# DIAKON
# AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2018 and 2017

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

**DIAKON**
**AND CONTROLLED AFFILIATES**

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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Diakon and Controlled Affiliates
Middletown, Pennsylvania

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Diakon and Controlled Affiliates, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

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

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2018 consolidating information is presented for purposes of additional analyses rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 17, 2019



Arnett Carbis Toothman llp
CPAs & Advisors

**DIAKON**
**AND CONTROLLED AFFILIATES**
Consolidated Balance Sheets
December 31, 2018 and 2017

| **Assets** | | **2018** | **2017** |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 4,347,531 | 4,520,783 |
| Assets limited as to use | | 9,131,747 | 9,608,001 |
| Accounts receivable, net (Note 1) | | | |
| Patients and residents | | 14,446,701 | 13,199,921 |
| Statewide Adoption and Permanency Network | | 5,117,316 | 4,419,590 |
| Other client services | | 2,862,750 | 2,565,094 |
| Estimated third-party payor settlements | | 2,088,829 | 2,085,005 |
| Prepaid expenses and other assets | | 2,474,917 | 2,452,991 |
| Total current assets | | 40,469,791 | 38,851,385 |
| Investments | | 122,635,829 | 133,066,932 |
| Assets limited as to use, less current portion: | | | |
| Statutory minimum liquid reserves | | 7,032,788 | 7,122,163 |
| Other | | 24,206,203 | 27,789,706 |
| Investment in joint venture | | 1,201,799 | 958,537 |
| Land, buildings and equipment, net | | 229,205,190 | 230,192,579 |
| Other assets: | | | |
| Receivables from charitable gift annuities | | 789,212 | 1,233,426 |
| Funds held in trust by others and beneficial interest in trust | | 33,351,262 | 37,685,817 |
| Other assets | | 4,776,125 | 4,773,238 |
| Total assets | $ | 463,668,199 | 481,673,783 |

**DIAKON**
**AND CONTROLLED AFFILIATES**
Consolidated Balance Sheets
December 31, 2018 and 2017

| **Liabilities and Net Assets** | **2018** | **2017** |
|---|---|---|
| Current liabilities: | | |
| Lines of credit | $ — | 1,529,382 |
| Accounts payable and accrued expenses | 23,617,013 | 19,392,465 |
| Deposits – patients and residents | 710,452 | 661,963 |
| Estimated third-party payor settlements | 927,970 | 1,016,430 |
| Current maturities of long-term debt | 7,279,544 | 6,668,715 |
| Total current liabilities | 32,534,979 | 29,268,955 |
| Pension liability | 34,275,607 | 34,582,892 |
| Swap agreement | 380,717 | — |
| Deferred revenue – entrance agreements | 68,209,000 | 64,785,819 |
| Refundable entrance fee liability | 32,344,247 | 33,223,116 |
| Other long-term liabilities | 1,167,099 | 1,380,915 |
| Long-term debt, less current maturities and debt issuance costs | 232,998,686 | 240,315,098 |
| Total liabilities | 401,910,335 | 403,556,795 |
| Net assets: | | |
| Without donor restrictions | 5,499,963 | 15,175,566 |
| With donor restrictions | 56,257,901 | 62,941,422 |
| Total net assets | 61,757,864 | 78,116,988 |
| Total liabilities and net assets | $ 463,668,199 | 481,673,783 |

See accompanying notes to consolidated financial statements.

**DIAKON**
**AND CONTROLLED AFFILIATES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Operating revenues, gains and other support: | | |
| Patient and resident service revenue, net | $ 142,139,504 | 140,524,372 |
| Patient and resident service revenue, nursing home assessment | 3,801,372 | 3,868,169 |
| Amortization of entrance fees | 10,139,406 | 9,935,291 |
| Contract revenue | 14,255,858 | 12,202,254 |
| Other fees and services | 10,926,126 | 11,074,591 |
| Statewide Adoption and Permanency Network revenue | 67,597,279 | 62,008,007 |
| Investment income, net of expenses | 6,368,425 | 7,315,778 |
| Income from trusts | 1,385,739 | 1,617,440 |
| Contributions and bequests | 1,189,525 | 824,986 |
| Net assets released from restrictions – operations | 1,382,431 | 1,638,403 |
| (Loss) gain on disposal of assets | (94,642) | 3,502,725 |
| Gain on insurance proceeds | 510,229 | — |
| Total operating revenues, gains and other support | 259,601,252 | 254,512,016 |
| Expenses: | | |
| Salaries and wages | 70,657,669 | 67,728,628 |
| Employee benefits | 14,794,307 | 13,533,697 |
| Other expenses | 73,927,955 | 73,108,444 |
| Other expenses – Statewide Adoption and Permanency Network | 65,893,992 | 60,338,942 |
| Nursing home assessment | 1,945,692 | 2,060,071 |
| Interest | 9,755,476 | 9,815,765 |
| Depreciation and amortization | 18,851,092 | 17,778,621 |
| Total expenses | 255,826,183 | 244,364,168 |
| Operating income | 3,775,069 | 10,147,848 |
| Equity in gains of joint venture | 343,262 | 362,128 |
| Loss from early extinguishment of debt | (96,608) | — |
| Excess of operating revenues, gains and other support over expenses | 4,021,723 | 10,509,976 |
| Other changes: | | |
| Pension-related changes other than net periodic pension costs | 35,565 | (971,950) |
| Decrease in fair value of swap agreement | (380,717) | — |
| Unrealized (losses) gains on investments | (13,449,566) | 8,910,261 |
| Net assets released from restrictions – capital | 97,392 | 9,072 |
| Equity transfer | — | 7,287,574 |
| Total other changes | (13,697,326) | 15,234,957 |
| (Decrease) increase in net assets without donor restrictions | (9,675,603) | 25,744,933 |

**DIAKON**
**AND CONTROLLED AFFILIATES**
Consolidated Statements of Operations and Changes in Net Assets
Years ended December 31, 2018 and 2017

| | | **2018** | **2017** |
|---|---|---|---|
| Net assets with donor restrictions: | | | |
| Contributions and bequests | $ | 370,029 | 861,979 |
| Investment income, net of expenses | | 1,039,815 | 2,165,874 |
| Unrealized (losses) gains on investments | | (2,225,225) | 2,704,800 |
| Net assets released from restrictions – operations | | (1,382,431) | (1,638,403) |
| Net assets released from restrictions – capital | | (97,392) | (9,072) |
| Change in beneficial interest in trust | | (418,853) | 186,209 |
| (Decrease) increase in fair value of funds held in trust by others | | (3,969,464) | 2,942,813 |
| Equity transfer | | — | (7,287,574) |
| Decrease in net assets with donor restrictions | | (6,683,521) | (73,374) |
| (Decrease) increase in net assets | | (16,359,124) | 25,671,559 |
| Net assets, beginning of year | | 78,116,988 | 52,445,429 |
| Net assets, end of year | $ | 61,757,864 | 78,116,988 |

See accompanying notes to consolidated financial statements.

**DIAKON**
**AND CONTROLLED AFFILIATES**

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

| | | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| (Decrease) increase in net assets | $ | (16,359,124) | 25,671,559 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | | |
| Net realized gains on investments | | (131,714) | (2,726,884) |
| Net unrealized losses (gains) on investments | | 15,674,791 | (11,615,061) |
| Depreciation and amortization | | 18,851,092 | 17,778,621 |
| Amortization of debt issuance costs | | 181,387 | 169,914 |
| (Decrease) increase in pension liability | | (307,285) | 932,180 |
| Amortization of entrance fees | | (10,139,406) | (9,935,291) |
| Proceeds from entrance fees | | 14,443,745 | 14,017,103 |
| Change in funds held in trust by others and beneficial interest in trust | | 4,334,555 | (3,129,022) |
| Decrease in fair value of swap agreement | | 380,717 | — |
| Equity in gains of joint venture | | (343,262) | (362,128) |
| Loss (gain) on disposal of assets | | 94,642 | (3,502,725) |
| Loss on early extinguishment of debt | | 96,608 | — |
| Restricted contributions and investment income | | (27,413) | (1,389,450) |
| Change in assets and liabilities: | | | |
| Accounts receivable | | (2,334,446) | 1,019,797 |
| Prepaid expenses and other current assets | | (21,926) | 1,378,425 |
| Other assets | | (2,887) | 418,612 |
| Accounts payable, accrued expenses, and other liabilities | | 1,070,759 | (3,074,716) |
| Deposits – patients and residents | | 48,489 | 36,682 |
| Net cash provided by operating activities | | 25,509,322 | 25,687,616 |
| Cash flows from investing activities: | | | |
| Purchase of investments and assets limited as to use | | (28,415,544) | (26,726,029) |
| Proceeds from sales of investments and assets limited as to use | | 27,552,702 | 24,343,898 |
| Contributions and charitable gift/remainder trusts | | 444,214 | — |
| Purchase of property and equipment | | (15,018,372) | (21,323,167) |
| Proceeds from sale of property and equipment | | — | 6,200,000 |
| Net cash used in investing activities | | (15,437,000) | (17,505,298) |
| Cash flows from financing activities: | | | |
| Payment of long-term debt | | (8,138,678) | (10,868,924) |
| Proceeds from debt issuance | | 1,376,414 | 3,842,181 |
| Net (payment) proceeds on lines of credit | | (1,529,382) | 542,144 |
| Payment of debt issuance costs | | (221,314) | (83,164) |
| Proceeds from restricted contributions and investment income | | 27,413 | 1,389,450 |
| Proceeds from entrance fees | | 1,984,606 | 2,937,275 |
| Refunds of entrance fees | | (3,744,633) | (5,464,154) |
| Net cash used in financing activities | | (10,245,574) | (7,705,192) |
| Net (decrease) increase in cash and cash equivalents | | (173,252) | 477,126 |
| Cash and cash equivalents, beginning of year | | 4,520,783 | 4,043,657 |
| Cash and cash equivalents, end of year | $ | 4,347,531 | 4,520,783 |
| Supplemental schedule of noncash investing activity: | | | |
| Noncash purchases of property and equipment | $ | 2,940,000 | 810,000 |

See accompanying notes to consolidated financial statements.

