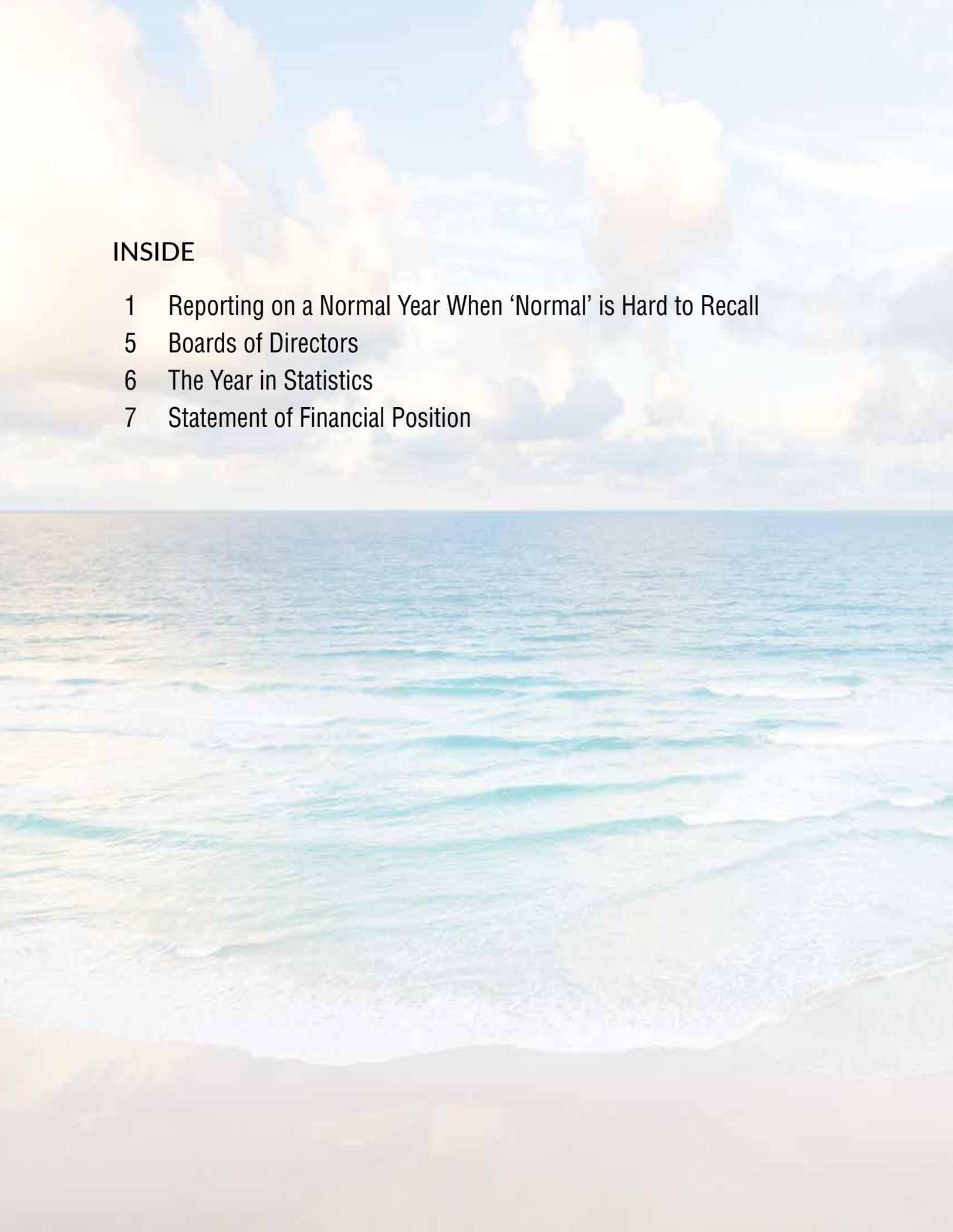


DIAKON



2020

2019 Annual Report

A scenic view of a beach with waves crashing onto the shore under a cloudy sky. The sky is filled with large, white, fluffy clouds, and the ocean is a deep blue with white foam from the waves. The beach is visible in the foreground, with the sand appearing light and soft.

