# Diakon and Controlled Affiliates

Consolidated Financial Statements
and Supplementary Information

December 31, 2024 and 2023

Independent Auditors' Report

To the Board of Directors of
Diakon and Controlled Affiliates

**Report on the Audit of Consolidated Financial Statements**

***Opinion***

We have audited the consolidated financial statements of Diakon and Controlled Affiliates (the Corporation), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2024 and 2023, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

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***Auditors' Responsibilities for the Audits of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information as identified in the table of contents are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and it are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 30, 2025

## Diakon and Controlled Affiliates

Consolidated Balance Sheets
December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 9,054,573 | $ 22,239,356 |
| Assets limited as to use | - | 6,440,747 |
| Accounts receivable, net: | | |
| Patients and residents | - | 7,006,753 |
| Statewide adoption and permanency network | 5,375,510 | 5,502,851 |
| Other client services | 4,080,253 | 4,275,238 |
| Estimated third-party payor settlements | - | 47,419 |
| Prepaid expenses and other assets | 1,731,083 | 2,999,360 |
| Total current assets | 20,241,419 | 48,511,724 |
| **Investments** | 127,935,262 | 151,401,356 |
| **Assets Limited as to use, Less Current Portion** | 9,671,130 | 38,460,670 |
| **Investment in Joint Venture** | 1,597,455 | 1,417,665 |
| **Land, Buildings and Equipment, Net** | 4,991,551 | 166,839,296 |
| **Finance Lease Right-of-use Assets, Net** | 319,554 | 1,813,377 |
| **Operating Lease Right-of-Use Assets** | 1,207,948 | 1,861,596 |
| **Other Assets** | | |
| Receivables from charitable gift annuities | 6,376 | 136,494 |
| Funds held in trust by others and beneficial interest in trust | 9,914,736 | 37,532,794 |
| Swap agreement | - | 42,566 |
| Transaction escrow (Note 16) | 2,553,397 | - |
| Other assets | 1,892,869 | 1,024,865 |
| Total assets | $ 180,331,697 | $ 449,042,403 |

*See notes to consolidated financial statements*

| | 2024 | 2023 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 11,441,795 | $ 35,196,326 |
| Deferred revenue | 806,566 | 1,189,155 |
| Other | 139,280 | 369,303 |
| Estimated third-party payor settlements | - | 518,125 |
| Current finance lease liabilities | 96,762 | 427,322 |
| Current operating lease liabilities | 509,339 | 806,992 |
| Current maturities of long-term debt | 514,053 | 4,805,479 |
| Total current liabilities | 13,507,795 | 43,312,702 |
| **Transaction Escrow (Note 16)** | 2,500,000 | - |
| **Pension Liability** | - | 24,420,445 |
| **Deferred Revenue, Entrance Fee Agreements** | - | 57,970,780 |
| **Refundable Entrance Fee Liability** | - | 16,849,115 |
| **Other Long-Term Liabilities** | 163,387 | 1,123,786 |
| **Long-Term Finance Lease Liabilities** | 229,334 | 1,339,745 |
| **Long-Term Operating Lease Liabilities** | 703,472 | 1,090,404 |
| **Long-Term Debt, Less Current Maturities and Debt Issuance Costs** | 14,627,135 | 135,462,979 |
| Total liabilities | 31,731,123 | 281,569,956 |
| **Net Assets** | | |
| Without donor restrictions | 132,039,897 | 99,783,402 |
| With donor restrictions | 16,560,677 | 67,689,045 |
| Total net assets | 148,600,574 | 167,472,447 |
| Total liabilities and net assets | $ 180,331,697 | $ 449,042,403 |

*See notes to consolidated financial statements*

## Diakon and Controlled Affiliates

Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Operating Revenues, Gains and Other Support** | | |
| Contract revenue | $ 17,138,244 | $ 18,164,393 |
| Other fees and services | 11,349,423 | 11,476,911 |
| Statewide Adoption and Permanency Network revenue | 76,444,488 | 74,898,114 |
| Investment income, net of expenses | 10,386,253 | 2,794,758 |
| Income from trusts | 665,279 | 1,582,522 |
| Contributions and bequests | 638,248 | 112,767 |
| Net assets released from restrictions, operations | 382,053 | 433,954 |
| Other | - | 4,360 |
| Total operating revenues, gains and other support | 117,003,988 | 109,467,779 |
| **Expenses** | | |
| Salaries and wages | 18,678,216 | 17,810,959 |
| Employee benefits | 5,284,329 | 5,088,893 |
| Other expenses | 13,917,270 | 13,563,096 |
| Other expenses, Statewide Adoption and Permanency Network | 75,365,646 | 73,822,477 |
| Interest | 578,975 | 541,024 |
| Depreciation and amortization | 1,856,267 | 2,661,188 |
| Total expenses | 115,680,703 | 113,487,637 |
| Operating income (loss) | 1,323,285 | (4,019,858) |
| **Nonoperating (Loss) Income** | | |
| Unrealized (losses) gains on investments | (3,450,491) | 6,351,512 |
| (Deficiency) excess of operating revenues, gains and other support over expenses | (2,127,206) | 2,331,654 |
| **Other Changes in Net Assets Without Donor Restrictions** | | |
| (Loss) income from discontinued operations and gain on sale of discontinued operations | 7,064,760 | 15,178,155 |
| Pension-related changes other than net periodic pension benefit - discontinued operations | 5,153,727 | 1,547,916 |
| Pension settlement charge - discontinued operations | 21,958,155 | - |
| Increase (decrease) in fair value of swap agreement - discontinued operations | 95,705 | (27,844) |
| Net assets released from restrictions, capital | 111,354 | 58,283 |
| Total other changes | 34,383,701 | 16,756,510 |
| Increase in net assets without donor restrictions | $ 32,256,495 | $ 19,088,164 |

*See notes to consolidated financial statements*

| | 2024 | 2023 |
|---|---|---|
| **Increase in Net Assets Without Donor Restrictions** | $ 32,256,495 | $ 19,088,164 |
| **Net Assets With Donor Restrictions** | | |
| Transfers of restricted net assets (Note 16) | (54,349,131) | - |
| Contributions and bequests | 323,965 | 1,616,563 |
| Investment income, net of expenses | 1,740,585 | 757,794 |
| Unrealized gains on investments | 265,153 | 2,975,380 |
| Net assets released from restrictions, operations | (912,190) | (1,483,903) |
| Net assets released from restrictions, capital | (111,354) | (58,283) |
| Change in beneficial interest in trust | - | 249,312 |
| Increase in fair value of funds held in trust by others | 1,914,604 | 2,877,443 |
| (Decrease) increase in net assets with donor restrictions | (51,128,368) | 6,934,306 |
| (Decrease) increase in net assets | (18,871,873) | 26,022,470 |
| **Net Assets, Beginning** | 167,472,447 | 141,449,977 |
| **Net Assets, Ending** | $ 148,600,574 | $ 167,472,447 |

*See notes to consolidated financial statements*

## Diakon and Controlled Affiliates

Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| (Decrease) increase in net assets | $ (18,871,873) | $ 26,022,470 |
| Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities: | | |
| Net realized gains on investments | (10,997,040) | (1,230,704) |
| Net unrealized losses (gains) on investments | 4,923,146 | (16,529,005) |
| Transfers of restricted net assets | 54,349,131 | - |
| Depreciation and amortization | 7,574,304 | 13,935,929 |
| Amortization of debt issuance costs | 215,444 | 219,169 |
| Net decrease in pension liability | (4,688,727) | (376,185) |
| Amortization of bond premium | (260,831) | (541,405) |
| Amortization of entrance fees | (4,756,807) | (8,621,002) |
| Proceeds from entrance fees | 6,533,596 | 11,560,919 |
| Change in funds held in trust by others and beneficial interest in trust | (1,914,604) | (3,015,968) |
| (Gain) loss on fair value of swap agreement | (95,705) | 27,844 |
| Equity in gains of joint venture | (179,790) | - |
| (Gain) on disposal of DLSM (Note 16) | (22,431,530) | - |
| Variable lease adjustments | (5,389) | (46,272) |
| Change in assets and liabilities: | | |
| Accounts receivable and estimated third-party payor settlements | 459,076 | 7,176,962 |
| Prepaid expenses and other current assets | (254,510) | 215,354 |
| Operating lease right-of-use assets | 208,784 | 32,707 |
| Other assets | (3,467,826) | (174,746) |
| Accounts payable, accrued expenses, and other liabilities | (14,778,721) | 2,473,853 |
| Other | (17,977) | (35,615) |
| Operating lease liabilities | (221,002) | (79,827) |
| Net cash (used in) provided by operating activities | (8,678,851) | 31,014,478 |
| **Cash Flows From Investing Activities** | | |
| Proceeds from divestiture of discontinued operations | 53,846,500 | - |
| Purchases of investments and assets limited as to use | (58,451,576) | (10,700,618) |
| Proceeds from sales of investments and assets limited as to use | 50,019,648 | 11,304,837 |
| Contributions and charitable gift/remainder trusts | 58,762 | 133,591 |
| Purchase of property and equipment | (20,553,116) | (37,568,024) |
| Net cash provided by (used in) investing activities | 24,920,218 | (36,830,214) |
| **Cash Flows From Financing Activities** | | |
| Payment of long-term debt | (4,750,042) | (4,611,813) |
| Transfers of restricted net assets | (54,349,131) | - |
| Proceeds from issuance of long-term debt | 18,359,315 | 1,360,589 |
| Payment of deferred debt issuance costs | (8,000) | - |
| Principal payments under finance lease obligations | (283,389) | (269,599) |
| Net draws on lines of credit | 3,764,001 | - |
| Proceeds from entrance fees | 976,381 | 119,867 |
| Refunds of entrance fees | (974,806) | (2,891,241) |
| Net cash used in financing activities | (37,265,671) | (6,292,197) |
| Net decrease in cash, cash equivalents and restricted cash | (21,024,304) | (12,107,933) |
| **Cash, Cash Equivalents and Restricted Cash, Beginning** | 34,246,256 | 46,354,189 |
| **Cash, Cash Equivalents and Restricted Cash, Ending** | $ 13,221,952 | $ 34,246,256 |

*See notes to consolidated financial statements*

| | 2024 | 2023 |
|---|---|---|
| **Reconciliation of Cash, Cash Equivalents and Restricted Cash Amounts Reported in These Lines on the Consolidated Balance Sheets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,054,573 | $ 22,239,356 |
| Assets limited as to use | - | 6,440,747 |
| Assets limited to use, less current portion | 4,167,379 | 5,566,153 |
| Total cash, cash equivalents and restricted cash | $ 13,221,952 | $ 34,246,256 |

See Note 16 regarding gain on disposal of DLSM.