## (1) Summary of Significant Accounting Policies

### *(a) Organization*

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

### *(b) Description of Controlled Affiliates*

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

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

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

DLF, a 501(c)(3) corporation, is authorized by its charter to provide management of DLSM’s and DCFCM’s investments and solicit contributions for the charitable organizations that it supports.

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

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

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

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

***(c) Basis of Consolidation***

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

***(d) Basis of Accounting***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles 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 – with donor restrictions and without donor restrictions.

*Net assets with donor restrictions* are assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Corporation. Certain restrictions may need to be maintained in perpetuity.

*Net assets without donor restrictions* are amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

***(e) Cash and Cash Equivalents***

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

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of FDIC insured limits. As of December 31, 2018, the amount held in excess of the FDIC insured limits at financial institutions was approximately $3,500,000.

***(f) Accounts Receivable***

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

***(g) Investments and Investment Income***

Investments are available for sale and are measured at fair value on the consolidated balance sheets.

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

A decline in market value of any investment below its cost basis that is deemed to be other-than-temporary results in a reduction in carrying amount to the fair value. The impairment is recognized as a loss and a new cost basis for the investment is established. No such losses were recognized in 2018 or 2017.

***(h) Assets Limited as to Use***

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

### *(i) Investment in Joint Venture*

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

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

In December 2016, the joint venture entered into an agreement with the Corporation to convert additional paid in capital of $350,000 to debt in the form of a note receivable to be paid over ten years. The note receivable was paid in full in December 2017. In December 2018, the joint venture returned additional paid in capital of $100,000.

### *(j) Land, Buildings, and Equipment*

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

Depreciable lives are determined as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support 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 restricted support. 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. Assets to be disposed of would be separately presented on the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated.

The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets. No impairment was recognized in 2018 or 2017.

### *(l) Deferred Debt Issuance Costs and Other Assets*

Debt issuance costs are amortized over the period the obligation is outstanding. Amortization expense was $181,387 and $169,914 in 2018 and 2017, respectively. Debt issuance costs incurred and subject to amortization totaled approximately $4,800,000 and $4,600,000 as of December 31, 2018 and 2017, respectively. Accumulated amortization as of December 31, 2018 and 2017, totaled $1,114,620 and $933,233, respectively.

Other noncurrent assets include goodwill of approximately $4,600,000 related to the acquisition of a continuing care retirement community within the senior living services line of service. Goodwill is analyzed at least annually by management to assess whether it is more likely than not that the senior living services reporting unit goodwill is impaired based upon qualitative factors. The Corporation did not recognize an impairment loss on goodwill for the years ended December 31, 2018 or 2017.

### *(m) 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.

### *(n) Funds Held in Trust by Others and Beneficial Interest in Trust*

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

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

### *(o) Self Insurance*

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

### *(p) 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.

### *(q) Pension Benefits*

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

The Corporation records annual amounts relating to its pension plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. The Corporation reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as an other change in unrestricted net assets on the consolidated statements of operations and changes in net assets. These amounts are amortized to net periodic cost over future periods using the corridor method. The Corporation believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

The net periodic costs are recognized as employees render the services necessary to earn the pension benefits. The funded status of the plan is reported in the pension liability caption on the consolidated balance sheets. The Corporation is required to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in unrestricted net assets on the consolidated statements of operations and changes in net assets to the extent those changes are not included in the net periodic cost.

### *(r) Derivative Instruments*

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

***(s) 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).

***(t) 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, 2018 or 2017.

***(u) Obligation to Provide Future Services to Continuing Care Residents***

The Corporation annually calculates the present value of the net cost of future services using a discount rate of 5% and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. Periodically, the Corporation engages an actuary to perform the present value calculation, which it did in 2018. As a result of the calculation, and additional analysis performed in 2017, the present value of the net cost of future services did not exceed deferred revenue; accordingly, no obligation was recorded as of December 31, 2018 or 2017.

***(v) Income Taxes***

Diakon and its controlled affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (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, 2015, and thereafter remain subject to examination by federal and state taxing authorities.

***(w) 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).

***(x) 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 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.

***(y) Loss from Early Extinguishment of Debt***

During the year ended December 31, 2018, the Corporation entered into a transaction that involved the issuance of the Wernersville Municipal Revenue Bond Series 2018 (Note 5). The proceeds from this bond were used to fully refund the previously outstanding Series 2009 Bonds and to pay for issuance costs. This transaction resulted in the recognition of a loss from early extinguishment of debt in the amount of $96,608 which is recorded on the consolidated statement of operations and changes in net assets for the year ended December 31, 2018.

***(z) 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 joint venture equity changes and loss from early extinguishment of debt.

***(aa) 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 unrealized (losses) gains on investments, pension-related changes other than net periodic pension costs, net assets released from restrictions for capital purposes, changes in the fair value of swap agreement, and a net asset transfer.

***(bb) Use of Estimates***

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

***(cc) 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, 2018 and 2017, was $7,032,788 and $7,122,163, respectively.

The State of Maryland regulation 32.02.01.20 requires licensed continuing care retirement communities to maintain an operating reserve equal to fifteen percent of the facility's net operating expenses for the most recent fiscal year. The regulations allow a provider to meet the requirement at a minimum rate of 10% per year as of the date of its first initial certificate of registration up to a total of 100% as of the end of the tenth fiscal year. DLSL-MD was required to maintain a reserve of 10.5% of net operating expenses, or $1,617,214, as of December 31, 2018, its seventh year of operation, and 9% of net operating expenses, or $1,416,840, as of December 31, 2017, its sixth year of operation. The reserves must be maintained in a reasonably liquid form in the judgment of the provider and in accordance with the provider's investment policies.

***(dd) Change in Accounting Principles***

The Company adopted the following accounting pronouncements as of January 1, 2018:

ASU 2014-09, *Revenue from Contracts with Customers*: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements. Early adoption is not permitted. The guidance permits the use of either a full retrospective or modified retrospective (cumulative effect) transition method. The Corporation adopted the full retrospective method to fiscal year's 2017 patient and resident service revenue, entrance fee contracts, charity care, nursing home assessment revenue, and contract and other fees revenue for the fiscal year 2017. The Corporation adopted this guidance on January 1, 2018. Adoption of this guidance did not have a material impact on Corporation's consolidated financial statements.

ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities:* (ASU) 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Corporation, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the year ended December 31, 2018, and thereafter and must be applied on a retrospective basis. The Corporation adopted the ASU effective January 1, 2018. Adoption of the ASU resulted in reclassifications of net assets and expanded disclosures. See Note 12, Liquidity, and Note 13, Functional Expenses.

ASU 2017-05, *Other Income-Gain and Losses from the Derecognition of Nonfinancial Assets:* (ASU) 2017-05 clarifies the guidance on accounting for the derecognition of a nonfinancial asset and includes guidance on partial sales of nonfinancial assets. The Corporation did not have any transactions impacted by this ASU for 2018 or 2017.

### *(ee) Reclassifications*

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

## (2) Revenue Recognition

### *(a) Patient and Resident Service Revenue*

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

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

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

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

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

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

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

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

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are 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 Organization'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 2018 or 2017

***(b) Entrance Fee Contracts***

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

At one of DLSM's communities, a lifecare CCRC Agreement is also offered to prospective residents. A CCRC Resident selecting a lifecare agreement can access personal care and nursing services at the same monthly fee the resident pays for their independent living accommodation. Two other DLSM communities had offered lifecare agreements prior, but no longer offer such contracts to prospective residents. As of December 31, 2018, there were 869 outstanding CCRC Agreements at DLSM and DLSL-MD collectively, of which 110 were lifecare agreements.

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

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

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

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

The amount of entrance fees which is subject to contractual refunds was approximately $55,304,000 and $56,140,000 as of December 31, 2018 and 2017, respectively.

The Corporation may receive entrance fee payments prior to the date an independent living resident occupies a living unit. Such entrance fee deposits received during 2018 and 2017 amounted to $587,327 and $680,535, respectively, and are included in refundable entrance fee liability on the accompanying consolidated balance sheets. The Corporation maintains a separate entrance fee escrow account, which is a component of cash and cash equivalents. The amount in the entrance fee escrow account covers deposit liabilities to prospective independent living residents. Such amounts in the entrance fee escrow account totaled $913,465 and $843,392 as of December 31, 2018 and 2017, respectively.

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

### *(c) Charity Care*

The Corporation provides services to patients and residents who cannot afford the full cost of care because of inadequate resources and/or who are uninsured or underinsured, and offers those persons a discount from standard charges in accordance with its benevolent care policies. Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. The Corporation considers discounts for those patients and residents who have made application for benevolent care subsidy. The monthly fees charged to such patients and residents are reduced to the amount the patient or resident can afford to pay from their resources, inclusive of any other forms of charitable support they may qualify for. The Corporation maintains records to identify and monitor the amount of charity care it provides. These records include direct and indirect costs for services and supplies furnished under its charity care policy. The total cost of charity care under these policies amounted to $3,138,241 and $2,970,117 for the years ended December 31, 2018 and 2017, 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 $675,000 and $691,000 for the years ended December 31, 2018 and 2017, respectively, to offset or subsidize charity care services provided.

