

Annual Report 2007

A year of excellent progress and development but the key measure was serving the highest number of people since our creation

Diakon measures success by the number of people we serve.

By that measure, 2007 was indeed a successful year. In total, our programs touched the lives of more than 87,000 persons last year—the most in a single year since Diakon’s creation in 2000.

That number includes those served by our senior living communities, adoption and foster care program, services for at-risk youths, hospice and home care, family counseling services, and much more. The number also includes, as it has in the past, those served by Pennsylvania’s Statewide Adoption & Permanency Network, which Diakon administers and has successfully expanded over the last several years.

Serving more people was one of the key reasons Diakon was created in 2000 by two other Lutheran organizations whose histories date to 1868. A

second reason was the drive to serve more people with limited financial resources. In that, too, we were successful last year, having provided more than \$1 million a month in benevolent care.

As always, we thank you for the role you played in helping to make this ministry of the church possible.

This annual report includes a separate review of some of Diakon’s many accomplishments last year. We encourage you to read that.

For our board and management discussions, however, we frequently group key initiatives into what we call “dominant tensions.” Guiding our efforts in 2007, these emphases continue to fashion our work today, yet also reflect significant progress made last year.

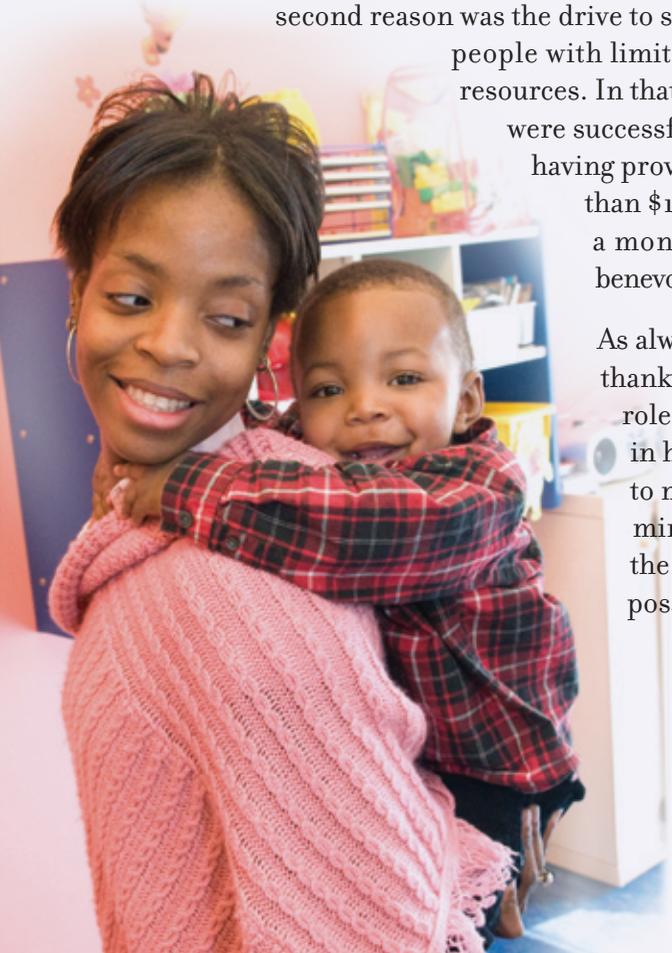
These areas of focus are:

- Gracious Service and Hospitable Business Systems
- Transition to Future Health Care
- Sustainable Growth
- Financial Stewardship
- Senior Living Project Development Team Effectiveness
- Increased Donor Support

Gracious Service and Hospitable Business Systems

Our commitment to gracious service derives from the Biblical understanding of hospitality. This commitment requires all of us at Diakon to interact with residents, clients, volunteers, donors, and our staff colleagues in a gracious, hospitable manner—to go “above and beyond” for those we serve and for one another.

In 2007, those with supervisory responsibilities received extensive training in “Leadership from the Heart.” The name of the program stems from Diakon’s overarching theme of “Many Hands. One Heart.” and also encompasses the behaviors we have identified as part of our HEART service-recognition initiative—Hospitality, Excellence, Accountability, Resourcefulness, and Teamwork.





This year, we are continuing the initiative with expansion to all Diakon staff members through educational training called “Service from the Heart.”

Of course, gracious service and hospitality also includes our focus on quality service

and care, as well as an expanded orientation program and continuous training for staff members.