INSIDE

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Reporting on a Normal Year When ‘Normal’ is Hard to Recall

How do you even begin to report on a normal year during a year in which nothing has seemed “normal”—a unique year whose events tend to overshadow everything?

There probably is no good or easy way to do so, hence our abbreviated annual report, developed primarily for web hosting.

Yet we do not want to discount 2019—because in many ways it was a remarkable year for Diakon, a year in which we significantly expanded our service to people in need of all ages.

Just one statistic underscores that impact: In 2019, Diakon served 102,136 people.

That’s an 18% increase over the number of individuals helped in 2018, a record number itself!

Experiencing that type of increase is a wonderful way to mark the first year in our second century-and-a-half of service, our 151st year of ministry to people in Pennsylvania and Maryland.

Other key indicators of the past year’s success include:

- A community benefit of \$20.5 million—the value of the good we do in society beyond our direct service.
- The provision of \$18,867,241 in benevolent care—more than \$1.5 million a month in uncompensated service.
- The commitment of nearly 1,900 dedicated and compassionate employees offering direct care and service to children, youths, families and adult individuals of all ages.
- The continuing provision—and, in many cases, expansion—of services designed to:
 - o Unite children with loving families.
 - o Help youths facing challenges to realize their potential and become contributing members of society.
 - o Preserve families as children rejoin them from out-of-home placements.
 - o Assist families in crisis overcome the hurdles facing them, including opioid addiction.
 - o Provide accommodations and an uplifting lifestyle for older adults ready to cherish retirement years.
 - o Offer rehabilitation, nursing and personal care to aid seniors in regaining or maintaining their independence.

These were just some of the hallmarks of an amazing year followed by one characterized by uncertainty and unprecedented challenges.

How we faced those pandemic-related challenges will characterize much of next year’s report. I believe those steps will demonstrate a remarkable response.

But 2019 also was a remarkable year. In addition to the achievements noted above, key indicators of the past year’s success include:

- Our programs for children and families experienced their second year of self-sustaining operations, logging record financial performance; no longer were the programs dependent on subsidy funds to balance their budgets—a remarkable achievement while they simultaneously expanded services in numerous cases and achieved the majority of quality metrics.



**Harrisburg’s Walk to End Alzheimer’s
Team Frey Village**

Diakon staff members often take part in community events to assist those in need beyond the direct service those staff colleagues provide.

- o Our family preservation and reunification services, for example, expanded operations to four eastern Pennsylvania counties to assist families in remaining whole.
- o Diakon Community Services broadened APPRISE Medicare-related health-insurance consultation to six Pennsylvania counties.

- o We completed extensive renovations at the Diakon Family Life Services counseling center on West Fourth Street in Williamsport to enhance services to those facing crises (*see photo at right*).



- o Our adoption and foster care program provided nearly 100,000 days of foster care, compared with slightly more than 83,000 the previous year. The program also laid the foundation for additional support groups for families including those who identify as LGBTQ or who are classified as kinship families. In addition, the program holds one of four contracts in Pennsylvania with Wendy's Wonderful Kids, a program of the Dave Thomas Foundation. The program focuses on finding families for youths who may have been waiting the longest for permanence.
- o Diakon Youth Services served a significant number of youths; programs focus on those young people at risk of not achieving their potential for success. For example, the Bridge Program, which operates in seven central and southeastern Pennsylvania counties, served 367 youths last year, with 88 percent of those in the program discharged with no new criminal charges and 90 percent engaged in family-based goals. The Diakon Wilderness Center-based Center Point Day Treatment Program, which serves county-referred youths as well as students from regional school districts, recorded 90 percent of youths successfully completing the program at or above grade level, with 100 percent of participating youths acquiring career preparation while also gaining related certifications.
- Through our contract to manage Pennsylvania's Statewide Adoption & Permanency Network, we facilitated the public-adoption process involving a network of more than 80 agencies. In 2019, the SWAN network served 58,633 children, youths and families within the commonwealth.
- In Diakon Senior Living Services, we completed the second phase of additional cottage-homes at Buffalo Valley Lutheran Village in Lewisburg, Pennsylvania, and began work on the third phase (*see image on opposite page*).
- We also finished renovations within the nursing care center at Cumberland Crossings, Carlisle, Pennsylvania.
- The Diakon Medical Group continued to establish its presence within the organization, providing physician and nurse-practitioner services at five Diakon senior living communities.
- We planned a Diakon-wide memory-support program; similarly, we took numerous steps to prepare for the Patient-Driven Payment Model, effective Oct. 1.