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

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

| | 2018 | 2017 |
|---|---|---|
| Senior living services revenue, net: | | |
| Private pay | $ 73,127,261 | 72,810,440 |
| Medicaid | 37,851,625 | 36,624,231 |
| Medicare Part A | 17,033,076 | 17,949,524 |
| Managed care and commercial insurers | 9,541,416 | 9,676,839 |
| Medicare Part B | 4,109,555 | 3,380,060 |
| Total senior living services revenue | 141,662,933 | 140,441,094 |
| Diakon Medical Group | 467,680 | 71,976 |
| Diakon Child, Family and Community Ministries | 8,891 | 11,302 |
| Patient and resident service revenue, net | $ 142,139,504 | 140,524,372 |

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

| | 2018 | 2017 |
|---|---|---|
| Nursing care | $ 91,338,630 | 90,442,554 |
| Personal care/assisted living | 28,396,733 | 27,940,912 |
| Independent living | 21,927,570 | 22,057,628 |
| | $ 141,662,933 | 140,441,094 |

### *(e) Nursing Home Assessment*

Pennsylvania nursing providers are subject to a Nursing Home Assessment (the Assessment) which was approved by the Centers for Medicare and Medicaid Services (CMS) in September 2003. The Assessment requires all Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Human Services (DHS) based upon all non-Medicare days. DHS makes supplemental payments back to nursing home facilities based upon a standard rate per Medicaid day claimed. Total nursing home assessment revenues and expenses were $3,801,372 and $1,945,692 for 2018, respectively, and $3,868,169 and $2,060,071 for 2017, respectively.

### *(f) Contract Revenue, Other Fees and Services*

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

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

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

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

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

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

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

| | | 2018 | 2017 |
|---|---|---|---|
| DCFCM Programs: | | | |
| Youth services | $ | 3,319,559 | 3,384,651 |
| Permanency services | | 6,818,638 | 5,259,548 |
| Family life services | | 770,470 | 674,938 |
| Community services for seniors | | 1,423,838 | 1,123,042 |
| Other DCFCM | | 142,777 | 52,384 |
| DCFCM total | | 12,475,282 | 10,494,563 |
| HUD | | 1,743,403 | 1,685,163 |
| DLSM & DLSL-MD | | 37,173 | 22,528 |
| **Total Contract Revenue** | $ | **14,255,858** | **12,202,254** |
| DCFCM Programs: | | | |
| Youth services | $ | 108,097 | 104,871 |
| Permanency services | | 2,373,227 | 2,021,716 |
| Family life services | | 4,711,703 | 4,761,058 |
| Community services for seniors | | 81,914 | 67,592 |
| Adult day services | | 982,783 | 1,036,521 |
| Other DCFCM | | 90,851 | 57,005 |
| DCFCM Total | | 8,348,575 | 8,048,763 |
| HUD | | 1,508,122 | 1,481,339 |
| DLSM & DLSL-MD | | 858,937 | 744,147 |
| Diakon Medical Group | | 125,995 | 58,900 |
| Other | | 84,497 | 741,442 |
| **Total Other Fees and Services Revenue** | **$** | **10,926,126** | **11,074,591** |

### *(g) Statewide Adoption and Permanency Network Revenue*

SWAN LLC is subject to performance obligations indicated in its contract with the Pennsylvania Department of Human Services (DHS). Such performance obligations include provision of certain administrative, technical, and support services related to the operations of the Statewide Adoption and Permanency Network, as outlined in an annual workplan and budget approved by DHS. In addition to the services rendered by its own personnel, SWAN LLC contracts with third-party adoption agencies which complete various case management and related services for children in the custody of a Pennsylvania county child welfare agency. The contract price for such adoption services is a statewide standard rate for each type of service. SWAN LLC invoices DHS monthly for its provision of administrative, technical, and support services, and also for any units of service completed by adoption agencies. SWAN LLC, in turn, reimburses contracted adoption agencies on a dollar for dollar basis for completed services, following receipt of reimbursement from DHS. Revenue recognized by SWAN LLC equals the amounts invoiced to DHS as historically there have been no implicit or explicit price concessions related to the services rendered by SWAN LLC. SWAN LLC has an unsatisfied performance obligation through June 30, 2020. The revenue will be recognized over a period of time as the performance obligation is satisfied, using an output method. ASC 606 defines output methods as revenue recognized as a direct measurement of the service transferred to date relative to the remaining service promised under contract. There is no variable consideration applied to the transaction price in either the performance obligations satisfied in fiscal years 2018 and 2017, or the future unsatisfied performance obligation. There has been no revenue recognized in fiscal years 2018 or 2017, where performance obligations were satisfied in a previous period. There is approximately $98,000,000 and $163,000,000 in unsatisfied performance obligations relative to SWAN LLC as of December 31, 2018 and 2017, respectively.

### *(h) 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.

### *(i) Financing Component*

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

## (3) Assets Limited as to Use and Investments

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

| | | 2018 | 2017 |
|---|---|---|---|
| Under bond indentures for debt service reserve fund: | | | |
| Cash and short-term investments | $ | 818 | 971,501 |
| Debt service sinking fund: | | | |
| Cash and short-term investments | | 9,131,747 | 9,608,001 |
| Endowment funds: | | | |
| Cash and short-term investments | | 566,794 | 685,551 |
| Equity funds | | 7,813,568 | 8,104,338 |
| Fixed income funds | | 4,510,498 | 3,382,796 |
| Donor and other temporarily restricted funds: | | | |
| Cash and short-term investments | | 619,574 | 834,080 |
| Equity funds | | 4,652,303 | 6,972,343 |
| Fixed income funds | | 3,024,017 | 3,227,757 |
| Assets limited to use for HUD reserves: | | | |
| Cash and short-term investments | | 2,200,243 | 2,817,155 |
| By board for designated purposes: | | | |
| Entrance fees and other designated purposes: | | | |
| Cash and short-term investments | | 385,981 | 365,537 |
| Equity funds | | 8,485 | — |
| Fixed income funds | | 423,922 | 428,648 |
| Statutory minimum liquid reserves: | | | |
| Equity funds | | 3,452,408 | 4,170,560 |
| Fixed income funds | | 3,580,380 | 2,951,603 |
| Total assets limited as to use | | 40,370,738 | 44,519,870 |
| Less assets limited as to use – required for current liabilities: | | | |
| Other | | 9,131,747 | 9,608,001 |
| Assets limited as to use, less current portion | $ | 31,238,991 | 34,911,869 |

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

| | | 2018 | 2017 |
|---|---|---|---|
| Cash and short-term investments | $ | 5,117,641 | 5,641,559 |
| Equity funds | | 58,161,007 | 72,101,098 |
| Fixed income funds | | 55,617,721 | 51,027,627 |
| Alternative investment | | 3,739,460 | 4,296,648 |
| Investments | $ | 122,635,829 | 133,066,932 |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Cash and short-term investments | $ 18,022,798 | 11.1% | $ 20,923,384 | 11.8% |
| Equity funds | 74,087,771 | 45.4% | 91,348,339 | 51.4% |
| Fixed income funds | 67,156,538 | 41.2% | 61,018,431 | 34.4% |
| Alternative investment | 3,739,460 | 2.3% | 4,296,648 | 2.4% |
| | $ 163,006,567 | 100.0% | $ 177,586,802 | 100.0% |

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

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

| | 2017 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Interest and dividends, net of expenses | $ 5,291,728 | 1,463,040 | 6,754,768 |
| Net realized gains on investments | 2,024,050 | 702,834 | 2,726,884 |
| Investment income, net of expenses | 7,315,778 | 2,165,874 | 9,481,652 |
| Unrealized gain on investments | 8,910,261 | — | 8,910,261 |
| Changes in unrealized gains on net assets with donor restrictions | — | 2,704,800 | 2,704,800 |
| Total investment return | $ 16,226,039 | 4,870,674 | 21,096,713 |

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

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

| December 31, 2017 | | Less than 12 months Fair value | Less than 12 months Unrealized losses | 12 months or longer Fair value | 12 months or longer Unrealized losses | Total Fair value | Total Unrealized losses |
|---|---|---|---|---|---|---|---|
| Description of funds: | | | | | | | |
| Fixed income funds | $ | — | — | 34,933,162 | 1,060,555 | 34,933,162 | 1,060,555 |
| Equity funds | | 114,400 | 425 | 7,904,690 | 1,164,887 | 8,019,090 | 1,165,312 |
| Total temporarily impaired funds | $ | 114,400 | 425 | 42,837,852 | 2,225,442 | 42,952,252 | 2,225,867 |

The Corporation monitors its investment portfolio and reviews investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations consider, among other things, the magnitude and reasons for a decline, the prospects for the fair value to recover in the near term, and the Corporation's intent and ability to retain the investment for a period of time sufficient to allow for a recovery in value. The declines in fair value as of December 31, 2018 and 2017, are considered temporary.

## (4) Land, Buildings, and Equipment

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

| | | 2018 | 2017 |
|---|---|---|---|
| Land | $ | 16,385,689 | 16,385,689 |
| Land improvements | | 28,040,422 | 27,764,753 |
| Buildings | | 370,503,403 | 354,655,266 |
| Furniture and equipment | | 44,698,387 | 42,783,395 |
| Vehicles | | 515,381 | 503,009 |
| | | 460,143,282 | 442,092,112 |
| Accumulated depreciation | | (241,063,592) | (222,276,148) |
| | | 219,079,690 | 219,815,964 |
| Construction in progress | | 10,125,500 | 10,376,615 |
| | $ | 229,205,190 | 230,192,579 |

Depreciation expense for the years ended December 31, 2018 and 2017, was $18,851,092 and $17,778,621, respectively.