## 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 Fund, LLC (DLF), Diakon Child, Family and Community Ministries (DCFCM), Diakon-SWAN, LLC (SWAN) and Diakon Housing Services LLC (DHS). DLF is the sole member of Old Main, LLC (Old Main).

Diakon is affiliated with ELCA through Lutheran Services in America (LSA), the membership alliance of Lutheran social ministry organizations and church bodies. Diakon has a relationship with the following participating synods: Delaware-Maryland, Lower Susquehanna, Northeastern Pennsylvania, Southeastern Pennsylvania, and Upper Susquehanna. Through a cooperative agreement, it also serves in the Allegheny Synod (collectively, the Synods). In accordance with Diakon's bylaws, the bishops of the Synods elect the majority of Diakon's board of directors. The bishops of the Synods also elect the majority of DCFCM's board of directors.

### b. Description of Controlled Affiliates

Diakon Lutheran Social Ministries (DLSM), a Pennsylvania nonprofit corporation, provides senior living and health care services in Pennsylvania. On July 1, 2024, DLSM was sold to Lutheran Senior Services (LSS), a Missouri benevolent corporation, who succeeded Diakon as DLSM's sole member (Note 16).

DLF, a Pennsylvania Limited Liability Company, holds an investment portfolio for which the funds are primarily restricted to benefit DCFCM’s children, youth, community and family programs.

DCFCM, a Pennsylvania nonprofit corporation, operates various programs serving children, communities, and families.

SWAN, a Pennsylvania Limited Liability Company, provides an array of administrative and support services for the Pennsylvania Statewide Adoption and Permanency Network, a program overseen and funded by the Pennsylvania Department of Human Services.

Old Main, a Pennsylvania Limited Liability Company, was created to be the borrower and operator of the Old Main Building project.

DHS is the sole member of four U.S. Department of Housing and Urban Development (HUD) senior housing projects; Diakon Lutheran Senior Housing at Heilman House, LLC and Diakon Lutheran Senior Housing at Luther Meadows, LLC, Diakon Lutherwood Senior Housing, LLC and Diakon Frostburg Senior Housing, LLC (the HUD Entities).

### c. Basis of Consolidation

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

**d. Basis of Accounting**

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

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

There are two classes of net assets:

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

**Net Assets Without Donor Restrictions** - are amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

**e. Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing instruments with an original maturity of three months or less from the date of purchase. The Corporation has exposure to credit risk related to cash on deposit at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insured limits. The Corporation has not experienced any losses to date in these accounts.

**f. Accounts Receivable**

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

**g. Investments and Investment Risk**

Investments are measured at fair value on the consolidated balance sheets. Investment income and gains and losses on the sale of investments are added to or deducted from the appropriate net asset classification depending on the existence of donor-imposed restrictions. Investment expenses are netted with investment gains and losses.

**h. Assets Limited as to Use**

Assets limited as to use include assets held by trustees under mortgage agreements with agencies of the U.S. government; assets held by trustees under bond indentures; and donor and other restricted funds. Investment income and gains and losses on assets limited as to use are included in investment income, or discontinued operations.

**i. Investment in Joint Venture**

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

**j. Land, Buildings and Equipment**

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

Depreciable lives are determined as follows:

| | Years |
|---|---|
| Land improvements | 10 - 25 |
| Buildings | 10 - 40 |
| Furniture and equipment | 3 - 20 |
| Vehicles | 4 - 7 |
| Leasehold improvements | Lesser of lease term or asset life |

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

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

**k. 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. No impairment losses were recognized in 2024 or 2023.

**l. Leases**

The Corporation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Corporation also considers whether its service arrangements include the right to control the use of an asset. The Corporation has three asset classes for leases, property, vehicles, and equipment.

The Corporation recognizes most leases on its consolidated balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the income statement.

The Corporation has elected not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, the Corporation uses the explicit or implied interest rate based on the lease terms.

Future lease payments may include fixed-rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

The Corporation has elected to account for lease and nonlease components in its contracts as a single lease component for its leased equipment and property. The nonlease components typically represent additional services transferred to the Corporation, which are variable in nature and recorded as lease expense in the period incurred.

**m. Deferred Debt Issuance Costs**

Debt issuance costs are amortized using the straight-line method over the term of the applicable obligation, which approximates the effective-interest method. Amortization expense approximated $215,000 and $219,000 in 2024 and 2023, respectively. As a result of the transaction outlined in Note 16, the related deferred debt issuance costs of the debt that was included in the transaction were reduced to $0 as of December 31, 2024.

**n. Funds Held in Trust by Others and Beneficial Interest in Trust**

DLSM, or its predecessor entities, and DLF (the beneficiaries) have been named as the beneficiaries of a number of trusts that are administered and controlled by independent trustees. The trusts are recorded as contribution revenue when the beneficiaries are notified of the trust's existence. The beneficiaries receive the earnings from these trusts whose principal is to be held in perpetuity. The earnings from the trusts are recorded as income from trusts. As a result of the transaction outlined in Note 16, the Funds Held in Trust and Beneficial Interest in trust for which DLSM was the beneficiary, were reduced to $0 as of December 31, 2024.

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

**o. Self-Insurance**

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

**p. Pension Benefits**

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

The Corporation records annual amounts relating to its pension plan at their actuarial present value based on calculations that incorporate various assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and turnover rates. As a result of the transaction outlined in Note 16, the noncontributory defined benefit pension plan is no longer held by the Corporation as of December 31, 2024 and the liability has been reduced to $0.

**q. Entrance Agreement Contracts**

Entrance fees paid by residents of the Corporation's independent living units, including certain cottages and apartments, are recorded as deferred revenue and/or refundable entrance fee liability, depending on the nature of the contractual arrangement with the respective resident. The Corporation's financial reporting policies related to such contracts and the related recognition of associated entrance fee amortization revenue are described further in the Revenue Recognition disclosure (Note 2). As a result of the transaction outlined in Note 16, the deferred revenue and refundable entrance fee liabilities were reduced to $0 as of December 31, 2024.

**r. Conditional Asset Retirements**

The Corporation has evaluated its facilities to determine if it has a liability for the fair value of a conditional asset retirement obligation. The types of asset retirement obligations evaluated are those for which an entity has a legal obligation to perform an asset retirement activity; however, the timing and (or) method of settling the obligation is conditional on a future event that may or may not be within the control of the Corporation. No material conditional asset retirement obligations have been identified by the Corporation as of December 31, 2024 or 2023.

**s. Obligation to Provide Future Services to Continuing Care Residents**

The Corporation has determined that if the present value of the net costs of future services and use of facilities to be provided to current residents (excluding adjustable periodic fees) exceeds the balance of 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. The Corporation determined that there was no future service obligation liability as of December 31, 2024 or 2023. As a result of the transaction outlined in Note 16, the Corporation is no longer subject to this calculation.

**t. Income Taxes**

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

The Corporation uses a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Corporation does not believe that there are any unrecognized tax benefits or liabilities that should be recorded. Generally, tax returns for years ended December 31, 2021, and thereafter remain subject to examination by federal and state taxing authorities.

**u. Patient and Resident Service Revenue**

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

**v. Contributions and Donor Restrictions**

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

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

**w. Operating Income (Loss)**

The consolidated statements of operations and changes in net assets include an intermediate measure of operations labeled "Operating income (loss)." Changes that are excluded from this measure include peripheral transactions.

**x. Performance Indicator**

The consolidated statements of operations and changes in net assets include a performance indicator of operations labeled "(Deficiency) excess of operating revenues, gains and other support over expenses." Changes in net assets without donor restrictions that are excluded from this measure include pension-related changes other than net periodic pension (cost) benefit and settlement charges, net assets released from restrictions for capital purposes, discontinued operations and changes in the fair value of swap agreement.

**y. Use of Estimates**

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

**z. Statutory Reserve Requirement**

The Pennsylvania Continuing Care Provider Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan or 10% of the projected annual operating expenses of the facilities exclusive of depreciation, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance fee agreement contracts. This statutory reserve requirement is considered to be fulfilled from equity and fixed income funds included within assets limited as to use. The Pennsylvania statutory reserve as of December 31, 2024 and 2023 was $0 and $5,551,202, respectively. As a result of the transaction outlined in Note 16, the Corporation is no longer subject to this requirement.

**aa. Reclassifications**

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

## 2. Revenue Recognition

### Patient and Resident Service Revenue

Patient and resident service revenue primarily relates to the services provided to the senior living customers residing in the communities operated by DLSM prior to the transaction outlined in Note 16. Such revenue was reported at the amount that reflects the consideration to which the Corporation expected to be entitled in exchange for providing patient and resident services. These amounts were due from patients, residents, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation billed the patients, residents, and third-party payors either: (a) on a monthly basis for those customers that were permanent residents, or (b) several days after completion of a short-term service (i.e., skilled nursing short-term rehabilitation or outpatient rehabilitation services).

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

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

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

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

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

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

**Medicaid** - Reimbursements for Medicaid long-term care skilled nursing services are paid at prospectively determined rates based on clinical factors determined by the Pennsylvania Department of Health.

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and were included in the determination of the estimated transaction price for providing patient care. These settlements were estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Adjustments arising from a change in the transaction price were not significant in 2024 or 2023. As a result of the transaction outlined in Note 16, the Organization no longer provides the services, and consequently no longer generates the revenues outlined in the above note. All patient and resident service revenue is included in discontinued operations for the years ended December 31, 2024 and 2023.

