DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements and Schedules

December 31, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Notes 16 and 17 to the financial statements, Diakon and Controlled affiliates received government funding through the Small Business Administration Paycheck Protection Program, the U.S. Department of Health and Human Services Provider Relief Fund, and the state of Pennsylvania consequent to the operation conditions created by the COVID-19 pandemic. Our opinion is not modified with respect to these matters

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2020 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 15, 2021

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2020 and 2019

Assets	**2020**	**2019**
Current assets:		
Cash and cash equivalents	$ 11,630,504	6,286,793
Assets limited as to use	13,539,777	10,657,227
Accounts receivable, net (Note 1)		
Patients and residents	11,029,432	13,005,149
Statewide Adoption and Permanency Network	4,865,085	5,635,507
Other client services	3,240,270	3,443,721
Estimated third-party payor settlements	691,299	1,754,127
Prepaid expenses and other assets	2,980,071	2,741,909
Total current assets	47,976,438	43,524,433
Investments	149,079,048	137,570,037
Assets limited as to use, less current portion:		
Statutory minimum liquid reserves	5,935,450	7,431,584
Other	31,162,318	28,095,881
Investment in joint venture	1,137,733	1,262,163
Land, buildings and equipment, net	167,771,989	203,006,491
Finance lease right of use assets, net	1,087,846	1,646,136
Operating lease right of use assets	2,406,528	2,801,603
Other assets:		
Receivables from charitable gift annuities	536,650	698,672
Funds held in trust by others and beneficial interest in trust	40,298,659	37,634,260
Other assets	454,760	189,636
Total assets	$ 447,847,419	463,860,896

DIAKON
AND CONTROLLED AFFILIATES
Consolidated Balance Sheets
December 31, 2020 and 2019

Liabilities and Net Assets	**2020**	**2019**
Current liabilities:		
Lines of credit	$ —	6,294,158
Accounts payable and accrued expenses	23,868,641	20,837,248
Provider relief fund and other	3,759,444	—
Deposits – patients and residents	633,062	760,746
Estimated third-party payor settlements	4,628,737	895,852
Current finance lease liabilities	452,944	719,684
Current operating lease liabilities	927,885	693,383
Current maturities of long-term debt	6,524,525	6,779,413
Total current liabilities	40,795,238	36,980,484
Pension liability	46,661,192	39,755,762
Swap agreement	1,079,138	719,359
Deferred revenue – entrance agreements	59,470,533	69,184,366
Refundable entrance fee liability	24,701,647	29,092,491
Other long-term liabilities	1,625,116	1,313,108
Long-term finance lease liabilities	625,156	905,676
Long-term operating lease liabilities	1,589,461	2,217,246
Future services obligation	—	1,772,624
Long-term debt, less current maturities and debt issuance costs	203,828,013	226,048,697
Total liabilities	380,375,494	407,989,813
Net assets (deficit):		
Without donor restrictions	(2,387,069)	(8,403,379)
With donor restrictions	69,858,994	64,274,462
Total net assets	67,471,925	55,871,083
Total liabilities and net assets	$ 447,847,419	463,860,896

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2020 and 2019

	2020	2019
Operating revenues, gains and other support:		
Patient and resident service revenue, net	$ 133,033,031	144,003,176
Patient and resident service revenue, nursing home assessment	3,838,313	3,830,094
Amortization of entrance fees	10,126,994	10,289,649
Contract revenue	23,968,987	16,480,159
Other fees and services	10,278,325	11,710,565
Statewide Adoption and Permanency Network revenue	71,111,889	71,854,415
Investment income, net of expenses	7,492,203	7,110,018
Income from trusts	1,629,004	1,223,896
Contributions and bequests	1,133,412	1,696,765
Net assets released from restrictions – operations	1,406,630	1,363,188
Gain (Loss) on disposal of assets	1,041,364	(7,545)
Gain on insurance proceeds	6,328	302,090
Total operating revenues, gains and other support	265,066,480	269,856,470
Expenses:		
Salaries and wages	70,368,022	73,339,140
Employee benefits	16,139,475	15,437,158
Other expenses	71,853,495	75,573,184
Other expenses – Statewide Adoption and Permanency Network	69,293,889	70,155,970
Nursing home assessment	1,766,884	1,823,772
Interest	9,102,640	9,892,678
Depreciation and amortization	18,283,873	19,481,948
Total expenses	256,808,278	265,703,850
Operating income	8,258,202	4,152,620
Net periodic pension costs, non-service component	(154,343)	(497,009)
Equity in (losses) gains of joint venture	(32,430)	60,364
Unrealized gains on investments	7,495,966	14,515,736
Loss from early extinguishment of debt	(2,677,128)	(626,216)
Loss from future services obligations	—	(1,772,624)
Impairment of goodwill	—	(4,572,283)
Impairment of long-lived assets	—	(20,301,659)
Excess (deficit) of operating revenues, gains and other support over expenses	12,890,267	(9,041,071)

DIAKON
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Consolidated Statements of Operations and Changes in Net Assets
Years ended December 31, 2020 and 2019

	2020	2019
Other changes:		
Pension-related changes other than net periodic pension costs	(6,751,087)	(4,983,146)
Decrease in fair value of swap agreement	(359,779)	(338,642)
Unrealized gains on investments	—	276,822
Net assets released from restrictions – capital	236,909	282,171
Total other changes	(6,873,957)	(4,762,795)
Increase (decrease) in net assets (deficit) without donor restrictions	6,016,310	(13,803,866)
Net assets with donor restrictions:		
Contributions and bequests	1,255,431	1,166,756
Investment income, net of expenses	1,060,743	824,337
Unrealized gains on investments	2,144,535	3,165,452
Net assets released from restrictions – operations	(1,406,630)	(1,363,188)
Net assets released from restrictions – capital	(236,909)	(282,171)
Change in beneficial interest in trust	109,339	180,076
Increase in fair value of funds held in trust by others	2,658,023	4,325,299
Increase in net assets with donor restrictions	5,584,532	8,016,561
Increase (decrease) in net assets	11,600,842	(5,787,305)
Net assets, beginning of year as previously reported	55,871,083	61,757,864
Cumulative effect of change in accounting principle	—	(99,476)
Net assets, beginning of year as adjusted	55,871,083	61,658,388
Net assets, end of year	$ 67,471,925	55,871,083

See accompanying notes to consolidated financial statements.

DIAKON
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Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Increase (decrease) in net assets	$	11,600,842	(5,787,305)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Net realized gains on investments		(899,334)	(1,776,950)
Net unrealized gains losses on investments		(9,640,501)	(17,958,010)
Depreciation and amortization		18,283,873	19,481,948
Amortization of debt issuance costs		194,825	194,326
Increase in pension liability		6,905,430	5,480,155
Amortization of bond premium		(1,059,670)	(918,262)
Amortization of entrance fees		(10,126,994)	(10,289,649)
Proceeds from entrance fees		9,693,945	11,604,322
Change in funds held in trust by others and beneficial interest in trust		(2,664,399)	(4,282,998)
Decrease in fair value of swap agreement		359,779	338,642
Equity in losses (gains) of joint venture		32,430	(60,364)
(Gain) loss on disposal of assets		(1,041,364)	7,545
Loss on early extinguishment of debt		2,677,128	626,216
Loss on future services obligation		—	1,772,624
Impairment of goodwill		—	4,572,283
Impairment of long-lived assets		—	20,301,659
Restricted contributions and investment income		(909,544)	(627,905)
Variable operating lease payments		10,508	8,561
Change in assets and liabilities:			
Accounts receivable and estimated third-party payor settlements		7,745,303	644,974
Prepaid expenses and other current assets		(238,162)	(266,992)
Other assets		(265,124)	14,206
Accounts payable, accrued expenses, and other liabilities		7,488,571	(615,594)
Deposits – patients and residents		(127,684)	50,294
Net cash provided by operating activities		38,019,858	22,513,726
Cash flows from investing activities:			
Purchase of investments and assets limited as to use		(26,209,077)	(9,117,629)
Proceeds from sales of investments and assets limited as to use		24,882,132	10,400,094
Contributions and charitable gift/remainder trusts		162,022	90,540
Purchase of property and equipment		(14,548,276)	(14,961,930)
Proceeds from sale of property and equipment		19,446,083	—
Acquisition of leased property and equipment		(18,181)	(49,427)
Net cash provided by (used in) investing activities		3,714,703	(13,638,352)

