

DIAKON

2020 Annual Report

*& Community
Benefit Summary*



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Diakon Child, Family & Community Ministries

Diakon Adoption & Foster Care
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

STATEMENT OF FINANCIAL POSITION

Consolidated Balance Sheets

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

Consolidated Balance Sheets *continued*

December 31	2020	2019
Liabilities and Net Assets		
Current liabilities:		
Line of credit	\$ —	\$ 6,294,158
Accounts payable and accrued expenses	23,868,641	20,837,248
Provider relief fund and other	3,759,444	—
Deposits – patients and residents	633,062	760,746
Estimated third-party payor settlements	4,628,737	895,852
Current finance lease liabilities	452,944	719,684
Current operating lease liabilities	927,885	693,383
Current maturities of long-term debt	6,524,525	6,779,413
Total current liabilities	40,795,238	36,980,484
Pension liability	46,661,192	39,755,762
Swap agreement	1,079,138	719,359
Deferred revenue – entrance agreements	59,470,533	69,184,366
Refundable entrance fee liability	24,701,647	29,092,491
Other long-term liabilities	1,625,116	1,313,108
Long-term finance lease liabilities	625,156	905,676
Long-term operating lease liabilities	1,589,461	2,217,246
Future services obligation	—	1,772,624
Long-term debt, less current maturities and debt issuance costs	203,828,013	226,048,697
Total liabilities	380,375,494	407,989,813
Net assets (deficit):		
Without donor restrictions	(2,387,069)	(8,403,379)
With donor restrictions	69,858,994	64,274,4621
Total net assets	67,471,925	55,871,083
Total liabilities and net assets	447,847,419	\$463,860,896

Consolidated Statements of Operations and Changes in Net Assets

For the years ended December 31

	2020	2019
Operating revenues, gains and other support:		
Patient and resident service revenue, net	\$ 133,033,031	\$144,003,176
Patient and resident service revenue –		
nursing home assessment	3,838,313	3,830,094
Amortization of entrance fees	10,126,994	10,289,649
Contract revenue	23,968,987	16,480,159
Other fees and services	10,278,325	11,710,565
Statewide Adoption & Permanency Network revenue	71,111,889	71,854,415
Investment income, net of expenses	7,492,203	7,110,018
Income from trusts	1,629,004	1,223,896
Contributions and bequests	1,133,412	1,696,765
Net assets released from restrictions – operations	1,406,630	1,363,188
Loss on disposal of assets	1,041,364	(7,545)
Gain on insurance proceeds	6,328	302,090
Total operating revenues, gains and other support	<u>265,066,480</u>	<u>269,856,470</u>
Expenses:		
Salaries and wages	70,368,022	73,339,140
Employee benefits	16,139,475	15,437,158
Other expenses	71,853,495	75,573,184
Other expenses – Statewide Adoption & Permanency Network	69,293,889	70,155,970
Nursing home assessment	1,766,884	1,823,772
Interest	9,102,640	9,892,678
Depreciation and amortization	18,283,873	19,481,948
Total expenses	<u>256,808,278</u>	<u>265,703,850</u>
Operating income	8,258,202	\$ 4,152,620

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

For the years ended December 31	2020	2019
Net periodic pension benefit, non-service component	\$ (154,343)	\$ (497,009)
Equity in (losses) gains of joint venture	(32,430)	60,364
Unrealized gains on investments	7,495,966	14,515,736
Loss from early extinguishment of debt	(2,677,128)	(626,216)
Loss from future services obligations	—	(1,772,624)
Impairment of goodwill	—	(4,572,283)
Impairment of long-lived assets	—	(20,301,659)
Excess (deficit) of operating revenues, gains and other support over expenses	<u>12,890,267</u>	<u>(9,041,071)</u>
Other changes:		
Pension-related changes other than net periodic pension costs	(6,751,087)	(4,983,146)
Decrease in fair value of swap agreement	(359,779)	(338,642)
Unrealized gains on investments	—	276,822
Net assets released from restrictions – capital	236,909	282,171
Total other changes	<u>(6,873,957)</u>	<u>(4,762,795)</u>
Increase (decrease) in net assets (deficit) without donor restrictions	<u>6,016,310</u>	<u>(13,803,866)</u>
Net assets with donor restrictions:		
Contributions and bequests	1,255,431	1,166,756
Investment income, net of expenses	1,060,743	824,337
Unrealized gains (losses) on investments	2,144,535	3,165,452
Net assets released from restrictions – operations	(1,406,630)	(1,363,188)
Net assets released from restrictions – capital	(236,909)	(282,171)
Change in beneficial interest in trust	109,339	180,076
Increase in fair value of funds held in trust by others	2,658,023	4,325,299
Increase in net assets with donor restrictions	<u>5,584,532</u>	<u>8,016,561</u>
Increase (decrease) in net assets	<u>11,600,842</u>	<u>(5,787,305)</u>
Net assets, beginning of year as previously reported	55,871,083	61,757,864
Cumulative effect of change in accounting principle	—	(99,476)
Net assets, beginning of year as adjusted	<u>55,871,083</u>	<u>61,658,388</u>
Net assets, end of year	<u>67,471,925</u>	<u>\$ 55,871,083</u>