- Our skilled nursing care centers achieved 4-star or better quality measures in the national star-rating system.
- We also improved health care metrics across the system, including our re-hospitalization rate and average length of stay.
- We invested nearly \$10 million in expansion, renovation and similar capital-related projects to remain a market-leader; investments were continued as part of a multi-year project to strengthen our elopement and patient-security systems.
- We maintained our Fitch Ratings credit rating of BBB+, testament to Diakon's continued financial strength.
- We introduced Day 1 health-care benefits for new employees to assist recruitment efforts in a tight health-care market; we also continued expansion of job fairs.
- Similarly, we planned the Jan. 1, 2020, enhancement of Diakon's Tuition Assistance Program to be of particular benefit to those in nursing education.
- We completed the second year of Leadership Diakon, a mentoring program designed to guide staff members in advancing within their careers or assuming new leadership roles.
- The Diakon Lutheran Fund board distributed \$1.3 million from the investment portfolio it oversees to help fund areas of greatest need within Diakon services.
- Total giving to Diakon programs exceeded goals. The successful receipt of numerous grants allowed program expansion and special projects.
- We maintained an annual investment of about \$1 million in information technology; we also completed a significant IT-related security audit.



One of the new homes at Buffalo Valley Lutheran Village.

Early in 2020, a month or so before the pandemic changed the way we live, Diakon's leadership met in a two-day planning retreat. Because we had termed our earlier iteration of the strategic plan for Diakon as "Vision 2020," we focused on creating a plan for the next five years.

The goals of that "To 2025 & Beyond" plan, enhancements and refinements of those guidelines for our work the last half-decade, are:

- Sustainable Financial, Operational & Clinical Performance
- Employee Recruitment, Engagement & Retention
- Technology Advancement & Innovation
- Sustainable Strategic Growth
- Enhanced Customer Services

Little did we know at the time that, while working on those goals in 2020, we would need to respond quickly and effectively to the additional, critical objectives the pandemic presented.

That extensive response will form the basis for our story next year.



Mark T. Pile, MSHA, MSW
President/CEO



More than 200 participants took part in the 2019 Outdoor Adventure Challenge, raising some \$55,000 for Diakon Youth Services. In 2020, the pandemic required the outdoor challenge to be conducted virtually and remotely.

2020 Boards of Directors

(No board-group photographs were taken in 2020 because of the COVID-19 pandemic.)

Diakon

Maurice H. Bobst, Jr., Real Estate & Investment Manager, *Lower Susquehanna Synod*
Emried D. Cole, Jr., Esq., *Vice-Chair*, Seminary Official, *Delaware-Maryland Synod*
Lawrence Delp, Chair, Bank Executive, *Southeastern Pennsylvania Synod*
The Rev. Dr. A. Donald Main, *Secretary/Treasurer*, Bishop Emeritus, *Upper Susquehanna Synod*
Kenneth G. Mertz II, CFA, Financial Advisor, *Lower Susquehanna Synod*
Ms. Susan T. Schellenberg, Retired Court Administrator, *Northeastern Pennsylvania Synod*
Paul Horger, Esq., *Board Member Emeritus*, Attorney, *Northeastern Pennsylvania Synod*
Peter Kern, *Board Member Emeritus*, Retired Hospital Executive, *Northeastern Pennsylvania Synod*