Construction in progress as of December 31, 2018 and 2017, is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Non-cash purchases of land, buildings, and equipment totaled approximately $2,940,000 and $810,000 for the years ended December 31, 2018 and 2017, respectively.

## (5) 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 assets/liabilities and activities of the Medical Arts Building in Allentown, Pennsylvania. Additionally, the Obligated Group excludes the activities of the following legal entities, of which DLSM is the sole member: 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:

| | 2018 | 2017 |
|---|---|---|
| <u>Obligated Group:</u> | | |
| Wernersville Municipal Authority Bond Series 2018, $8,326,000 of tax exempt fixed interest rate bonds with principal payable in annual installments ranging from $182,000 to $1,160,000 through 2039. The interest rate is 3.63%. | $ 8,326,000 | - |
| 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%. | 30,915,000 | 32,765,000 |
| 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%. | 139,430,000 | 142,410,000 |
| Cumberland County Municipal Authority Bonds Series A 2014, $22,728,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $35,000 to $136,000 through 2039. The Series A 2014 are direct placement notes with PNC Bank with an interest rate of 2.46% as of December 31, 2018. | 20,374,000 | 20,937,000 |

| | 2018 | 2017 |
|---|---|---|
| Washington County, Maryland Bonds Series C 2014, $18,798,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $43,000 to $131,000 through 2033. The Series C 2014 are direct placement notes with PNC Bank with an interest rate of 2.46% as of December 31, 2018. | 15,708,000 | 16,449,000 |
| Cumberland County Municipal Authority Bonds Series 2009, $123,210,000 of tax-exempt fixed interest rate bonds with post refunding principal payable in annual installments ranging from $60,000 to $1,365,000 through 2039. Interest rates post refunding range from 6.175% to 6.375%. | - | 9,180,000 |
| 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 3.07% to 4.22% and monthly payments, including interest, ranging from $12,144 to $30,274 through 2051. | 13,823,822 | 14,083,537 |
| Maxatawny Township Municipal Authority, Revenue Note Series 2017, with a maximum principal amount of $6,100,000. The mortgage note is collateralized by rental proceeds of Old Main LLC and certain endowment distributions. The note bears interest at a floating rate of 2.0% plus sixty-seven percent (67%) of 30-day LIBOR. Monthly payments are interest only through March 2019. Effective April 1, 2019, monthly interest and principal installments are payable. | 5,218,595 | 3,842,181 |
| | 233,795,417 | 239,666,718 |
| Less current maturities of bonds and mortgages payable | (7,279,544) | (6,668,715) |
| Unamortized debt issuance costs | (3,724,775) | (3,684,850) |
| Unamortized premium | 10,207,588 | 11,001,945 |
| | $ 232,998,686 | 240,315,098 |

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

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

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

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

A mortgage note with a maximum principal amount of $6,100,000 was issued on March 23, 2017, for Old Main LLC, the proceeds of which were utilized to undertake a substantial renovation of a portion of the Old Main building located on the campus of the Lutheran Home at Topton. Proceeds were drawn as project expenditures were incurred, with draws on the note totaling $5,218,595 and $3,842,181 as of December 31, 2018 and 2017, respectively. Final completion of the renovation project occurred approximately January 31, 2018. Old Main LLC executed lease arrangements with DLSM and DCFCM, which occupy space in the renovated building, and such lease payments serve as collateral for the loan obligation.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2018:

| | Scheduled maturity |
|---|---|
| 2019 | $ 7,279,544 |
| 2020 | 7,534,414 |
| 2021 | 7,851,525 |
| 2022 | 8,201,082 |
| 2023 | 8,549,103 |
| Thereafter | 194,379,749 |
| | $ 233,795,417 |

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $10,110,943 and $10,527,968 for the years ended December 31, 2018 and 2017, respectively. There was no capitalized interest in 2018 or 2017.

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

| | **2018** | **2017** |
|---|---|---|
| DLSM Obligated Group | 3.98% | 3.89% |
| Obligations outside of the Obligated Group | 3.88 | 3.73 |
| Combined | 3.97 | 3.88 |

## (6) Lines of Credit

DLSM has a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $20,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.75% (5.26% as of December 31, 2018). Amounts ranging from $0 to $3,866,890 were outstanding for various periods during 2018 and 2017. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2018 and 2017. The bank line of credit is secured on a parity basis with the Obligated Group's outstanding bonds. In addition to the line of credit, DLSM had unused outstanding letters of credit with M&T in the amount of $3,516,347 for each of the years ended December 31, 2018 and 2017.

In 2014, DCFCM entered into a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.35% (4.86% as of December 31, 2018). Amounts ranging from $0 to $2,013,347 were outstanding for various periods during 2018 and 2017. Borrowings outstanding under the line of credit totaled $0 and $1,529,382 as of December 31, 2018 and 2017, respectively. The bank line of credit is secured by DCFCM's accounts receivable and a $1,000,000 guarantee by DLF's investments.

## (7) Fair Value

### *(a) Financial Instruments*

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

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

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

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

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

*Funds held in trust by others and beneficial interest in trust* – These assets are carried at fair value, which is based on quoted market prices for the underlying securities held by the trusts multiplied by the Corporation's percentage interest in the trusts. The inputs to fair value of these trusts are classified as Level 3 based upon the Corporation's inability to redeem its investment at the net asset value. The activity for the Level 3 classified input from December 31, 2017, to December 31, 2018, is the increase in the fair value of the underlying assets.

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

The fair value of the Corporation's long-term debt was $246,265,278 and $299,459,662 as of December 31, 2018 and 2017, respectively.

### *(b) Fair Value Hierarchy*

The Corporation determines fair value measurements using the fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

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

| | Fair value measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | **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 | $ 20,923,384 | — | — | 20,923,384 |
| Fixed income funds: | | | | |
| Short term | 16,272,840 | — | — | 16,272,840 |
| Intermediate term | 44,745,591 | — | — | 44,745,591 |
| Equity funds: | | | | |
| International | 40,098,120 | — | — | 40,098,120 |
| Large cap | 44,254,709 | — | — | 44,254,709 |
| Small cap | 6,995,510 | — | — | 6,995,510 |
| Funds valued at NAV: | | | | |
| Master Limited Partnership | | | | 4,224,488 |
| Other | | | | 72,160 |
| Funds held in trust by others and beneficial interest in trust | — | — | 37,685,817 | 37,685,817 |
| Total assets | $ 173,290,154 | — | 37,685,817 | 215,272,619 |

Alternative investments measured at net asset value were excluded from the fair value hierarchy as of December 31, 2018 and 2017, as required by ASU 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).*

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

| | Investments measured at fair value based on net asset value (NAV) per share as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
| Master Limited Partnership | $ 4,224,488 | — | Daily | 1 Day |
| Other | 72,160 | — | Daily | 1 Day |
| Total | $ 4,296,648 | — | | |

The changes in funds held in trust by others and beneficial interest in trust measured at fair value as Level III assets are summarized as follows for the years ending December 31:

| | 2018 | 2017 |
|---|---|---|
| Balance, beginning of year | $ 37,685,817 | 34,556,795 |
| Change in valuation | (4,334,555) | 3,129,022 |
| Balance, end of year | $ 33,351,262 | 37,685,817 |

## (8) Derivative Instrument

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

The swap was structured with the Obligated Group receiving payments on a floating leg equal to 79% of LIBOR plus a fixed spread equal to .95% on the outstanding notional amount of the swap to be paid semi-annually and the Obligated Group making payments on a fixed leg equal to 3.63% on the outstanding notional amount of the swap also semi-annually. The term of the swap is October 18, 2018, to October 1, 2030. The swap is considered an effective cash flow hedge under hedge accounting standards.

## (9) Pension Benefits

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

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

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

| | Pension benefits 2018 | Pension benefits 2017 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 101,343,679 | 96,576,856 |
| Interest cost | 3,386,726 | 3,692,141 |
| Change in assumptions | (7,665,337) | 5,071,928 |
| Actuarial loss | 215,490 | 553,853 |
| Benefit payments | (4,681,290) | (4,551,099) |
| Benefit obligation at end of year | 92,599,268 | 101,343,679 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 66,760,787 | 62,926,144 |
| Actual return on plan assets, net of expenses | (3,755,836) | 8,385,742 |
| Benefit payments | (4,681,290) | (4,551,099) |
| Fair value of plan assets at end of year | 58,323,661 | 66,760,787 |
| Funded status | $ (34,275,607) | (34,582,892) |

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

| | 2018 | 2017 |
|---|---|---|
| Noncurrent liabilities | $ 34,275,607 | 34,582,892 |
| Net assets without donor restrictions | (38,331,220) | (38,366,785) |
| Net amount recognized | $ (4,055,613) | (3,783,893) |

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

| | | 2018 | 2017 |
|---|---|---|---|
| Net actuarial loss | $ | (38,331,220) | (38,366,785) |
| | $ | (38,331,220) | (38,366,785) |

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:

| | | 2018 | 2017 |
|---|---|---|---|
| Net estimated gain (loss) | $ | 35,565 | (971,950) |
| Total recognized in net assets without donor restrictions | $ | 35,565 | (971,950) |

The net loss for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year is $1,211,304.

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

| | | 2018 | 2017 |
|---|---|---|---|
| Interest cost | $ | 3,386,726 | 3,692,141 |
| Expected return on plan assets | | (4,795,500) | (4,817,888) |
| Amortization of net loss | | 1,137,054 | 1,085,986 |
| Net periodic benefit cost (benefit) | $ | (271,720) | (39,761) |

| | | 2018 | 2017 |
|---|---|---|---|
| Benefit cost (benefit) | $ | (271,720) | (39,761) |
| Benefits paid | | 4,681,290 | 4,551,099 |

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

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 4.07% | 3.43% |

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

| | **2018** | **2017** |
|---|---|---|
| Discount rate | 3.43% | 3.91% |
| Expected long-term rate of return on plan assets | 7.50 | 8.00 |

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, 2018 and 2017, the Corporation has invested approximately 22% of the pension plan assets into alternative investments, including a special situations master feeder fund (7%), a core property real estate fund (11%), and an energy debt fund (4%). The Corporation's risk management policies permit investments in mutual funds. The Corporation addresses diversification by the use of private mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are only available to institutional investors and are not traded on a public exchange; however, they can be sold to fund benefit payment obligations as they become payable without restriction.