### Entrance Fee Contracts

DLSM offered independent living accommodations and services pursuant to CCRC Agreements, which required payment of an up-front, one-time entrance fee and monthly service fees. In exchange for payment of the entrance fee and monthly fees, residents residing in a senior living community (referred to herein as CCRC Residents) were entitled to occupancy rights of their independent living accommodation and certain services and amenities for as long as they live. The Corporation only offered a fee-for-service contract to prospective residents, whereby the CCRC Resident had preferred access to personal care, assisted living, and skilled nursing services at a Diakon senior living facility, but was required to pay the prevailing rate for such services at the time the resident requires them.

Performance obligations relative to entrance fees were determined based upon the services outlined in the resident entrance fee contract. Performance obligations were satisfied and the related revenue was recognized over the resident's life expectancy. As the life expectancy matches the expected consumption of resources, the performance obligation was satisfied when the resident received such services. The Corporation measured the performance obligation from the time a resident moved in, to the point when it was no longer required to provide service to the resident, which was generally at the time a resident transferred to another location or passed on.

CCRC Agreements offered by the Corporation featured nonrefundable and guaranteed refundable components. The nonrefundable component of a CCRC Agreement featured an amortization provision whereby the nonrefundable component of the entrance fee was earned ratably by the Corporation over a future time period following the initial date of occupancy, generally 49 months or less. After 49 months of occupancy, no refund was due to the CCRC Resident.

A refund payment could be triggered on the portion of the CCRC Agreement that was nonrefundable, as the agreements contained provisions whereby the nonrefundable portion of the entrance fee was earned over a period of time following the initial date of occupancy. However, the Corporation has chosen to recognize revenue on the nonrefundable portion of the entrance fee for CCRC Agreements, as the Corporation did not have a reasonably objective basis to identify in advance which contracts were likely to trigger refunds. Accordingly, the nonrefundable portion of entrance fees as stated in each contract was recorded as deferred revenue and amortized to revenue over the estimated life expectancy of the residents.

The guaranteed refundable component of a CCRC Agreement featured a provision which guaranteed a certain percentage of the original entrance fee paid was refunded to the CCRC Resident upon termination of the agreement and following receipt of an entrance fee payment from a new resident for the unit previously occupied by the CCRC Resident. The component of a CCRC Agreement which is guaranteed refundable was recorded as a refundable entrance fee liability. No revenue was recognized in conjunction with the guaranteed refundable component of a CCRC Agreement.

The amount of entrance fees subject to contractual refunds was approximately $0 and $31,675,000 as of December 31, 2024 and 2023, respectively.

The Corporation received entrance fee payments prior to the date an independent living resident occupied a living unit. The liability for such payment was included in the refundable entrance fee liability and was $0 and $1,681,532 as of December 31, 2024 and 2023, respectively, and was included in refundable entrance fee liability on the accompanying consolidated balance sheets. The Corporation maintained separate entrance fee escrow accounts, which were a component of cash and cash equivalents. The amounts in the entrance fee escrow accounts covered deposit liabilities to prospective independent living residents. Such amounts in the entrance fee escrow accounts totaled $0 and $2,563,000 as of December 31, 2024 and 2023, respectively.

Monthly fees paid by CCRC Residents entitled the occupant to simultaneously receive and consume benefits indicated in the CCRC Agreement; therefore, the Corporation recorded monthly fee revenue for CCRC Agreements in the period such services are rendered. Effective with the transaction outlined in Note 16, the Corporation no longer provides CCRC related services and all related liabilities were sold.

**Charity Care**

The Corporation provided services to patients and residents who cannot afford the full cost of care because of inadequate resources and/or who are uninsured or underinsured and offers those persons a discount from standard charges in accordance with its benevolent care policies. Consistent with the Corporation's mission, care was provided to patients regardless of their ability to pay. The Corporation considered discounts for those patients and residents who have made application for benevolent care subsidy. The monthly fees charged to such patients and residents were reduced to the amount the patient or resident can afford to pay from their resources, inclusive of any other forms of charitable support they may qualify for.

The Corporation maintained records to identify and monitor the amount of charity care it provided. These records include direct and indirect costs for services and supplies furnished under its charity care policy. The total cost of charity care under these policies amounted to $714,447 and $2,133,191 for the years ended December 31, 2024 and 2023, respectively. The cost of charity care was estimated by management based upon the cost to gross charges ratio multiplied by the gross uncompensated charges associated with providing care.

### Resident and Patient Service Revenue by Service Line and Payor

The composition of resident and patient service revenue by payor for the years ended December 31 was as follows:

| | 2024 | 2023 |
|---|---|---|
| Senior living services revenue, net: | | |
| Private pay | $ 22,126,614 | $ 42,653,194 |
| Medicaid | 12,468,090 | 22,799,107 |
| Medicare Part A | 2,977,961 | 6,273,284 |
| Managed care and commercial insurers | 3,447,574 | 6,029,664 |
| Medicare Part B | 754,408 | 1,391,723 |
| Patient and resident service revenue, net | $ 41,774,647 | $ 79,146,972 |

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

| | 2024 | 2023 |
|---|---|---|
| Nursing care | $ 24,727,975 | $ 47,175,564 |
| Personal care/assisted living | 7,263,044 | 13,040,867 |
| Independent living | 9,783,628 | 18,930,541 |
| Total | $ 41,774,647 | $ 79,146,972 |

As a result of the transaction outlined in Note 16, all resident and patient service revenue is included in discontinued operations for the years ended December 31, 2024 and 2024.

### Nursing Home Assessment

Pennsylvania nursing providers are subject to a Nursing Home Assessment (the Assessment). The Assessment requires Pennsylvania nursing homes, except for county homes, to pay a fee to the Department of Human Services (DHS) based upon all non-Medicare days. The DHS makes supplemental payments back to nursing home facilities as a component of the state directed managed care minimum payment rates. As a result of the transaction outlined in Note 16, the revenue and expenses  from these payments are included as a component of discontinued operations.

### Contract Revenue, Other Fees and Services

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

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

- Various County government agencies which provide funding for foster care resource families, family preservation services, certain youth service programs, community senior centers, and certain behavioral health programs.

- The Commonwealth of Pennsylvania, Department of Human Services which provides funding for statewide adoption services.

- Medicaid which provides funding for certain behavioral health programs.

- Commercial Insurance which provides funding for certain behavioral health programs.

- Various foundations, government sources, and other payors providing operating grants for certain DCFCM activities.

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

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

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

The composition of Contract Revenue and Other Fees and Services revenue by major program for the years ended December 31 is as follows:

| | 2024 | 2023 |
|---|---|---|
| DCFCM Programs: | | |
| Youth services | $ 3,572,594 | $ 3,660,365 |
| Permanency services | 7,071,202 | 6,878,269 |
| Family life services | 504,330 | 509,470 |
| Community services for seniors | 2,099,892 | 2,262,134 |
| Family preservation services | 1,924,224 | 1,538,051 |
| DCFCM program services | 15,172,242 | 14,848,289 |
| HUD | 1,966,002 | 1,892,142 |
| Other | - | 1,423,962 |
| Total contract revenue | $ 17,138,244 | $ 18,164,393 |

| | 2024 | 2023 |
|---|---|---|
| DCFCM Programs: | | |
| Youth services | $ 109,495 | $ 138,066 |
| Permanency services | 2,083,412 | 2,112,220 |
| Family life services | 7,126,460 | 7,010,684 |
| Community services for seniors | 57,829 | 60,763 |
| Other DCFCM | 243 | 100 |
| DCFCM total | 9,377,439 | 9,321,833 |
| HUD | 1,738,325 | 1,661,414 |
| Other | 233,659 | 493,664 |
| Total other fees and services revenue | $ 11,349,423 | $ 11,476,911 |

**Statewide Adoption and Permanency Network Revenue**

SWAN is subject to performance obligations indicated in its contract with the Pennsylvania Department of Human Services. Such performance obligations include provision of certain administrative, technical, and support services related to the operations of the Statewide Adoption and Permanency Network, as outlined in an annual work-plan and budget approved by the DHS. In addition to the services rendered by its own personnel, SWAN contracts with third-party adoption agencies which complete various case management and related services for children in the custody of a Pennsylvania county child welfare agency. The contract price for such adoption services is a statewide standard rate for each type of service. SWAN invoices the DHS monthly for its provision of administrative, technical, and support services, and also for any units of service completed by adoption agencies. SWAN, in turn, reimburses contracted adoption agencies on a dollar-for-dollar basis for completed services, following receipt of reimbursement from the DHS. Revenue recognized by SWAN equals the amounts invoiced to the DHS as historically there have been no impairment losses or explicit price concessions related to the services rendered by SWAN. Contract revenue is recognized over a period of time as the performance obligation is satisfied, using an output method, whereby revenue is recognized as a direct measurement of the service transferred to date relative to the remaining service promised under contract. There is no variable consideration applied to the transaction price in either the performance obligations satisfied in fiscal years 2024 or 2023, or the future unsatisfied performance obligation. The current contract between DHS and SWAN covers the period of July 2024 through June 2025; therefore, as of December 31, 2024, SWAN has an unsatisfied performance obligation associated with the active contract with DHS of approximately $48,628,000.