Such efforts have resulted in a number of key accomplishments:

- Surveys last year of both senior living residents and Diakon employees documented increased satisfaction with services and working environment over the same indicators in 2005.
- Successful initiatives allowed us to increase our employee-retention benchmark from 75 to 80 percent.
- Our clinical outcomes continue to trend at or better than state and national guidelines. Each month, we collect and measure outcome data internally and through the Medicare MDS system. We analyze these outcomes and act on any as necessary through our quality improvement process. In addition, outcomes, trends, and actions are reported to our Corporate Compliance Committee for review and recommendations.

Transition to Future Health Care

As Diakon’s chief information officer points out, technology doesn’t drive change—it enables it. Technology represents what we believe will be an extremely important part of future services for older adults, and Diakon is working hard to be on the cutting edge of the testing and potential use of new technologies.

For example, two Diakon Lutheran Senior Living Communities are serving as test sites for a system designed to monitor and track movement throughout the home to safeguard residents’ health. Sensors can

relay such motion-related information as people walking, doors opening, and, potentially, the opening and closing of a medication drawer. The information is then privately transmitted to caregivers and family members. In addition, sensors in devices such as a blood pressure cuff, glucose meter, or scale automatically transmit readings to caregivers so they may monitor changes in health.

Additionally, we are installing a range of new lighting systems at several sites to test their application with senior living programs, as well as consumer response to them. We also have installed [m]Power “brain-fitness” computer systems in our senior living communities to help residents stay mentally sharp.

These are just several of the ways in which we are adjusting services to meet the needs of a new generation of older adults, who will demand technology to help them remain independent longer.

At the same time, government funding for long-term nursing care is likely to remain a concern, especially as older adults want to stay in their homes longer and government focuses more funding on in-home care. We continue to study the changes these directions may prompt.

Sustainable Growth

While Diakon is a ministry of the church, evident in our focus on providing more benevolent care, we also operate in some of the most highly regulated and competitive fields, including health care. That environment demands sound business practices and strategic initiatives.

To achieve the sustainable growth that will allow us to serve ever-increasing numbers of people, we also must have a firm financial base beneath us. We believe much of the needed growth will come from expansion of existing programs and senior living communities.

For that reason, efforts such as our focus on developing continuum-of-care senior living campuses and expansion of Diakon Family & Community Ministries programs such as hospice and home care, youth services, and adoption and foster care are especially important to Diakon’s future.

Financial Stewardship

In today’s economy, with rising energy prices and declining returns on investments, financial stewardship becomes pivotal to our success as a provider of human services.

Our boards and executive management take very seriously the need to monitor our financial investments carefully, stay within budgets, and focus on growth within our programs, particularly as that can be a means for service expansion. In 2007, for example, we successfully renegotiated some of our long-term debt to take advantage of lower interest rates, saving the organization significant funds.

Good financial stewardship also means using our capital dollars wisely, given the scope of our planned projects. We continually review capital expenditures, balancing the need for stewardship of resources with our commitment to provide a safe, appealing environment for residents, clients, and staff.

In light of that commitment and as part of a multi-year approach to upgrading and refurbishing our program facilities and senior living communities, we funded approximately \$24 million in capital projects in 2007.

Senior Living Project Development Team Effectiveness

Diakon project development teams continue to oversee the ...

- Successful refurbishment and expansion of Luther Crest, a Diakon Lutheran Senior Living Community in Allentown, Pa.
- Construction of new homes at Ohesson, a Diakon Lutheran Senior Living Community in Lewistown, Pa.
- Planned expansion of senior living homes at Buffalo Valley Lutheran Village, a Diakon Senior Living Community near Lewisburg, Pa., and The Lutheran Home at Topton, a Diakon Senior Living Community in Topton, Pa.
- Potential expansion at several other senior living communities, including possible expansion of apartments.

Such teams represent the successful collaboration of our ministry support offices and senior living operations to bring to reality Diakon's vision for expanding our senior living sites into comprehensive continuum-of-care communities.

This approach to development allows each team, with board approval, to make a go or no-go decision on expansion, based on marketing and sales efforts at each location.

Increased Donor Support

Diakon provides approximately \$1 million each month in uncompensated care to those we serve. Donations from corporations, groups, congregations, and individuals help us to provide this care, particularly within programs that serve those with limited financial resources. We need to expand that support to serve even more people.