DIAKON
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Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

	2020	2019
Cash flows from financing activities:		
Payment of long-term debt	(6,779,370)	(7,366,569)
Bond refunding	(20,414,270)	(35,973,000)
Proceeds from debt issuance	2,905,785	36,811,881
Principal payments under finance lease obligations	(763,819)	(704,801)
Net (payment) proceeds on lines of credit	(6,294,158)	6,294,158
Payment of debt issuance costs	—	(707,800)
Proceeds from restricted contributions and investment income	909,544	627,905
Proceeds from entrance fees	1,755,036	1,860,554
Refunds of entrance fees	(3,706,514)	(5,451,617)
Net cash (used in) financing activities	(32,387,766)	(4,609,289)
Net increase in cash, cash equivalents, and restricted cash	9,346,795	4,266,085
Cash, cash equivalents and restricted cash, beginning of year	21,518,773	17,252,688
Cash, cash equivalents and restricted cash, end of year	$ 30,865,568	21,518,773

Reconciliation of Cash, Cash Equivalents and Restricted Cash

	2020	2019
Amounts reported in these lines on the consolidated balance sheets		
Current assets:		
Cash and cash equivalents	$ 11,630,504	6,286,793
Assets limited as to use	13,539,777	10,657,227
Assets limited to use, less current portion:		
Other	5,695,287	4,574,753
Total cash, cash equivalents and restricted cash	$ 30,865,568	21,518,773

	2020	2019
Supplemental schedule of noncash investing and financing activity:		
Increase in purchase of property and equipment through accounts payable, accrued expenses, and other liabilities	$ (385,723)	(2,103,918)
Acquisition of leased property and equipment funded by finance lease borrowings	$ 324,158	528,684

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

(b) Description of Controlled Affiliates

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

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

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

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

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

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

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

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

(c) Basis of Consolidation

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

(d) Basis of Accounting

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

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

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

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

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

(e) Cash and Cash Equivalents

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

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of FDIC insured limits. The Corporation has not experienced any losses to date in these accounts.

(f) Accounts Receivable

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

(g) Investments and Investment Income

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

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

A decline in market value of any investment below its cost basis that is deemed to be other-than-temporary results in a reduction in carrying amount to the fair value. The impairment is recognized as a loss and a new cost basis for the investment is established. No such losses were recognized in 2020 or 2019.

(h) Assets Limited as to Use

Assets limited as to use include assets held by trustees under mortgage agreements with agencies of the U.S. government; assets held by trustees under bond indentures; and donor and other restricted funds. In addition, the current portion of assets whose use is limited includes restricted cash associated with the unused Provider Relief Funds (PRFs) that will be used in the next twelve months to offset lost revenue and qualified expenditures associated with the COVID-19 pandemic (Note 16). Investment income and gains and losses on assets limited as to use are included in investment income.

(i) Investment in Joint Venture

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

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

(j) Land, Buildings, and Equipment

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

Depreciable lives are determined as follows:

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

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

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

(k) Leases

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

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

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

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

See Note 5 for additional lease disclosures.

(l) Impairment of Long-Lived Assets

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

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

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

As of December 31, 2019, the Corporation evaluated the fair market value of the property and equipment of the Twining Village campus versus its net book value, and concluded the net book value was less than fair value. Additionally, the Corporation assessed the goodwill exclusively associated with the Corporation’s prior acquisition of the Twining Village property, and concluded such Goodwill was not recoverable. Consequently, the Corporation recorded an impairment loss of $24,873,942 recorded as two separate line items, impairment of goodwill and impairment of long-lived assets, on the consolidated statement of operations and changes in net assets for the year ended December 31, 2019.

On August 3, 2020, the Twining Village retirement community was sold (Note 4). No impairment losses were recognized in 2020.

(m) Deferred Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the term of the applicable obligation; which approximates the effective-interest method. Amortization expense was $194,825 and $194,326 in 2020 and 2019, respectively. Amortization expense is expected to approximate $195,000 over the next five years.

(n) Receivables from Charitable Gift Annuities

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

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

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

Funds held in trust by others and the beneficial interest in trust are valued at the fair value of the underlying investments. The change in the fair value of funds held in trust by others and beneficial interest in trust is reported as a change in net assets with donor restrictions.

(p) Self-Insurance

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

(q) Deposits – Patients and Residents

Deposits – patients and residents represents security deposits paid in advance to cover possible costs when patients and residents vacate their apartments or personal care units. These deposits are taken into income only if earned upon the termination of a residency agreement.

Deposits – patients and residents also includes nursing home patients' funds held in safekeeping by the Corporation for the patients' personal use.

(r) Pension Benefits

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

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

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

(s) Derivative Instruments

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

(t) Entrance Agreement Contracts

Entrance fees paid by residents of the Corporation's independent living units, including certain cottages and apartments, are recorded as deferred revenue and/or refundable entrance fee liability, depending on the nature of the contractual arrangement with the respective resident. The Corporation's financial reporting policies related to such contracts and the related recognition of associated entrance fee amortization revenue are described further in the Revenue Recognition disclosure (Note 2).

(u) Conditional Asset Retirements

The Corporation has evaluated its facilities to determine if it has a liability for the fair value of a conditional asset retirement obligation. The types of asset retirement obligations evaluated are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation is conditional on a future event that may or may not be within the control of the Corporation. No material conditional asset retirement obligations have been identified by the Corporation as of December 31, 2020 or 2019.

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

The Corporation engaged an actuary to analyze the present value of the net cost of future services and use of facilities to be provided to current residents (excluding adjustable periodic fees) in comparison with the balance of deferred revenue from entrance fees in 2019. 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. In 2019, the actuarial analysis indicated the present value of the net cost of future services exceeded deferred revenue; therefore, the Corporation recognized a future services obligation liability of $1,772,624. The entire amount of future service obligation liability related to life care contracts only offered to prospective residents at Twining Village; therefore, as a result of the sale of Twining Village (Note 4), the future services obligation liability does not exist at December 31, 2020.

(w) Income Taxes

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

The Corporation uses a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Corporation does not believe that there are any unrecognized tax benefits or liabilities that should be recorded. Generally, tax returns for years ended December 31, 2017, and thereafter remain subject to examination by federal and state taxing authorities.

(x) Patient and Resident Service Revenue

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

(y) Contributions and Donor Restrictions

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

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

(z) Loss from Early Extinguishment of Debt

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

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

(aa) Operating Income

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

(bb) Performance Indicator

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

(cc) Use of Estimates

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

(dd) Statutory Reserve Requirement

The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan or 10% of the projected annual operating expenses of the facilities exclusive of depreciation, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance fee agreement contracts. This statutory reserve requirement is considered to be fulfilled from equity and fixed income funds included within assets limited as to use. The Pennsylvania statutory reserve as of December 31, 2020 and 2019, was $5,935,450 and $7,431,584, 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 13.5% of net operating expenses, or $2,051,687, as of December 31, 2020, its ninth year of operation, and 12.0% of net operating expenses, or $1,858,879, as of December 31, 2019, its eighth year of operation. The reserves must be maintained in a reasonably liquid form in the judgment of the provider and in accordance with the provider's investment policies.

(ee) Changes in Accounting Principle

The Corporation adopted the following accounting pronouncements as of January 1, 2020:

ASU 2018-13: *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* – This ASU modifies the disclosure requirements on fair value measurements. The adoption of this guidance did not have a material impact on the Corporation's consolidated financial statements.

(ff) Reclassifications

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

(2) Revenue Recognition

(a) Patient and Resident Service Revenue

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

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

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

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

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

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

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

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019.