Consolidated Statements of Cash Flows

For the years ended December 31	2020	2019
Cash flows from operating activities:		
Increase (decrease) in net assets	11,600,842	\$(5,787,305)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net realized gains on investments	(899,334)	(1,776,950)
Net unrealized gains losses on investments	(9,640,501)	(17,958,010)
Depreciation and amortization	18,283,873	19,481,948
Amortization of debt issuance costs	194,825	194,326
Increase (decrease) in pension liability	6,905,430	5,480,155
Amortization of entrance fees	(1,059,670)	(10,289,649)
Proceeds from entrance fees	(10,126,994)	11,604,322
Change in funds held in trust by others and beneficial interest in trust	9,693,945	(4,282,998)
Decrease in fair value of swap agreement	359,779	338,642
Equity in gains of joint venture	32,430	(60,364)
(Gain) loss on disposal of assets	(1,041,364)	7,545
Loss on early extinguishment of debt	2,677,128	626,216
Loss on future services obligation	—	1,772,624
Impairment of goodwill	—	4,572,283
Impairment of long-lived assets	—	20,301,659
Restricted contributions and investment income	(909,544)	(627,905)
Variable operating lease payments	10,508	8,561
Change in assets and liabilities:		
Accounts receivable and estimated third-party payor settlements	7,745,303	644,974
Prepaid expenses and other current assets	(238,162)	(266,992)
Other assets	(265,124)	14,206
Accounts payable, accrued expenses and other liabilities	7,488,571	(615,594)
Deposits – patients and residents	(127,684)	50,294
Net cash provided by operating activities	38,019,858	\$ 22,513,726

Consolidated Statements of Cash Flows *continued*

For the years ended December 31	2020	2019
Cash flows from investing activities:		
Purchase of investments and assets limited as to use	(26,209,077)	\$ (9,117,629)
Proceeds from sales of investments and assets limited as to use	24,882,132	10,400,094
Contributions and charitable gift/remainder trusts	162,022	90,540
Purchase of property and equipment	(14,548,276)	(14,961,930)
Proceeds from sale of property and equipment	19,446,083	—
Acquisition of leased property and equipment	(18,181)	(49,427)
Net cash used in investing activities	<u>3,714,703</u>	<u>(13,638,352)</u>
Cash flows from financing activities:		
Payment of long-term debt	(6,779,370)	(7,366,569)
Bond refunding	(20,414,270)	(35,973,000)
Proceeds from debt issuance	2,905,785	36,811,881
Principal payments under finance lease obligations	(763,819)	(704,801)
Net proceeds (payment) on lines of credit	(6,294,158)	6,294,158
Payment of debt issuance costs	—	(707,800)
Proceeds from restricted contributions and investment income	909,544	627,905
Proceeds from entrance fees	1,755,036	1,860,554
Refunds of entrance fees	(3,706,514)	(5,451,617)
Net cash (used in) financing activities	<u>(32,387,766)</u>	<u>(5,527,551)</u>
Net increase in cash, cash equivalents and restricted cash	9,346,795	4,266,085
Cash, cash equivalents, and restricted cash beginning of year	<u>21,518,773</u>	<u>17,252,688</u>
Cash, cash equivalents and restricted cash, end of year	<u>30,865,568</u>	<u>\$ 21,518,773</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	11,630,504	\$ 6,286,793
Assets limited as to use	13,539,777	10,657,227
Assets limited to use, less current portion: Other	5,695,287	4,574,753
Total cash, cash equivalents and restricted cash	<u>30,865,568</u>	<u>\$ 21,518,773</u>
Supplemental schedule of noncash investing and financing activity:		
Increase in purchase of property and equipment through accounts payable, accrued expenses, and other liabilities	<u>(385,723)</u>	<u>\$ (2,103,918)</u>
Acquisition of leased property and equipment funded by finance lease borrowings	<u>324,158</u>	<u>\$ 528,684</u>