In 2007, Diakon's Office of Advancement created "cases for support" that allow donors to select those areas of ministry they would most like to support.

In addition, the office undertook a number of direct-mail campaigns to increase the number of donors who support Diakon programs and communities.

Those campaigns and other efforts were partly responsible for a \$1.1 million increase in donations and the addition of more than 1,000 new donors to the roles of those interested in supporting our programs.

Earlier this year, hundreds of people enjoyed Dining with Diakon in the Harrisburg region and our 20th anniversary Benefactors Dinner in Reading, featuring performer John Tesh. Such events not only help us to build relationships with those who want to support Diakon, but also convey the importance of giving within a ministry that serves so many people in need.

While program expansion may draw our attention or new senior-care technologies awe us, our mission always remains unchanged. It is as it was in 1868: to serve our brothers and sisters, to help our "neighbors,"—whoever and wherever they may be—experience what God wants for all of us.

We believe Diakon staff members serve as His workers in helping to bring food, shelter, community, health or healing, and a sense of purpose to the lives of our many residents, clients, volunteers, and colleagues.

Acting with many hands ... and one heart, we work to bring to those we serve and with whom we serve the gracious hospitality and care embodied by God's wish for all of us.

Susan Shellenberg
Board Chair



The Rev. Daun E. McKee, Ph.D.
President/CEO



Community service allows youths to give back

Performing community service helps create more than a sense of civic responsibility, believes Corey Carothers, administrator of the Diakon Wilderness Center in Boiling Springs, Pa. It helps youth enrolled in the center understand what they can do to give back to, rather than take away from, their communities.

"They've been down the path of creating victims in the community and being a liability rather than an asset," Carothers says. "Through community service they learn what options they have and experience what it feels like to help another person or organization and earn their gratitude."

Community service is an integral part of the Wilderness Center's programs, and as such, projects are chosen very carefully, according to Carothers.

"We want the organization's members to work right there beside [the youth], interacting, modeling, letting them see what positive interactions look like," he says. "These kids typically have no frame of reference for that kind of experience."

The projects also are one way in which the youth meet court-ordered service requirements.

"The courts like to see the hours going back to their own counties," explains Carothers, adding that while they can't reach every county, they attempt to broaden their projects as much as possible. "Our ultimate goal is that they will return to their homes more willing and interested in giving back to their communities."

Program fosters lasting partnerships

The Diakon Wilderness Center works with many organizations to provide community service opportunities for the youth enrolled in its programs.

In 2007 alone, youth contributed more than 5,750 hours to service initiatives.

One of the longest partnerships of this type has been with the Capital Area Greenbelt Association. The association maintains the upkeep of the Capital Area Greenbelt, a recreational trail that encircles the city of Harrisburg.

"Throughout 2007, we were working on a Martin Luther King Memorial in the city," explains Anthony Stukes, director of the Weekend Alternative Program and himself a graduate of the Wilderness Center. "We also constructed foot bridges, planted trees, and dug a drainage system for The Five Senses Garden."

Every Saturday throughout the year youth enrolled in WAP spend six hours working on projects that take them out of their comfort zone.

"We have kids who have never worked side-by-side with an adult or done any type of construction project," says Stukes. "The best part of a project is at the end when they get to see the result of what they are doing and take pride in their work."

Service projects vary

In 2007, youth enrolled in Wilderness Center programs completed a combined 5,756 hours of community service. Some of the projects they were involved in include:

- Biking trail maintenance work on the Capital Area Greenbelt Trail (including construction of the MLK Memorial)
- Farm work at the Capital Area Therapeutic Riding Association
- Maintenance work at Cumberland Crossings, a Diakon Lutheran Senior Living Community in Carlisle, Pa.
- Construction projects with the York Habitat for Humanity organization
- Yard work for the Helen O. Krause Animal Foundation Inc., Dillsburg, Pa.
- Maintenance work at the Carlisle Women's Shelter
- Trash collection for the PA Adopt a Highway Program on Route 34 outside of Mt. Holly, Pa.
- Maintenance work at Gifford Pinchot State Park, Kings Gap State Park, the Two Mile House in Carlisle, and the Huntsdale Fish Hatchery



Couple maintains independence with Diakon Help at Home



Like many other seniors, Grant and Mae Schlegel faced the prospect of losing their independence. In the past two years, a spinal surgery and two broken arms compromised the ability of these two high-school sweethearts to perform the same routine tasks they had done for seven generations.