(b) Entrance Fee Contracts

DLSM and DLSL-MD offer independent living accommodations and services pursuant to CCRC Agreements, which require payment of an up front, one time entrance fee and monthly service fees. In exchange for payment of the entrance fee and monthly fees, residents residing in a senior living community (referred to herein as "CCRC Residents") are entitled to occupancy rights of their independent living accommodation and certain services and amenities for as long as they live. The Corporation only offers a fee-for-service contract to prospective residents, whereby the CCRC Resident has preferred access to personal care, assisted living, and skilled nursing services at a Diakon senior living facility, but is required to pay the prevailing rate for such services at the time the resident requires them. Two DLSM communities had offered lifecare agreements prior, but no longer offer such contracts to prospective residents. As of December 31, 2020, there were 700 outstanding CCRC Agreements at DLSM and DLSL-MD collectively, of which 3 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 $42,573,000 and $50,492,000 as of December 31, 2020 and 2019, 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 2020 and 2019 amounted to $1,731,750 and $606,920, 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 $2,100,000 and $919,614 as of December 31, 2020 and 2019, 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 $3,344,982 and $3,064,997 for the years ended December 31, 2020 and 2019, respectively. The cost of charity care is estimated by management based upon the cost to gross charges ratio multiplied by the gross uncompensated charges associated with providing care. The Corporation received contributions of approximately $1,071,000 and $1,020,000 for the years ended December 31, 2020 and 2019, 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:

	2020	2019
Senior living services revenue, net:		
Private pay	$ 67,535,027	73,824,950
Medicaid	36,285,931	39,104,732
Medicare Part A	13,197,665	14,724,232
Managed care and commercial insurers	11,146,996	11,139,825
Medicare Part B	3,676,143	4,025,144
Total Senior Living Service revenue	131,841,762	142,818,883
Diakon Medical Group	1,188,122	1,177,049
Diakon Child, Family and Community Ministries	3,147	7,244
Patient and resident service revenue, net	$ 133,033,031	144,003,176

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

	2020	2019
Nursing care	$ 85,432,791	91,442,417
Personal care/assisted living	25,604,097	28,559,904
Independent living	20,804,874	22,816,562
Other	1,191,269	1,184,293
	$ 133,033,031	144,003,176

(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 $3,838,313 and $1,766,884 for 2020, respectively, and $3,830,094 and $1,823,772 for 2019, respectively.

(f) Contract Revenue, Other Fees and Services

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

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

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

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

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

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

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

		12/31/2020	12/31/2019
DCFCM Programs:			
Youth services	$	3,140,129	3,720,341
Permanency services		9,142,158	8,643,806
Family life services		794,794	758,327
Community services for seniors		1,558,091	1,377,248
Other DCFCM		94,437	141,819
DCFCM program services		14,729,609	14,641,541
HUD		1,816,171	1,758,297
DCFCM provider relief funds		431,098	-
Diakon Medical Group provider relief funds		45,116	-
DLSM & DLSL-MD provider relief funds		6,936,151	-
DLSM & DLSL-MD other		10,842	80,321
Total Contract Revenue	**$**	**23,968,987**	**16,480,159**
DCFCM Programs:			
Youth services	$	48,495	102,666
Permanency services		2,174,587	2,456,717
Family life services		4,949,899	5,616,118
Community services for seniors		22,201	62,322
Adult day services		468,893	957,305
Other DCFCM		28,369	91,993
DCFCM Total		7,692,444	9,287,121
HUD		1,547,866	1,543,964
DLSM & DLSL-MD		621,760	815,978
Diakon Medical Group		115,155	129,601
Other		301,100	(66,099)
Total Other Fees and Services Revenue	**$**	**10,278,325**	**11,710,565**

(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 work-plan 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. The contract periods between DHS and SWAN LLC begin on July 1st and end on June 30th; therefore, as of December 31, 2020 SWAN LLC has an unsatisfied performance obligation through June 30, 2021 associated with the active contract with DHS. Contract revenue is recognized over a period of time as the performance obligation is satisfied, using an output method. Accounting Standards Codification (ASC) 606 defines output methods as revenue recognized as a direct measurement of the service transferred to date relative to the remaining service promised under contract. There is no variable consideration applied to the transaction price in either the performance obligations satisfied in fiscal years 2020 or 2019, or the future unsatisfied performance obligation. There were approximately $41,000,000 and $44,600,000 in unsatisfied performance obligations relative to SWAN LLC as of December 31, 2020 and 2019, respectively.

(h) Contract Acquisition Costs

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

(i) Financing Component

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

(3) Assets Limited as to Use and Investments

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

		2020	2019
Under bond indentures for debt service reserve fund:			
Cash and short-term investments	$	835	833
Debt Service Sinking Fund:			
Cash and short-term investments		9,742,954	10,657,228
Endowment funds:			
Cash and short-term investments		1,273,861	812,598
Equity funds		9,081,535	8,472,267
Fixed income funds		3,728,284	4,181,399
Donor and other temporarily restricted funds:			
Cash and short-term investments		5,570,361	990,539
Equity funds		8,359,518	6,724,643
Fixed income funds		4,087,611	3,695,535
Assets Limited to Use for HUD Reserves:			
Cash and short-term investments		2,436,258	2,314,805
By board for designated purposes:			
Entrance fees and other designated purposes:			
Cash and short-term investments		211,631	455,980
Fixed income funds		209,247	447,281
Statutory minimum liquid reserves:			
Equity funds		3,371,600	3,834,929
Fixed income funds		2,563,850	3,596,655
Total assets limited as to use		50,637,545	46,184,692
Less assets limited as to use – required for current liabilities:			
Other		13,539,777	10,657,227
Assets limited as to use, less current portion	$	37,097,768	35,527,465

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

		2020	2019
Cash and short-term investments	$	17,833,522	7,600,225
Equity funds		77,415,743	68,358,184
Fixed income funds		53,766,217	58,363,078
Alternative investment		63,566	3,248,550
Investments	$	149,079,048	137,570,037

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

	2020		2019	
Cash and short-term investments	$ 37,069,422	18.6%	$ 22,832,208	12.4%
Equity funds	98,228,396	49.2%	87,390,023	47.6%
Fixed income funds	64,355,209	32.2%	70,283,948	38.2%
Alternative investment	63,566	0.0%	3,248,550	1.8%
	$ 199,716,593	100.0%	$ 183,754,729	100.0%

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

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

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

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

	Less than 12 months		12 months or longer		Total	
December 31, 2020	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Description of funds:						
Fixed income funds	$ —	—	14,471,471	700,722	14,471,471	700,722
Total temporarily impaired funds	$ —	—	14,471,471	700,722	14,471,471	700,722

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

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, 2020 and 2019, are considered temporary.

(4) Land, Buildings and Equipment

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

		2020	2019
Land	$	8,860,689	16,385,689
Land improvements		22,061,546	26,624,263
Buildings		303,019,051	369,427,665
Furniture and equipment		40,587,622	46,127,536
Vehicles		142,716	490,730
		374,671,624	459,055,883
Accumulated depreciation		(210,771,725)	(259,802,512)
		163,899,899	199,253,371
Construction in progress		3,872,090	3,753,120
	$	167,771,989	203,006,491

Depreciation expense for the years ended December 31, 2020 and 2019, was $17,499,562 and $18,747,506, respectively.

Construction in progress as of December 31, 2020 and 2019, 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 $450,000 and $836,000 for the years ended December 31, 2020 and 2019, respectively.

On August 3, 2020, the Corporation sold the Twining Village senior living retirement community located in Holland, Pennsylvania. Cash received at settlement was $19,446,083. The proceeds offset the book value of properly sold approximating $32,300,000, the entrance fee liabilities of approximately $11,700,000, the future service obligation liability of approximately $1,800,000, and other miscellaneous amount that netted to a liability of approximately $395,000. The transaction resulted in a gain on the sale of $1,048,367 which is included in Gain (Loss) on disposal of assets on the Statement of Operations and Changes in Net Assets.

(5) Leases

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

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

During the years ended December 31, 2020 and 2019, the Corporation recognized lease costs associated with the leases as follows:

	2020	2019
Finance lease cost:		
Amortization	$ 784,311	$ 734,442
Interest expense	58,823	68,534
Operating lease cost	996,948	931,844
Short-term lease cost	54,052	199,633
Total lease cost	$ 1,894,134	$ 1,934,453

During the years ended December 31, 2020 and 2019, the Corporation had the following cash and non-cash activities associated with the leases:

	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for finance leases	$ 58,823	$ 68,534
Operating cash flows for operating leases	$ 991,970	$ 923,283
Financing cash flows for finance leases	$ 763,819	$ 704,801
Right of use assets obtained in exchange for new finance lease liabilities	$ 342,339	$ 578,112
Right of use assets obtained in exchange for new operating lease liabilities	$ 142,724	$ 106,933
Weighted average remaining lease term for finance leases	2.75	2.72
Weighted average remaining lease term for operating leases	3.87	4.84

The Corporation utilizes the incremental borrowing rate as the discount rate. The weighted-average discount rate associated with the finance and operating leases as of December 31, 2020, was 3.95%.