## 3. Assets Limited as to Use and Investments

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

| | 2024 | 2023 |
|---|---|---|
| Debt service and sinking fund: | | |
| Cash and short-term investments | $ - | $ 6,440,747 |

| | 2024 | 2023 |
|---|---|---|
| Endowment funds: | | |
| Cash and short-term investments | $ 560,936 | $ 1,112,221 |
| Equity funds | 1,021,113 | 10,377,772 |
| Fixed income funds | 482,113 | 4,872,181 |
| Donor and other temporarily restricted funds: | | |
| Cash and short-term investments | 418,432 | 1,401,760 |
| Equity funds | 2,716,059 | 7,836,227 |
| Fixed income funds | 1,284,466 | 4,074,769 |
| Assets limited to use for HUD reserves: | | |
| Cash and short-term investments | 3,188,011 | 2,820,085 |
| By board for designated purposes: | | |
| Other designated purposes: | | |
| Cash and short-term investments | - | 232,087 |
| Fixed income funds | - | 182,366 |
| Statutory minimum liquid reserves: | | |
| Equity funds | - | 3,164,851 |
| Fixed income funds | - | 2,386,351 |
| Total assets limited as to use | $ 9,671,130 | $ 44,901,417 |

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

| | 2024 | 2023 |
|---|---|---|
| Cash and short-term investments | $ 64,429,493 | $ 1,424,854 |
| Equity funds | 35,978,117 | 86,074,936 |
| Fixed income funds | 27,527,652 | 63,901,566 |
| Investments | $ 127,935,262 | $ 151,401,356 |

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

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Cash and short-term investments | $ 68,596,872 | 50 % | $ 13,431,754 | 7 % |
| Equity funds | 39,715,289 | 29 | 107,453,786 | 55 |
| Fixed income funds | 29,294,231 | 21 | 75,417,233 | 38 |
| Total | $ 137,606,392 | 100 % | $ 196,302,773 | 100 % |

Of the combined assets limited as to use and investments, approximately $118,721,000 were related to the discontinued operations and were included in the transaction outlined in Note 16.

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

| | 2024 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Interest and dividends, net of expenses | $ 6,682,769 | $ 576,813 | $ 7,259,582 |
| Net realized gains (losses) on investments | 9,833,268 | 1,163,772 | 10,997,040 |
| Investment income, net of expenses | 16,516,037 | 1,740,585 | 18,256,622 |
| Unrealized losses on investments | (5,368,089) | - | (5,368,089) |
| Unrealized gains on net assets with donor restrictions | - | 265,153 | 265,153 |
| Total investment return | $ 11,147,948 | $ 2,005,738 | $ 13,153,686 |

| | 2023 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Interest and dividends, net of expenses | $ 5,419,405 | $ 792,492 | $ 6,211,897 |
| Net realized gains on investments | 1,265,402 | (34,698) | 1,230,704 |
| Investment income, net of expenses | 6,684,807 | 757,794 | 7,442,601 |
| Unrealized gains on investments | 13,553,625 | - | 13,553,625 |
| Unrealized losses on net assets with donor restrictions | - | 2,975,380 | 2,975,380 |
| Total investment losses | $ 20,238,432 | $ 3,733,174 | $ 23,971,606 |

Of the investment income without donor restrictions, approximately $6,130,000 and $3,890,000 was attributed to discontinued operations for the years ended December 31, 2024, and 2023, respectively. Of the unrealized gains and (losses) on investments without donor restrictions, approximately $(1,917,000) and $7,202,000 was attributed to discontinued operations for the years ended December 31, 2024, and 2023, respectively.

## 4. Land, Buildings and Equipment

Land, buildings and equipment and accumulated depreciation related to continuing operations as of December 31 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Land | $ 333,597 | $ 333,597 |
| Land improvements | 826,095 | 562,718 |
| Buildings | 23,984,480 | 23,285,155 |
| Furniture and equipment | 1,864,421 | 1,399,041 |
| Vehicles | 12,372 | 12,372 |
| | 27,020,965 | 25,592,883 |
| Accumulated depreciation | (22,058,859) | (21,360,629) |
| | 4,962,106 | 4,232,254 |
| Construction in progress | 29,445 | 15,214 |
| | $ 4,991,551 | $ 4,247,468 |

Depreciation expense for the years ended December 31, 2024 and 2023, was $7,253,503 and $13,642,094 respectively, of which $5,397,236 and $10,962,906 was included in discontinued operations, respectively.

Land, buildings and equipment and accumulated depreciation related to discontinued operations as of December 31, 2023 was as follows:

| | |
|---|---|
| Land | $ 4,860,284 |
| Land improvements | 19,231,435 |
| Buildings | 241,873,206 |
| Furniture and equipment | 27,731,977 |
| Vehicles | - |
| | 293,696,902 |
| Accumulated depreciation | (175,357,050) |
| | 118,339,852 |
| Construction in progress | 44,251,976 |
| | $ 162,591,828 |

Construction in progress as of December 31, 2023 is principally capitalized costs related to the repositioning of the Corporation's Senior Living Service (SLS) campuses.

Noncash purchases of land, buildings and equipment totaled approximately $5,907,000 for the year ended December 31, 2023.

## 5. Long-Term Debt

The Corporation had established an obligated group (the Obligated Group) comprised of the assets/liabilities and activities of the DLSM corporate entity, excluding the activities of the following related entities of DLSM: Diakon - SWAN and the four HUD entities outlined in Note 1(a). As a result of the transaction outlined in Note 16, the long term debt of the obligated group was part of the transaction, resulting in the reduction of this debt, the related unamortized debt issuance costs, premiums and discounts to $0 as of December 31, 2024.

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

| | 2024 | 2023 |
|---|---|---|
| Obligated Group: | | |
| Maxatawny Township Municipal Authority, Revenue Bond Series A of 2022, $27,155,000 of tax-exempt fixed interest rate bonds with principal payments in annual installments ranging from $540,000 to $4,965,000 beginning 2039 through 2045 (the final maturity date). Interest rates ranged from 4.5% to 5.0% and the bonds were issued at an aggregate discount of $358,043, which was being amortized ratably over the life of the issue, to yield an effective interest rate of 4.74%. As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | $ - | $ 27,155,000 |

| | 2024 | 2023 |
|---|---|---|
| Maxatawny Township Municipal Authority, Revenue Bond Series B of 2022, aggregate advances were limited to $23,750,000 and no advances were allowed after September 20, 2024. Payments were interest only beginning on October 1, 2022 through September 20, 2024 at which time any outstanding principal balance and interest was due. The bonds had variable interest of 79% of 1 Month SOFR plus a spread rate. As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | $ - | $ 1,578,164 |
| Cumberland County Municipal Authority Bonds Series A 2019, $19,535,000 of tax-exempt fixed interest rate bonds with principal payable in installments ranging from $380,000 to $12,870,000 through January 1, 2039 (the final maturity date). The interest rate was 5.0% and the bonds were issued at an aggregate premium of $1,275,180, which was being amortized ratably over the life of the issue, to yield an effective interest rate of 4.29%. As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | - | 7,155,000 |
| Wernersville Municipal Authority Bond Series 2018, $8,326,000 of tax-exempt variable rate bonds with principal payable in annual installments ranging from $182,000 to $1,160,000 through 2039. The Series 2018 bonds were subject to a floating interest rate, that used an interest rate swap to fix the rate at 3.63% through October 1, 2030 . As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | - | 5,953,000 |
| Cumberland County Municipal Authority Bonds Series 2016, $34,780,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $80,000 to $2,915,000 through 2039. Interest rates ranged from 2.5% to 5.0% and the bonds were issued at an aggregate premium of $4,003,300, which was being amortized ratably over the life of the issue, to yield an effective interest rate of 3.14%. As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | - | 22,265,000 |
| Cumberland County Municipal Authority Bonds Series 2015, $147,545,000 of tax-exempt fixed interest rate bonds with principal payable in annual installments ranging from $2,465,000 to $12,855,000 through 2038. Interest rates ranged from 3.0% to 5.0% and the bonds were issued at an aggregate premium of $8,559,916, which was being amortized ratably over the life of the issue, to yield an effective interest rate of 4.25%. As a result of the transaction outlined in Note 16, these bonds were transferred and are considered extinguished as it relates to the Corporation. | - | 58,235,000 |

| | 2024 | 2023 |
|---|---|---|
| Non-Obligated Group: | | |
| Mortgage notes payable, U.S. Department of Housing and Urban Development (HUD) and Wells Fargo, four individual notes collateralized by the property and equipment of the HUD Senior Housing properties. The mortgages bear interest at fixed rates ranging from 2.46% to 3.07% and monthly payments, including interest, ranging from $9,096 to $25,504 through 2051. | $ 11,862,058 | $ 12,242,793 |
| Maxatawny Township Municipal Authority, Revenue Note Series 2017, with a maximum principal amount of $6,100,000. The mortgage note is collateralized by rental proceeds of Old Main LLC and certain endowment distributions. The note bears interest at a fixed rate of 3.54% through April 1, 2024; after which time the Corporation may choose at each Reset date the fixed rate or a floating rate of 2% plus 80% of 1 Month SOFR plus a spread rate. The note was interest only through March 31, 2019. Effective April 1, 2019, through June 2024, principal installments of $17,395 plus applicable interest, are payable monthly. Effective July 1, 2024, the payment terms were modified to principal payments in monthly installments ranging from $9,458 to $28,148 plus applicable interest. Final maturity of the note is April 1, 2044. | 4,073,755 | 4,227,062 |
| | 15,935,813 | 138,811,019 |
| Less current maturities of bonds and mortgages payable | (514,053) | (4,805,479) |
| Unamortized debt issuance costs | (794,625) | (2,612,447) |
| Unamortized premium and discount | - | 4,069,886 |
| Total | $ 14,627,135 | $ 135,462,979 |

In September 2022, DLSM issued the Series A and B 2022 bonds to finance a renovation and expansion project at one of the senior living communities.

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

To secure the required loan payments for the outstanding bonds, the Obligated Group has granted the Cumberland County Municipal Authority, the Maxatawny Township Municipal Authority and the Wernersville Municipal Authority associated with Bonds listed in the table above, 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 was also subject to certain financial and other restrictive covenants through a Loan and Agency Agreement with the conduit issuers of the outstanding bonds. As a part of the transaction outlined in Note 16, the Obligated group's long-term debt referenced above was transferred, and consequently reduced to $0, including the related debt issuance costs, premium and discount as of December 31, 2024.

The following is a summary of scheduled annual maturities of long-term debt as of December 31, 2024:

| | Scheduled Maturities |
|---|---|
| Years ending December 31: | |
| 2025 | $ 514,053 |
| 2026 | 531,030 |
| 2027 | 548,654 |
| 2028 | 566,383 |
| 2029 | 585,903 |
| Thereafter | 13,189,790 |
| | $ 15,935,813 |

The amount of cash paid for interest (including the net cost of the interest rate swap agreement and letter of credit support fees) was $2,915,559 and $6,104,353 for the years ended December 31, 2024 and 2023, respectively. There was capitalized interest of $1,286,500 in 2023. Interest expense amounting to $2,321,480 and $4,140,474 is included in discontinued operations in the accompanying consolidated statements of operations and changes in net assets.