With the aid of Diakon Help at Home, a fee-for-service program of Diakon Lutheran Social Ministries, the Schlegels not only managed to sustain their way of life but continued to live in the place they had called home for more than 30 years.

In May 2006, Mae tripped and broke her arm. After a brief stint recuperating at the Lutheran Home at Topton, a Diakon Senior Living Community in Topton, Pa., Mae was ready to return home but needed help with her daily routine.

"In order to come home, I needed someone there," explained Mae. "I needed help until Buddy learned." Then, Grant, who goes by "Buddy," required surgery. "I thought it was going to be easy to go back home.

I thought I could come home and do a lot. But, I couldn't," says Buddy.

Shortly after Buddy returned home, Mae broke her arm again – in the same spot. But the Schlegel's can say that good things have come from the bad. If they hadn't sustained their injuries, they wouldn't have known about Diakon Help at Home or met Sue Haberle. Sue, a caregiver for the organization, has been there to assist the Schlegels after each injury. "She's a life-saver," Mae said of Sue. "She's always there for us."

As Mae continues to recuperate from her second broken arm, her spirits remain high despite her inability to drive. "That's a bummer," she said. Another "bummer" for her is the hiatus she has been forced to take from her job of 62 years as organist at Topton United Church of Christ. "It's a way of life," she explains.

Diakon Help at Home provides trained caregivers to assist seniors with their daily routine activities, helping them remain independent in their own homes. Diakon Help at Home provides non-medical, ongoing services for short and long-term needs, seven days a week, to residents of Berks County and the surrounding areas.

To read more stories about how Diakon programs are helping your neighbors, please visit www.diakon.org/changedlives.



2007: A year of expansion, growth, refinement

Like the last several years, 2007 represented an exciting, sometimes challenging, but always rewarding year for Diakon Lutheran Social Ministries. Just a brief and certainly partial listing of programmatic highlights illustrates last year's growth and change:

- Most importantly, we again served more than 70,000 persons. In fact, that number reached more than 80,000 persons in 2007, inclusive of those served by Pennsylvania's Statewide Adoption & Permanency Network, which Diakon administers and whose growth it has helped to guide. That number reflects a watermark for Diakon, one in accord with the organization's founding guidelines—to serve more people in need.
- We provided \$12 million in benevolent care, representing 6 percent of our revenue, aiding those with limited financial resources who could not pay the full cost of their care or service.
- We completed and successfully sold Southgate, a development of new homes at Luther Crest, a Diakon Lutheran Senior Living Community in Allentown, Pa., while also upgrading common areas and renovating numerous apartments.
- While completing Southgate, we also developed plans for Bridgegate, an expansion of apartments on the Luther Crest campus.
- We moved forward with planning for construction of a Wellness Center at Luther Crest, set to open in fall 2008.
- We began construction of new homes at Ohesson, a Diakon Lutheran Senior Living Community in Lewistown, Pa. These new homes, all of which have been sold, complete the initial phase of these accommodations begun several decades ago and set the stage for possible new phases of senior living homes on the campus.
- We planned the expansion of senior living homes at Buffalo Valley Lutheran Village, a Diakon Senior Living Community in Lewisburg, Pa. A groundbreaking for this new phase of homes at Buffalo Valley is taking place in the fall of 2008.



- We continued to investigate a variety of options for expansion of our remaining senior living communities, with emphasis on The Lutheran Home at Topton, a Diakon Senior Living Community in Topton, Pa.; Frey Village, a Diakon Lutheran Senior Living Community in Middletown, Pa.; and Cumberland Crossings, a Diakon Lutheran Senior Living Community outside Carlisle, Pa.
- In those cases in which expansion is constrained by the size of the senior living community or land availability, we are seeking or considering new sites. Many factors will be considered as to whether these communities can eventually be relocated or expanded in some fashion at their present sites.
- At the same time, we made significant capital improvements to portions of existing accommodations at all senior living communities, including apartment and home renovations, common-space upgrades, and expansion of several rehabilitation suites.
- We planned for the Jan. 1, 2008, assumption by Diakon Family Life Services – Northeastern Pennsylvania of Inroads EAP, a Reading, Pa.-based provider of employee assistance programs, as a way of significantly expanding Diakon’s EAP offer.
- Diakon launched a Clinical Pastoral Education program, with a focus on training chaplains and pastors both for social ministry programs and other ministries in the church.
- We pursued program expansion of Diakon Hospice Saint John and Diakon Home Health by relocating offices from East Stroudsburg to Honesdale and Reading to Wyomissing, while relicensing both the Allentown and Wyomissing branches to enable expansion. Similarly, we established Diakon Hospice Saint John services at Buffalo Valley Lutheran Village, Lewisburg, Pa., through the program’s Hazleton office and took steps to begin integration of this service into other senior living communities.
- Diakon received a Lutheran Services in America grant to participate in the Aging Collaborative Initiative with seven other social ministries organizations to further refine the type of service offered by Diakon Help at Home, which offers