The future minimum lease payments due under operating and finance leases as of December 31, 2020, is as follows:

	Operating	**Finance**
2021	$ 821,002	$ 553,952
2022	648,367	274,088
2023	537,741	181,488
2024	522,791	108,303
2025	213,931	28,156
Total lease payments	2,743,832	1,145,987
Imputed interest	(226,486)	(67,887)
Total lease liability	$ 2,517,346	$ 1,078,100

(6) Long-Term Debt

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

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

	2020	2019
Obligated Group:		
Cumberland County Municipal Authority Bonds Series A 2019, $19,535,000 of tax exempt fixed interest rate bonds with principal payable in installments ranging from $380,000 to $12,870,000 through January 1, 2039 (the final maturity date). The interest rate is 5.0% and the bonds were issued at an aggregate premium of $1,275,180, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.29%.	$ 18,185,000	$ 18,185,000
Washington County, Maryland Bonds Series B 2019, $14,325,000 of tax exempt fixed interest rate bonds with principal payable in annual installments ranging from $395,000 to $1,660,000 through 2032. The interest rate is 5.0% and the bonds were issued at an aggregate premium of $1,676,701 which is being amortized ratably over the life of the issue, to yield an effective interest rate of 3.06%.	13,640,000	14,325,000
Wernersville Municipal Authority Bond Series 2018, $8,326,000 of tax exempt variable rate bonds with principal payable in annual installments ranging from $182,000 to $1,160,000 through 2039. The Series 2018 bonds are subject to floating to fixed interest rate swap which results in Diakon paying a fixed interest rate of 3.63% through October 1, 2030.	7,495,000	7,915,000
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%.	25,530,000	28,500,000

	2020	2019
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%.	117,295,000	136,775,000
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.	13,273,184	13,553,854
Maxatawny Township Municipal Authority, Revenue Note Series 2017, with a maximum principal amount of $6,100,000. The mortgage note is collateralized by rental proceeds of Old Main, LLC and certain endowment distributions. The note bears interest at a floating rate of 2.0% plus sixty-seven percent (67%) of 30-day LIBOR (2.09% as of December 31, 2020). The note was interest only through March 31, 2019. Effective April 1, 2019, principal installments of $17,395 plus applicable interest based off variable rate, are payable monthly. Final maturity of the note is March 1, 2044.	4,853,293	5,062,037
DCFCM/DMG Paycheck Protection Loan - M&T Bank through U.S. Small Business Administration Paycheck Protection Program - forgiveness application pending	2,905,785	—
	203,177,262	224,315,891
Less current maturities of bonds and mortgages payable	(6,524,525)	(6,779,413)
Unamortized debt issuance costs	(3,362,033)	(3,728,989)
Unamortized premium	10,537,309	12,241,208
	203,828,013	226,048,697

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

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

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

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

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

During April and May 2021, DCFCM and DMG borrowed $2,690,790 and $214,995, respectively, through the federal Small Business Administration Paycheck Protection Program. Refer to Note 16 for further details regarding use of such funding for COVID-19 mitigation.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2020:

	Scheduled maturity
2021	$ 6,524,525
2022	6,838,082
2023	7,146,103
2024	7,477,606
2025	7,837,611
Thereafter	167,353,335
	$ 203,177,262

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $9,645,863 and $9,178,391 for the years ended December 31, 2020 and 2019, respectively. There was no capitalized interest in 2020 or 2019.

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

	2020	2019
DLSM Obligated Group	3.98 %	4.14 %
Obligations Oustide the Obligated Group	4.07	4.06
Combined	3.99	4.13

(7) Lines of Credit

DLSM has a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $20,000,000, which is payable on demand. The line of credit bears interest at 30-day LIBOR plus 2.75% (2.90% as of December 31, 2020). Amounts ranging from $0 to $6,294,158 were outstanding for various periods during 2020 and 2019. Borrowings outstanding under the line of credit totaled $0_ and $6,294,158 as of December 31, 2020 and 2019, respectively. The bank line of credit is secured on a parity basis with the Obligated Group's outstanding bonds. In addition to the line of credit, DLSM had unused outstanding letters of credit with M&T in the amount of $3,364,000 for each of the years ended December 31, 2020 and 2019.

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% (2.50% as of December 31, 2020). There were no amounts outstanding on the line during 2020. Amounts ranging from $0 to $2,013,347 were outstanding for various periods during 2019. Borrowings outstanding under the line of credit totaled $0 as of December 31, 2020 and 2019. The bank line of credit is secured by DCFCM's accounts receivable and a $1,000,000 guarantee by DLF's investments.

(8) Fair Value

(a) Financial Instruments

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

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

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

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

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

Funds held in trust by others and beneficial interest in trust – These assets are carried at fair value, which is based on quoted market prices for the underlying securities held by the trusts multiplied by the Corporation's percentage interest in the trusts. The inputs to fair value of these trusts are classified as Level 3 based upon the Corporation's inability to redeem its investment at the net asset value. The activity for the Level 3 classified input from December 31, 2019, to December 31, 2020, 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 $325,718,325 and $353,086,087 as of December 31, 2020 and 2019, respectively.

(b) Fair Value Hierarchy

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

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

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

	Fair value measurements as of December 31, 2020			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Investments and assets limited as to use:				
Cash and short-term investments	$ 37,069,422	—	—	37,069,422
Fixed income funds:				
Short term	16,346,223	—	—	16,346,223
Intermediate term	48,008,986	—	—	48,008,986
Equity funds:				
International	40,470,099	—	—	40,470,099
Large cap	51,471,680	—	—	51,471,680
Small cap	6,286,617	—	—	6,286,617
Funds valued at NAV				
Other	—	—	—	63,566
Funds held in trust by others and beneficial interest in trust	—	—	40,298,659	40,298,659
Total assets	$ 199,653,027	—	40,298,659	240,015,252
Liability:				
Interest rate swap agreement	$ —	1,079,138	—	1,079,138

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

In accordance with ASC Subtopic 820-10, alternative investments measured at fair value using the net asset value (NAV) practical expedient have not been classified in the fair value hierarchy as of December 31, 2020 and 2019. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarch to the amounts presented in the consolidated balance sheets.

	Investment measured at fair value based on net asset value (NAVs) per share as of December 31, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Other	$ 63,566	—	Daily	1 Day

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

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

	2020	2019
Balance, beginning of year	$ 37,634,260	33,351,262
Change in valuation	2,664,399	4,282,998
Balance, end of year	$ 40,298,659	37,634,260

(9) Derivative Instruments

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

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

(10) Pension Benefits

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

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

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

	Pension benefits	
	2020	**2019**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 101,948,930	92,599,268
Interest cost	2,989,451	3,655,013
Change in assumptions	9,588,046	10,301,821
Actuarial loss	386,331	149,500
Benefit payments	(4,877,175)	(4,756,672)
Benefit obligation at end of year	110,035,583	101,948,930
Change in plan assets:		
Fair value of plan assets at beginning of year	62,193,168	58,323,661
Actual return on plan assets, net of expenses	6,058,398	8,626,179
Benefit payments	(4,877,175)	(4,756,672)
Fair value of plan assets at end of year	63,374,391	62,193,168
Funded status	$ (46,661,192)	(39,755,762)

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

	2020	**2019**
Noncurrent liabilities	$ 46,661,192	39,755,762
Net assets without donor restrictions	(50,065,453)	(43,314,366)
Net amount recognized	$ (3,404,261)	(3,558,604)

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

		2020	2019
Net actuarial loss	$	(50,065,453)	(43,314,366)

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:

		2020	2019
Net estimated (loss), total recognized in net assets without donor restrictions	$	(6,751,087)	(4,983,146)

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 $1,775,541.

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

		2020	2019
Interest cost	$	2,989,451	3,655,013
Expected return on plan assets		(4,290,202)	(4,374,914)
Amortization of net loss		1,455,094	1,216,910
Net periodic pension costs, non-service component	$	154,343	497,009

		2020	2019
Benefit cost	$	154,343	497,009
Benefits paid		4,877,175	4,756,672

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

	2020	2019
Discount rate	2.20%	3.01%

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

	2020	2019
Discount rate	3.01%	4.07%
Expected long-term rate of return on plan assets	7.25	7.90

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, 2020 and 2019, the Corporation has invested approximately 19% and 21%, respectively, of the pension plan assets into alternative investments, including a special situations master feeder fund (7%), a core property real estate fund (9%), and an energy debt fund (3%), as of December 31, 2020. The Corporation's risk management policies permit investments in such asset classes. The Corporation addresses diversification by the use of private mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are only available to institutional investors and are not traded on a public exchange; however, they can be sold to fund benefit payment obligations as they become payable without restriction.

