DIAKON
AND CONTROLLED AFFILIATES

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors’ Report Thereon)

DIAKON
AND CONTROLLED AFFILIATES

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Independent Auditors' Report

The Board of Directors
Diakon:

Report on the 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, 2014 and 2013, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 entity's 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 entity's 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.

KPMG LLP, is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of Diakon and controlled affiliates as of December 31, 2014 and 2013, and the results of their operations and changes in net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Harrisburg, Pennsylvania
April 15, 2015

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2014 and 2013

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	5,732,005	5,330,995
Investments		—	11,750,000
Assets limited as to use		10,005,898	7,752,523
Accounts receivable (net of allowance for doubtful accounts of $3,966,000 and $6,753,000 in 2014 and 2013, respectively):			
Patients and residents		11,220,716	16,962,313
Statewide Adoption and Permanency Network		3,016,607	2,908,935
Other client services		3,737,520	2,048,937
Estimated third-party payor settlements		380,504	2,083,729
Prepaid expenses and other assets		4,080,880	2,227,863
Total current assets		38,174,130	51,065,295
Investments, net of current portion		50,899,609	39,268,254
Assets limited as to use, net of current portion:			
Statutory minimum liquid reserves		8,301,403	7,853,917
Other		103,872,681	88,709,008
Investment in joint venture		786,597	902,005
Land, buildings and equipment, net		234,201,084	239,602,253
Other assets:			
Deferred debt issuance costs, net		4,420,835	3,710,574
Receivables from charitable gift annuities		1,013,325	548,826
Funds held in trust by others and beneficial interest in trust		36,488,741	36,664,526
Goodwill and other assets		5,433,576	5,448,498
Total assets	$	483,591,981	473,773,156

(Continued)

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Balance Sheets

December 31, 2014 and 2013

Liabilities and Net Assets	**2014**	**2013**
Current liabilities:		
Line of credit	$ 2,802,072	11,758,364
Accounts payable and accrued expenses	23,282,698	24,706,537
Deposits – patients and residents	572,561	702,266
Estimated third-party payor settlements	138,647	1,397,628
Current maturities of long-term debt	4,434,745	3,893,985
Total current liabilities	31,230,723	42,458,780
Pension liability	35,306,719	14,423,022
Swap agreement	9,868,330	8,266,972
Deferred revenue – entrance agreements	55,253,833	50,281,583
Refundable entrance fee liability	37,843,397	38,735,572
Other long-term liabilities	1,703,425	1,613,070
Long-term debt, less current maturities	243,906,250	222,546,111
Total liabilities	415,112,677	378,325,110
Net assets:		
Unrestricted	1,374,212	36,467,369
Temporarily restricted	12,126,643	11,540,098
Permanently restricted	54,978,449	47,440,579
Total net assets	68,479,304	95,448,046
Total liabilities and net assets	$ 483,591,981	473,773,156

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues, gains and other support:		
Patient and resident service revenue, net of contractual allowances	$ 134,674,620	123,453,502
Patient and resident service revenue – nursing home assessment	3,865,989	4,101,869
Amortization of entrance fees	8,643,425	8,181,276
Contract revenue	10,652,713	10,335,837
Other fees and services	12,147,158	11,567,211
Statewide Adoption and Permanency Network revenue	50,094,356	48,866,279
Investment income, net of expenses	10,080,084	10,087,022
Income from trusts	1,489,788	1,284,971
Contributions and bequests	918,589	788,556
Net assets released from restrictions – operations	1,341,175	1,427,896
Total operating revenues, gains and other support	233,907,897	220,094,419
Expenses:		
Salaries and wages	64,501,080	62,889,910
Employee benefits	13,341,869	12,307,436
Other expenses	75,450,132	71,693,861
Other expenses – Statewide Adoption and Permanency Network	48,659,524	47,489,924
Nursing home assessment	2,085,016	2,184,106
Interest	13,859,083	12,516,552
Depreciation and amortization	18,534,210	15,665,857
Total expenses	236,430,914	224,747,646
Operating loss from operations before impairment expense	(2,523,017)	(4,653,227)
Impairment expense	(3,698,990)	—
Operating loss	(6,222,007)	(4,653,227)
(Decrease) increase in fair value of swap agreement	(1,601,358)	3,187,146
Equity in losses of joint venture	(115,408)	(80,163)
Loss from early extinguishment of debt	(233,372)	—
Deficit of operating revenues, gains and other support over expenses	(8,172,145)	(1,546,244)
Other changes:		
Pension-related changes other than net periodic pension costs	(21,880,577)	14,650,721
Unrealized (losses) gains on investments	(5,663,396)	6,918,686
Net assets released from restrictions – capital	622,961	551,777
Total other changes	(26,921,012)	22,121,184
(Decrease) increase in unrestricted net assets	(35,093,157)	20,574,940

(Continued)

DIAKON
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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2014 and 2013

		2014	2013
Temporarily restricted net assets:			
Contributions and bequests	$	1,725,576	1,142,097
Investment income, net of expenses		1,419,184	985,686
Unrealized (losses) gains on investments		(541,884)	2,700,580
Net assets released from restrictions – operations		(1,341,175)	(1,427,896)
Net assets released from restrictions – capital		(622,961)	(551,777)
Change in beneficial interest in trust		(52,195)	115,179
Increase in temporarily restricted net assets		586,545	2,963,869
Permanently restricted net assets:			
Contributions and bequests		7,621,788	523,751
(Decrease) increase in fair value of funds held in trust by others		(83,918)	2,974,947
Increase in permanently restricted net assets		7,537,870	3,498,698
(Decrease) increase in net assets		(26,968,742)	27,037,507
Net assets, beginning of year		95,448,046	68,410,539
Net assets, end of year	$	68,479,304	95,448,046

See accompanying notes to consolidated financial statements.