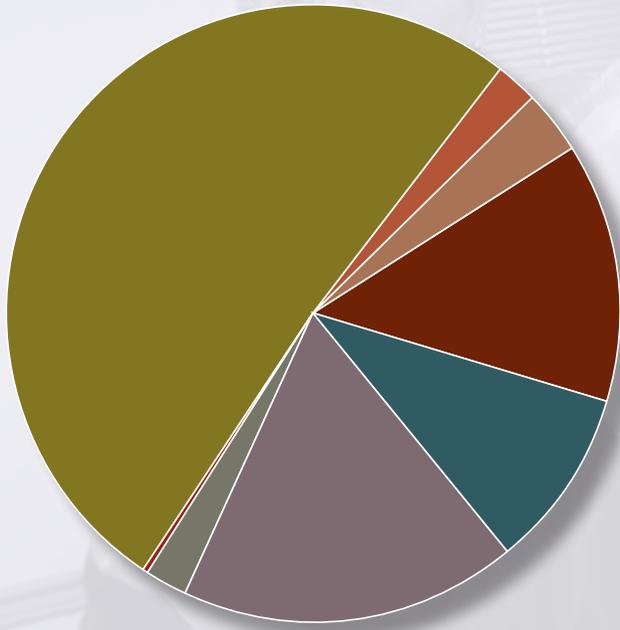


non-medical in-home care to allow older adults to continue to live in their own homes. We continue to investigate ways to expand this service, which we believe represents an important aspect of future services for older adults.

- We expanded our work with Girls on the Run®, in place for several years with Diakon Family Life Services – Upper Susquehanna in the Williamsport, Pa., area, to include sites in Lehigh County, Pa.; completing its inaugural year, the Diakon Family Life Services – Northeastern Pennsylvania-sponsored chapter held four programs with plans for more expansion in 2008. Girls on the Run is a national program that encourages pre-teens to develop self-esteem and healthy lifestyles through exercise and community outreach, teaching skills that can be used for a lifetime.
- We maintained a wide range of community-based services for older adults in Cumberland and Schuylkill counties, Pa., serving nearly 11,000 persons through such services as APPRISE, PrimeTime Health, meals on wheels, and senior community centers. In 2007, we received grants to expand a “centers without walls” concept to reach active older adults who do not attend senior centers. These grants resulted in the 2008 Diakon Living & Learning After 50 educational programs. In addition, our services helped older adults in such ways as providing “comparison/enrollment” sessions around Medicare Part D prescription drug plans.