Diakon Lutheran Social Ministries

Ms. Barbara Feege, Hospital Director of Finance, *Delaware-Maryland Synod*
Jennifer Goldstein, M.D., FACP, Associate Chief Medical Officer & Medical Director, Patient Logistics and Care Transitions, *Lower Susquehanna Synod*
The Rev. Chad Hebrink, *Chair*, Pastor, *Upper Susquehanna Synod*
Nels Hendrickson, Retired Business and Social Ministry Executive, *Virginia Synod*
Douglas Hough, Ph.D., Associate Scientist, Johns Hopkins Bloomberg School of Public Health, *Delaware-Maryland Synod*
Michael Lehman, P.E., *Treasurer*, Retired President/CEO, Manufacturing Company, *Lower Susquehanna Synod*
The Rev. Dr. A. Donald Main, *Vice-Chair*, Bishop Emeritus, *Upper Susquehanna Synod*
Ms. Susan T. Schellenberg, Retired Court Administrator, *Northeastern Pennsylvania Synod*
Jennifer Schlegel, Ph.D., *Secretary*, College Professor, *Northeastern Pennsylvania Synod*
Carol Taylor, Retired Bank Executive, *Delaware-Maryland Synod*

Diakon Child, Family & Community Ministries

Jonathan Andrews, Esq., Attorney, *Lower Susquehanna Synod*
Maurice H. Bobst, Jr., *Treasurer*, Real Estate & Investment Manager, *Lower Susquehanna Synod*
Emried D. Cole, Jr., Esq., *Chair*, Seminary Official, *Delaware-Maryland Synod*
Ronald P. Dreese, Financial Advisor, *Upper Susquehanna Synod*
Katrina Klettke-Straker, *Vice-Chair*, Nonprofit Chief Development Officer, *Delaware-Maryland Synod*
Christopher Markley, Insurance Communications, *Lower Susquehanna Synod*
Kenneth G. Mertz II, CFA, Financial Advisor, *Lower Susquehanna Synod*
Laurie Saltzgiver, Esq., Attorney, *Lower Susquehanna Synod*
The Rev. John Spangler, Clergy, *Lower Susquehanna Synod*
Rebecca Young, Esq., Secretary, Attorney, *Southeastern Pennsylvania Synod*

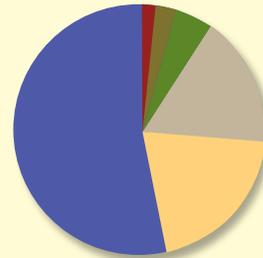
Diakon Lutheran Fund

Richard Barger, CPA, Chair, Retired Chief Financial Officer, *Lower Susquehanna Synod*
Jeff Boland, CPA, Secretary, Senior Living Services Consultant and Consultancy Department Head, *Lower Susquehanna Synod*
Barbara Brobst, Vice-Chair, Bank Executive, *Lower Susquehanna Synod*
Ted J. Herold, CPA, CGMA, Accounting Firm Principal, *Lower Susquehanna Synod*
Peter Knudsen, Private Equity and Venture Capital Investor, *Northeastern Pennsylvania Synod*
Michael Lehman, P.E., Treasurer, Retired President/CEO, Manufacturing Company, *Lower Susquehanna Synod*
Katie Smarilli, Strategic Management Consultant Company President, *Lower Susquehanna Synod*

The Year in Statistics

We directly served 102,136 people in 2019, the most important statistic of all. The figure represents an 18% increase from the number of people served in 2018.

■ Foster Care, Adoption & Related Services*	64,044
■ Community-Based Senior Services	20,825
■ Diakon Senior Living & Housing Services**	10,963
■ Diakon Family Life Services	3,083
■ Diakon Youth Services	2,221
■ Girls on the Run - Lehigh Valley	1,000
Total	102,136

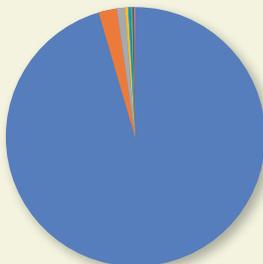


* Number includes those served by Pennsylvania's Statewide Adoption & Permanency Network (SWAN), which Diakon administers.
 ** In most cases, the number served includes one family member per personal-care or nursing-care resident.