DIAKON
AND CONTROLLED AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (26,968,742)	27,037,507
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Net realized gains on investments	(5,286,879)	(6,463,268)
Net unrealized losses (gains) on investments	6,205,280	(9,619,266)
Depreciation and amortization	18,534,210	15,665,857
Amortization of bond issuance costs	193,044	168,772
Increase (decrease) in pension liability	20,883,697	(15,387,512)
Amortization of entrance fees	(8,643,425)	(8,181,276)
Proceeds from entrance fees	13,912,054	12,486,397
Change in funds held in trust by others and beneficial interest in trust	175,785	(3,095,465)
Decrease (increase) in fair value of swap agreement	1,601,358	(3,187,146)
Equity in losses of joint venture	115,408	80,163
Loss on early extinguishment of debt	233,372	—
Impairment of long-lived assets	3,698,990	—
Provision for bad debts	2,966,083	4,915,030
Restricted contributions and investment income	(9,425,373)	(1,223,638)
Change in assets and liabilities:		
Accounts receivable and estimated third-party payor settlements	1,423,503	(7,308,764)
Prepaid expenses and other current assets	30,073	720,149
Other assets	6,904	254,366
Accounts payable, accrued expenses, and other liabilities	349,820	(6,798,373)
Deposits – patients and residents	(129,705)	15,650
Net cash provided by operating activities	19,875,457	79,183
Cash flows from investing activities:		
Purchase of investments and assets limited as to use	(169,593,125)	(132,324,877)
Proceeds from sales of investments and assets limited as to use	156,263,031	161,721,948
Purchase of property and equipment	(18,507,318)	(39,542,816)
Proceeds from sale of property and equipment	—	4,005,062
Net cash used in investing activities	(31,837,412)	(6,140,683)
Cash flows from financing activities:		
Payment of long-term debt	(49,464,446)	(3,747,384)
Proceeds from debt re-financing	71,341,000	—
Net (payment) proceeds from line of credit	(8,956,292)	6,549,857
Payment of bond issuance costs	(1,112,331)	(442)
Proceeds from restricted contributions and investment income	1,743,588	1,327,356
Proceeds from entrance fees	4,756,932	6,265,776
Refunds of entrance fees	(5,945,486)	(4,495,704)
Net cash provided by financing activities	12,362,965	5,899,459
Net increase (decrease) in cash and cash equivalents	401,010	(162,041)
Cash and cash equivalents, beginning of year	5,330,995	5,493,036
Cash and cash equivalents, end of year	$ 5,732,005	5,330,995

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 and Controlled Entities (DLSM), Diakon Lutheran Fund (DLF), Diakon Lutheran Senior Living-Maryland LLC (DLSL-MD), Diakon Child, Family and Community Ministries (DCFCM), Diakon Home Care Services LLC (DHCS), and the sole shareholder of Institute for Strategic Management, Inc. (ISM), a for-profit corporation. DLSM 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, by acting as sole member of Diakon Lutherwood Senior Housing LLC and by controlling Frostburg Heights Apartments as a division of DLSM. 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 the Diakon's board of directors. The bishops of the Synods also elect the majority of DLSM's board of directors. The board of Diakon, in its role as sole member or shareholder, appoints the board for DLF and appoints a number of directors of the ISM board; the remaining directors of ISM are certain identified officers and directors of Diakon.

(b) Description of Controlled Affiliates

DLSM is a Pennsylvania nonprofit corporation recognized as a charitable organization under Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under the group exemption of ELCA. DLSM provides senior living and health services in Pennsylvania and prior to July 1, 2014, operated children and family ministry services in Pennsylvania and Maryland. Effective July 1, 2014, DLSM transferred the operations of its child, family and community related programs to DCFCM. DLSM is also the prime contractor for the Pennsylvania Statewide Adoption and Permanency Network under a contract with the Pennsylvania Department of Public Welfare (the SWAN Contract).

DLSL-MD, a Maryland Limited Liability Company, began operations on January 1, 2012 and 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, began operations on July 1, 2014 and is the operating entity for child, family and community ministries.

DHCS, a Pennsylvania Limited Liability Company, began operations on January 1, 2012 and was the operating entity for home and community based hospice and home care services in Pennsylvania until July 1, 2012 when the Corporation established a relationship with Lutheran Social Services of South

Central Pennsylvania and transferred the assets, licenses and employees of DHCS to Lutheran Home Care & Hospice, Inc. (LHCH). DHCS is a disregarded entity of Diakon for federal tax purposes.

DLF, a 501(c)(3) corporation, is authorized by its charter to provide management of DLSM's investments and solicit contributions for the charitable organizations that it supports. In the absence of donor restrictions, DLF has discretionary control over the amounts, timing, and use of its distributions to the charitable organizations that it supports. Certain of its funds are restricted to children, youth and family programs. DLF is a supporting organization to DLSM and DCFCM.

ISM, a Pennsylvania for-profit corporation, provides management consulting services to DLSM and other unaffiliated organizations.

(c) Basis of Consolidation

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

(d) Basis of Accounting

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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 in the consolidated statements of operations and changes in net assets.

There are three classes of net assets – permanently restricted, temporarily restricted, and unrestricted.

Permanently restricted net assets are net assets subject to donor-imposed stipulations that are required to be maintained permanently by the Corporation. Generally, the donors of these assets permit the institution to use all or part of the income earned on related investments for general or specific purposes. Permanently restricted net assets consist principally of funds held in trust by others.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met by actions of the Corporation and/or the passage of time.

Unrestricted net assets are net assets not subject to donor-imposed stipulations.

(e) Cash and Cash Equivalents

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

The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of FDIC insured limits. As of December 31, 2014, the amount held in excess of the FDIC insured limits at financial institutions was approximately $3,200,000.

(f) Investments and Investment Income

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

Certain investments and assets limited as to use are maintained in investment pools (pooled funds). To equitably allocate investment income, including gains and losses, each participating fund is assigned a number of units using the market value method.

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.

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 2014 or 2013.

(g) Assets Limited as to Use

Assets limited as to use include assets set aside by the board of directors for future capital improvements and other designated purposes, over which the board retains control and may, at its discretion, use for other purposes, assets held by trustees under mortgage agreements with agencies of the U.S. government, assets held by trustees under bond indentures, and donor and other restricted funds. Investment income and gains and losses on assets limited as to use are included in investment income.

