds held in trust by others and beneficial interest in trust	28,264,895	9,267,899	-	-	-	-	37,532,794
Swap agreement	42,566	-	-	-	-	-	42,566
Other assets	1,024,865	-	-	-	-	-	1,024,865
Total assets	$ 367,776,901	$ 32,980,641	$ 19,732,528	$ 3,865,197	$ 27,638,863	$ (2,951,727)	$ 449,042,403

Schedule of Consolidating Information, Balance Sheet
December 31, 2023

	DLSM Obligated Group	Nonobligated Group: Diakon Lutheran Fund	Nonobligated Group: Diakon Child, Family & Community Ministries	Nonobligated Group: Old Main LLC	Nonobligated Group: Other	Elimination Entries	Total
Liabilities and Net Assets							
Current liabilities:							
Accounts payable and accrued expenses	$ 17,926,022	$ -	$ 761,521	$ -	$ 19,460,510	$ (2,951,727)	$ 35,196,326
Provider relief and other funds	-	-	1,189,155	-	-	-	1,189,155
Deposits, patients and residents	238,095	-	-	-	131,208	-	369,303
Estimated third-party payor settlements	518,125	-	-	-	-	-	518,125
Current finance lease liabilities	322,884	-	84,245	-	20,193	-	427,322
Current operating lease liabilities	500,855	-	126,881	-	179,256	-	806,992
Current maturities of long-term debt	4,216,000	-	-	208,744	380,735	-	4,805,479
Total current liabilities	23,721,981	-	2,161,802	208,744	20,171,902	(2,951,727)	43,312,702
Pension liability	24,420,445	-	-	-	-	-	24,420,445
Deferred revenue, entrance fee agreements	57,970,780	-	-	-	-	-	57,970,780
Refundable entrance fee liability	16,849,115	-	-	-	-	-	16,849,115
Other long-term liabilities	1,119,666	-	-	-	4,120	-	1,123,786
Long-term financing lease liabilities	1,112,643	-	202,347	-	24,755	-	1,339,745
Long-term operating lease liabilities	211,781	-	471,699	-	406,924	-	1,090,404
Long-term debt, less current maturities and debt issuance costs	120,412,950	-	-	4,009,559	11,040,470	-	135,462,979
Total liabilities	245,819,361	-	2,835,848	4,218,303	31,648,171	(2,951,727)	281,569,956
Net assets (deficit):							
Without donor restrictions	70,036,128	20,370,790	13,954,476	(353,106)	(4,224,886)	-	99,783,402
With donor restrictions	51,921,412	12,609,851	2,942,204	-	215,578	-	67,689,045
Total net assets (deficit)	121,957,540	32,980,641	16,896,680	(353,106)	(4,009,308)	-	167,472,447
Total liabilities and net assets (deficit)	$ 367,776,901	$ 32,980,641	$ 19,732,528	$ 3,865,197	$ 27,638,863	$ (2,951,727)	$ 449,042,403

Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2023

		Nonobligated Group						
	DLSM Obligated Group	Diakon Lutheran Fund	Diakon Child, Family & Community Ministries	Old Main LLC	Other	Subtotal	Elimination Entries	Total
Operating revenues, gains and other support:								
Patient and resident service revenue, net	$ 79,146,524	$ -	$ -	$ -	$ 448	$ 79,146,972	$ -	$ 79,146,972
Amortization of entrance fees	8,621,002	-	-	-	-	8,621,002	-	8,621,002
Contract revenue	1,423,962	-	15,612,009	-	1,892,142	18,928,113	(763,720)	18,164,393
Grants from affiliates	1,110,200	-	327,401	420,443	-	1,858,044	(1,858,044)	-
Other fees and services	1,297,011	-	9,321,833	13,347	1,661,421	12,293,612	(520,023)	11,773,589
Statewide Adoption and Permanency Network revenue	-	-	-	-	74,898,114	74,898,114	-	74,898,114
Investment income, net of expenses	5,806,043	516,409	310,638	-	51,717	6,684,807	-	6,684,807
Income from trusts	1,219,641	362,881	-	-	-	1,582,522	-	1,582,522
Contributions and bequests	242,767	7,781	103,406	-	1,080	355,034	-	355,034
Net assets released from restrictions, operations	1,117,174	96,396	246,321	-	24,012	1,483,903	-	1,483,903
Gain on disposal of assets	685	-	-	-	-	685	-	685
Gain on insurance proceeds	-	-	4,360	-	-	4,360	-	4,360
Total operating revenues, gains and other support	99,985,009	983,467	25,925,968	433,790	78,528,934	205,857,168	(3,141,787)	202,715,381
Expenses								
Salaries and wages	24,281,532	-	11,186,406	-	1,601,111	37,069,049	-	37,069,049
Employee benefits	5,668,171	-	3,323,878	-	389,983	9,382,032	-	9,382,032
Other expenses	47,370,301	1,476,497	10,201,594	68,063	1,675,329	60,791,784	(3,141,787)	57,649,997
Other expenses, Statewide Adoption and Permanency Network	-	-	-	-	73,822,477	73,822,477	-	73,822,477
Nursing home assessment	1,046,484	-	-	-	-	1,046,484	-	1,046,484
Interest	4,140,474	-	8,839	170,591	361,594	4,681,498	-	4,681,498
Depreciation and amortization	12,942,265	-	246,624	215,296	531,744	13,935,929	-	13,935,929
Total expenses	95,449,227	1,476,497	24,967,341	453,950	78,382,238	200,729,253	(3,141,787)	197,587,466
Operating income (loss)	4,535,782	(493,030)	958,627	(20,160)	146,696	5,127,915	-	5,127,915
Nonoperating income (loss):								
Net periodic pension benefit, nonservice component	(995,969)	-	(175,762)	-	-	(1,171,731)	-	(1,171,731)
Unrealized losses on investments	10,749,422	2,375,869	304,002	-	124,332	13,553,625	-	13,553,625
Total nonoperating income (loss)	9,753,453	2,375,869	128,240	-	124,332	12,381,894	-	12,381,894
Excess (deficit) of operating revenues, gains and other support over expenses	14,289,235	1,882,839	1,086,867	(20,160)	271,028	17,509,809	-	17,509,809
Other changes:								
Pension-related changes other than net periodic pension benefit	1,547,916	-	-	-	-	1,547,916	-	1,547,916
Increase in fair value of swap agreement	(27,844)	-	-	-	-	(27,844)	-	(27,844)
Net assets released from restrictions, capital	47,812	-	10,471	-	-	58,283	-	58,283
Transfers of net assets	(4,060,671)	-	-	-	4,060,671	-	-	-
Total other changes	(2,492,787)	-	10,471	-	4,060,671	1,578,355	-	1,578,355
Increase (decrease) in net assets (deficit) without donor restrictions	11,796,448	1,882,839	1,097,338	(20,160)	4,331,699	19,088,164	-	19,088,164

Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2023

	DLSM Obligated Group	Nonobligated Group: Diakon Lutheran Fund	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	$ 1,415,749	$ 1,200	$ 138,670	$ -	$ 60,944	$ 1,616,563	$ -	$ 1,616,563
Investment income, net of expenses	592,353	84,307	74,616	-	6,518	757,794	-	757,794
Unrealized losses on investments	2,266,902	384,458	298,629	-	25,391	2,975,380	-	2,975,380
Net assets released from restrictions, operations	(1,117,174)	(96,396)	(246,321)	-	(24,012)	(1,483,903)	-	(1,483,903)
Net assets released from restrictions, capital	(47,812)	-	(10,471)	-	-	(58,283)	-	(58,283)
Change in beneficial interest in trust	249,312	-	-	-	-	249,312	-	249,312
Decrease in fair value of funds held in trust by others	2,138,499	738,944	-	-	-	2,877,443	-	2,877,443
Decrease in net assets with donor restrictions	5,497,829	1,112,513	255,123	-	68,841	6,934,306	-	6,934,306
Increase (decrease) in net assets (deficit)	17,294,277	2,995,352	1,352,461	(20,160)	4,400,540	26,022,470	-	26,022,470
Net assets (deficit), beginning	104,663,263	29,985,289	15,544,219	(332,946)	(8,409,848)	141,449,977	-	141,449,977
Net assets (deficit), ending	$ 121,957,540	$ 32,980,641	$ 16,896,680	$ (353,106)	$ (4,009,308)	$ 167,472,447	$ -	$ 167,472,447

Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Cash Flows
Year Ended December 31, 2023