Benevolent Care

Diakon maintains a more-than-150-year tradition of care for people of all ages, especially those with limited financial resources. In 2019, Diakon provided more than \$1.5 million a month in uncompensated care. Those funds underwrote services in the following ways:

■ Diakon Senior Living Services*	\$ 18,018,718
■ Diakon Adoption and Foster Care	\$ 407,229
■ Diakon Youth Services	\$ 191,822
■ Diakon Disaster Response	\$ 86,374
■ Diakon Family Life Services	\$ 58,259
■ Diakon Youth Scholarships	\$ 55,829
■ Diakon Adult Day Services	\$ 25,560
■ Diakon Family Reunification & Preservation	\$ 19,652
■ Diakon Community Services	\$ 3,798
Total \$	18,867,241



*Consists of actual costs to operate in excess of Medical Assistance reimbursement for skilled nursing care, and benevolent care provided to those primarily in personal care (assisted living in Maryland) who have exhausted their financial resources but for whom Diakon continues to care.



Several adoptive families have been featured in Diakon *Many Voices. One Heart.* blog posts the last two years, helping to generate interest in the continuing need for loving families for waiting children and youths.

STATEMENT OF FINANCIAL POSITION

Consolidated Balance Sheets

December 31	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,286,793	\$ 4,347,531
Assets limited as to use	10,657,227	9,131,747
Accounts receivable, net		
Patients and residents	13,005,149	14,446,701
Statewide Adoption & Permanency Network	5,635,507	5,117,316
Other client services	3,443,721	2,862,750
Estimated third-party payor settlements	1,754,127	2,088,829
Prepaid expenses and other assets	2,741,909	2,474,917
Total current assets	43,524,433	40,469,791
Investments	137,570,037	122,635,829
Assets limited as to use, net of current portion:		
Statutory minimum liquid reserves	7,431,584	7,032,788
Other	28,095,881	24,206,203
Investment in joint venture	1,262,163	1,201,799
Land, buildings and equipment, net	203,006,491	229,205,190
Finance lease right of use assets, net	1,646,136	—
Operating lease right of use assets	2,801,603	—
Other assets:		
Receivables from charitable gift annuities	698,672	789,212
Funds held in trust by others and beneficial interest in trust	37,634,260	33,351,262
Other assets	189,636	4,776,125
Total assets	\$463,860,896	\$463,668,199

Consolidated Balance Sheets *continued*

December 31	2019	2018
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ 6,294,158	\$ —
Accounts payable and accrued expenses	20,837,248	23,617,013
Deposits – patients and residents	760,746	710,452
Estimated third-party payor settlements	895,852	927,970
Current finance lease liabilities	719,684	—
Current operating lease liabilities	693,383	—
Current maturities of long-term debt	6,779,413	7,279,544
Total current liabilities	<u>36,980,484</u>	<u>32,534,979</u>
Pension liability	39,755,762	34,275,607
Swap agreement	719,359	380,717
Deferred revenue – entrance agreements	69,184,366	68,209,000
Refundable entrance fee liability	29,092,491	32,344,247
Other long-term liabilities	1,313,108	1,167,099
Long-term finance lease liabilities	905,676	—
Long-term operating lease liabilities	2,217,246	—
Future services obligation	1,772,624	—
Long-term debt, less current maturities and debt issuance costs	226,048,697	232,998,686
Total liabilities	<u>407,989,813</u>	<u>401,910,335</u>
Net assets (deficit):		
Without donor restrictions	(8,403,379)	5,499,963
With donor restrictions	64,274,462	56,257,901
Total net assets	<u>55,871,083</u>	<u>61,757,864</u>
Total liabilities and net assets	<u>\$463,860,896</u>	<u>\$463,668,199</u>