(h) Investment in Joint Venture

Investment in joint venture represents an investment in a less than 50% owned information technology joint venture. The Corporation accounts for the equity interest it has in a for-profit joint venture where it has significant influence under the equity method of accounting. Changes in the venture’s equity have been reflected in the consolidated statements of operations and changes in net assets as equity in losses of joint venture and classified consistent with the characteristics of the joint venture’s activities.

(i) 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.

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Depreciable lives are determined as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

(j) 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. Fair value would be considered Level 3 in the fair value hierarchy (note 7). Assets to be disposed of would be separately presented in 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. In 2014, the Corporation recognized impairment losses of $3,698,990.

(k) Deferred Debt Issuance Costs and Other Assets

Debt issuance costs are amortized over the period the obligation is outstanding. Amortization expense was $193,044 and $168,772 in 2014 and 2013, respectively. Debt issuance costs incurred and subject to amortization totaled $5,573,325 and $4,669,579 at December 31, 2014 and 2013, respectively. Accumulated amortization as of December 31, 2014 and 2013 totaled $1,152,490 and $959,446, respectively.

Other noncurrent assets include goodwill of approximately $4,600,000 related to the acquisition of a continuing care retirement community within the senior living services line of service. Goodwill is analyzed at least annually by management to assess whether it is more likely than not that the senior living services reporting unit goodwill is impaired based upon qualitative factors. The Corporation did not recognize an impairment loss on goodwill for the years ended December 31, 2014 and 2013.

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(l) 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.

(m) 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 investment income.

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 is reported as a change in permanently restricted net assets and the change in the fair value of the beneficial interest in trust is reported as a change in temporarily restricted net assets. Lifecare residents of Twining Village requiring financial assistance have been named as the beneficiaries of a trust administered and controlled by independent trustees.

(n) Self Insurance

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

(o) 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.

(p) Pension Benefits

The Corporation has a noncontributory defined benefit pension plan covering substantially all of its 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 another change in unrestricted net assets in 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 in the consolidated balance sheet. The Corporation is required to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets to the extent those changes are not included in the net periodic cost.

(q) Derivative Instruments

The Corporation has entered into an interest rate swap agreement to limit its exposure to interest rate changes on its variable rate revenue bonds. Hedge accounting has not been elected; therefore, variations in fair value are marked-to-market and reported within its performance indicator in the consolidated statements of operations and changes in net assets.

(r) 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. A resident, upon termination of occupancy, is entitled to receive a refund of a portion of the entrance fee pursuant to the terms of the contract, which is required to be paid only upon the subsequent receipt of an entrance fee from a new resident for that independent living unit. These entrance fee agreements guarantee occupancy rights to residents for life. In certain contracts related to two of the corporation’s facilities, there are lifetime healthcare services.

The nonrefundable portion of entrance fees as stated in each contract is deferred and amortized to revenue over the estimated life expectancy of each resident.

The amount of entrance fees, which is refundable to residents at December 31, 2014 and 2013 under contractual refund provisions, was approximately $57,000,000 and $55,000,000, respectively. Proceeds and refunds of refundable entrance fees are classified as financing activities in the consolidated statements of cash flows.

(s) 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 at December 31, 2014 or 2013.

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

The Corporation annually calculates the present value of the net cost of future services using a discount rate of 5% and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability would be recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. As a result of the calculation, the present value of the net cost of future services did not exceed deferred revenue; accordingly, no obligation was recorded at December 31, 2014 or 2013.

(u) Income Taxes

Diakon and its controlled affiliates, with the exception of ISM, a Pennsylvania for-profit corporation, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes.

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.

(v) Patient and Resident Service Revenue

Patient and resident service revenue is reported at the estimated net realizable amount to be received from patients, residents, and others including Medicare, Medicaid, and other third-party payors for services rendered. Skilled nursing facilities derive a significant portion of their revenues from federal and state reimbursement programs. These reimbursements are subject to audit and periodic adjustment.

Services provided to Medicare beneficiaries are paid under terms of a prospective payment system at predetermined rates based on clinical, diagnostic, and other factors. Services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical, diagnostic, and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's current concentration of skilled nursing facilities in Pennsylvania exposes it to the risk of changes in Medicaid reimbursement in this state.

(w) Contributions and Donor Restrictions

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as increases in temporarily restricted net assets, and reclassified to unrestricted net assets as net assets released from restrictions.

Contributions, including unconditional promises to give, if any, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of contribution. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon

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management's judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

For purposes of the statement of cash flows, Diakon received non-cash contributions of $5,334,196 in marketable investment securities.

(x) Charity Care and Support of Those in Need

The Corporation provides charity care and other support of those in need to many of the programs and individuals that it serves. In addition, DLF provides support of children, youth and family programs.

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.

Support of those in need includes services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

A number of programs operated by DCFCM do not receive sufficient funding from the sponsoring organizations or from program fees to meet the needs of the people they serve. The Corporation has elected to underwrite the operating deficits of certain programs in order to serve as many of the identified needs as possible.

The following is a summary of the Corporation's support of these programs during the years ended December 31, 2014 and 2013:

		2014	2013
Medical assistance cost in excess of contractual reimbursement	$	11,729,500	10,936,244
Charity care in support of those in need		2,159,092	1,880,799
Children and Family Ministries supported by DLSM and DLF (charity care):			
Children's services		1,026,265	1,077,639
Behavioral health		678,352	455,451
Family life and congregation		72,839	55,803
Community services		490,540	428,918
Total Children and Family Ministries supported by DLSM and DLF		2,267,996	2,017,811
Scholarships		74,347	71,016
Total	$	16,230,935	14,905,870

(y) Operating Loss

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled "Operating loss." Changes that are excluded from this measure include joint venture equity changes, changes in the fair value of swap agreement, and loss from early extinguishment of debt.

During 2014, the Corporation recognized the impairment of a commercial property located in Baltimore, Maryland and certain Senior Living community construction-in-progress costs related to an abandoned expansion project. The expense related to the impairments have been reported within the caption "Impairment expense" within the intermediate measure of operations labeled as "operating loss" in the Corporation's consolidated statements of operations and changes in net assets for the year ended December 31, 2014.