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

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

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

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

| | Fair value measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | **Total** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Asset category: | | | | |
| Cash and short-term investments: | | | | |
| SEI daily income prime obligation fund | $ 202 | 202 | — | — |
| Equity funds: | | | | |
| Large cap disciplined | 12,177,867 | 12,177,867 | — | — |
| Small/mid cap | 4,757,511 | 4,757,511 | — | — |
| World Equity Ex-U.S. | 12,625,055 | 12,625,055 | — | — |
| Dynamic asset allocation | 5,254,605 | 5,254,605 | — | — |
| Emerging markets equity fund | 1,607,278 | 1,607,278 | — | — |
| Fixed income funds: | | | | |
| High yield bond fund | 2,562,879 | 2,562,879 | — | — |
| Limited duration bond fund | 2,545,763 | 2,545,763 | — | — |
| Emerging markets debt fund | 2,608,472 | 2,608,472 | — | — |
| Core fixed income fund | 5,624,839 | 5,624,839 | — | — |
| Opportunistic income fund | 2,566,246 | 2,566,246 | — | — |
| Plan assets valued at NAV: | | | | |
| Core property collective investment trust | 8,256,869 | | | |
| Special situations collective fund | 3,904,848 | | | |
| Energy debt fund | 2,268,353 | | | |
| Total | $ 66,760,787 | 52,330,717 | — | — |

Alternative investments measured at net asset value were excluded from the fair value hierarchy as of December 31, 2018 and 2017, as required by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent).*

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

| | Plan assets measured at fair value based on net asset value (NAV) per share as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
| Core property collective investment trust | $ 8,256,869 | — | Daily | 1 Day |
| Special situations collective fund | 3,904,848 | — | Daily | 1 Day |
| Energy debt fund | 2,268,353 | — | Daily | 1 Day |
| Total | $ 14,430,070 | — | | |

The special situations fund has an initial lock-up period of twenty-four months.

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

| | 2018 | 2017 |
|---|---|---|
| Asset category: | | |
| Equity funds | 52% | 54% |
| Fixed income funds | 26 | 24 |
| Alternative investments | 22 | 22 |
| Total | 100% | 100% |

The Corporation does not expect to make any contributions to its pension plan in 2019.

The estimated benefit payments, which reflect expected future service, as appropriate, are as follows as of December 31, 2018:

| | | |
|---|---|---|
| 2019 | $ | 5,338,758 |
| 2020 | | 5,403,812 |
| 2021 | | 5,501,397 |
| 2022 | | 5,615,034 |
| 2023 | | 5,669,156 |
| 2024 – 2028 | | 28,330,253 |

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $447,392 and $427,099 for the years ended December 31, 2018 and 2017, respectively.

## (10) Net Assets with Donor Restrictions

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

| | 2018 | 2017 |
|---|---|---|
| **Subject to expenditure for specified purpose:** | | |
| Beneficial interest in trust for senior living residents at Twining campus | $ 230,959 | 436,000 |
| Promises to give for senior living program activities | 5,922 | 72,592 |
| Promises to give for DCFCM program activities | 4,175 | 5,000 |
| Promises to give for employee wellness | - | 10,000 |
| Capital projects for senior living services | 558,474 | 621,791 |
| Capital projects for DCFCM | 13,997 | - |
| Senior living services program activities | 249,182 | 226,234 |
| DCFCM program activities | 317,724 | 210,592 |
| Employee assistance and wellness | 35,696 | 18,196 |
| Chaplain activities | 27,855 | 16,525 |
| Other | 70,207 | - |
| | **1,514,191** | **1,616,930** |
| **Subject to the passage of time:** | | |
| Charitable remainder trust | 1,118,616 | 1,332,428 |
| Charitable gift annuities | 695,761 | 1,115,283 |
| Promises to give that are not restricted by donors, but which are unavailable for expenditure until due | 61,650 | 45,000 |
| Life insurance gifts | 190,773 | 187,886 |
| | **2,066,800** | **2,680,597** |
| **Endowments** | | |
| **Subject to appropriation and expenditure when a specified event occurs:** | | |
| Support of specific SLS programs | 430,972 | 456,467 |
| Support of specific DCFCM programs | 506,486 | 544,660 |
| Promises to give for senior living benevolent care | 6,425 | 23,500 |
| Charitable gift annuities for senior living benevolent care | 93,451 | 118,143 |
| | **1,037,334** | **1,142,770** |

| | | |
|---|---|---|
| **Subject to endowment spending policy and appropriation:** | | |
| Senior living benevolent care | 4,177,268 | 4,358,581 |
| Senior living program activities | 6,671,249 | 7,458,539 |
| Program activities for a specific senior living campus | 4,345,522 | 4,850,254 |
| DCFCM program activities | 2,207,805 | 2,469,103 |
| Employee tuition assistance | 615,971 | 672,696 |
| Scholarships | 1,484,188 | 1,589,928 |
| As defined by donor | 135,886 | 184,635 |
| | **19,637,889** | **21,583,736** |
| **Funds held in trust by others** | | |
| **Subject to appropriation and expenditure when a specified event occurs:** | | |
| Staff and resident programs | 144,395 | 163,952 |
| General use | 31,857,292 | 35,753,437 |
| | **32,001,687** | **35,917,389** |
| **Total net assets with donor restrictions** | **$ 56,257,901** | **62,941,422** |

The Corporation completed a significant process update over the course of 2017, involving its internal recordkeeping and tracking for the investment portfolio. Part of such effort was also to update the internal tracking and recordkeeping of the endowment component of the investment portfolio. In the course of such activities, Management identified a fund within the DLSM endowment portfolio without external donor designation, and for which the Corporation has not actively solicited new contributions. Additional research and inquiry resulted in Management concluding that such funds, including corpus and earnings, totaling $7,287,574 as of November 30, 2017, were a Board created quasi-endowment without an external restriction. A resolution was passed by the DLSM Board of Directors on November 1, 2017, approving the transfer of such funds from net assets with donor restrictions to net assets without donor restrictions.

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

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of the organization

(7) The investment policies of the organization

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the laws of the Commonwealth of Pennsylvania require the Corporation to retain as a fund of perpetual duration. No such deficiencies of this nature are reported in net assets without donor restrictions as of December 31, 2018 or 2017. The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets in relation to inflation trends. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity.

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

## (11) Medical Malpractice Claims Coverage and Self Insurance

The Corporation purchases professional liability and umbrella liability coverage through a carrier, on a claims made basis. Management has evaluated claims incurred but not reported. Based on the Corporation’s claims history, management has not recorded a liability for claims incurred but not reported as of December 31, 2018 or 2017. The Corporation believes it has adequate insurance coverage or reserves for all asserted claims and unasserted claims.

The Corporation participates in a self-insured program for its workers' compensation insurance. In the case of catastrophes or other events that would cause excessive workers' compensation claims, the Corporation is reinsured for losses in excess of $600,000 per occurrence as of December 31, 2018 and 2017. Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported and approximated $1,624,000 and $1,990,000 as of December 31, 2018 and 2017, respectively, and are reported within accounts payable and accrued expenses and other long-term liabilities captions on the consolidated balance sheets. In addition, the Corporation maintains a $2,500,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation's health insurance benefits program changed in January 2015 from a fully insured retrospectively rated cost plan whereby the Corporation's liability was subject to a range of potential exposure with an annual individual claim limitation to a self-funded plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $360,000 and $365,000 as of December 31, 2018 and 2017, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

## (12) Liquidity

As of December 31, 2018, the Corporation had $4,347,531 of cash and $122,635,829 of unrestricted investments available to meet the cash needs of the Corporation over the next twelve months. Additionally, the Corporation had $40,370,738 of assets limited as to use which consist of endowments, other donor restricted funds, funds held for the Pennsylvania statutory liquid reserve requirement, and debt service funds which are not available for general expenditures. The unrestricted portion of the Corporation's investments are not limited by specific board designations regarding use; however, the Corporation has an investment policy which establishes the goals for the investment portfolio, investment selection guidelines and limitations, and portfolio allocation ranges by investment category. The Corporation has assigned investment policy oversight and governance responsibilities for all investments of the Corporation to the DLF board of directors. The DLF board meets regularly with Management and a third-party investment advisor to review investment performance, security selection, and discuss changes in investment strategy. The Corporation places a certain amount of reliance on investment income and dividend distributions from the investment portfolio to support its operating liquidity needs; accordingly, the Corporation periodically transfers such amounts from the investment portfolio to its operating cash. To the extent accumulated income and dividend distributions are in excess of the amount needed for operations, such amounts are redeployed in the investment portfolio in accordance with the investment policy guidelines. Cash balances are monitored regularly by management to ensure appropriate liquidity to cover general expenditures, and the Corporation maintains two lines of credit with M&T as described in Note 6 to manage short-term changes in cash flow.