- We continued to focus extensively on the use of new technologies to enhance care, services, and accommodations for older adults. These range from unique use of lighting adapted to the eyesight of older persons to a variety of technologies that help staff and families monitor the condition of loved ones. We also continue to install [m]Power brain-fitness computer systems in our senior living communities, many of which also use the Nintendo Wii gaming system for both rehabilitation and fun. Some senior living communities even have Wii bowling and golf leagues!
- Diakon Adoption & Foster Care continued its wide-ranging and successful efforts to recruit resource families for children who need foster care or are available for adoption. At the program's Topton office, for example, the average daily population of children and youths in care was 58.3, as compared to 49.1 in 2006. An innovative method of providing child-preparation services to teens within a group setting, developed by program staff members, continued to gain popularity with regional counties. In other developments, the program maintained state-contract responsibility to provide adoption-related support groups and promotional events within 11 counties in Maryland, served as sponsors of adoption-related Heart Galleries, helped to host another successful adoption night at a major central Pennsylvania car race, and partnered with the Wendy's Wonderful Kids® program to recruit adoptive parents for specific children. Diakon Adoption & Foster Care, as well as its adoptive and foster parents, also received several awards.
- As the result of Diakon's very successful management of the prime contract for Pennsylvania's Statewide Adoption & Permanency Network—or SWAN—state officials requested a contract expansion that triples the program budget for 2008.
- Diakon's Brandywine Program in Delaware continued to assist children and youths in crisis; its Child Development/Community Policing program, which provides crisis response to children and youths exposed to violence, received both an additional grant and recognition from Delaware.
- Diakon Family Life Services offices increased a range of programs, including home-based mental health services as the result of changes in state funding. As an example of programmatic growth, the capital region office saw its drug and alcohol treatment sessions nearly double from 2006 to 2007.
- The Diakon Wilderness Center not only successfully met the needs of at-risk youths referred for its Foundations Residential, Weekend Alternative, and Wilderness Challenge programs, but also gained international "fame" when a Japanese film company photographed youths taking part in the wilderness challenge as part of a documentary on the Appalachian Trail.
- Diakon achieved an employee retention rate of 77 percent, which surpassed our benchmark of 75 percent and allowed us to establish a new goal of 80 percent.
- We continued to enhance the working environment for staff members, with a variety of safety initiatives, ergonomics and wellness education, tuition assistance program, our continuation of a defined benefit pension program—no longer offered by most employers—an expansion of our employee-recognition program, and leadership training in gracious service and hospitality. Nearly 700 Diakon staff members who have supervisory or leadership responsibilities completed the "Leadership from the Heart" program; as a result of feedback from those sessions, we refined the Web-based training on gracious service and hospitality being provided to all staff members in 2008.
- We conducted our biennial resident and employee satisfaction surveys, with significant positive increases in several key areas; survey responses also provided information on areas of opportunity to improve scores, on which we continue to focus attention.

Neighbors Served



■ Adoption, foster care, and related services	44,632
■ Diakon Family Life Services programs	15,453
■ Community-based services for older adults	11,715
■ Diakon senior living services*	8,296
■ Hospice and home-care services	2,996
■ Programs for adjudicated youths	2,102
■ Synodical and congregational ministries	1,836
■ Diakon KidzStuff child-care services	52
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Total:	87,082

More than 87,000 neighbors served

Diakon Lutheran Social Ministries is a leading provider of senior living accommodations and social services, including adoption, counseling, home care, and youth programs, in Pennsylvania, Maryland, and Delaware.

Our mission at Diakon is to help our neighbors - whoever and wherever they may be, for God calls us to regard everyone as our neighbor - experience what God wants for us ... enough food, a good shelter, a supportive community, health or a path to healing, and a sense of purpose in life.

Thus it was with many hands and one heart that Diakon staff members in 2007 touched the lives of 87,082 children, families, and older adults.

Statement of Financial Position

CONSOLIDATED BALANCE SHEETS
DECEMBER 31

2007

2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 10,136,220	1,600,490
Assets limited as to use – required for current liabilities	3,149,584	4,408,741
Accounts receivable (net of allowance for doubtful accounts of \$773,000 and \$1,056,000, respectively):		
Patients and residents	9,613,087	9,290,348
Other client services	3,564,421	6,201,402
Other	419,582	2,818,815
Estimated third-party payor settlements	996,939	1,496,755
Prepaid expenses and other assets	2,305,820	4,756,086
TOTAL CURRENT ASSETS	30,185,653	30,572,637

Investments	66,468,508	66,217,590
Assets limited as to use, net of current portion	163,383,031	99,486,237
Investments in joint ventures	5,657,357	5,799,737
Land, buildings, and equipment, net	169,840,008	158,597,190
Other assets:		
Deferred debt issuance costs, net	8,033,410	6,711,335
Receivables from charitable gift annuities	1,003,644	1,210,109
Beneficial interest in charitable remainder trust	669,792	666,371
Funds held in trust by others and beneficial interest in trust	34,679,356	34,187,123
Other assets	6,139,478	6,336,657
TOTAL ASSETS	\$ 486,060,237	409,784,986



CONSOLIDATED BALANCE SHEETS
DECEMBER 31

2007

2006

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Lines of credit	\$ 3,342,918	418,000
Accounts payable – trade	4,296,232	5,175,774
Accrued expenses	16,201,461	15,869,363
Deposits – patients and residents	948,709	1,342,241
Deferred revenue	641,330	338,583
Estimated third-party payor settlements	1,015,223	1,207,616
Current maturities of long-term debt	3,697,655	3,234,332