(z) Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator of operations labeled "deficit of operating revenues, gains, and other support over expenses." Changes in unrestricted net assets that are excluded from this measure include unrealized (losses) gains on investments, pension-related changes other than net periodic pension costs, and net assets released from restrictions for capital purposes.

(aa) Use of Estimates

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

(bb) 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 agreement contracts. This statutory reserve requirement is considered to be fulfilled from board-designated funds included within assets limited as to use. The Pennsylvania statutory reserve at December 31, 2014 and 2013 was $8,301,403 and $7,853,917, 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 4.5% of

net operating expenses, or $676,100, at December 31, 2014, its third year of operation, and 3% of net operating expenses, or $431,600, at December 31, 2013, its second 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.

(cc) Change in Accounting Principle

On January 1, 2013, the Corporation adopted the provisions of Accounting Standards Update No. 2012-01, Health Care Entities (Topic 954): Continuing Care Retirement Communities – Refundable Advance Fees (ASU No. 2012-01). ASU No. 2012-01 provides continuing care retirement communities with clarification that the Corporation should classify an advance fee as deferred revenue when a continuing care retirement community has a resident contract that provides for payment of the refundable advance fee upon reoccupancy by a subsequent resident, which is limited to the proceeds of reoccupancy. Refundable advance fees that are contingent upon reoccupancy by a subsequent resident but are not limited to the proceeds of reoccupancy are to be accounted for and reported as a liability. The adoption of ASU No. 2012-01 was accounted for as a change in accounting principle as of January 1, 2013 and applied retroactively to January 1, 2012.

(dd) Reclassifications

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

(2) Assets Limited as to Use and Investments

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

	2014	2013
Under bond indentures for debt service reserve fund:		
Cash and short-term investments	$ 12,356,601	13,235,476
U.S. and local government obligations and corporate bonds	11,808,151	11,791,303
Under bond indentures for construction projects:		
Cash and short-term investments	10,006,037	999,122
Endowment funds:		
Cash and short-term investments	1,137,215	483,895
U.S. and local government obligations and corporate bonds	811,614	—
Fixed income funds	4,819,459	2,679,068
Equity funds	8,451,897	9,145,026
Common Stock	2,778,378	—
Donor and other temporarily restricted funds:		
Cash and short-term investments	1,241,753	735,721
Equity funds	5,719,143	6,219,626
Fixed income funds	2,234,497	2,002,992
By board for designated purposes:		
Funded depreciation:		
Cash and short-term investments	201,321	5,558
Equity funds	1,902,842	2,134,744
Fixed income funds	1,750,399	1,717,908
Entrance fees and other designated purposes:		
Cash and short-term investments	2,607,549	1,009,828
Equity funds	23,828,180	24,348,031
Fixed income funds	22,223,543	19,953,233
Statutory minimum liquid reserves:		
Equity funds	4,294,532	4,349,456
Fixed income funds	4,006,871	3,504,461
Total assets limited as to use	122,179,982	104,315,448
Less assets limited as to use – required for current liabilities:		
Other	10,005,898	7,752,523
Assets limited as to use, net of current portion	$ 112,174,084	96,562,925

A summary of investments at December 31 is as follows:

		2014	2013
Cash and short-term investments	$	4,457,608	1,262,388
Equity funds		26,363,481	33,547,817
Fixed income funds		15,953,048	12,634,903
Alternative investment		4,125,472	3,573,146
		50,899,609	51,018,254
Less investments, current		—	11,750,000
Investments, net of current portion	$	50,899,609	39,268,254

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

	2014			2013		
Cash and short-term investments	$	32,008,084	18.5%	$	17,731,988	11.4%
U.S. and local government obligations and corporate bonds		12,619,765	7.3		11,791,303	7.6
Equity funds		70,560,075	40.7		79,744,700	51.3
Fixed income funds		50,987,817	29.5		42,492,565	27.4
Common stock		2,778,378	1.6		—	—
Alternative investment		4,125,472	2.4		3,573,146	2.3
	$	173,079,591	100.0%	$	155,333,702	100.0%

(Continued)

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

	2014		
	Unrestricted	**Temporarily restricted**	**Total**
Interest and dividends, net of expenses	$ 5,107,756	1,104,633	6,212,389
Net realized gains on investments	4,972,328	314,551	5,286,879
Investment income, net of expenses	10,080,084	1,419,184	11,499,268
Unrealized losses on investments	(5,663,396)	—	(5,663,396)
Changes in unrealized losses on temporarily and permanently restricted net assets	—	(541,884)	(541,884)
Total investment return	$ 4,416,688	877,300	5,293,988

	2013		
	Unrestricted	**Temporarily restricted**	**Total**
Interest and dividends, net of expenses	$ 3,867,165	742,275	4,609,440
Net realized gains on investments	6,219,857	243,411	6,463,268
Investment income, net of expenses	10,087,022	985,686	11,072,708
Unrealized gains on investments	6,918,686	—	6,918,686
Changes in unrealized gains on temporarily and permanently restricted net assets	—	2,700,580	2,700,580
Total investment return	$ 17,005,708	3,686,266	20,691,974

(Continued)

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

December 31, 2014	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Description of funds:						
Fixed income funds	$ 16,114,631	158,213	14,176,442	873,578	30,291,073	1,031,791
Equity funds	647,997	8,479	—	—	647,997	8,479
Total temporarily impaired funds	$ 16,762,628	166,692	14,176,442	873,578	30,939,070	1,040,270

December 31, 2013	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Description of funds:						
Fixed income funds	$ 18,232,202	299,211	14,162,156	676,505	32,394,358	975,716
Total temporarily impaired funds	$ 18,232,202	299,211	14,162,156	676,505	32,394,358	975,716

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 decline in fair value at December 31, 2014 and 2013 are considered temporary.