COMMUNITY BENEFIT

Diakon is concerned not only about the people we directly serve, but also about the communities in which we all live. In fact, Diakon’s services have focused on improving the lives of people in need since 1868.

That service has a significant impact on society as a whole. But community benefit also incorporates the way we make a difference beyond direct service, especially in terms of concern for those with lower incomes or other limited resources. Community benefit arises from our service not only to the neighbors we directly help, but also to *their* neighbors. We call this *the good we do beyond the good we set out to do!*

Community benefit reflects our responsibility for improving the overall fabric of society, a response to the trust placed in us through our tax-exempt status.

In 2020, our community benefit totaled \$20,291, 707 with extensive additional impact not reported financially, based on national guidelines.

Moreover, even that additional impact does not take into account the societal benefits associated with our responsible employment of nearly 2,000 people, which includes competitive wages and a generous benefits package. Beyond the taxes they pay within their local communities, these staff members are not only dedicated employees of Diakon, but also share a giving spirit, donating to Diakon and other community organizations each year.

How Community Benefit is Calculated

Diakon follows measures developed by the Catholic Health Association of the United States to calculate community benefit—the impact on society that tax-exempt organizations have beyond direct service.

Community benefit refers to the impact an organization has beyond direct service; it does not reflect contributions to an organization or volunteer hours (we report volunteer hours, but do not incorporate their financial value in calculations). For example, the nationally defined category of “cash and in-kind contributions” includes the value of free meeting or clinical space provided by a Diakon program to a community group or educational institution or donation of unused medications to people in need.

Overall Community Benefit

Diakon had a 2020 community benefit of just slightly under \$20.3 million.

The figure does not include extensive impact—such as tuition assistance and funds raised for other community organizations by Diakon programs—national guidelines prohibit us from including that in community-benefit calculations.

The 2020 community benefit compares to a 2019 figure of \$20.5 million.

For the fourth year, numerous Diakon nursing care centers participated in a national program that distributes unopened, unused non-narcotic medicine to people with limited resources. The process prevents unnecessary destruction of medications that can help people in need.

Guidelines also prohibit inclusion of volunteer hours as community benefit. In addition to volunteers who serve Diakon programs and senior living communities, participants in Diakon Youth Services and Girls on the Run – Lehigh Valley assist other groups through community service.

2020 Community Benefit by Program

Diakon Lutheran Social Ministries

(Senior Living Services)

Buffalo Valley Lutheran Village	\$ 2,569,406
Cumberland Crossings	\$ 1,139,938
Diakon Senior Living – Hagerstown	\$ 2,109,120
Frey Village	\$ 3,112,384
The Lutheran Home at Topton	\$ 4,045,216
Luther Crest	\$ 2,045,941
Manatawny Manor	\$ 2,204,418
Ohesson	\$ 1,179,954
Twining Village	\$ 87,784
Senior Living Total Community Benefit:	\$ 18,494,161


Diakon Child, Family & Community Ministries

DCFMC Administration/General	\$ 9,104
Adoption, Foster Care and Related Services	\$ 407,668
Diakon Community Services	\$ 45,164
Diakon Family Life Services	\$ 64,841
Diakon Family Preservation & Reunification	\$ 19,652
Diakon Youth Scholarships	\$ 55,829
Diakon Youth Services	\$ 235,967
Lutheran Disaster Response	\$ 86,374
Child & Family Total Community Benefit:	\$ 924,599

Other Diakon Programs

Community-Benefit Reporting	\$ 30,295
“Other” Total Community Benefit:	\$ 30,295

TOTAL DIAKON COMMUNITY BENEFIT: \$20,291,707



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