TOTAL CURRENT LIABILITIES **30,143,528** 27,585,909

Pension liability	8,367,253	7,542,180
Swap agreements	8,032,251	5,496,378
Deferred revenue – entrance agreements	60,086,998	52,517,573
Deferred gain on sale of assets	1,551,904	1,847,505
Other long-term liabilities	3,894,506	4,251,256
Long-term debt, less current maturities	200,956,981	135,993,255

TOTAL LIABILITIES **313,033,421** 235,234,056

NET ASSETS

Unrestricted	122,219,692	123,741,643
Temporarily restricted	8,426,541	9,084,111
Permanently restricted	42,380,583	41,725,176

TOTAL NET ASSETS **173,026,816** 174,550,930

TOTAL LIABILITIES AND NET ASSETS **\$ 486,060,237** 409,784,986



CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS,
DECEMBER 31

2007

2006

OPERATING REVENUES, GAINS AND OTHER SUPPORT

Patient and resident service revenue, net of contractual allowances	\$ 120,002,570	113,660,371
Patient and resident service revenue, nursing home assesment	2,405,703	2,427,678
Amortization of entrance fees	8,036,163	6,533,405
Grants	13,344,934	12,083,765
Other fees and services	9,262,581	8,076,937
Statewide Adoption Network revenue	18,487,937	22,217,143
Investment income, net of expenses	14,767,668	21,472,845
Contributions and bequests	1,694,611	1,202,749
Net assets released from restrictions-operations	2,724,420	1,145,667
Gain on disposal of assets	1,094,042	54,332
TOTAL OPERATING REVENUES, GAINS AND OTHER SUPPORT	191,820,629	188,874,892

EXPENSES

Salaries and wages	68,802,809	64,735,206
Employee benefits	14,397,625	13,566,058
Other expenses	63,846,445	59,705,923
Other expenses – Statewide Adoption Network	17,677,865	21,245,255
Nursing home assessment	1,375,252	2,057,501
Interest	10,584,597	6,938,004
Depreciation and amortization	12,107,766	10,546,093
TOTAL EXPENSES	188,792,359	178,794,040
INCOME FROM CONTINUING OPERATIONS	3,028,270	10,080,852

DISCONTINUED OPERATIONS

Loss from discontinued operations	—	(113,144)
OPERATING INCOME	3,028,270	9,967,708

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS,
DECEMBER 31

	2007	2006
Equity in gains of joint ventures	\$ 1,367,565	2,293,403
(Decrease) increase in fair value of swap agreements	(2,977,222)	1,029,459
Loss from early extinguishment of debt	(2,071,866)	—
(DEFECIT) EXCESS OF OPERATING REVENUES, GAINS AND OTHER SUPPORT OVER EXPENSES	(653,253)	13,290,570
OTHER CHANGES		
Decrease in minimum pension liability	—	3,711,657
Effect of adoption of recognition provision of FASB Statement No. 158	—	(4,309,503)
Pension-related changes other than net periodic pension costs	(740,079)	—
Equity in (losses) gains of joint ventures	(1,012,937)	1,007,635
Unrealized losses on investments	(319,291)	(5,378,511)
Increase in fair value of swap agreements	441,349	659,551
Net assets released from restrictions – capital	762,260	193,769
TOTAL OTHER CHANGES	(868,698)	(4,115,402)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(1,521,951)	9,175,168
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and bequests	2,113,794	1,482,111
Investment income, net of expenses	1,095,965	2,027,106
Unrealized losses on investments	(305,337)	(567,708)
Net assets released from restrictions – continuing operations	(2,724,420)	(1,145,667)
Net assets released from restrictions – capital	(762,260)	(193,769)
Change in beneficial interest in trust	(75,312)	988,245
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(657,570)	2,590,318
PERMANENTLY RESTRICTED NET ASSETS		
Contributions and bequests	63,408	300,358
Increase in fair value of funds held in trust by others	591,999	2,231,575
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	655,407	2,531,933
(DECREASE) INCREASE IN NET ASSETS	(1,524,114)	14,297,419
NET ASSETS, BEGINNING OF YEAR	174,550,930	160,253,511
NET ASSETS, END OF YEAR	\$ 173,026,816	174,550,930