(3) Third-Party Reimbursement

The Corporation's nursing care facilities and other programs primarily derive their revenues from private-pay, Medicare, and Medicaid patients. Private-pay rates are established on the basis of the cost of delivering services and competitive considerations and, as such, are essentially market driven. In contrast, Medicare and Medicaid payment rates are regulated by the federal and state governments and as a result, the industry is sensitive to related legislative changes and is affected by reductions in governmental spending for these programs. Additionally, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

Revenues from Medicare and Medicaid represent approximately 42% of patient and resident service revenue, net of contractual allowances, for the years ended December 31, 2014 and 2013. Medicare and Medicaid

receivables represent approximately 53% and 49% of patient and resident accounts receivable at December 31, 2014 and 2013, respectively.

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 Public Welfare (DPW) based upon all non-Medicare days. DPW 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 $3,865,989 and $2,085,016 for 2014, respectively, and $4,101,869 and $2,184,106 for 2013, respectively.

(4) Land, Buildings and Equipment

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

	2014	2013
Land	$ 16,441,933	16,441,933
Land improvements	31,737,528	31,635,336
Buildings	328,145,096	318,712,540
Furniture and equipment	57,942,106	56,174,187
Vehicles	503,009	449,838
	434,769,672	423,413,834
Accumulated depreciation	(204,885,900)	(189,899,428)
	229,883,772	233,514,406
Construction in progress	4,317,312	6,087,847
	$ 234,201,084	239,602,253

Depreciation expense for the years ended December 31, 2014 and 2013 was $18,526,193 and $15,654,464, respectively.

Construction in progress as of December 31, 2014 and 2013 is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Noncash purchases of buildings and equipment totaled $1,257,000 and $2,941,000 at December 31, 2014 and 2013, respectively.

(5) Long-Term Debt

The Corporation has established an obligated group (the Obligated Group) comprised of the assets/liabilities and activities of the DLSM corporate entity, excluding the following assets/liabilities and activities: Frostburg Heights Apartments affordable housing community and the Medical Arts Building in Allentown, Pennsylvania.

Long-term debt of the Corporation consisted of the following at December 31:

		2014	2013
Cumberland County Municipal Authority Revenue Bonds Series A 2014, $22,728,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $35,000 to $136,000 through 2039. The Series A 2014 are direct placement notes with PNC Bank with an interest rate of 1.212% at December 31, 2014.	$	22,462,000	—
Cumberland County Municipal Authority Bonds Series B 2014, $29,815,000 of tax-exempt variable interest rate bonds with principal payable in annual installments ranging from $70,000 to $2,720,000 through 2039. The rate adjusts weekly and was 0.040% at December 31, 2014. The bonds are collateralized by a letter of credit provided by M&T Bank expiring on April 29, 2019.		29,815,000	—
Washington County, Maryland Revenue Bonds Series C 2014, $18,798,000 of tax-exempt variable interest rate bonds with principal payable in monthly installments ranging from $43,000 to $131,000 through 2033. The Series C 2014 are direct placement notes with PNC Bank with an interest rate of 1.212% at December 31, 2014.		18,452,000	—
Cumberland County Municipal Authority Bonds Series 2009, $123,210,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $660,000 to $14,720,000 through 2039. Interest rates range from 3.75% to 6.50% and the bonds were issued at an aggregate discount of $1,055,000, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 6.26%.		99,325,000	116,195,000

(Continued)

	2014	2013
Cumberland County Municipal Authority Bonds Series A 2007, $61,955,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $1,880,000 to $11,905,000 from 2025 to 2036. The bonds bear interest at a stated rate of 5.00% and were issued at an aggregate premium of approximately $1,681,000, which is being amortized ratably over the life of the issue, to yield an effective interest rate of 4.81%.	$ 61,955,000	61,955,000
Cumberland County Municipal Authority Bonds Series A 2003, $5,555,000 of tax-exempt variable interest rate bonds. The rate adjusts weekly and was 0.07% at December 31, 2013. The bonds were collateralized by a letter of credit provided by PNC Bank. The bonds were fully refunded in April 2014.	—	4,455,000
Cumberland County Municipal Authority Bonds Series C 2003, $10,605,000 of tax-exempt variable interest rate bonds. The rate adjusts weekly and was 0.07% at December 31, 2013. The bonds were collateralized by a letter of credit provided by PNC Bank. The bonds were fully refunded in April 2014.	—	8,280,000
Washington County, Maryland Bonds Series E 2003 $20,465,000 of tax-exempt variable rate bonds. The rate adjusts weekly and was 0.05% at December 31, 2013. The bonds were collateralized by a letter of credit provided by PNC Bank. The bonds were fully refunded in April 2014.	—	18,720,000
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 4.07% to 6.79% and monthly payments, including interest, ranging from $53,233 to $70,114 through 2046.	12,012,951	12,330,403

(Continued)

	2014	2013
Mortgage note payable, JP Morgan Chase Corporation, $4,500,000 nonrecourse mortgage note payable collateralized solely by the property and rental proceeds of DLSM's Medical Arts Building. The note bears interest at a fixed rate of 3.75% and monthly payments are $26,680 until December 2016, when the remaining balance of $3,668,750 is payable.	$ 4,006,491	4,173,418
	248,028,442	226,108,821
Less current maturities of bonds and mortgages payable	(4,434,745)	(3,893,985)
Unamortized premium	1,361,189	1,408,412
Unamortized discount	(1,048,636)	(1,077,137)
	$ 243,906,250	222,546,111

All of the outstanding bonds described herein are obligations of the Obligated Group. In 2014, the Cumberland County (PA) Municipal Authority issued $22,728,000 of Series A 2014 bonds and $29,815,000 of Series B 2014 bonds on behalf of the Obligated Group. The 2014 Series bonds were issued in order to fully refund the previously outstanding Series A 2003 bonds, Series C 2003 bonds and a portion of the 2009 Series bonds, to finance the costs of various capital projects and to pay for issuance costs. In 2014, the County Commissioners of Washington County issued $18,798,000 of Series C 2014 bonds. The Series C 2014 bonds were issued to fully refund the previously outstanding Series E 2003 bonds and to pay for issuance costs.