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

The Corporation determines the fair value of alternative investments under the equity method of accounting using net asset value (NAV). The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. The Corporation believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. The Corporation's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specific times in accordance with terms of the subscription agreements. The 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, 2020			
	Total	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Asset category:				
Cash and short-term investments:				
SEI daily income prime obligation fund	$ 266	266	—	—
Equity funds:				
Large cap disciplined	6,905,010	6,905,010	—	—
Small/mid cap	2,580,516	2,580,516	—	—
World Equity Ex-U.S.	14,175,979	14,175,979	—	—
Extended market index fund	2,637,487	2,637,487	—	—
S&P 500 index fund	8,798,345	8,798,345		
Emerging markets equity fund	1,944,358	1,944,358	—	—
Fixed income funds:				
High yield bond fund	2,410,767	2,410,767	—	—
Limited duration bond fund	4,504,923	4,504,923	—	—
Emerging markets debt fund	2,439,777	2,439,777	—	—
Core fixed income fund	5,129,215	5,129,215	—	—
Plan assets valued at NAV				
Core property collective investment trust	5,373,688	—	—	—
Special situations collective fund	4,621,669	—	—	—
Energy debt fund	1,852,391	—	—	—
Total	$ 63,374,391	51,526,643	—	—

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

In accordance with ASC Subtopic 820-10, alternative investments measured at fair value using the net asset value (NAV) practical expedient have not been classified in the fair value hierarchy as of December 31, 2020 and 2019. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarch to the amounts presented in the consolidated balance sheets.

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

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

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

	2020	**2019**
Asset category:		
Equity funds	58%	55%
Fixed income funds	23	24
Alternative investments	19	21
Total	100%	100%

The Corporation does not expect to make any contributions to its pension plan in 2021.

The estimated benefit payments, which reflect expected future service as of December 31, 2020, as appropriate, are as follows:

2021	$ 5,648,199
2022	5,740,141
2023	5,769,256
2024	5,779,735
2025	5,729,428
2026 – 2030	28,096,029

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $446,214 and $464,336 for the years ended December 31, 2020 and 2019, respectively.

(11) Net Assets with Donor Restrictions

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

	2020	2019
Subject to expenditure for specified purpose:		
Promises to give for senior living program activities	$ -	5,694
Promises to give for DCFCM program activities	21,760	19,260
Capital projects for senior living services	667,249	580,597
Capital projects for DCFCM	-	8,483
Senior living services program activities	395,641	330,839
DCFCM program activities	345,029	402,957
Employee assistance and wellness	62,809	47,260
Chaplain activities	24,212	43,415
Other	-	113,314
	1,516,700	**1,551,819**
Subject to the passage of time:		
Charitable remainder trust	1,416,612	1,307,274
Charitable gift annuities	440,646	588,663
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	4,778	21,000
Life insurance gifts	189,637	189,637
	2,051,673	**2,106,574**

Endowments		
Subject to appropriation and expenditure when a specified event occurs:		
Support of specific SLS programs	585,937	516,059
Support of specific DCFCM programs	677,772	599,673
Promises to give for senior living benevolent care	2,687	8,957
Charitable gift annuities for senior living benevolent care	96,003	110,008
	1,362,399	**1,234,697**
Subject to endowment spending policy and appropriation:		
Senior living benevolent care and program activities	15,043,778	12,939,872
Program activities for a specific senior living campus	5,391,651	4,966,869
DCFCM program activities	2,838,879	2,612,561
Employee tuition assistance	761,138	698,123
Scholarships	1,860,077	1,690,874
As defined by donor	150,652	146,087
	26,046,175	**23,054,386**
Funds held in trust by others		
Subject to appropriation and expenditure when a specified event occurs:		
Staff and resident programs	173,721	161,443
General use	38,708,326	36,165,543
	38,882,047	**36,326,986**
Total net assets with donor restrictions	**$ 69,858,994**	**64,274,462**

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, 2020 or 2019. The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets in relation to inflation trends. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity.

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

(12) Medical Malpractice Claims Coverage and Self Insurance

On January 1, 2020 the Corporation entered into a risk retention group captive insurance arrangement for general and professional liability coverage on a claims made basis. Management has evaluated claims incurred but not reported and has recorded a liability for claims incurred but not reported (IBNR) as of December 31, 2020 of $120,000. No liability for IBNR was recorded at December 31, 2019. 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, 2020 and 2019. Workers' compensation costs are accrued based upon an estimated liability for reported claims and an estimated liability for claims incurred but not reported and approximated $2,121,000 and $1,834,000 as of December 31, 2020 and 2019, respectively, and are reported within accounts payable and accrued expenses and other long-term liabilities captions on the consolidated balance sheets. In addition, the Corporation maintains a $2,500,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation participates in a self-funded employee health insurance plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $566,000 and $530,000 as of December 31, 2020 and 2019, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

(13) Liquidity

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

		2020	2019
Cash and cash equivalents	$	11,630,504	6,286,793
Accounts receivable			
Patients and residents		11,029,432	13,005,149
Statewide Adoption and Permanency Network		4,865,085	5,635,507
Other client services		3,240,270	3,443,721
Estimated third-party payor settlements		691,299	1,754,127
Investments		149,079,048	137,570,037
	$	180,535,638	167,695,334

The Corporation's investments are not limited by specific board designations regarding use; however, the Corporation has an investment policy which establishes the goals for the investment portfolio, investment selection guidelines and limitations, and portfolio allocation ranges by investment category. The Corporation has assigned investment policy oversight and governance responsibilities for all investments of the Corporation to the DLF board of directors. The DLF board meets regularly with management and a third-party investment advisor to review investment performance, security selection, and discuss changes in investment strategy. The Corporation places a certain amount of reliance on investment income and dividend distributions from the investment portfolio to support its operating liquidity needs; accordingly, the Corporation periodically transfers such amounts from the investment portfolio to its operating cash. To the extent accumulated income and dividend distributions are in excess of the amount needed for operations, such amounts are redeployed in the investment portfolio in accordance with the investment policy guidelines.

Cash balances are monitored regularly by management to ensure appropriate liquidity to cover general expenditures, and the Corporation maintains two lines of credit with M&T as described in Note 7 to manage short-term changes in cash flow. The amount available to be drawn on the lines of credit were $23,000,000 and $16,705,842 for the year ended December 31, 2020 and 2019, respectively.

(14) Functional Expenses

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

DIAKON
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Schedules of Functional Expenses

December 31, 2020 and 2019

For the Year ended December 31, 2020

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

For the Year ended December 31, 2019

	Program Activities						Supporting Activities			
	Senior Living Services	Diakon Child, Family and Community Ministries	Housing and Urban Development	Statewide Adoption and Permanency Network	Diakon Medical Group	**Programs Subtotal**	Management and General	Fundraising	**Supporting Subtotal**	**Total Expenses**
Salaries, benefits and staff costs	$ 64,480,295	13,012,969	738,456	1,386,164	1,423,605	**81,041,489**	9,461,615	694,939	**10,156,554**	**91,198,043**
Utilities	5,373,212	401,775	466,063	206,994	10,339	**6,458,383**	991,047	5,547	**996,594**	**7,454,977**
Maintenance and repairs	5,182,464	216,240	246,273	229,837	2,499	**5,877,313**	2,495,913	40,168	**2,536,081**	**8,413,394**
Contracted costs	32,674,652	940,742	6,389	65,485,323	5,948	**99,113,054**	2,979,351	51,794	**3,031,145**	**102,144,199**
Program costs	7,100,553	3,475,755	84,589	281,036	1,132	**10,943,065**	36,509	3,220	**39,729**	**10,982,794**
Administrative costs	6,223,573	2,526,546	369,863	1,534,593	114,638	**10,769,213**	1,305,522	222,107	**1,527,629**	**12,296,842**
Management fee	-	-	-	-	-	**-**	2,037,183	-	**2,037,183**	**2,037,183**
Nursing home assessment	1,823,772	-	-	-	-	**1,823,772**	-	-	**-**	**1,823,772**
Interest	9,011,038	5,011	564,598	-	1,001	**9,581,648**	311,030	-	**311,030**	**9,892,678**
Depreciation and amortization	16,225,176	438,051	749,660	-	9,528	**17,422,415**	2,059,533	-	**2,059,533**	**19,481,948**
Total Expenses	**$ 148,094,735**	**21,017,089**	**3,225,891**	**69,123,947**	**1,568,690**	**243,030,352**	**21,677,703**	**1,017,775**	**22,695,478**	**265,725,830**

(15) Commitments and Contingencies

The Corporation has entered into various construction contracts related to campus renovation and / or expansion activities at certain senior living communities. As of December 31, 2020, the Corporation has no material contractual commitments outstanding.