Consolidated Statements of Operations and Changes in Net Assets

For the years ended December 31	2019	2018
Operating revenues, gains and other support:		
Patient and resident service revenue, net	\$144,003,176	\$142,139,504
Patient and resident service revenue –		
nursing home assessment	3,830,094	3,801,372
Amortization of entrance fees	10,289,649	10,139,406
Contract revenue	16,480,159	14,255,858
Other fees and services	11,710,565	10,926,126
Statewide Adoption & Permanency Network revenue	71,854,415	67,597,279
Investment income, net of expenses	7,110,018	6,368,425
Income from trusts	1,223,896	1,385,739
Contributions and bequests	1,696,765	1,189,525
Net assets released from restrictions – operations	1,363,188	1,382,431
Loss on disposal of assets	(7,545)	(94,642)
Gain on insurance proceeds	302,090	510,229
Total operating revenues, gains and other support	<u>269,856,470</u>	<u>259,601,252</u>
Expenses:		
Salaries and wages	73,339,140	70,657,669
Employee benefits	15,437,158	15,066,027
Other expenses	75,573,184	73,927,955
Other expenses – Statewide Adoption & Permanency Network	70,155,970	65,893,992
Nursing home assessment	1,823,772	1,945,692
Interest	9,892,678	9,755,476
Depreciation and amortization	19,481,948	18,851,092
Total expenses	<u>265,703,850</u>	<u>256,097,903</u>
Operating income	\$ 4,152,620	\$ 3,503,349

Consolidated Statements of Operations and Changes in Net Assets *continued*

For the years ended December 31	2019	2018
Net periodic pension (costs) benefit, non-service component	\$ (497,009)	\$ 271,720
Equity in gains of joint venture	60,364	343,262
Unrealized gains (losses) on investments	14,515,736	(12,666,660)
Loss from early extinguishment of debt	(626,216)	(96,608)
Loss from future services obligations	(1,772,624)	—
Impairment of goodwill	(4,572,283)	—
Impairment of long-lived assets	<u>(20,301,659)</u>	<u>—</u>
Deficit of operating revenues, gains and other support over expenses	<u>(9,041,071)</u>	<u>(8,644,937)</u>
Other changes:		
Pension-related changes other than net periodic pension costs	(4,983,146)	35,565
Decrease in fair value of swap agreement	(338,642)	(380,717)
Unrealized gains (losses) on investments	276,822	(782,906)
Net assets released from restrictions – capital	<u>282,171</u>	<u>97,392</u>
Total other changes	<u>(4,762,795)</u>	<u>(1,030,666)</u>
Decrease in net assets (deficit) without donor restrictions	<u>(13,803,866)</u>	<u>(9,675,603)</u>
Net assets with donor restrictions:		
Contributions and bequests	1,166,756	370,029
Investment income, net of expenses	824,337	1,039,815
Unrealized gains (losses) on investments	3,165,452	(2,225,225)
Net assets released from restrictions – operations	(1,363,188)	(1,382,431)
Net assets released from restrictions – capital	(282,171)	(97,392)
Change in beneficial interest in trust	180,076	(418,853)
Increase (decrease) in fair value of funds held in trust by others	<u>4,325,299</u>	<u>(3,969,464)</u>
Increase (decrease) in net assets with donor restrictions	<u>8,016,561</u>	<u>(6,683,521)</u>
Decrease in net assets	<u>(5,787,305)</u>	<u>(16,359,124)</u>
Net assets, beginning of year as previously reported	61,757,864	78,116,988
Cumulative effect of change in accounting principle	<u>(99,476)</u>	<u>—</u>
Net assets, beginning of year as adjusted	<u>61,658,388</u>	<u>78,116,988</u>
Net assets, end of year	<u>\$ 55,871,083</u>	<u>\$ 61,757,864</u>