The outstanding bonds have been issued pursuant to the terms of a 1998 Master Trust Indenture, 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 master trust indenture 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 master trust indenture 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 in 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 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.

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.

Should the Corporation be required to access the letter of credit liquidity facility securing the Obligated Group's Series B 2014 variable rate demand bonds due to an inability to remarket the bonds, the Corporation would be required to repay such draws over periods that are shorter than the original maturities of the bonds.

The following is a summary of scheduled annual maturities of long-term debt and annual maturities of long-term debt assuming that liquidity facilities have been accessed due to the inability to remarket variable rate bonds:

		Scheduled maturity	Assumes liquidity facility accessed
2015	$	4,434,745	4,434,745
2016		8,987,881	8,987,881
2017		5,432,782	5,432,782
2018		5,727,432	5,727,432
2019		5,909,534	29,669,534
Thereafter		217,536,068	193,776,068
	$	248,028,442	248,028,442

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $14,156,052 and $12,443,252 for the years ended December 31, 2014 and 2013, respectively. These amounts are net of capitalized interest of approximately $0 and $934,194 for the respective years.

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

	2014	2013
DLSM Obligated Group	5.86%	5.60%
Obligations outside of the Obligated Group	4.53	4.50
Combined	5.77	5.52

(6) Lines of Credit

DLSM has a line of credit with Manufacturers and Traders 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% (2.9375% at December 31, 2014). Amounts ranging from $0 to $17,162,262 were outstanding for various periods during 2014 and 2013. Borrowings outstanding under the line of credit totaled $0 and $11,758,364 at December 31, 2014 and 2013, 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 $3,364,024 and $6,064,024 at December 31, 2014 and 2013, respectively.

On August 27, 2014, DCFCM entered into a line of credit with Manufacturers and Traders Company (M&T) with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at one-month LIBOR plus 2.35% (2.5375% at December 31, 2014). Amounts ranging from $0 to $2,802,072 were outstanding for various periods during 2014 and 2013. Borrowings outstanding under the line of credit totaled $2,802,072 at December 31, 2014, respectively. The bank line of credit is secured by DCFCM's accounts receivable and a $1,000,000 guarantee by DLF's investments.

(7) Fair Value

(a) Financial Instruments

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

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

Cash and cash equivalents, accounts receivable, estimated third-party payor settlements, prepaid expenses and other assets, accounts payable and accrued expenses, deposits, and 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. Valuations for alternative investments are based on net asset values provided by external investment managers as a practical expedient to measure fair value as permitted under ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. All investments are redeemable on a daily basis.

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, 2013 to December 31, 2014 is the increase in the fair value of the underlying assets.

Swap agreement – The carrying amount for the swap agreement is a fair value estimate based on the anticipated discounted cash flows using indicative mid-market levels, adjusted to reflect counterparty nonperformance risk of both the Corporation and the counterparty. The fair value estimates are derived from proprietary models based upon financial principles and reasonable estimates about relevant future market conditions.

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

(Continued)

included in long-term debt in the consolidated balance sheets for bonds payable approximate fair value.

The fair value of the Corporation's long-term debt approximated $273,380,000 and $214,819,000, at December 31, 2014 and 2013, 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 at December 31:

	Fair value measurements at December 31, 2014			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant inputs unobservable inputs (Level 3)**	**Total**
Assets:				
Investments and assets limited as to use:				
Cash and short-term investments	$ 32,008,084	—	—	32,008,084
Fixed income funds:				
Barclays Aggregate Bond Index	49,227,269	—	—	49,227,269
Intermediate term	16,345	—	—	16,345
Balanced Fund	1,744,203	—	—	1,744,203
U.S. and local government agencies	4,445,325	—	—	4,445,325
U.S. Treasury obligations	8,174,440	—	—	8,174,440
Equity funds:				
International	19,951,947	—	—	19,951,947
Large cap	45,696,224	—	—	45,696,224
Mid cap	9,298	—	—	9,298
Small cap	4,895,104	—	—	4,895,104
Other	7,502	—	—	7,502
Common stock	2,778,378	—	—	2,778,378
Alternative investment:				
Master Limited Partnership	—	4,097,402	—	4,097,402
Other	—	—	28,070	28,070
Funds held in trust by others and beneficial interest in trust	—	—	36,488,741	36,488,741
Total	$ 168,954,119	4,097,402	36,516,811	209,568,332

	Fair value measurements at December 31, 2014			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant inputs unobservable inputs (Level 3)**	**Total**
Liabilities:				
Interest rate swap agreement	$ —	9,868,330	—	9,868,330
Total	$ —	9,868,330	—	9,868,330

	Fair value measurements at December 31, 2013			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant inputs unobservable inputs (Level 3)**	**Total**
Assets:				
Investments and assets limited as to use:				
Cash and short-term investments	$ 17,731,988	—	—	17,731,988
Fixed income funds:				
Barclays Aggregate Bond Index	21,666,767	—	—	21,666,767
Intermediate term	15,090	—	—	15,090
Nontraditional	20,810,708	—	—	20,810,708
U.S. government agencies	4,845,160	—	—	4,845,160
U.S. Treasury obligations	6,946,143	—	—	6,946,143
Equity funds:				
International	21,526,634	—	—	21,526,634
Large cap	53,223,081	—	—	53,223,081
Mid cap	9,453	—	—	9,453
Small cap	4,978,437	—	—	4,978,437
Other	7,095	—	—	7,095

(Continued)

	Fair value measurements at December 31, 2013			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant inputs unobservable inputs (Level 3)**	**Total**
Alternative investment:				
Master Limited Partnership	$ —	3,573,146	—	3,573,146
Funds held in trust by others and beneficial interest in trust	—	—	36,664,526	36,664,526
Total	$ 151,760,556	3,573,146	36,664,526	191,998,228
Liabilities:				
Interest rate swap agreement	$ —	8,266,972	—	8,266,972
Total	$ —	8,266,972	—	8,266,972

There were no transfers between levels for the years ended December 31, 2014 and 2013.