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.

Efforts of the purchaser of the Twining Village facility have generally been successful in most respects as it relates to transfer of licensure of the facility. Most of the operating licenses of the Twining Village facility were successfully transferred prior to December 31, 2020 fiscal year end; however, due to delays on the purchaser's end, the certificate of authority for Twining Village to operate as a licensed continuing care provider (as regulated by the Pennsylvania Insurance Department) has not been transferred to the new owner as of the date of this report. Diakon management has not been made aware of any adverse implications resulting from such delay in licensure transfer.

(16) COVID-19 Pandemic

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. The pandemic has significantly impacted both the world and U.S. economies. Since March 2020, many state and local governments, in addition to the federal government, reacted to the public health crisis, creating significant uncertainties in the U.S. economy. In response to this coronavirus outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. In certain geographic regions in which the Corporation operates, temporary closures of businesses have been ordered or suggested and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of travel-related businesses.

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

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

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

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

The balance of advanced PRF funds unused to offset lost revenue and qualified expenditures is reported in Provider relief fund and other on the balance sheet as of December 31, 2020. Based on the Corporation's calculation of lost revenue and COVID-19 expenses, the Corporation has recognized $4,519,545 as federal award revenue during the year ended December 31, 2020, which is reported in Contract revenue on the Statement of Operations and Changes in Net Assets, while $3,796,191 remains in Provider relief fund liability. While the Corporation has utilized all available current information in determining the proper utilization and accounting for these funds, additional guidance could have a material impact on how the Corporation has recognized PRF.

Pennsylvania Office of Long-Term Living, Coronavirus Relief Fund Awards: During the year ended December 31, 2020, the Corporation was awarded $2,704,076 in CARES Act funding through the Pennsylvania programs through the Office of Long-Term Living to benefit nursing facilities, licensed personal care homes, and licensed assisted living residences. According to guidance provided by federal and state governments, these funds may only be used when health care providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, health care providers must comply with certain terms and conditions, established by federal and state governments, when spending the funds. If the health care provider is unable to justify utilization of the funds through COVID-19 expenses, the funds must be returned to the Pennsylvania State Treasury. Based on the Corporation's calculation of lost revenue and COVID-19 expenses, the Corporation utilized all of the funding awarded from Pennsylvania, and has recognized $2,704,076 as award revenue during the year ended December 31, 2020, which is reported in Contract revenue on the Statement of Operations and Changes in Net Assets. While the Corporation has utilized all available current information in determining the proper utilization and accounting for these funds, additional guidance could have a material impact on how the Corporation has recognized PRF funds.

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

Paycheck Protection Program Loan: Between April and May 2020, the Corporation obtained two loans totaling $2,905,785 under the Paycheck Protection Program pursuant to the CARES Act ($2,690,790 for DCFCM and $214,995 for DMG). The Corporation has elected to account for the PPP loans as debt and the proceeds are reported as long-term debt as of December 31, 2020. The proceeds from the loans must be spent on qualifying expenses such as covered payroll costs, mortgage interest on real or personal property, rental obligations on real or personal property, and covered utility costs allowed under the CARES Act. The Corporation has selected the twenty-four week covered period as allowed under the CARES Act. The Corporation has endeavored to use the loan proceeds in accordance with the terms of the PPP program, has fully expended funds on qualifying expenses, and has applied for forgiveness prior to the date of issuance of these consolidated financial statements; however, review of documentation for loan forgiveness has not been completed by the lender and the Federal Small Business Administration. The unforgiven portions of the remaining loans obtained will mature in May 2022.

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

(17) Subsequent Events

As discussed in Note 16, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. During the ensuing months, including up through the date these consolidated financial statements were issued, the federal, Pennsylvania, Maryland, and local governments in which the Corporation operates took significant preventative or protective actions to manage the spread of the outbreak and such protection measures generally remain in effect. The ultimate impact of COVID-19 on the Corporation's operational and financial performance will depend on certain developments, including the continued duration and spread of the outbreak, efficacy of vaccine administration in reducing community spread and related impact on the Corporation's residents, patients, financial markets, employees, and vendors. The financial implications have been highly volatile and unpredictable to date as the effects of these events on operations and the Corporation's financial condition are generally beyond Corporation's control. As a result, such future effects have not been reflected in these consolidated financial statements, but management believes they could be significant. As of the issue date of these statements, the Corporation has been awarded additional PRF funds of $341,017 through the Federal CARES program. In addition, the Corporation submitted an application on April 12, 2021 for PPP loans for DLSM and for DLSL-MD in the amounts of $8,484,432 and $1,068,990, respectively. Availability of additional relief funding, through either federal or state sources is uncertain.

The Corporation has evaluated subsequent events through April 15, 2021, 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.

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Schedule of Consolidating Information, Balance Sheet

December 31, 2020

		Nonobligated Group							
Assets	**DLSM Obligated Group**	**Diakon**	**Diakon Lutheran Fund**	**Diakon Lutheran Senior Living Maryland LLC**	**Diakon Child, Family & Community Ministries**	**Old Main LLC**	**Other**	**Elimination entries**	**Total**
Current assets:									
Cash and cash equivalents	$ 2,787,967	270,438	—	376,527	5,672,339	—	2,523,233	—	11,630,504
Assets limited as to use	13,539,777	—	—	—	—	—	—	—	13,539,777
Accounts receivable, net (Note 1)									
Patients and residents	10,068,128	—	—	787,040	27,710	—	146,554	—	11,029,432
Statewide Adoption and Permanency Network	—	—	—	—	—	—	4,865,085	—	4,865,085
Other client services	1,574,338	—	—	—	3,064,790	—	354	(1,399,212)	3,240,270
Intercompany	3,918,196	188,066	(64,790)	(2,586,465)	46,355	(216,981)	(1,284,381)	—	—
Estimated third-party payor settlements	699,866	—	—	(8,570)	—	—	3	—	691,299
Lease receivable current	1,693,864	—	—	—	—	—	—	(1,693,864)	—
Prepaid expenses and other assets	2,633,664	—	—	157,796	40,258	—	148,353	—	2,980,071
Total current assets	36,915,800	458,504	(64,790)	(1,273,672)	8,851,452	(216,981)	6,399,201	(3,093,076)	47,976,438
Investments	122,007,546	1,231,687	21,509,652	3,937,010	393,153	—	—	—	149,079,048
Assets limited as to use, less current portion:									
Statutory minimum liquid reserves	5,935,450	—	—	—	—	—	—	—	5,935,450
Other	21,489,478	—	3,301,260	242,647	3,692,675	—	2,436,258	—	31,162,318
Investment in joint venture	1,137,733	—	—	—	—	—	—	—	1,137,733
Land, buildings and equipment, net	146,632,232	—	—	—	1,405,384	4,731,015	4,917,221	10,086,137	167,771,989
Finance lease right of use assets, net	870,275	—	—	17,272,217	95,205	—	64,743	(17,214,594)	1,087,846
Operating lease right of use assets	1,953,488	—	—	2,750	300,249	—	150,041	—	2,406,528
Other assets:									
Receivables from charitable gift annuities	536,650	—	—	—	—	—	—	—	536,650
Funds held in trust by others and beneficial interest in trust	30,614,393	—	9,684,266	—	—	—	—	—	40,298,659
Lease receivable long term	10,484,343	—	—	—	—	—	—	(10,484,343)	—
Other assets	454,760	—	—	—	—	—	—	—	454,760
Total assets	$ 379,032,148	1,690,191	34,430,388	20,180,952	14,738,118	4,514,034	13,967,464	(20,705,876)	447,847,419