## (13) Functional Expenses

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

# DIAKON
# AND CONTROLLED AFFILIATES

## Schedules of Functional Expenses

## December 31, 2018 and 2017

**For the Year ended December 31, 2018**

| | Program Activities | | | | | | Supporting Activities | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior Living Services | DCFCM | HUD | SWAN LLC | DMG | **Programs Subtotal** | Management and General | Fundraising | **Supporting Subtotal** | **Total Expenses** |
| Salaries, benefits and staff costs | $ 62,350,396 | 11,637,269 | 737,352 | 1,324,972 | 1,002,603 | **77,052,592** | 9,919,550 | 693,739 | **10,613,289** | **87,665,881** |
| Utilities | 5,658,378 | 376,097 | 457,025 | 189,120 | 5,944 | **6,686,564** | 1,072,020 | 5,280 | **1,077,300** | **7,763,864** |
| Maintenance and repairs | 4,241,106 | 171,904 | 387,319 | 262,822 | 1,628 | **5,064,779** | 1,648,127 | 34,378 | **1,682,505** | **6,747,284** |
| Contracted costs | 32,803,559 | 783,821 | 12,190 | 61,465,936 | 10,624 | **95,076,130** | 2,439,921 | 51,471 | **2,491,392** | **97,567,522** |
| Program costs | 7,098,150 | 2,899,827 | 79,884 | 259,639 | 72 | **10,337,572** | 27,602 | 2,924 | **30,526** | **10,368,098** |
| Administrative costs | 5,935,919 | 2,237,102 | 300,396 | 1,476,784 | 67,836 | **10,018,037** | 3,033,948 | 229,038 | **3,262,986** | **13,281,023** |
| Management fee | - | - | - | - | - | **-** | 1,880,251 | - | **1,880,251** | **1,880,251** |
| Nursing home assessment | 1,945,692 | - | - | - | - | **1,945,692** | - | - | **-** | **1,945,692** |
| Interest | 8,904,682 | - | 573,035 | - | - | **9,477,717** | 277,759 | - | **277,759** | **9,755,476** |
| Depreciation and amortization | 16,114,210 | 337,415 | 723,432 | - | - | **17,175,057** | 1,676,035 | - | **1,676,035** | **18,851,092** |
| **Total Expenses** | **$ 145,052,092** | **18,443,435** | **3,270,633** | **64,979,273** | **1,088,707** | **232,834,140** | **21,975,213** | **1,016,830** | **22,992,043** | **255,826,183** |

**For the Year ended December 31, 2017**

| | Program Activities | | | | | | Supporting Activities | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior Living Services | DCFCM | HUD | SWAN LLC | DMG | **Programs Subtotal** | Management and General | Fundraising | **Supporting Subtotal** | **Total Expenses** |
| Salaries, benefits and staff costs | $ 60,164,998 | 10,456,798 | 708,422 | 1,243,138 | 489,508 | **73,062,864** | 10,199,153 | 888,126 | **11,087,279** | **84,150,143** |
| Utilities | 5,337,760 | 378,539 | 459,361 | 199,703 | 1,201 | **6,376,564** | 1,042,061 | 7,743 | **1,049,804** | **7,426,368** |
| Maintenance and repairs | 4,335,906 | 167,710 | 254,394 | 210,297 | 932 | **4,969,239** | 1,556,207 | 46,570 | **1,602,777** | **6,572,016** |
| Contracted costs | 32,527,173 | 906,718 | 9,535 | 56,282,464 | 19,478 | **89,745,368** | 2,675,484 | 52,186 | **2,727,670** | **92,473,038** |
| Program costs | 7,096,679 | 2,129,764 | 74,629 | 236,687 | 606 | **9,538,365** | 48,525 | 4,091 | **52,616** | **9,590,981** |
| Administrative costs | 5,822,409 | 2,120,925 | 281,983 | 1,324,620 | 32,291 | **9,582,228** | 2,738,818 | 433,980 | **3,172,798** | **12,755,026** |
| Management fee | - | - | - | - | - | **-** | 1,742,139 | - | **1,742,139** | **1,742,139** |
| Nursing home assessment | 2,060,071 | - | - | - | - | **2,060,071** | - | - | **-** | **2,060,071** |
| Interest | 8,988,985 | - | 584,394 | - | - | **9,573,379** | 242,386 | - | **242,386** | **9,815,765** |
| Depreciation and amortization | 15,473,857 | 242,510 | 634,588 | - | - | **16,350,955** | 1,427,666 | - | **1,427,666** | **17,778,621** |
| **Total Expenses** | **$ 141,807,838** | **16,402,964** | **3,007,306** | **59,496,909** | **544,016** | **221,259,033** | **21,672,439** | **1,432,696** | **23,105,135** | **244,364,168** |

## (14) Commitments and Contingencies

The Corporation has entered into various construction contracts related to campus repositioning activities at certain senior living communities. Contractual commitments as of December 31, 2018, totaled approximately $1,330,000.

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.

## (15) Operating Leases

The Corporation has a number of leased facilities to conduct its operations, all of which are classified as operating leases, expiring over the next five years. The Corporation also has a number of leases covering certain equipment and vehicles, which are also classified operating leases.

The future minimum annual lease payments under noncancelable operating leases in effect as of December 31, 2018, which have initial or remaining terms of more than one year, are as follows:

| | | |
|---|---|---|
| 2019 | $ | 1,151,498 |
| 2020 | | 868,015 |
| 2021 | | 570,723 |
| 2022 | | 484,419 |
| 2023 | | 379,520 |
| | $ | 3,454,175 |

Total lease expense was $1,764,100 and $1,769,949 for the years ended December 31, 2018 and 2017, respectively.

## (16) Subsequent Events

On January 31, 2019, the Cumberland County Municipal Authority issued $19,535,000 of Series A of 2019 revenue bonds and the County Commissioners of Washington County issued $14,325,000 of Series B of 2019 revenue bonds, the proceeds of which were used to refund the Obligated Group's Series 2014 A and Series 2014 C Bonds and to pay for costs of issuance. The Series A of 2019 Bonds have principal installments of $1,350,000, due July 1, 2019, $1,410,000, due January 1, 2031, and $12,870,000, due January 1, 2039, the final maturity date. The Series A of 2019 Bonds were issued at a fixed interest rate with an average yield of 3.9%. The Series B of 2019 Bonds have annual principal installments due January 1 of each year, ranging from $395,000 to $1,660,000, and a final maturity of January 1, 2032. The Series B of 2019 Bonds were issued at a fixed interest rate with an average yield of 2.9%.

The Corporation has evaluated subsequent events through April 17, 2019, the date the consolidated financial statements were issued, and determined there were no additional subsequent events requiring disclosure or adjustment to the consolidated financial statements.

Schedule 1

**DIAKON**
**AND CONTROLLED AFFILIATES**

Schedule of Consolidating Information, Balance Sheet

December 31, 2018

| Assets | DLSM Obligated Group | Nonobligated Group: Diakon | Nonobligated Group: Diakon Lutheran Fund | Nonobligated Group: Diakon Lutheran Senior Living Maryland LLC | Nonobligated Group: Diakon Child, Family & Community Ministries | Nonobligated Group: Old Main LLC | Nonobligated Group: Other | Elimination entries | Total |
|---|---|---|---|---|---|---|---|---|---|
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | $ 1,266,700 | 270,438 | — | 454,790 | 400,417 | — | 1,955,186 | — | 4,347,531 |
| Assets limited as to use | 9,131,747 | — | — | — | — | — | — | — | 9,131,747 |
| Accounts receivable, net (Note 1) | | | | | | | | | |
| Patients and residents | 13,023,775 | — | — | 1,200,601 | 116,829 | — | 105,496 | — | 14,446,701 |
| Statewide Adoption and Permanency Network | — | — | — | — | — | — | 5,117,316 | — | 5,117,316 |
| Other client services | 732,974 | — | — | — | 2,774,331 | — | — | (644,555) | 2,862,750 |
| Intercompany | 3,960,601 | 143,179 | 680,257 | (3,001,271) | 737,121 | (247,834) | (2,272,053) | — | — |
| Estimated third-party payor settlements | 1,982,471 | — | — | 106,355 | — | — | 3 | — | 2,088,829 |
| Lease receivable current | 1,589,303 | — | — | — | — | — | — | (1,589,303) | — |
| Prepaid expenses and other assets | 2,210,555 | — | 5,200 | 140,112 | 42,691 | — | 76,359 | — | 2,474,917 |
| Total current assets | 33,898,126 | 413,617 | 685,457 | (1,099,413) | 4,071,389 | (247,834) | 4,982,307 | (2,233,858) | 40,469,791 |
| Investments | 101,917,372 | 952,917 | 16,664,567 | 2,996,890 | 104,083 | — | — | — | 122,635,829 |
| Assets limited as to use, less current portion: | | | | | | | | | |
| Statutory minimum liquid reserves | 7,032,788 | — | — | — | — | — | — | — | 7,032,788 |
| Other | 16,253,616 | — | 2,627,639 | 169,755 | 2,954,950 | — | 2,200,243 | — | 24,206,203 |
| Investment in joint venture | 1,111,849 | 89,950 | — | — | — | — | — | — | 1,201,799 |
| Land, buildings, and equipment, net | 206,548,727 | — | — | 17,882,873 | 1,146,439 | 5,161,608 | 5,985,333 | (7,519,790) | 229,205,190 |
| Other assets: | | | | | | | | | |
| Receivables from charitable gift annuities | 789,212 | — | — | — | — | — | — | — | 789,212 |
| Funds held in trust by others and beneficial interest in trust | 25,388,258 | — | 7,963,004 | — | — | — | — | — | 33,351,262 |
| Lease receivable long term | 10,091,449 | — | — | — | — | — | — | (10,091,449) | — |
| Other assets | 4,776,125 | — | — | — | — | — | — | — | 4,776,125 |
| Total assets | $ 407,807,522 | 1,456,484 | 27,940,667 | 19,950,105 | 8,276,861 | 4,913,774 | 13,167,883 | (19,845,097) | 463,668,199 |