(8) Derivative Instruments

The Obligated Group has entered into an interest rate swap agreement (the Swap) with Wells Fargo Bank in order to manage interest rate risk associated with its variable rate bonds. In 2014, the Obligated Group amended the Swap and entered into a novation transaction with Wells Fargo Bank and PNC Bank. The amendment increased the notional value to $71,341,000, which was the issue amount of the combined Series 2014 variable rate bonds. The notional value is $70,729,000 at December 31, 2014. The termination date was amended to May 2021 from January 2028. The Obligated Group will pay a fixed rate of interest equal to 3.9309% to Wells Fargo Bank and 4.0709% to PNC Bank and receive a variable rate of interest equal to 70% of 30-day LIBOR. The Swap's fair value as of December 31, 2014 and 2013 is a liability of $9,868,330 and $8,266,972, respectively.

The Obligated Group is subject to credit risk and market risk as a result of using derivative products to manage exposures to changes in interest rates. Credit risk is the failure of the counterparty on the derivative instrument to perform under the terms of the derivative instrument. Depending on interest rate movements, one party will owe the other party a payment under the applicable derivative contract. The Obligated Group attempts to manage the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties rated "A" or better by Moody's Investor Service. The swap payments and

termination payments under the derivative agreement are secured by master note agreements on parity with the outstanding debt obligations in the amounts provided in such corresponding master note obligations.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with derivative contracts is managed by establishing and monitoring internal parameters and reviews that limit the types and degree of market risk that may be undertaken. Neither the Obligated Group nor the counterparty to the agreement are required to deposit collateral dependent on the market valuation of the derivatives contract.

(9) Pension Benefits

The Corporation has a noncontributory defined benefit pension plan covering substantially all of its 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. Contributions provide for benefits earned to date as well as benefits expected to be earned in the future. The measurement date used for the defined benefit plan is December 31. The effect of this plan curtailment is identified below.

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 at December 31:

	Pension benefits	
	2014	**2013**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 81,987,782	93,053,106
Interest cost	3,996,720	3,632,279
Change in assumptions	20,365,619	(11,038,121)
Actuarial loss (gain)	192,156	(170,235)
Benefit payments	(3,722,355)	(3,489,247)
Benefit obligation at end of year	102,819,922	81,987,782
Change in plan assets:		
Fair value of plan assets at beginning of year	67,564,760	63,242,572
Actual return on plan assets, net of expenses	3,670,798	7,811,435
Benefit payments	(3,722,355)	(3,489,247)
Fair value of plan assets at end of year	67,513,203	67,564,760
Funded status	$ (35,306,719)	(14,423,022)

Amounts recognized in the consolidated balance sheets at December 31 consist of:

		2014	2013
Noncurrent liabilities	$	35,306,719	14,423,022
Unrestricted net assets		(38,229,576)	(16,348,998)
Net amount recognized	$	(2,922,857)	(1,925,976)

Amounts recognized in unrestricted net assets but not yet included in net periodic benefit costs consist of:

		2014	2013
Net actuarial loss	$	(38,229,576)	(16,348,998)
	$	(38,229,576)	(16,348,998)

Other changes in plan assets and benefit obligations recognized directly in unrestricted net assets for the years ended December 31 are as follows:

		2014	2013
Net estimated (loss) gain	$	(21,880,577)	14,650,721
Total recognized in unrestricted net assets	$	(21,880,577)	14,650,721

The net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $963,710.

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

		2014	2013
Interest cost	$	3,996,720	3,632,279
Expected return on plan assets		(5,290,857)	(5,138,001)
Amortization of net loss		297,256	769,343
Net periodic benefit cost (benefit)	$	(996,881)	(736,379)

		2014	2013
Benefit cost (benefit)	$	(996,881)	(736,379)
Benefits paid		3,722,355	3,489,247

(Continued)

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

	2014	2013
Discount rate	3.78%	5.00%

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

	2014	2013
Discount rate	5.00%	4.00%
Expected long-term rate of return on plan assets	8.10	8.40

As of December 31, 2014, the Corporation adopted the new RP-2014 Mortality Table with generational improvements using projection scale MP-2014.

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 pension benefit 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, the Corporation has invested approximately 22% of the pension plan assets into alternative investments, including a hedge fund of funds (10%), a special situations master feeder fund (5%) and a core property real estate fund (7%). The Corporation’s risk management policies permit investments in mutual funds. The Corporation addresses diversification by the use of private mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are only available to institutional investors and are not traded on a public exchange; however, they can be sold to fund benefit payment obligations as they become payable without restriction.

The Corporation determines the fair value of the alternative investments based on the net asset value provided by the fund manager, without adjustment, as permitted under ASU 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Corporation determines the fair value of the mutual funds based on quoted prices from the fund managers at 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 special situations fund has an initial lock-up period of twenty-four months. The December 31 unit values reported by the fund managers approximate the exit price of the security.

(Continued)

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

	Fair value measurements at December 31, 2014			
	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	$ 987	987	—	—
Equity funds:				
Large cap disciplined	16,421,842	—	16,421,842	—
Small/mid cap	4,275,350	—	4,275,350	—
World Equity Ex-U.S.	9,134,431	—	9,134,431	—
Dynamic asset allocation	3,526,528	—	3,526,528	—
Fixed income funds:				
High yield bond fund	3,003,167	—	3,003,167	—
Ultra short duration bond fund	2,866,087	—	2,866,087	—
Emerging markets debt fund	1,916,104	—	1,916,104	—
Core fixed income fund	8,215,757	—	8,215,757	—
Opportunistic income fund	2,958,743	—	2,958,743	—
Hedge funds:				
Core property collective investment trust	4,608,240	—	—	4,608,240
Opportunity collective fund	6,888,798	—	—	6,888,798
Special situations collective fund	3,697,169	—	—	3,697,169
Total	$ 67,513,203	987	52,318,009	15,194,207

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2014 and 2013

	Fair value measurements at December 31, 2013			
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset category:				
Equity funds:				
Large cap disciplined	$ 15,669,027	—	15,669,027	—
Small/mid cap	4,321,950	—	4,321,950	—
World Equity Ex-U.S.	10,176,787	—	10,176,787	—
Dynamic asset allocation	3,208,555	—	3,208,555	—
Fixed income funds:				
High yield bond fund	3,172,127	—	3,172,127	—
Ultra short duration bond fund	3,095,894	—	3,095,894	—
Emerging markets debt fund	2,081,944	—	2,081,944	—
Core fixed income fund	8,339,721	—	8,339,721	—
Opportunistic income fund	3,146,998	—	3,146,998	—
Hedge funds:				
Core property collective investment trust	4,117,784	—	—	4,117,784
Opportunity collective fund	6,774,797	—	—	6,774,797
Special situations collective fund	3,459,176	—	—	3,459,176
Total	$ 67,564,760	—	53,213,003	14,351,757

There were no transfers between levels during the years ended December 31, 2014 and 2013.