Liabilities and Net Assets (Deficit)	DLSM Obligated Group	Nonobligated Group: Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Old Main LLC	Other	Elimination entries	Total
Current liabilities:									
Accounts payable and accrued expenses	17,535,822	130,193	—	282,682	469,983	—	6,924,541	(1,474,580)	23,868,641
Provider relief fund	3,759,444	—	—	—	—	—	—	—	3,759,444
Deposits – patients and residents	512,401	968	—	2,000	—	—	117,693	—	633,062
Estimated third-party payor settlements	3,449,033	—	—	469,546	621,193	—	88,965	—	4,628,737
Current finance lease liabilities	378,116	—	—	544,140	34,604	—	16,347	(520,263)	452,944
Current operating lease liabilities	433,066	—	—	748	296,119	—	197,952	—	927,885
Current maturities of long-term debt	6,024,000	—	—	—	—	208,744	291,781	—	6,524,525
Total current liabilities	32,091,882	131,161	—	1,299,116	1,421,899	208,744	7,637,279	(1,994,843)	40,795,238
Pension liability	46,661,192	—	—	—	—	—	—	—	46,661,192
Swap agreement	1,079,138	—	—	—	—	—	—	—	1,079,138
Deferred revenue – entrance agreements	54,271,348	—	—	5,199,185	—	—	—	—	59,470,533
Refundable entrance fee liability	22,163,445	—	—	2,538,202	—	—	—	—	24,701,647
Other long-term liabilities	1,620,997	—	—	—	—	—	4,119	—	1,625,116
Long-term finance lease liability	490,553	—	—	19,952,891	60,906	—	43,254	(19,922,448)	625,156
Long-term operating lease liability	1,633,787	—	—	2,003	5,707	—	(52,036)	—	1,589,461
Long-term debt, less current maturities and debt issuance costs	184,268,236	—	—	—	2,690,790	4,597,244	12,271,743	—	203,828,013
Total liabilities	344,280,578	131,161	—	28,991,397	4,179,302	4,805,988	19,904,359	(21,917,291)	380,375,494
Net assets (deficit):									
Without donor restrictions	(18,716,087)	1,559,030	21,416,083	(9,003,423)	7,374,762	(291,954)	(5,936,895)	1,211,415	(2,387,069)
With donor restrictions	53,467,657	—	13,014,305	192,978	3,184,054	—	—	—	69,858,994
Total net assets (deficit)	34,751,570	1,559,030	34,430,388	(8,810,445)	10,558,816	(291,954)	(5,936,895)	1,211,415	67,471,925
Total liabilities and net assets (deficit)	$ 379,032,148	1,690,191	34,430,388	20,180,952	14,738,118	4,514,034	13,967,464	(20,705,876)	447,847,419

See accompanying independent auditor's report.

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

Year ended December 31, 2020

		Nonobligated Group								
	DLSM Obligated Group	**Diakon**	**Diakon Lutheran Fund**	**Diakon Lutheran Senior Living Maryland LLC**	**Diakon Child, Family & Community Ministries**	**Old Main LLC**	**Other**	**Subtotal**	**Elimination entries**	**Total**
Operating revenues, gains and other support:										
Patient and resident service revenue, net	$ 118,628,371	—	—	13,213,391	3,147	—	1,188,122	133,033,031	—	133,033,031
Patient and resident service revenue, nursing home assessment	3,838,313	—	—	—	—	—	—	3,838,313	—	3,838,313
Amortization of entrance fees	9,541,448	—	—	585,546	—	—	—	10,126,994	—	10,126,994
Contract revenue	6,040,653	—	—	906,340	15,160,707	—	1,861,287	23,968,987	—	23,968,987
Grants from affiliates	1,056,700	—	—	—	21,278	386,957	150,000	1,614,935	(1,614,935)	—
Other fees and services	6,521,491	140,421	—	42,768	7,692,444	64,181	1,528,728	15,990,033	(5,711,708)	10,278,325
Statewide Adoption and Permanency Network revenue	—	—	—	—	—	—	71,111,889	71,111,889	—	71,111,889
Investment income, net of expenses	7,441,535	48,938	844,684	112,857	38,255	—	591	8,486,860	(994,657)	7,492,203
Income from trusts	1,328,774	—	300,230	—	—	—	—	1,629,004	—	1,629,004
Contributions and bequests	949,399	—	19,443	506	159,645	—	4,419	1,133,412	—	1,133,412
Net assets released from restrictions – operations	970,348	—	106,098	17,463	312,721	—	—	1,406,630	—	1,406,630
Gain on disposal of assets	1,041,364	—	—	—	—	—	—	1,041,364	—	1,041,364
Gain on insurance proceeds	5,373	—	—	—	955	—	—	6,328	—	6,328
Total operating revenues, gains and other support	157,363,769	189,359	1,270,455	14,878,871	23,389,152	451,138	75,845,036	273,387,780	(8,321,300)	265,066,480
Expenses:										
Salaries and wages	52,611,224	—	—	4,948,137	10,208,242	—	2,600,419	70,368,022	—	70,368,022
Employee benefits	11,851,001	—	—	1,042,694	2,752,052	—	493,728	16,139,475	—	16,139,475
Other expenses	58,823,300	140,421	1,284,877	7,150,241	9,449,003	64,139	1,510,704	78,422,685	(6,569,190)	71,853,495
Other expenses – Statewide Adoption and Permanency Network	—	—	—	—	—	—	70,051,342	70,051,342	(757,453)	69,293,889
Nursing home assessment	1,766,884	—	—	—	—	—	—	1,766,884	—	1,766,884
Interest	8,344,569	—	—	1,202,432	7,595	192,811	554,835	10,302,242	(1,199,602)	9,102,640
Depreciation and amortization	15,919,668	—	—	854,179	295,844	215,296	763,462	18,048,449	235,424	18,283,873
Total expenses	149,316,646	140,421	1,284,877	15,197,683	22,712,736	472,246	75,974,490	265,099,099	(8,290,821)	256,808,278
Operating income (loss)	8,047,123	48,938	(14,422)	(318,812)	676,416	(21,108)	(129,454)	8,288,681	(30,479)	8,258,202
Net periodic pension costs	(113,965)	—	—	(10,545)	(25,523)	—	(4,310)	(154,343)	—	(154,343)
Equity in losses of joint venture	(32,430)	—	—	—	—	—	—	(32,430)	—	(32,430)
Unrealized gain on investments	5,384,341	55,938	1,739,615	280,615	35,457	—	—	7,495,966	—	7,495,966
Loss from early extinguishment of debt	(2,677,128)	—	—	—	—	—	—	(2,677,128)	—	(2,677,128)
Excess (deficit) of operating revenues, gains and other support over expenses	10,607,941	104,876	1,725,193	(48,742)	686,350	(21,108)	(133,764)	12,920,746	(30,479)	12,890,267
Other changes:										
Pension-related changes other than net periodic pension costs	(6,751,087)	—	—	—	—	—	—	(6,751,087)	—	(6,751,087)
Decrease in fair value of swap agreement	(359,779)	—	—	—	—	—	—	(359,779)	—	(359,779)
Net assets released from restrictions – capital	202,755	—	—	2,960	31,194	—	—	236,909	—	236,909
Total other changes	(6,908,111)	—	—	2,960	31,194	—	—	(6,873,957)	—	(6,873,957)
Increase (decrease) in net assets (deficit) without restrictions	3,699,830	104,876	1,725,193	(45,782)	717,544	(21,108)	(133,764)	6,046,789	(30,479)	6,016,310

Schedule 2

DIAKON
AND CONTROLLED AFFILIATES

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

Year ended December 31, 2020

	DLSM Obligated Group	Nonobligated 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	1,005,223	—	(2,000)	19,323	232,885	—	—	1,255,431	—	1,255,431
Investment income, net of expenses	813,866	—	124,785	9,804	112,288	—	—	1,060,743	—	1,060,743
Unrealized gains on investments	1,658,136	—	242,648	19,208	224,543	—	—	2,144,535	—	2,144,535
Net assets released from restrictions – operations	(970,348)	—	(106,098)	(17,463)	(312,721)	—	—	(1,406,630)	—	(1,406,630)
Net assets released from restrictions – capital	(202,755)	—	—	(2,960)	(31,194)	—	—	(236,909)	—	(236,909)
Change in beneficial interest in trust	109,339	—	—	—	—	—	—	109,339	—	109,339
Increase in fair value of funds held in trust by others	1,960,699	—	697,324	—	—	—	—	2,658,023	—	2,658,023
Increase in net assets with donor restrictions	4,374,160	—	956,659	27,912	225,801	—	—	5,584,532	—	5,584,532
Increase (decrease) in net assets (deficit)	8,073,990	104,876	2,681,852	(17,870)	943,345	(21,108)	(133,764)	11,631,321	(30,479)	11,600,842
Net assets (deficit), beginning of year as previously reported	26,677,580	1,454,154	31,748,536	(8,792,575)	9,615,471	(270,846)	(5,803,131)	54,629,189	1,241,894	55,871,083
Net assets (deficit), end of year	$ 34,751,570	1,559,030	34,430,388	(8,810,445)	10,558,816	(291,954)	(5,936,895)	66,260,510	1,211,415	67,471,925

See accompanying independent auditor's report.