CONSOLIDATED STATEMENTS OF CASH FLOWS,
DECEMBER 31

2007

2006

CASH FLOWS FROM OPERATING ACTIVITIES

(Decrease) Increase in net assets	\$ (1,524,114)	14,297,419
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities from continuing operations:		
Net realized gains on investments	(6,969,335)	(16,088,490)
Net unrealized losses on investments	624,628	5,946,219
Depreciation and amortization	12,107,766	10,546,093
Amortization of entrance fees	(8,036,163)	(6,533,405)
Amortization of deferred gain on sale of assets	(295,601)	(295,601)
Change in funds held in trust by others and beneficial interest in trust	(492,233)	(2,849,063)
Loss (gain) on swap agreements	2,535,873	(1,689,010)
Gain in equity earnings of joint ventures	(354,628)	(3,301,038)
Gain on disposal of assets	(798,441)	(54,332)
Loss on early extinguishment of debt	2,071,866	—
Provision for bad debts	466,111	223,305
Restricted contributions and investment income	(548,747)	(2,663,908)
Change in assets and liabilities:		
Accounts receivable	1,848,131	(3,558,221)
Estimated third-party payor settlements	307,423	(460,336)
Prepaid expenses and other current assets	4,849,499	(5,502,496)
Contributions and charitable gift/remainder trusts	149,064	(162,429)
Other assets	(172,542)	1,081,944
Accounts payable, accrued expenses and other liabilities	1,077,274	1,010,818
Deposits - patients and residents	(393,532)	100,354
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES FROM CONTINUING OPERATIONS	6,452,299	(9,952,177)

CONSOLIDATED STATEMENTS OF CASH FLOWS,
DECEMBER 31

2007

2006

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments and assets limited as to use	(203,489,347)	(113,219,179)
Proceeds from sales of investments and assets limited as to use	146,945,498	158,491,440
Proceeds from disposal of assets	1,523,533	—
Net cash paid for Twining Village	—	(27,977,163)
Purchase of property and equipment	(23,533,470)	(29,383,832)
NET CASH USED IN INVESTING ACTIVITIES FROM CONTINUING OPERATIONS	(78,553,786)	(12,088,734)

CASH FLOWS FROM FINANCING ACTIVITIES

Payment of long-term debt	(45,608,878)	(3,127,491)
Proceeds from bond issuance	111,035,927	—
Payment of debt issuance costs	(3,923,064)	(74,946)
Net proceeds from lines of credit	2,924,918	418,000
Proceeds from restricted contributions and investment income	602,726	2,662,975
Proceeds from entrance fees	18,331,005	11,400,194
Refunds on entrance fees	(2,725,417)	(2,932,531)
NET CASH PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS	80,637,217	8,346,201

Net increase (decrease) in cash and cash equivalents	8,535,730	(13,694,710)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,600,490	15,295,200
CASH AND CASH EQUIVALENTS, END OF YEAR	10,136,220	1,600,490

Supplemental schedule of noncash investing and financing activities:

The Corporation acquired certain assets and liabilities of Twining Services Corporation. In conjunction with the acquisition, Liabilities were assumed as follows:

Fair value of assets acquired	—	43,258,163
Net cash paid	—	(27,977,163)
LIABILITIES ASSUMED	—	15,281,000

CROSSROADS program paves way for teens



Currently more than 100,000 U.S. children and teens don't know who their birth parents are. Many of them don't have a place to call home.

For the last 33 years, however, Diakon Lutheran Social Ministries has played an integral role in helping displaced children understand their life stories and achieve permanency through adoption and foster care services.

Typically, when children are in out-of-home situations they are treated individually to help them understand the circumstances that led to their placement. Although this process works well for pre-teens, Diakon has developed a unique program for teens, called Crossroads.

"Developmentally speaking, teenagers like to be with their peers," says Cheryl Drake, a Diakon permanency services supervisor. "Teens need to understand and normalize what they have experienced and realize that someone else might have the same story."

For those ages 12 through 21, Crossroads consists of 10 two-hour group sessions that allow youths to explore their pasts and futures with their peers while learning from one another's experiences.

"The goal of the program is to help these kids accept and plan what comes next in their lives. But they need to figure out where they want to go first," says Drake.

Crossroads' success is obvious, Drake believes. "One girl in the group turned 18 halfway through the sessions. She decided to leave foster care and went out on her own, but she continued to attend the program because she liked the other kids so much. She felt like she belonged."

 Programs such as Crossroads are made possible by generous donations from companies, individuals, and congregations. Those interested in learning more about the Crossroads program should contact Cheryl Drake at (717) 845-9113 or via e-mail at drakec@diakon.org.