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

	2014	2013
Asset category:		
Equity funds	49%	50%
Fixed income funds	28	29
Alternative investments	23	21
Total	100%	100%

The following table represents a reconciliation for all Level 3 plan assets measured at fair value on a recurring basis for the years ended December 31:

Ending balance December 31, 2012	$	13,360,242
Total gains and losses included in changes in net assets:		
Net realized and unrealized gains		991,515
Ending balance December 31, 2013		14,351,757
Total gains and losses included in changes in net assets:		
Net realized and unrealized gains		842,450
Ending balance December 31, 2014	$	15,194,207

The Corporation does not expect to make any contributions to its pension plan in 2015.

The estimated benefit payments, which reflect expected future service, as appropriate, are as follows:

2015	$	4,363,994
2016		4,562,823
2017		4,779,869
2018		4,950,288
2019		5,085,464
2020–2023		27,044,262

The Corporation also has a defined contribution plan for certain employees. On August 17, 2011, the Corporation amended the 401(k) plan, effective January 1, 2012, to provide for discretionary profit sharing contributions to be made to the 401(k) plan on behalf of participants who earn more than 1,000 hours of service and are employed as of December 31 of any plan year. Contributions recognized as expense for this plan were $456,339 and $0 for the years ended December 31, 2014 and 2013, respectively.

The Corporation established a Supplemental Executive Retirement Plan (SERP), which is a nonqualified defined benefit plan under which the Corporation will pay supplemental retirement benefits to key executives in addition to amounts received under the Corporation's pension plan. Executives receive payments of their accrued benefit every five years. These amounts are not included in the determination of net periodic pension cost shown above. The SERP is not funded, and the liability for this plan was $178,700 and $0 as of December 31, 2014 and 2013, respectively.

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(10) Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 carry the following time or purpose restrictions:

		2014	2013
Beneficial interest in charitable remainder trusts and beneficial interest in trust	$	1,582,219	1,634,414
Charitable gift annuities – ELCA		914,067	486,385
Capital additions		343,172	209,257
DLF – Support of DCFCM programs		2,255,404	2,232,303
Accumulated gains on endowment and other purposes		7,031,781	6,977,739
Total	$	12,126,643	11,540,098

Temporarily restricted net assets are released from donor restrictions by incurring expenses that satisfy the restrictions specified by donors related principally to specific programs or by the passage of time.

(11) Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are held in perpetuity, the income from which is expendable for the following purposes:

		2014	2013
Funds held in trust by others – income restricted for:			
Support of programs	$	26,179,282	26,316,318
Staff and resident programs		163,202	163,963
DLF		8,564,038	8,549,831
Endowment and other purposes		19,612,567	12,027,168
Charitable gift annuities-ELCA		99,258	62,441
DLF – Support of DCFCM programs		360,102	320,858
	$	54,978,449	47,440,579

The Corporation's endowment consists of approximately 25 individual funds established for a variety of purposes and consists of only donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation has interpreted the laws of the Commonwealth of Pennsylvania as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization 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 unrestricted net assets at December 31, 2014 or 2013. 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. The spending rate varies between 4.5% to 5.0% of the 5-year moving average market value of the endowment funds. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

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

The Corporation maintains professional liability and umbrella liability coverage on a combined basis from commercial insurance entities. 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 $500,000 per occurrence as of December 31, 2014 and 2013. 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 $2,794,000 and $2,750,000 as of December 31, 2014 and 2013, respectively, and are reported within accounts payable and accrued expenses

(Continued)

and other long-term liabilities captions of the consolidated balance sheets. In addition, the Corporation maintains a $2,800,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation's health insurance benefits program is a fully insured retrospectively rated cost plan whereby the Corporation's liability is subject to a range of potential exposure with an annual individual claim limitation. Total health benefit accrued expenses approximated $948,000 and $561,000 at December 31, 2014 and 2013, respectively, and are reported within the accounts payable and accrued expenses caption of the consolidated balance sheets.

(13) Functional Expenses

Expenses by functional classification for the years ended December 31 are as follows:

	2014	2013
Senior Living Services	$ 147,574,798	138,605,160
Services for Children, Family and Community	17,866,009	16,233,499
Statewide Adoption and Permanency Network	50,094,356	48,866,279
Ministry Support Services and Management	19,343,572	19,629,901
Fundraising	1,552,179	1,412,807
	$ 236,430,914	224,747,646

(14) Commitments and Contingencies

The Corporation has entered into various construction contracts related to SLS campus repositioning activities. Contractual commitments at December 31, 2014 total approximately $705,452.

From time to time, the Corporation is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's consolidated financial position or results of operations.

(15) Operating Leases

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

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The future minimum annual lease payments under noncancelable operating leases in effect at December 31, 2014, which have initial or remaining terms of more than one year, are as follows:

2015	$	1,000,513
2016		751,735
2017		519,853
2018		484,994
2019		409,354
	$	3,166,449

Total rental expense approximated $1,960,849 and $2,063,000 in 2014 and 2013, respectively.

(16) Subsequent Events

The Corporation has evaluated subsequent events through April 15, 2015, the date the consolidated financial statements were available to be issued, and determined there were no additional subsequent events requiring disclosure or adjustment to the consolidated financial statements.