## 6. Lines and Letters of Credit

DLSM had a line of credit with Manufacturers and Traders Trust Company (M&T) with maximum allowable borrowings of $20,000,000, which was payable on demand. The line of credit bore interest at 1 Month SOFR (rounded upwards to the nearest 1/16$^{th}$) plus 2.75% and a spread adjustment. The bank line of credit was secured on a parity basis with the Obligated Group's outstanding bonds. The line of credit had a balance of approximately $3,764,000 as of the date of the transaction outlined in Note 16 and $0 as of December 31, 2023. As a part of the transaction outlined in Note 16, the LOC was transferred, its balance was reduced to $0 and became unavailable for the Corporation to access.

In addition to the line of credit, DLSM had unused standby letters of credit with financial institutions that were related to construction projects and required by local ordinances. The available and unused amounts of the letters of credit approximated $3,416,000 for the year ended 2023. The letters of credit were included in the transaction outlined in Note 16 and are no longer available to the Corporation.

In 2014, DCFCM entered a line of credit agreement with M&T with maximum allowable borrowings of $3,000,000, which is payable on demand. The line of credit bears interest at 1 Month SOFR (rounded upwards to the nearest 1/16$^{th}$) plus 2.35% and a spread adjustment (6.30% as of December 31, 2024). There were no amounts outstanding or borrowed on the line of credit during 2024 and 2023.

In October 2024, Diakon entered a line of credit agreement with M&T with maximum allowable borrowings of $10,000,000 which is payable on demand. The line of credit bears interest at 1 month SOFR plus 2.01448%. There were no amounts outstanding on the line of credit as of December 31, 2024.

## 7. Fair Value

### 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:

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.

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. Currently there are no markets in which these trusts trade, therefore these assets are measured using Level 3 inputs.

Interest rate swap agreement asset - Swap agreements are classified as over the counter derivative instruments that are measured at fair valued using Level 2 inputs by third-party specialists. The valuations used by the specialists considered observable market inputs such as relevant yield curves, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both the Corporation's non-performance risk and the respective counterparty's non-performance risk. These adjustments are determined generally by applying a credit spread for the counterparty as appropriate to the total expected exposure of the derivative.

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

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

| | Fair Value Measurements as of December 31, 2024 | | | |
|---|---|---|---|---|
| | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| Assets: | | | | |
| Investments and assets limited as to use: | | | | |
| Cash and short-term investments** | | | | $ 68,596,872 |
| Fixed income funds: | | | | |
| Short-term | $ 7,527,038 | $ - | $ - | 7,527,038 |
| Immediate term | 21,767,193 | - | - | 21,767,193 |
| Equity funds: | | | - | |
| International | 14,975,204 | - | - | 14,975,204 |
| Large cap | 22,555,374 | - | - | 22,555,374 |
| Small cap | 2,184,711 | - | - | 2,184,711 |
| Funds held in trust by others and beneficial interest in trust | - | - | 9,914,736 | 9,914,736 |
| Total assets | $ 69,009,520 | $ - | $ 9,914,736 | $ 147,521,128 |

** Cash and short-term investments are included in the above tables to reconcile the total investments, assets limited as to use, reported on the consolidated balance sheets.

| | Fair Value Measurements as of December 31, 2023 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| Assets: | | | | |
| Investments and assets limited as to use: | | | | |
| Cash and short-term investments** | | | | $ 13,431,754 |
| Fixed income funds: | | | | |
| Short-term | $ 23,303,928 | $ - | $ - | 23,303,928 |
| Immediate term | 52,113,305 | - | - | 52,113,305 |
| Equity funds: | | | | |
| International | 43,841,144 | - | - | 43,841,144 |
| Large cap | 55,661,062 | - | - | 55,661,062 |
| Small cap | 7,951,580 | - | - | 7,951,580 |
| Funds held in trust by others and beneficial interest in trust | - | - | 37,532,794 | 37,532,794 |
| Total assets | $ 182,871,019 | $ - | $ 37,532,794 | $ 233,835,567 |
| Asset: | | | | |
| Interest rate swap agreement | $ - | $ 42,566 | $ - | $ 42,566 |

** Cash and short-term investments are included in the above tables to reconcile the total investments, assets limited as to use, and statutory minimum liquid reserves reported on the consolidated balance sheets.

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

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ 37,532,794 | $ 34,516,826 |
| Transaction outlined in Note 16 | (29,532,662) | |
| Change in valuation, net distributions | 1,914,604 | 3,015,968 |
| Balance, end of year | $ 9,914,736 | $ 37,532,794 |

## 8. Pension Benefits

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

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

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

| | 2024 | 2023 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | $ 79,873,559 | $ 79,653,684 |
| Interest cost | 1,824,743 | 3,795,906 |
| Change in assumptions | (3,809,048) | 1,550,403 |
| Actuarial loss | (154,960) | 296,151 |
| Benefit payments | (2,699,175) | (5,422,585) |
| Transaction outlined in Note 16 | (75,035,119) | - |
| Benefit obligation at end of year | - | 79,873,559 |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | 55,453,114 | 54,857,054 |
| Actual return on plan assets, net of expenses | 2,859,392 | 6,018,645 |
| Benefit payments | (2,699,175) | (5,422,585) |
| Transaction outlined in Note 16 | (55,613,331) | - |
| Fair value of plan assets at end of year | - | 55,453,114 |
| Funded status | $ - | $ (24,420,445) |

As a part of the transaction outlined in Note 16, the Pension Plan was transferred. As this transaction was considered a settlement under generally accepted accounting principles, the settlement of the cumulative amounts recognized in net assets without donor restrictions but, previously not included in net periodic benefit cost amounting to $21,943,425 was recognized in discontinued operations.

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

| | 2024 | 2023 |
|---|---|---|
| Net actuarial loss | $ - | $ (27,111,882) |

Other changes in plan assets and benefit obligations recognized directly in net assets without donor restrictions for the years ended December 31 are as follows:

| | 2024 | 2023 |
|---|---|---|
| Net estimated gain, total recognized in net assets without donor restrictions - discontinued operations | $ 5,153,727 | $ 1,547,917 |
| Pension settlement charge - discontinued operations | 21,958,155 | - |

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

| | 2024 | 2023 |
|---|---|---|
| Interest cost | $ 1,824,743 | $ 3,795,906 |
| Expected return on plan assets | (1,829,750) | (3,622,319) |
| Amortization of net loss | 400,257 | 998,144 |
| Net periodic pension costs (benefit), nonservice component, included in discontinued operations | $ 395,250 | $ 1,171,731 |

Weighted average assumptions used to determine benefit obligations as of December 31, 2023 and the date of the transaction outlined in Note 16 were as follows:

| | 2024 | 2023 |
|---|---|---|
| Discount rate | 5.26 % | 4.74 % |

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

| | 2024 | 2023 |
|---|---|---|
| Discount rate | 4.74 % | 4.94 % |
| Expected long-term rate of return on plan assets | 7.00 | 7.00 |

The expected long-term rate of return is based on the expected sum of the returns on individual asset categories.

The Corporation's investment policies and strategies for the defined benefit pension plan used target allocations for the individual asset categories. The Corporation's investment goals were to generate returns that were sufficient to meet the plan's obligations while preserving capital. As part of this investment strategy, as of December 31, 2023, the Corporation had invested approximately 24%, of the pension plan assets into alternative investments, including a special situations fund (33%), a core property real estate fund (45%), an energy debt fund (2%), and a vista collective investment trust (20%). The Corporation's risk management policies permitted investments in such asset classes. The Corporation addressed 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 were only available to institutional investors and were not traded on a public exchange; however, they could be sold to fund benefit payment obligations as they became payable without restriction. As a part of the transaction outlined in Note 16, the plan assets were transferred, and reduced to $0 as of December 31, 2024.

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

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

The fair value of the Corporation's plan assets as of December 31, 2023 by asset category are as follows:

| Asset Category | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) |
|---|---|---|
| Cash and short-term investments: | | |
| Equity funds: | | |
| Large cap disciplined | $ 6,286,265 | $ 6,286,265 |
| Small/mid cap | 2,086,747 | 2,086,747 |
| World Equity Ex-U.S. | 12,051,044 | 12,051,044 |
| Extended market index fund | 2,099,320 | 2,099,320 |
| S&P 500 index fund | 7,792,308 | 7,792,308 |
| Emerging markets equity fund | 1,562,471 | 1,562,471 |
| Fixed income funds: | | |
| High yield bond fund | 2,019,911 | 2,019,911 |
| Emerging markets debt fund | 2,077,900 | 2,077,900 |
| Core fixed income fund | 6,161,595 | 6,161,595 |
| Plan assets valued at NAV: | | |
| Core property collective investment trust | 5,946,815 | - |
| Special situations collective fund | 4,404,888 | - |
| Energy debt fund | 304,974 | - |
| Vista collective investment trust | 2,658,876 | - |
| Total | $ 55,453,114 | $ 42,137,561 |

In accordance with authoritative guidance, alternative investments measured at fair value using the net asset value (NAV) practical expedient have not been classified in the fair value hierarchy as of December 31, 2023. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated balance sheets.

| | Plan Assets Measured at Fair Value Based on Net Asset Value (NAV) Per Share as of December 31, 2023 | | | |
|---|---|---|---|---|
| | **Fair Value** | **Unfunded Commitments** | **Redemption Frequency (if Currently Eligible)** | **Redemption Notice Period** |
| Core property collective investment trust | $ 5,946,815 | $ - | Daily | 1 day |
| Special situations collective fund | 4,404,888 | - | Daily | 1 day |
| Energy debt fund | 304,974 | - | Daily | 1 day |
| Vista collective investment trust | 2,658,876 | - | Daily | 1 day |
| Total | $ 13,315,553 | $ - | | |

The actual asset allocations of the Corporation's plan assets as of December 31, 2023 are as follows and approximate the target allocations:

| Asset Category | 2023 |
|---|---|
| Equity funds | 57 % |
| Fixed income funds | 19 |
| Alternative investments | 24 |
| Total | 100 % |

As a part of the transaction outlined in Note 16, the plan was sold and the Corporation is no longer required to make any contributions.