Consolidated Statements of Cash Flows

For the years ended December 31	2019	2018
Cash flows from operating activities:		
Decrease in net assets	\$(5,787,305)	\$(16,359,124)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net realized gains on investments	(1,776,950)	(131,714)
Net unrealized (gains) losses on investments	(17,958,010)	15,674,791
Depreciation and amortization	19,481,948	18,851,092
Amortization of debt issuance costs	194,326	181,387
Increase (decrease) in pension liability	5,480,155	(307,285)
Amortization of entrance fees	(10,289,649)	(10,139,406)
Proceeds from entrance fees	11,604,322	14,443,745
Change in funds held in trust by others and beneficial interest in trust	(4,282,998)	4,334,555
Decrease in fair value of swap agreement	338,642	380,717
Equity in gains of joint venture	(60,364)	(343,262)
Loss on disposal of assets	7,545	94,642
Loss on early extinguishment of debt	626,216	96,608
Loss on future services obligation	1,772,624	—
Impairment of goodwill	4,572,283	—
Impairment of long-lived assets	20,301,659	—
Restricted contributions and investment income	(627,905)	(27,413)
Variable operating lease payments	8,561	—
Change in assets and liabilities:		
Accounts receivable and estimated third-party payor settlements	644,974	(2,334,446)
Prepaid expenses and other current assets	(266,992)	(21,926)
Other assets	14,206	(2,887)
Accounts payable, accrued expenses and other liabilities	(615,594)	1,070,759
Deposits – patients and residents	50,294	48,489
Net cash provided by operating activities	<u>\$ 23,431,988</u>	<u>\$ 25,509,322</u>

Consolidated Statements of Cash Flows *continued*

For the years ended December 31	2019	2018
Cash flows from investing activities:		
Purchase of investments and assets limited as to use	\$ (9,117,629)	\$ (30,792,212)
Proceeds from sales of investments and assets limited as to use	10,400,094	27,552,702
Contributions and charitable gift/remainder trusts	90,540	444,214
Purchase of property and equipment	(14,961,930)	(15,018,372)
Proceeds from sale of property and equipment	(49,427)	—
Net cash used in investing activities	<u>(13,638,352)</u>	<u>(17,813,668)</u>
Cash flows from financing activities:		
Payment of long-term debt	(8,284,831)	(8,138,678)
Bond refunding	(35,973,000)	—
Proceeds from debt issuance	36,811,881	1,376,414
Principal payments under finance lease obligations	(704,801)	—
Net proceeds (payment) on lines of credit	6,294,158	(1,529,382)
Payment of debt issuance costs	(707,800)	(221,314)
Proceeds from restricted contributions and investment income	627,905	27,413
Proceeds from entrance fees	1,860,554	1,984,606
Refunds of entrance fees	(5,451,617)	(3,744,633)
Net cash used in financing activities	<u>(5,527,551)</u>	<u>(10,245,574)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	4,266,085	(2,549,920)
Cash, cash equivalents, and restricted cash beginning of year	<u>17,252,688</u>	<u>19,802,608</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 21,518,773</u>	<u>\$ 17,252,688</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash		
Amounts reported in these lines on the consolidated balance sheets		
Current assets:		
Cash and cash equivalents	\$ 6,286,793	\$ 4,347,531
Assets limited as to use	10,657,227	9,131,747
Assets limited to use, less current portion: Other	4,574,753	3,773,410
Total cash, cash equivalents and restricted cash	<u>\$ 21,518,773</u>	<u>\$ 17,252,688</u>
Supplemental schedule of noncash investing and financing activity:		
(Increase) decrease in purchase of property and equipment through (decrease) in accounts payable, accrued expenses, and other liabilities	<u>\$(2,103,918)</u>	<u>\$ 2,940,000</u>
Acquisition of leased property and equipment funded by finance lease borrowings	<u>\$ 528,684</u>	<u>\$ —</u>

DIAKON CHILD, FAMILY & COMMUNITY MINISTRIES

Diakon Adoption & Foster Care
Diakon Adult Day Services
Diakon Community Services
Diakon Family Life Services
Diakon Family Reunification & Preservation Services
Diakon Pregnancy Services
Diakon Youth Services
Girls on the Run® - Lehigh Valley
Lutheran Disaster Response

DIAKON LUTHERAN SOCIAL MINISTRIES (SENIOR LIVING & HOUSING SERVICES)

Buffalo Valley Lutheran Village
Cumberland Crossings
Diakon Senior Living - Hagerstown
Frey Village
Frostburg Heights
Luther Crest
The Lutheran Home at Topton
Luther Meadows & Heilman House
Lutherwood
Manatawny Manor
Ohesson



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www.Diakon.org