Schedule 1

**DIAKON**
**AND CONTROLLED AFFILIATES**

Schedule of Consolidating Information, Balance Sheet

December 31, 2018

| | | | Nonobligated Group | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and Net Assets (Deficit)** | **DLSM Obligated Group** | **Diakon** | **Diakon Lutheran Fund** | **Diakon Lutheran Senior Living Maryland LLC** | **Diakon Child, Family & Community Ministries** | **Old Main LLC** | **Other** | **Elimination entries** | **Total** |
| Current liabilities: | | | | | | | | | |
| Lines of credit | $ — | — | — | — | — | — | — | — | — |
| Accounts payable and accrued expenses | 17,773,425 | 88,351 | — | 254,071 | 422,232 | — | 5,802,297 | (723,363) | 23,617,013 |
| Deposits – patients and residents | 586,552 | 968 | — | 5,000 | — | — | 117,932 | — | 710,452 |
| Estimated third-party payor settlements | 927,970 | — | — | — | — | — | — | — | 927,970 |
| Current obligation under capital lease | — | — | — | 454,784 | — | — | — | (454,784) | — |
| Current maturities of long-term debt | 6,853,000 | — | — | — | — | 156,558 | 269,986 | — | 7,279,544 |
| Total current liabilities | 26,140,947 | 89,319 | — | 713,855 | 422,232 | 156,558 | 6,190,215 | (1,178,147) | 32,534,979 |
| Pension liability | 34,275,607 | — | — | — | — | — | — | — | 34,275,607 |
| Swap agreement | 380,717 | — | — | — | — | — | — | — | 380,717 |
| Deferred revenue – entrance agreements | 64,589,459 | — | — | 3,619,541 | — | — | — | — | 68,209,000 |
| Refundable entrance fee liability | 28,297,183 | — | — | 4,047,064 | — | — | — | — | 32,344,247 |
| Other long-term liabilities | 1,162,980 | — | — | — | — | — | 4,119 | — | 1,167,099 |
| Long-term obligation under capital lease | — | — | — | 19,998,814 | — | — | — | (19,998,814) | — |
| Long-term debt, less current maturities and debt issuance costs | 215,452,596 | — | — | — | — | 4,985,621 | 12,560,469 | — | 232,998,686 |
| Total liabilities | 370,299,489 | 89,319 | — | 28,379,274 | 422,232 | 5,142,179 | 18,754,803 | (21,176,961) | 401,910,335 |
| Net assets (deficit): | | | | | | | | | |
| Without donor restrictions | (5,450,828) | 1,367,165 | 17,282,036 | (8,551,469) | 5,336,520 | (228,405) | (5,586,920) | 1,331,864 | 5,499,963 |
| With donor restrictions | 42,958,861 | — | 10,658,631 | 122,300 | 2,518,109 | — | — | — | 56,257,901 |
| Total net assets (deficit) | 37,508,033 | 1,367,165 | 27,940,667 | (8,429,169) | 7,854,629 | (228,405) | (5,586,920) | 1,331,864 | 61,757,864 |
| Total liabilities and net assets (deficit) | $ 407,807,522 | 1,456,484 | 27,940,667 | 19,950,105 | 8,276,861 | 4,913,774 | 13,167,883 | (19,845,097) | 463,668,199 |

See accompanying independent auditor's report.

Schedule 2

**DIAKON**
**AND CONTROLLED AFFILIATES**

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

Year ended December 31, 2018

| | DLSM Obligated Group | Nonobligated Group: Diakon | Nonobligated Group: Diakon Lutheran Fund | Nonobligated Group: Diakon Lutheran Senior Living Maryland LLC | Nonobligated Group: Diakon Child, Family & Community Ministries | Nonobligated Group: Old Main LLC | Nonobligated Group: Other | Subtotal | Elimination entries | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating revenues, gains and other support: | | | | | | | | | | |
| Patient and resident service revenue, net | $ 127,426,898 | — | — | 14,236,035 | 8,891 | — | 467,680 | 142,139,504 | — | 142,139,504 |
| Patient and resident service revenue, nursing home assessment | 3,801,372 | — | — | — | — | — | — | 3,801,372 | — | 3,801,372 |
| Amortization of entrance fees | 9,673,467 | — | — | 465,939 | — | — | — | 10,139,406 | — | 10,139,406 |
| Contract revenue | 37,173 | — | — | — | 12,475,282 | — | 1,743,403 | 14,255,858 | — | 14,255,858 |
| Grants from affiliates | 31,750 | — | — | — | 1,622,935 | 212,278 | — | 1,866,963 | (1,866,963) | — |
| Other fees and services | 6,243,354 | 29,272 | — | 59,132 | 8,348,575 | — | 1,500,344 | 16,180,677 | (5,254,551) | 10,926,126 |
| Statewide Adoption and Permanency Network revenue | — | — | — | — | — | — | 67,597,279 | 67,597,279 | — | 67,597,279 |
| Investment income, net of expenses | 5,875,749 | 40,075 | 1,170,985 | 215,630 | 20,739 | — | 1,019 | 7,324,197 | (955,772) | 6,368,425 |
| Income from trusts | 1,064,627 | — | 321,112 | — | — | — | — | 1,385,739 | — | 1,385,739 |
| Contributions and bequests | 674,905 | — | 17,990 | 235 | 494,685 | — | 1,710 | 1,189,525 | — | 1,189,525 |
| Net assets released from restrictions – operations | 880,620 | — | 154,783 | 17,319 | 329,709 | — | — | 1,382,431 | — | 1,382,431 |
| Loss on disposal of assets | (14,630) | — | — | — | (21,329) | — | (58,683) | (94,642) | — | (94,642) |
| Gain on insurance proceeds | 8,608 | — | — | — | — | — | 501,621 | 510,229 | — | 510,229 |
| Total operating revenues, gains and other support | 155,703,893 | 69,347 | 1,664,870 | 14,994,290 | 23,279,487 | 212,278 | 71,754,373 | 267,678,538 | (8,077,286) | 259,601,252 |
| Expenses: | | | | | | | | | | |
| Salaries and wages | 54,039,229 | — | — | 5,059,647 | 9,373,367 | — | 2,185,426 | 70,657,669 | — | 70,657,669 |
| Employee benefits | 11,167,751 | — | — | 1,032,487 | 2,176,388 | — | 417,681 | 14,794,307 | — | 14,794,307 |
| Other expenses | 60,451,550 | 28,849 | 1,425,732 | 7,375,840 | 9,355,420 | 56,511 | 1,671,652 | 80,365,554 | (6,437,599) | 73,927,955 |
| Other expenses – Statewide Adoption and Permanency Network | — | — | — | — | — | — | 66,577,907 | 66,577,907 | (683,915) | 65,893,992 |
| Nursing home assessment | 1,945,692 | — | — | — | — | — | — | 1,945,692 | — | 1,945,692 |
| Interest | 9,000,533 | — | — | 1,156,540 | 11,586 | 170,322 | 573,035 | 10,912,016 | (1,156,540) | 9,755,476 |
| Depreciation and amortization | 16,699,145 | — | — | 777,520 | 141,871 | 213,850 | 723,432 | 18,555,818 | 295,274 | 18,851,092 |
| Total expenses | 153,303,900 | 28,849 | 1,425,732 | 15,402,034 | 21,058,632 | 440,683 | 72,149,133 | 263,808,963 | (7,982,780) | 255,826,183 |
| Operating income (loss) | 2,399,993 | 40,498 | 239,138 | (407,744) | 2,220,855 | (228,405) | (394,760) | 3,869,575 | (94,506) | 3,775,069 |
| Equity in gains of joint venture | 343,262 | — | — | — | — | | — | 343,262 | — | 343,262 |
| Loss from early extinguishment of debt | (96,608) | — | — | — | — | | — | (96,608) | — | (96,608) |
| Excess (deficit) of operating revenues, gains and other support over expenses | 2,646,647 | 40,498 | 239,138 | (407,744) | 2,220,855 | (228,405) | (394,760) | 4,116,229 | (94,506) | 4,021,723 |
| Other changes: | | | | | | | | | | |
| Pension-related changes other than net periodic pension costs | 35,565 | — | — | — | — | | — | 35,565 | — | 35,565 |
| Decrease in fair value of swap agreement | (380,717) | — | — | — | — | | — | (380,717) | — | (380,717) |
| Unrealized loss on investments | (10,796,866) | (91,112) | (2,188,798) | (354,241) | (18,549) | | — | (13,449,566) | — | (13,449,566) |
| Net assets released from restrictions – capital | 93,883 | — | — | — | 3,509 | | — | 97,392 | — | 97,392 |
| Equity transfer | 369,814 | — | — | — | — | | (369,814) | — | — | — |
| Total other changes | (10,678,321) | (91,112) | (2,188,798) | (354,241) | (15,040) | — | (369,814) | (13,697,326) | — | (13,697,326) |
| (Decrease) increase in net assets (deficit) without restrictions | (8,031,674) | (50,614) | (1,949,660) | (761,985) | 2,205,815 | (228,405) | (764,574) | (9,581,097) | (94,506) | (9,675,603) |