The Corporation also has a defined contribution plan for certain employees. Contributions recognized as expense for this plan were $178,715 and $224,497 for the years ended December 31, 2024 and 2023, respectively.

## 9. Net Assets With Donor Restrictions

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

| | 2024 | 2023 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| Promises to give for DCFCM program activities | $ 21,760 | $ 21,760 |
| Capital projects for senior living services | - | 549,516 |
| Senior living services program activities | - | 241,254 |
| DCFCM program activities | 64,543 | 234,763 |
| Employee assistance and wellness | - | 29,813 |
| Chaplain activities | - | 27,701 |
| Other | 60,944 | 60,944 |
| | 147,247 | 1,165,751 |

| | 2024 | 2023 |
|---|---|---|
| Subject to the passage of time: | | |
| Charitable remainder trust | $ - | $ 1,588,728 |
| Charitable gift annuities | 6,376 | 97,626 |
| Promises to give that are not restricted by donors, but which are unavailable for expenditure until due | - | 4,778 |
| Life insurance gifts | - | 189,637 |
| | 6,376 | 1,880,769 |
| Endowments: | | |
| Subject to appropriation and expenditure when a specified event occurs: | | |
| Support of specific SLS programs | - | 641,590 |
| Support of specific DCFCM programs | 679,537 | 614,285 |
| Promises to give for senior living benevolent care | - | 2,687 |
| Charitable gift annuities for senior living benevolent care | - | 38,868 |
| | 679,537 | 1,297,430 |
| Subject to endowment spending policy and appropriation: | | |
| Senor living benevolent care and program activities | - | 16,758,950 |
| Program activities for a specific senior living campus | - | 5,108,687 |
| DCFCM program activities | 2,891,654 | 2,810,082 |
| Employee tuition assistance | 757,688 | 714,674 |
| Scholarships | 2,002,052 | 1,852,277 |
| As defined by donor | 161,387 | 156,359 |
| | 5,812,781 | 27,401,029 |
| Funds held in trust by others: | | |
| Subject to appropriation and expenditure when a specified event occurs: | | |
| Staff and resident programs | - | 160,405 |
| General use | 9,914,736 | 35,783,661 |
| | 9,914,736 | 35,944,066 |
| Total net assets with donor restrictions | $ 16,560,677 | $ 67,689,045 |

As a result of the transaction outlined in Note 16, approximately $54,349,000 of donor restricted funds were included in the transaction and transferred out of the Corporation.

## 10. Endowments

The Corporation's donor restricted endowment funds, including funds held in perpetuity, were established for the purposes described in Note 9. The Endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors.

The Corporation has interpreted the laws of the Commonwealth of Pennsylvania as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the laws of the Commonwealth of Pennsylvania. In accordance with the laws of the Commonwealth of Pennsylvania, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the organization and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the organization
7) The investment policies of the organization

Investment and Spending Policies

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. 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.

Changes in endowment net assets for the years ended December 31 are as follows:

| | 2024 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Beginning of year | $ 414,453 | $ 28,698,459 | $ 29,112,912 |
| Investment return, net | - | 1,745,352 | 1,745,352 |
| Unrealized gains (losses) | - | 265,153 | 265,153 |
| Contribution | - | - | - |
| Appropriation of endowment assets | - | - | - |
| Other changes: | | | |
| Transfers (Note 16) | (62,769) | (24,216,646) | (24,279,415) |
| Endowment end of year | $ 351,684 | $ 6,492,318 | $ 6,844,002 |

| | 2023 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Beginning of year | $ 321,268 | $ 24,632,249 | $ 24,953,517 |
| Investment return, net | - | 789,594 | 789,594 |
| Unrealized gains (losses) | - | 2,975,380 | 2,975,380 |
| Contribution | - | 1,280,775 | 1,280,775 |
| Appropriation of endowment assets | - | (979,539) | (979,539) |
| Other changes: | | | |
| Distributions from board designated, net | 93,185 | - | 93,185 |
| Endowment end of year | $ 414,453 | $ 28,698,459 | $ 29,112,912 |

At times, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the laws of the Commonwealth of Pennsylvania require the Corporation to retain as a fund of perpetual duration. No such deficiencies of this nature are reported in net assets without donor restrictions as of December 31, 2024 or 2023.

As a part of the transaction outlined in Note 16, the Corporation transferred approximately $24,200,000 of endowment net assets to the acquiring organization.

## 11. Medical Malpractice Claims Coverage and Self Insurance

On January 1, 2020, the Corporation entered into a risk retention group captive insurance arrangement for general and professional liability coverage on a claims-made basis. Management has evaluated claims incurred but not reported and has recorded a liability for claims incurred but not reported (IBNR) of $225,000 as of both of the years ended December 31, 2024 and 2023. 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 $800,000 per occurrence as of December 31, 2024 and 2023. 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 $727,000 and $936,000 as of December 31, 2024 and 2023, respectively, and are reported within accounts payable and accrued expenses and other long-term liabilities captions on the consolidated balance sheets. In addition, the Corporation maintains a $1,500,000 surety bond to secure future obligations under the terms of this self-insured program.

The Corporation participates in a self-funded employee health insurance plan with a stop loss contract in place for catastrophic claims. Total health benefit accrued expenses approximated $148,000 and $683,000 as of December 31, 2024 and 2023, respectively, and are reported within the accounts payable and accrued expenses caption on the consolidated balance sheets.

## 12. Liquidity

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

| | 2024 | 2023 |
|---|---|---|
| Cash and cash equivalents* | $ 9,054,573 | $ 22,239,356 |
| Accounts receivable: | | |
| Statewide Adoption and Permanency Network | 5,375,510 | 5,502,851 |
| Other client services | 4,080,253 | 4,275,238 |
| Investments* | 127,935,262 | 151,401,356 |
| Total | $ 146,445,598 | $ 183,418,801 |

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the consolidated balance sheets related to discontinued operations are comprised of the following as of December 31:

| | 2024 | 2023 |
|---|---|---|
| Accounts receivable: | | |
| Patients and residents | $ - | $ 7,006,753 |
| Estimated third-party payor settlements | - | 47,419 |
| Total | $ - | $ 7,054,172 |

*Note - as investments and cash/cash equivalents are generally commingled and easily transferable, they were excluded from the discontinued operations liquidity as of December 31, 2023. As a part of the transaction outlined in Note 16, investments, assets limited as to use and cash and cash equivalents amounting to approximately $120,547,000 were included in the transaction and transferred to the acquiring organization.

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

Cash balances are monitored regularly by management to ensure appropriate liquidity to cover general expenditures, and the Corporation maintains lines of credit with M&T Bank as described in Note 6 to manage short-term changes in cash flow.

## 13. Functional Expenses

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

**Year Ended December 31, 2024**

| | Program Activities | | | | Supporting Activities | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Diakon Child, Family and Community Ministries | Housing and Urban Development | Statewide Adoption and Permanency Network | Programs Subtotal | Management and General | Fundraising | Supporting Subtotal | Total Expenses Continuing Operations | Discontinued Operations |
| Salaries, benefits and staff costs | $ 16,005,038 | $ 897,558 | $ 1,385,423 | $ 18,288,019 | $ 6,296,891 | $ 84,806 | $ 6,381,697 | $ 24,669,716 | $ 18,038,641 |
| Utilities | 431,277 | 633,223 | 252,884 | 1,317,384 | 556,948 | 330 | 557,278 | 1,874,662 | 1,690,327 |
| Maintenance and repairs | 291,356 | 276,657 | 224,188 | 792,201 | 1,637,458 | 24,035 | 1,661,493 | 2,453,694 | 2,096,451 |
| Contracted costs | 974,237 | 19,609 | 69,103,097 | 70,096,943 | 2,017,483 | 1,746 | 2,019,229 | 72,116,172 | 8,484,172 |
| Program costs | 3,209,721 | 3,991 | 399,665 | 3,613,377 | 51,878 | 312 | 52,190 | 3,665,567 | 1,437,332 |
| Administrative costs | 2,235,879 | 436,438 | 1,552,804 | 4,225,121 | 1,711,819 | 15,880 | 1,727,699 | 5,952,820 | 4,597,393 |
| Management fee | - | - | - | - | 2,512,830 | - | 2,512,830 | 2,512,830 | - |
| Nursing home assessment | - | - | - | - | - | - | - | - | 530,532 |
| Interest | 20,015 | 351,740 | - | 371,755 | 207,220 | - | 207,220 | 578,975 | 2,321,481 |
| Depreciation and amortization | 344,331 | 507,684 | - | 852,015 | 1,004,252 | - | 1,004,252 | 1,856,267 | 5,718,037 |
| Total expenses | $ 23,511,854 | $ 3,126,900 | $ 72,918,061 | $ 99,556,815 | $ 15,996,779 | $ 127,109 | $ 16,123,888 | $ 115,680,703 | $ 44,914,366 |

**Year Ended December 31, 2023**

| | Program Activities | | | | Supporting Activities | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Diakon Child, Family and Community Ministries | Housing and Urban Development | Statewide Adoption and Permanency Network | Programs Subtotal | Management and General | Fundraising | Supporting Subtotal | Total Expenses Continuing Operations | Discontinued Operations |
| Salaries, benefits and staff costs | $ 14,815,214 | $ 922,668 | $ 1,346,637 | $ 17,084,519 | $ 5,382,376 | $ 163,746 | $ 5,546,122 | $ 22,630,641 | $ 37,484,899 |
| Utilities | 377,749 | 550,963 | 246,536 | 1,175,248 | 1,096,017 | 635 | 1,096,652 | 2,271,900 | 3,175,878 |
| Maintenance and repairs | 147,681 | 270,103 | 418,908 | 836,692 | 2,134,586 | 58,859 | 2,193,445 | 3,030,137 | 3,303,493 |
| Contracted costs | 891,256 | 16,375 | 68,101,391 | 69,009,022 | 2,027,384 | 3,758 | 2,031,142 | 71,040,164 | 16,362,753 |
| Program costs | 3,589,683 | 1,733 | 307,820 | 3,899,236 | 63,077 | 727 | 63,804 | 3,963,040 | 3,113,878 |
| Administrative costs | 2,315,294 | 535,435 | 1,164,086 | 4,014,815 | 989,262 | 33,865 | 1,023,127 | 5,037,942 | 4,172,371 |
| Management fee | - | - | - | - | 2,311,601 | - | 2,311,601 | 2,311,601 | - |
| Nursing home assessment | - | - | - | - | - | - | - | - | 1,046,484 |
| Interest | 8,839 | 361,593 | - | 370,432 | 170,592 | - | 170,592 | 541,024 | 4,140,474 |
| Depreciation and amortization | 246,624 | 531,747 | - | 778,371 | 1,882,817 | - | 1,882,817 | 2,661,188 | 11,299,599 |
| Total expenses | $ 22,392,340 | $ 3,190,617 | $ 71,585,378 | $ 97,168,335 | $ 16,057,712 | $ 261,590 | $ 16,319,302 | $ 113,487,637 | $ 84,099,829 |

## 14. Commitments and Contingencies

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. Subsequent Events

The Corporation has evaluated subsequent events through the April 30, 2035, the date the consolidated financial statements were issued, and determined there are no additional subsequent events requiring disclosure or adjustment to the consolidated financial statements.