Schedule 3

DIAKON
AND CONTROLLED AFFILIATES

Schedule of Consolidating Information, Statement of Cash Flows

Year ended December 31, 2020

	DLSM Obligated Group	Diakon	Diakon Lutheran Fund	Diakon Lutheran Senior Living Maryland LLC	Diakon Child, Family & Community Ministries	Old Main LLC	Other	Elimination entries	Total
Cash flows from operating activities:									
Increase (decrease) in net assets (deficit)	$ 8,073,990	104,876	2,681,852	(17,870)	943,345	(21,108)	(133,764)	(30,479)	11,600,842
Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by operating activities:									
Net realized (gains) losses on investments	(1,128,709)	—	213,810	1,092	14,473	—	—	—	(899,334)
Net unrealized gains on investments	(7,042,477)	(55,938)	(1,982,263)	(299,823)	(260,000)	—	—	—	(9,640,501)
Depreciation and amortization	15,919,668	—	—	854,179	295,844	215,296	763,462	235,424	18,283,873
Amortization of debt issuance costs	145,914	—	—	—	—	14,555	34,356	—	194,825
Amortization of bond premium	(1,059,670)	—	—	—	—	—	—	—	(1,059,670)
Increase in pension liability	6,905,430	—	—	—	—	—	—	—	6,905,430
Amortization of entrance fees	(9,541,448)	—	—	(585,546)	—	—	—	—	(10,126,994)
Proceeds from entrance fees	8,644,345	—	—	1,049,600	—	—	—	—	9,693,945
Change in funds held in trust by others and beneficial interest in trust	(1,967,075)	—	(697,324)	—	—	—	—	—	(2,664,399)
Decrease in fair value if swap agreement	359,779	—	—	—	—	—	—	—	359,779
Equity in (gains) losses of joint ventures	32,430	—	—	—	—	—	—	—	32,430
Loss (gain) on disposal of assets	(1,041,364)	—	—	—	—	—	—	—	(1,041,364)
Loss on early extinguishment of debt	2,677,128	—	—	—	—	—	—	—	2,677,128
Loss on future services obligation	—	—	—	—	—	—	—	—	—
Impairment of goodwill	—	—	—	—	—	—	—	—	—
Impairment of long-lived assets	—	—	—	—		—	—	—	—
Restricted contributions and investment (income) loss	(848,741)	—	(16,687)	(11,664)	(32,452)	—	—	—	(909,544)
Variable operating lease payments (refunds)	5,567	—	—	—	(2,162)	—	7,103	—	10,508
Changes in assets and liabilities:									—
Accounts receivable and estimated third-party payor settlements	7,578,111	(46,092)	150,980	203,402	(975,205)	—	724,815	109,292	7,745,303
Prepaid expenses and other current assets	(224,519)	—	5,470	9,090	1,273	—	(29,476)	—	(238,162)
Other assets	(265,124)	—	—	—	—	—	—	—	(265,124)
Accounts payable, accrued expenses, and other liabilities	7,834,046	46,092	—	(19,422)	(321,449)	—	56,826	(107,522)	7,488,571
Deposits – patients and residents	(122,537)	—	—	(2,000)	—	—	(3,147)	—	(127,684)
Net cash (used in) provided by operating activities	34,934,744	48,938	355,838	1,181,038	(336,333)	208,743	1,420,175	206,715	38,019,858
Cash flows from investing activities:									
Purchase of investments and assets limited as to use	(24,271,036)	(49,764)	(1,556,262)	(133,398)	(198,617)	—	—	—	(26,209,077)
Proceeds from sales of investments and assets limited as to use	23,486,005	826	1,271,231	8,208	115,862	—	—	—	24,882,132
Contributions and charitable gift/remainder trusts	162,022	—	—	—	—	—	—	—	162,022
Purchase of property and equipment	(13,983,665)	—	—	—	(177,584)	—	(180,312)	(206,715)	(14,548,276)
Proceeds from sale of property and equipment	19,446,083	—	—	—	—	—	—	—	19,446,083
Acquisition of leased property and equipment	(10,051)	—	—	—	(2,399)	—	(5,731)	—	(18,181)
Proceeds from finance lease	492,492	—	—	—	—	—	—	(492,492)	—
Net cash (used in) provided by investing activities	5,321,850	(48,938)	(285,031)	(125,190)	(262,738)	—	(186,043)	(699,207)	3,714,703
Cash flows from financing activities:									
Payment of long-term debt	(6,290,000)	—	—	—	—	(208,743)	(280,627)	—	(6,779,370)
Bond refunding	(20,414,270)	—	—	—	—	—	—	—	(20,414,270)
Proceeds from debt issuance	—	—	—	—	2,690,790	—	214,995	—	2,905,785
Principal payments under finance lease obligations	(595,933)	—	—	(524,274)	(103,752)	—	(32,352)	492,492	(763,819)
Net payment on lines of credit	(6,294,158)	—	—	—	—	—	—	—	(6,294,158)
Proceeds from restricted contributions and investment income (loss)	848,741	—	16,687	11,664	32,452	—	—	—	909,544
Proceeds from entrance fees	1,713,136	—	—	41,900	—	—	—	—	1,755,036
Refunds of entrance fees	(3,142,186)	—	—	(564,328)	—	—	—	—	(3,706,514)
Net cash (used in) provided by financing activities	(34,174,670)	—	16,687	(1,035,038)	2,619,490	(208,743)	(97,984)	492,492	(32,387,766)
Net increase in cash, cash equivalents and restricted cash	6,081,924	—	87,494	20,810	2,020,419	—	1,136,148	—	9,346,795
Cash, cash equivalents and restricted cash, beginning of year	12,545,383	270,438	166,515	377,221	4,335,873	—	3,823,343	—	21,518,773
Cash, cash equivalents and restricted cash, end of year	$ 18,627,307	270,438	254,009	398,031	6,356,292	—	4,959,491	—	30,865,568
Reconciliation of cash, cash equivalents and restricted cash									
Amounts included in these lines on the schedule of consolidating information, balance sheet									
Current assets									
Cash and cash equivalents	$ 2,787,967	270,438	—	376,527	5,672,339	—	2,523,233	—	11,630,504
Assets limited as to use	13,539,777	—	—	—	—	—	—	—	13,539,777
Assets limited to use, less current portion									
Other	2,299,563	—	254,009	21,504	683,953	—	2,436,258	—	5,695,287
Total cash, cash equivalents and restricted cash	$ 18,627,307	270,438	254,009	398,031	6,356,292	—	4,959,491	—	30,865,568

See accompanying independent auditor's report.

Schedule 4

DIAKON
AND CONTROLLED AFFILIATES
Statutory Minimum Liquid Reserves
December 31, 2020

2021 Budgeted Operating Expenses (All Diakon Facilities that offer a continuum of care) (1)	$	138,829,349	
Less: Depreciation expense		14,156,496	
Expenses subject to minimum liquid reserve requirement		124,672,853	
Perecentage (%) of residents subject to residence and care arrangements as of December 31, 2020		47.6%	
Expenses subject to minimum liquid reserve requirement		59,354,502	
Statutory requirement		10.0%	
Statutory mimimum liquid reserve requirement	$	5,935,450	(a)
Next 12 months debt service payments:			
Principal and interest payments (1)	$	12,329,865	
Perecentage (%) of residents subject to residence and care arrangements as of December 31, 2020		47.6%	
Statutory minimum liquid reserve requirement	$	5,870,027	(b)
Assets satisfying statutory minimum liquid reserve requirement as of December 31, 2020:			
Cash and cash equivalents	$	204,551	
Investments		127,942,996	
Assets limited as to use		9,742,954	
		137,890,501	
Greater of (a) or (b)		5,935,450	
Assets in excess of statutory minimum liquid reserve requirement	$	131,955,051	

See accompanying independent auditor's report.