	DLSM Obligated Group	Nonobligated Group: Diakon Lutheran Fund	Nonobligated Group: Diakon Child, Family & Community Ministries	Nonobligated Group: Old Main LLC	Nonobligated Group: Other	Elimination Entries	Total
Cash flows from operating activities:							
Increase (decrease) in net assets (deficit)	$ 17,294,277	$ 2,995,352	$ 1,352,461	$ (20,160)	$ 4,400,540	$ -	$ 26,022,470
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities:							
Net realized (gains) losses on investments	(1,259,856)	33,622	(3,701)	-	(769)	-	(1,230,704)
Net unrealized losses on investments	(13,016,324)	(2,760,327)	(602,631)	-	(149,723)	-	(16,529,005)
Depreciation and amortization	12,942,265	-	246,624	215,296	531,744	-	13,935,929
Amortization of debt issuance costs	170,005	-	-	14,808	34,356	-	219,169
Decrease in pension liability	(376,185)	-	-	-	-	-	(376,185)
Amortization of bond premium	(541,405)	-	-	-	-	-	(541,405)
Amortization of entrance fees	(8,621,002)	-	-	-	-	-	(8,621,002)
Proceeds from entrance fees	11,560,919	-	-	-	-	-	11,560,919
Change in funds held in trust by others and beneficial interest in trust	(2,277,024)	(738,944)	-	-	-	-	(3,015,968)
Loss on fair value of swap agreement	27,844	-	-	-	-	-	27,844
Gains on disposal of assets	(685)	-	-	-	-	-	(685)
Variable lease adjustments	(35,483)	-	(10,104)	-	-	-	(45,587)
Changes in assets and liabilities:							
Accounts receivable and estimated third-party payor settlements	7,488,564	(295,367)	(1,947,607)	(1,200)	2,669,419	(736,847)	7,176,962
Prepaid expenses and other current assets	220,583	30,557	(50,251)	-	14,465	-	215,354
Operating lease right-of-use assets	441,293	-	63,509	-	(472,095)	-	32,707
Other assets	(174,746)	-	-	-	-	-	(174,746)
Accounts payable, accrued expenses and other liabilities	(3,593,539)	-	(375,239)	-	5,705,784	736,847	2,473,853
Deposits, patients and residents	(40,068)	-	-	-	4,453	-	(35,615)
Operating lease liabilities	(488,126)	-	(63,612)	-	471,911	-	(79,827)
Net cash provided by (used in) operating activities	19,721,307	(735,107)	(1,390,551)	208,744	13,210,085	-	31,014,478
Cash flows from investing activities:							
Purchases of investments and assets limited as to use	(8,085,710)	(928,099)	(1,598,876)	-	(87,933)	-	(10,700,618)
Proceeds from sales of investments and assets limited as to use	8,750,597	1,480,648	1,054,927	-	18,665	-	11,304,837
Contributions and charitable gift/remainder trusts	133,591	-	-	-	-	-	133,591
Purchase of property and equipment	(37,221,635)	-	(216,171)	-	(130,218)	-	(37,568,024)
Net cash provided by (used in) investing activities	(36,423,157)	552,549	(760,120)	-	(199,486)	-	(36,830,214)
Cash flows from financing activities:							
Payment of long-term debt	(4,032,000)	-	-	(208,744)	(371,069)	-	(4,611,813)
Proceeds from issuance of long-term debt	1,360,589	-	-	-	-	-	1,360,589
Principal payments under finance lease obligations	(197,587)	-	(52,731)	-	(19,281)	-	(269,599)
Proceeds from entrance fees	119,867	-	-	-	-	-	119,867
Refunds of entrance fees	(2,891,241)	-	-	-	-	-	(2,891,241)
Net cash used in financing activities	(5,640,372)	-	(52,731)	(208,744)	(390,350)	-	(6,292,197)
Net increase (decrease) in cash, cash equivalents and restricted cash	(22,342,222)	(182,558)	(2,203,402)	-	12,620,249	-	(12,107,933)
Cash, cash equivalents and restricted cash, beginning	37,461,079	241,766	3,895,019	-	4,756,325	-	46,354,189
Cash, cash equivalents and restricted cash, ending	$ 15,118,857	$ 59,208	$ 1,691,617	$ -	$ 17,376,574	$ -	$ 34,246,256

Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Cash Flows
Year Ended December 31, 2023

	DLSM Obligated Group	Nonobligated Group: Diakon Lutheran Fund	Nonobligated Group: Diakon Child, Family & Community Ministries	Nonobligated Group: Old Main LLC	Nonobligated Group: Other	Elimination Entries	Total
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	$ 6,687,461	$ -	$ 1,011,704	$ -	$ 14,540,191	$ -	$ 22,239,356
Assets limited as to use	6,440,747	-	-	-	-	-	6,440,747
Assets limited to use, less current portion:							
Other	1,990,649	59,208	679,913	-	2,836,383	-	5,566,153
Total cash, cash equivalents and restricted cash	$ 15,118,857	$ 59,208	$ 1,691,617	$ -	$ 17,376,574	$ -	$ 34,246,256

2024 Budgeted Operating Expenses (All Diakon Facilities that offer a continuum of care)	$ 104,248,995	
Less depreciation expense	12,601,103	
Expenses subject to minimum liquid reserve requirement	91,647,892	
Percentage (%) of residents subject to residence and care arrangements as of December 31, 2023	56.5%	
Expenses subject to minimum liquid reserve requirement	51,781,059	
Statutory requirement	10.0%	
Statutory minimum liquid reserve requirement	$ 5,178,106	(a)
Next 12 months debt service payments:		
Principal and interest payments	$ 9,825,137	
Percentage (%) of residents subject to residence and care arrangements as of December 31, 2023	56.5%	
Statutory minimum liquid reserve requirement	$ 5,551,202	(b)
Assets satisfying statutory minimum liquid reserve requirement as of December 31, 2023:		
Cash and cash equivalents	$ 6,687,461	
Investments	127,678,009	
Assets limited as to use	6,440,747	
	140,806,217	
Greater of (a) or (b)	5,551,202	
Assets in excess of statutory minimum liquid reserve requirement	$ 135,255,015	

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

To the Board of Directors of
Diakon and Controlled Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*, the consolidated financial statements of Diakon and Controlled Affiliates (the Corporation), which comprise the Corporation's consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 24, 2024