## 16. Discontinued Operations

As a response to the various changes in the long-term care environment as well as the changing needs of the surrounding communities, it was determined to strategically redesign the overall focus and operations of the Corporation. As a result of this redesign, the Corporation's Board of Directors approved the various transfers of operations detailed in Note 1, as well as the divestiture of the remaining assets, liabilities and operations of DSLM, effective July 1, 2024. The sale of DLSM was transacted through a membership substitution agreement.

The membership substitution agreement with Lutheran Senior Services (LSS), resulted in LSS becoming the new corporate member of Diakon Lutheran Social Ministries, and the Corporation having no further ownership or control of Diakon Lutheran Social Ministries. LSS is a Missouri Benevolent corporation, under Section 501(c)(3) of the Internal Revenue Code.

As a result of the membership substitution Agreement, the significant assets and liabilities included in the transaction have been disclosed in the notes to the financial statements. The operations of DLSM have met the criteria of presentation as discontinued operations in accordance with generally accepted accounting standards.

The assets, liabilities, and net assts included in the membership substitution agreement of the transaction date and December 31, 2023 were as follows:

| | July 1, 2024 | 2023 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 1,826,000 | $ 1,826,000 |
| Patient and resident accounts receivable | 6,416,000 | 7,007,000 |
| Investments and assets limited as to use | 118,721,000 | 114,327,000 |
| Land, buildings and equipment, net | 175,147,000 | 163,249,000 |
| Funds held in trust by others and beneficial interest in trust | 29,533,000 | 28,265,000 |
| Other | 3,725,000 | 5,245,000 |
| Total assets | $ 335,368,000 | $ 319,919,000 |

| | July 1, 2024 | 2023 |
|---|---|---|
| Liabilities: | | |
| Line of credit | $ 3,764,000 | $ - |
| Accounts payable and accrued expenses | 7,819,000 | 18,682,000 |
| Pension liability | 19,732,000 | 24,420,000 |
| Deferred revenue, entrance fee agreements and refundable entrance fee liabilities | 76,598,000 | 74,820,000 |
| Long-term debt | 138,683,000 | 124,629,000 |
| Other | 2,172,000 | 2,148,000 |
| Total liabilities | $ 248,768,000 | $ 244,699,000 |

In addition to the above, donor restricted net assets approximating $54,349,000 were transferred to LSS.

The Corporation received proceeds from the transaction amounting to approximately $53,847,000 as well as a long term receivable amounting to approximately $1,535,000. The transaction also called for an escrow account amounting to $2,500,000, which was not recognized as income as of December 31, 2024.

The transaction resulted in a gain on sale (included in discontinued operations) of approximately $22,432,000.

The Corporation also incurred expenses related to the transaction (legal, broker, etc.) amounting to approximately $2,015,000, which are also included in discontinued operations.

The following amounts related to discontinued operations are included in discontinued operations on the accompanying consolidated statements of operations and changes in net assets:

| | 2024 | 2023 |
|---|---|---|
| Operating revenues | $ 53,638,746 | $ 93,247,602 |
| Operating expenses | (44,914,366) | (84,099,829) |
| Operating income | 8,724,380 | 9,147,773 |
| Net periodic pension (cost) | (395,250) | (1,171,731) |
| Urealized (loss) gain on investments | (1,737,808) | 7,202,113 |
| Pension settlement charge | (21,958,155) | - |
| Nonoperating (loss) income | (24,091,213) | 6,030,382 |
| Operating and non-operating (loss) income from discontinued operations | (15,366,833) | 15,178,155 |
| Gain on sale | 22,431,593 | - |
| (Loss) income from discontinued operations and gain on sale of discontinued operations | 7,064,760 | 15,178,155 |
| Pension-related changes other than net periodic pension benefit - discontinued operations | 5,153,727 | 1,547,916 |
| Pension related settlement charge - discontinued operations | 21,958,155 | - |
| Increase (decrease) in fair value of swap agreement - discontinued operations | 95,705 | (27,844) |
| Increase in net assets without donor restrictions - discontinued operations | $ 34,272,347 | $ 16,698,227 |

## Diakon and Controlled Affiliates

Schedule of Consolidating Information, Balance Sheet
December 31, 2024

| | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Elimination Entries | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | $ 4,647,296 | $ - | $ 4,407,277 | $ - | $ 9,054,573 |
| Accounts receivable, net: | | | | | |
| Statewide Adoption and Permanency Network | - | - | 5,375,510 | - | 5,375,510 |
| Other client services | 4,480,745 | - | 769,569 | (1,170,061) | 4,080,253 |
| Intercompany | (1,064,495) | (258,761) | 1,323,256 | - | - |
| Estimated third-party payor settlements | - | - | - | - | - |
| Prepaid expenses and other assets | 86,909 | 18,514 | 1,625,660 | - | 1,731,083 |
| Total current assets | 8,150,455 | (240,247) | 13,501,272 | (1,170,061) | 20,241,419 |
| **Investments** | 7,545,154 | - | 120,390,108 | - | 127,935,262 |
| **Assets Limited as to use, Less Current Portion** | 2,916,515 | - | 6,754,615 | - | 9,671,130 |
| **Investment in Joint Venture** | - | - | 1,597,455 | - | 1,597,455 |
| **Land, Buildings and Equipment, Net** | 1,835,827 | 1,182 | 3,154,542 | - | 4,991,551 |
| **Finance Lease Right-of-use Assets, Net** | 293,902 | - | 25,652 | - | 319,554 |
| **Operating Lease Right-of-use Assets** | 489,196 | - | 718,752 | - | 1,207,948 |
| **Other Assets** | | | | | |
| Receivables from charitable gift annuities | 6,376 | - | - | - | 6,376 |
| Funds held in trust by others and beneficial interest in trust | - | - | 9,914,736 | - | 9,914,736 |
| Swap agreement | - | - | - | - | - |
| Transaction escrow (Note 16) | - | - | 2,553,397 | - | 2,553,397 |
| Other assets | - | - | 1,892,869 | - | 1,892,869 |
| Total assets | $ 21,237,425 | $ (239,065) | $ 160,503,398 | $ (1,170,061) | $ 180,331,697 |

# Diakon and Controlled Affiliates

Schedule of Consolidating Information, Balance Sheet
December 31, 2024

| | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Elimination Entries | Total |
|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable and accrued expenses | $ 895,159 | $ - | $ 11,716,697 | $ (1,170,061) | $ 11,441,795 |
| Deferred revenue | 806,566 | - | - | - | 806,566 |
| Other | 7,115 | - | 132,165 | - | 139,280 |
| Current finance lease liabilities | 78,645 | - | 18,117 | - | 96,762 |
| Current operating lease liabilities | 120,453 | - | 388,886 | - | 509,339 |
| Current maturities of long-term debt | - | 123,397 | 390,656 | - | 514,053 |
| Total current liabilities | 1,907,938 | 123,397 | 12,646,521 | (1,170,061) | 13,507,795 |
| **Transaction Escrow (Note 16)** | - | - | 2,500,000 | - | 2,500,000 |
| **Other Long-Term Liabilities** | - | - | 163,387 | - | 163,387 |
| **Long-Term Financing Lease Liabilities** | 222,614 | - | 6,720 | - | 229,334 |
| **Long-Term Operating Lease Liabilities** | 369,626 | - | 333,846 | - | 703,472 |
| **Long-Term Debt, Less Current Maturities and Debt Issuance Costs** | - | 3,942,506 | 10,684,629 | - | 14,627,135 |
| Total liabilities | 2,500,178 | 4,065,903 | 26,335,103 | (1,170,061) | 31,731,123 |
| **Net Assets (Deficit)** | | | | | |
| Without donor restrictions | 15,705,113 | (4,304,968) | 120,639,752 | - | 132,039,897 |
| With donor restrictions | 3,032,134 | - | 13,528,543 | - | 16,560,677 |
| Total net assets (deficit) | 18,737,247 | (4,304,968) | 134,168,295 | - | 148,600,574 |
| Total liabilities and net assets (deficit) | $ 21,237,425 | $ (239,065) | $ 160,503,398 | $ (1,170,061) | $ 180,331,697 |

## Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2024

| | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Subtotal | Elimination Entries | Total |
|---|---|---|---|---|---|---|
| **Operating Revenues, Gains and Other Support** | | | | | | |
| Contract revenue | $ 16,000,993 | $ - | $ 1,966,002 | $ 17,966,995 | $ (828,751) | $ 17,138,244 |
| Grants from affiliates | 930,000 | 300,597 | 617,900 | 1,848,497 | (1,848,497) | - |
| Other fees and services | 9,389,318 | 8,419 | 2,373,619 | 11,771,356 | (421,933) | 11,349,423 |
| Statewide Adoption and Permanency Network revenue | - | - | 76,444,488 | 76,444,488 | - | 76,444,488 |
| Investment income, net of expenses | 408,669 | - | 9,977,584 | 10,386,253 | - | 10,386,253 |
| Income from trusts | - | - | 665,279 | 665,279 | - | 665,279 |
| Contributions and bequests | 109,812 | 65,000 | 463,436 | 638,248 | - | 638,248 |
| Net assets released from restrictions, operations | 263,919 | - | 118,134 | 382,053 | - | 382,053 |
| Total operating revenues, gains and other support | 27,102,711 | 374,016 | 92,626,442 | 120,103,169 | (3,099,181) | 117,003,988 |
| **Expenses** | | | | | | |
| Salaries and wages | 11,616,191 | - | 7,062,025 | 18,678,216 | - | 18,678,216 |
| Employee benefits | 4,126,320 | - | 1,158,009 | 5,284,329 | - | 5,284,329 |
| Other expenses | 10,200,898 | 34,713 | 6,780,840 | 17,016,451 | (3,099,181) | 13,917,270 |
| Other expenses, Statewide Adoption and Permanency Network | - | - | 75,365,646 | 75,365,646 | - | 75,365,646 |
| Interest | 20,015 | 207,221 | 351,739 | 578,975 | - | 578,975 |
| Depreciation and amortization | 344,331 | 107,834 | 1,404,102 | 1,856,267 | - | 1,856,267 |
| Total expenses | 26,307,755 | 349,768 | 92,122,361 | 118,779,884 | (3,099,181) | 115,680,703 |
| Operating income | 794,956 | 24,248 | 504,081 | 1,323,285 | - | 1,323,285 |
| **Nonoperating Income (Loss)** | | | | | | |
| Unrealized gains (losses) on investments | 83,618 | - | (3,534,109) | (3,450,491) | - | (3,450,491) |
| Excess (deficit) of operating revenues, gains and other support over expenses | 878,574 | 24,248 | (3,030,028) | (2,127,206) | - | (2,127,206) |
| **Other Changes** | | | | | | |
| (Loss) income from discontinued operations and gain on sale of discontinued operations | - | - | 7,064,760 | 7,064,760 | - | 7,064,760 |
| Pension-related changes other than net periodic pension benefit - discontinued operaitons | - | - | 5,153,727 | 5,153,727 | - | 5,153,727 |
| Pension settlement charge - discontinued operations | - | - | 21,958,155 | 21,958,155 | - | 21,958,155 |
| Increase in fair value of swap agreement - discontinued operations | - | - | 95,705 | 95,705 | - | 95,705 |
| Net assets released from restrictions, capital | 111,354 | - | - | 111,354 | - | 111,354 |
| Transfers of net assets | 760,709 | (3,976,110) | 3,215,401 | - | - | - |
| Total other changes | 872,063 | (3,976,110) | 37,487,748 | 34,383,701 | - | 34,383,701 |
| Increase (decrease) in net assets (deficit) without donor restrictions | $ 1,750,637 | $ (3,951,862) | $ 34,457,720 | $ 32,256,495 | $ - | $ 32,256,495 |

## Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Operations and Changes in Net Assets (Deficit)
Year Ended December 31, 2024

| | Child, Family & Community Ministries | Old Main LLC | Other | Elimination Entries | Total |
|---|---|---|---|---|---|
| **Net Assets With Donor Restrictions** | | | | | |
| Transfers of restricted net assets (Note 16) | $ - | $ - | $ (54,349,131) | $ - | $ (54,349,131) |
| Contributions and bequests | 254,963 | - | 69,002 | - | 323,965 |
| Investment income, net of expenses | 175,165 | - | 1,565,420 | - | 1,740,585 |
| Unrealized losses on investments | 35,075 | - | 230,078 | - | 265,153 |
| Net assets released from restrictions, operations | (263,919) | - | (648,271) | - | (912,190) |
| Net assets released from restrictions, capital | (111,354) | - | - | - | (111,354) |
| Decrease in fair value of funds held in trust by others | - | - | 1,914,604 | - | 1,914,604 |
| Decrease in net assets with donor restrictions | 89,930 | - | (51,218,298) | - | (51,128,368) |
| Increase (decrease) in net assets (deficit) | 1,840,567 | (3,951,862) | (16,760,578) | - | (18,871,873) |
| **Net Assets (Deficit), Beginning** | 16,896,680 | (353,106) | 150,928,873 | - | 167,472,447 |
| **Net Assets (Deficit), Ending** | $ 18,737,247 | $ (4,304,968) | $ 134,168,295 | $ - | $ 148,600,574 |

## Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Cash Flows
Year Ended December 31, 2024

| | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Elimination Entries | Total |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | | |
| Increase (decrease) in net assets (deficit) | $ 1,840,567 | $ (3,951,862) | $ (16,760,578) | $ - | $ (18,871,873) |
| Adjustments to reconcile increase (decrease) in net assets (deficit) to net cash provided by (used in) operating activities: | | | | | |
| Net realized (gains) on investments | (32,449) | - | (10,964,591) | - | (10,997,040) |
| Net unrealized (gains) losses on investments | (118,693) | - | 5,041,839 | - | 4,923,146 |
| Transfers of restricted net assets | - | - | 54,349,131 | - | 54,349,131 |
| Depreciation and amortization | 344,331 | 107,834 | 7,122,139 | - | 7,574,304 |
| Amortization of debt issuance costs | - | 8,907 | 206,537 | - | 215,444 |
| Net decrease in pension liability | - | - | (4,688,727) | - | (4,688,727) |
| Amortization of bond premium | - | - | (260,831) | - | (260,831) |
| Amortization of entrance fees | - | - | (4,756,807) | - | (4,756,807) |
| Proceeds from entrance fees | - | - | 6,533,596 | - | 6,533,596 |
| Change in funds held in trust by others and beneficial interest in trust | - | - | (1,914,604) | - | (1,914,604) |
| (Gains) on fair value of swap agreement | - | - | (95,705) | - | (95,705) |
| Equity in gains of joint ventures | - | - | (179,790) | - | (179,790) |
| Gains on disposal of assets | - | - | (22,431,530) | - | (22,431,530) |
| Variable lease adjustments | (36,112) | - | 30,723 | - | (5,389) |
| Changes in assets and liabilities: | | | - | | |
| Accounts receivable and estimated third-party payor settlements | 1,900,663 | 38,832 | 301,247 | (1,781,666) | 459,076 |
| Prepaid expenses and other current assets | 9,696 | (18,514) | (245,692) | - | (254,510) |
| Operating lease right-of-use assets | 108,930 | - | 99,854 | - | 208,784 |
| Other assets | - | - | (3,467,826) | - | (3,467,826) |
| Accounts payable, accrued expenses and other liabilities | (248,951) | - | (16,311,436) | 1,781,666 | (14,778,721) |
| Other | 7,115 | - | (25,092) | - | (17,977) |
| Operating lease liabilities | (108,501) | - | (112,501) | - | (221,002) |
| Net cash provided by (used in) operating activities | 3,666,596 | (3,814,803) | (8,530,644) | - | (8,678,851) |
| **Cash Flows From Investing Activities** | | | | | |
| Proceeds from transfer of discontinued operations | - | - | 53,846,500 | - | 53,846,500 |
| Purchases of investments and assets limited as to use | (1,789,856) | - | (56,661,720) | - | (58,451,576) |
| Proceeds from sales of investments and assets limited as to use | 2,935,952 | - | 47,083,696 | - | 50,019,648 |
| Contributions and charitable gift/remainder trusts | (6,376) | - | 65,138 | - | 58,762 |
| Purchase of property and equipment | (843,782) | 3,976,110 | (23,685,444) | - | (20,553,116) |
| Net cash provided by investing activities | 295,938 | 3,976,110 | 20,648,170 | - | 24,920,218 |

## Diakon and Controlled Affiliates

Schedule of Consolidating Information, Statement of Cash Flows
Year Ended December 31, 2024

| | Diakon Child, Family & Community Ministries | Old Main LLC | Other | Elimination Entries | Total |
|---|---|---|---|---|---|
| **Cash Flows From Financing Activities** | | | | | |
| Payment of long-term debt | $ - | $ (153,307) | $ (4,596,735) | $ - | $ (4,750,042) |
| Transfers of restricted net assets | - | - | (54,349,131) | - | (54,349,131) |
| Proceeds from issuance of long-term debt | - | - | 18,359,315 | - | 18,359,315 |
| Payment of deferred debt issuance costs | - | (8,000) | - | - | (8,000) |
| Principal payments under finance lease obligations | (52,731) | - | (230,658) | - | (283,389) |
| Net draws on lines of credit | - | - | 3,764,001 | - | 3,764,001 |
| Proceeds from entrance fees | - | - | 976,381 | - | 976,381 |
| Refunds of entrance fees | - | - | (974,806) | - | (974,806) |
| Net cash used in financing activities | (52,731) | (161,307) | (37,051,633) | - | (37,265,671) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 3,909,803 | - | (24,934,107) | - | (21,024,304) |
| **Cash, Cash Equivalents and Restricted Cash, Beginning** | 1,691,617 | - | 32,554,639 | - | 34,246,256 |
| **Cash, Cash Equivalents and Restricted Cash, Ending** | $ 5,601,420 | $ - | $ 7,620,532 | $ - | $ 13,221,952 |
| **Reconciliation of Cash, Cash Equivalents and Restricted Cash Amounts Included in These Lines on the Schedule of Consolidating Information, Balance Sheet** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 4,647,296 | $ - | $ 4,407,277 | $ - | $ 9,054,573 |
| Assets limited to use, less current portion: | | | | | |
| Other | 954,124 | - | 3,213,255 | - | 4,167,379 |
| Total cash, cash equivalents and restricted cash | $ 5,601,420 | $ - | $ 7,620,532 | $ - | $ 13,221,952 |

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

<u>Independent Auditors' Report</u>

To the Board of Directors of
Diakon and Controlled Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*, the consolidated financial statements of Diakon and Controlled Affiliates (the Corporation), which comprise the Corporation's consolidated balance sheet as of December 31, 2024, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 30, 2025