**DIAKON**
**AND CONTROLLED AFFILIATES**

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

Year ended December 31, 2018

| | | Nonobligated Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | DLSM Obligated Group | Diakon | Diakon Lutheran Fund | Diakon Lutheran Senior Living Maryland LLC | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Subtotal | Elimination entries | Total |
| Net assets with donor restrictions: | | | | | | | | | | |
| Contributions and bequests | $ 149,998 | — | 6,099 | 28,602 | 185,330 | — | — | 370,029 | — | 370,029 |
| Investment income, net of expenses | 751,311 | — | 174,575 | 7,332 | 106,597 | — | — | 1,039,815 | — | 1,039,815 |
| Unrealized losses on investments | (1,651,821) | — | (322,017) | (17,572) | (233,815) | — | — | (2,225,225) | — | (2,225,225) |
| Net assets released from restrictions – operations | (880,620) | — | (154,783) | (17,319) | (329,709) | — | — | (1,382,431) | — | (1,382,431) |
| Net assets released from restrictions – capital | (93,883) | — | — | — | (3,509) | — | — | (97,392) | — | (97,392) |
| Change in beneficial interest in trust | (418,853) | — | — | — | — | — | — | (418,853) | — | (418,853) |
| Decrease in fair value of funds held in trust by others | (2,949,918) | — | (1,019,546) | — | — | — | — | (3,969,464) | — | (3,969,464) |
| (Decrease) increase in net assets with donor restrictions | (5,093,786) | — | (1,315,672) | 1,043 | (275,106) | — | — | (6,683,521) | — | (6,683,521) |
| (Decrease) increase in net assets (deficit) | (13,125,460) | (50,614) | (3,265,332) | (760,942) | 1,930,709 | (228,405) | (764,574) | (16,264,618) | (94,506) | (16,359,124) |
| Net assets (deficit), beginning of year | 50,633,493 | 1,417,779 | 31,205,999 | (7,668,227) | 5,923,920 | — | (4,822,346) | 76,690,618 | 1,426,370 | 78,116,988 |
| Net assets (deficit), end of year | $ 37,508,033 | 1,367,165 | 27,940,667 | (8,429,169) | 7,854,629 | (228,405) | (5,586,920) | 60,426,000 | 1,331,864 | 61,757,864 |

See accompanying independent auditor's report.

**DIAKON**
**AND CONTROLLED AFFILIATES**

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2018

| | DLSM Obligated Group | Diakon | Diakon Lutheran Fund | Diakon Lutheran Senior Living Maryland LLC | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Elimination entries | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | | | | |
| (Decrease) increase in net assets (deficit) | $ (13,125,460) | (50,614) | (3,265,332) | (760,942) | 1,930,709 | (228,405) | (764,574) | (94,506) | (16,359,124) |
| Adjustments to reconcile (decrease) increase in net assets (deficit) to net cash provided by (used in) operating activities: | | | | | | | | | |
| Net realized losses (gains) on investments | 322,373 | — | (331,984) | (129,629) | 7,526 | — | — | — | (131,714) |
| Net unrealized losses on investments | 12,448,687 | 91,112 | 2,510,815 | 371,813 | 252,364 | — | — | — | 15,674,791 |
| Depreciation and amortization | 16,699,145 | — | — | 777,520 | 141,871 | 213,850 | 723,432 | 295,274 | 18,851,092 |
| Amortization of debt issuance costs | 132,476 | — | — | — | — | 14,555 | 34,356 | — | 181,387 |
| Decrease in pension liability | (307,285) | — | — | — | — | — | — | — | (307,285) |
| Amortization of entrance fees | (9,673,467) | — | — | (465,939) | — | — | — | — | (10,139,406) |
| Proceeds from entrance fees | 13,975,947 | — | — | 467,798 | — | — | — | — | 14,443,745 |
| Change in funds held in trust by others and beneficial interest in trust | 3,315,009 | — | 1,019,546 | — | — | — | — | — | 4,334,555 |
| Equity transfer to affiliate | (369,814) | — | — | — | — | — | 369,814 | — | — |
| Decrease in fair value if swap agreement | 380,717 | — | — | — | — | — | — | — | 380,717 |
| Equity in gains of joint venture | (343,262) | — | — | — | — | — | — | — | (343,262) |
| Loss on disposal of assets | 14,630 | — | — | — | 21,329 | — | 58,683 | — | 94,642 |
| Loss on early extinguishment of debt | 96,608 | — | — | — | — | — | — | — | 96,608 |
| Restricted contributions and investment income | (20,689) | — | (25,891) | (18,615) | 37,782 | — | — | — | (27,413) |
| Changes in assets and liabilities: | | | | | | | | | |
| Accounts receivable | (6,358,487) | (161,513) | (226,175) | 166,595 | (376,445) | 4,020,627 | 563,396 | 37,556 | (2,334,446) |
| Prepaid expenses and other current assets | (60,956) | — | (5,200) | 30,282 | 14,607 | — | (659) | — | (21,926) |
| Other assets | (2,887) | — | — | — | — | — | — | — | (2,887) |
| Accounts payable, accrued expenses, and other liabilities | 845,755 | (106,322) | — | 59,075 | 72,643 | — | 235,588 | (35,980) | 1,070,759 |
| Deposits – patients and residents | 49,551 | — | — | (3,000) | — | — | 1,938 | — | 48,489 |
| Net cash provided by (used in) operating activities | 18,018,591 | (227,337) | (324,221) | 494,958 | 2,102,386 | 4,020,627 | 1,221,974 | 202,344 | 25,509,322 |
| Cash flows from investing activities: | | | | | | | | | |
| Purchase of investments and assets limited as to use | (27,259,897) | (45,911) | (1,031,337) | (435,866) | (259,445) | — | 616,912 | — | (28,415,544) |
| Proceeds from sales of investments and assets limited as to use | 25,509,151 | 273,248 | 1,329,667 | 305,295 | 135,341 | — | — | — | 27,552,702 |
| Contributions and charitable gift/remainder trusts | 444,214 | — | — | — | — | — | — | — | 444,214 |
| Purchase of property and equipment | (8,423,381) | — | — | (2) | (558,207) | (5,375,458) | (458,980) | (202,344) | (15,018,372) |
| Proceeds from sale of property and equipment | — | — | — | — | — | — | — | — | — |
| Proceeds from capital lease | 431,185 | — | — | — | — | — | — | (431,185) | — |
| Net cash (used in) provided by investing activities | (9,298,728) | 227,337 | 298,330 | (130,573) | (682,311) | (5,375,458) | 157,932 | (633,529) | (15,437,000) |
| Cash flows from financing activities: | | | | | | | | | |
| Payment of long-term debt | (7,878,963) | — | — | — | — | — | (259,715) | — | (8,138,678) |
| Proceeds from debt issuance | — | — | — | — | — | 1,376,414 | — | — | 1,376,414 |
| Net payment on lines of credit | — | — | — | — | (1,529,382) | — | — | — | (1,529,382) |
| Payment of debt issuance costs | (199,731) | — | — | — | — | (21,583) | — | — | (221,314) |
| Proceeds from restricted contributions and investment income | 20,689 | — | 25,891 | 18,615 | (37,782) | — | — | — | 27,413 |
| Proceeds from entrance fees | 1,842,653 | — | — | 141,953 | — | — | — | — | 1,984,606 |
| Refunds of entrance fees | (3,436,860) | — | — | (307,773) | — | — | — | — | (3,744,633) |
| Principal payments under capital lease obligation | — | — | — | (431,185) | — | — | — | 431,185 | — |
| Equity transfer to affiliate | 369,814 | — | — | — | — | — | (369,814) | — | — |
| Net cash (used in) provided by financing activities | (9,282,398) | — | 25,891 | (578,390) | (1,567,164) | 1,354,831 | (629,529) | 431,185 | (10,245,574) |
| Net (decrease) increase in cash and cash equivalents | (562,535) | — | — | (214,005) | (147,089) | — | 750,377 | — | (173,252) |
| Cash and cash equivalents, beginning of year | 1,829,235 | 270,438 | — | 668,795 | 547,506 | — | 1,204,809 | — | 4,520,783 |
| Cash and cash equivalents, end of year | $ 1,266,700 | 270,438 | — | 454,790 | 400,417 | — | 1,955,186 | — | 4,347,531 |

Schedule of noncash investment and financing activities:

A capital lease obligation of $64,954 was incurred by DLSL-MD when it entered into a lease with DLSM for property and equipment.

DLSM recorded leased property under capital lease and a lease receivable of $514,954 at the net book value of the assets.

See accompanying independent auditor's report.

**Schedule 4**

**DIAKON**
**AND CONTROLLED AFFILIATES**

Statutory Minimum Liquid Reserves

December 31, 2018

| | | | |
|---|---|---|---|
| 2018 Budgeted Operating Expenses (All Diakon Facilities that offer a continuum of care) (**1**) | $ | 159,245,251 | |
| Less: depreciation expense | | 16,376,361 | |
| Expenses subject to minimum liquid reserve requirement | | 142,868,890 | |
| Percentage (%) of residents subject to residence and care arrangements as of December 31, 2018 | | 44.1% | |
| Expenses subject to minimum liquid reserve requirement | | 62,972,714 | |
| Statutory requirement | | 10.0% | |
| Statutory minimum liquid reserve requirement | $ | 6,297,271 | (a) |
| Next 12 months debt service payments: | | | |
| Principal and interest payments (1) | $ | 15,955,587 | |
| Total debt service for next 12 months | | 15,955,587 | |
| Percentage (%) of residents subject to residence and care arrangements as of December 31, 2018 | | 44.1% | |
| Statutory minimum liquid reserve requirement | $ | 7,032,788 | (b) |
| Assets satisfying statutory minimum liquid reserve requirement as of December 31, 2018: | | | |
| Cash and cash equivalents | $ | 1,266,700 | |
| Investments | | 108,950,160 | |
| Assets limited as to use | | 9,131,746 | |
| | | 119,348,606 | |
| Greater of (a) or (b) | | 7,032,788 | |
| Assets in excess of statutory minimum liquid reserve requirement | $ | 112,315,818 | |

(1) Interest rate for variable rate debt is based on the 2018 average rate. See Note 5 for information regarding debt structure.

See accompanying independent auditor's report.